

GigaCloud Technology Inc. (Q4 2024 Earnings)
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Corporate Speakers

- Lei Wu; GigaCloud Technology Inc.; Chairman and Chief Executive Officer
- Iman Schrock; GigaCloud Technology Inc.; President
- Erica Wei; GigaCloud Technology Inc.; Chief Financial Officer

Participants

- Ryan Meyers; Lake Street Capital Markets; Senior Research Analyst
- Matt Koranda; ROTH Capital; Managing Director, Senior Research Analyst
- Thomas Forte; Maxim Group; Managing Director, Senior Consumer Internet Analyst

PRESENTATION

Operator^ Welcome to GigaCloud Technology's Fourth Quarter and Year End 2024 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.

Lei Wu^ Thank you, Operator. And welcome, everyone, to today's call. 2024 was a landmark year for GigaCloud as we continue to enhance and diversify our robust B2B online marketplace.

Not only did marketplace GMV grow almost 70%, but also for the first time in our history, GigaCloud surpassed \$1 billion in total revenue for the year. And we did it despite the industry and macroeconomic headwinds that are impacting so many.

I'm incredibly proud of the GigaCloud team for this milestone, but we are not in the business of standing still. There's still tremendous opportunity ahead and we're pursuing it with the right

strategy and the right platform and the right execution. In times of uncertainty, true strength is revealed.

While the macroeconomic climate remains challenging, GigaCloud continued to stand strong, demonstrating resilience, adaptability and long-term vision. By enabling our participants to streamline operations, enhancing efficiency and scale seamlessly we have created cohesive ecosystem built for sustained success. We are pleased with our progress on Noble House turnaround efforts with Iman and Erica will discuss in more detail about shortly.

Meanwhile, one sign is to be rebranded as Wonder to reflect its evolution from kiosk app to a comprehensive sales enablement platform for brick-and-mortar retailers. A key part of this transformation is the launch of the Wonder app, a mobile-first solution designed to streamline training, engagement and performance for retail sales associates. Iman will dive deeper into these developments later in the call.

Our balance sheet remains a pillar of strength. With zero debt and strong cash flow generation from operations, we are well equipped to execute our strategic initiatives and invest in future growth. Beyond financial performance, GigaCloud's leadership was widely recognized across the industry.

We just secured the #1 spot on Forbes America's most successful Small Cap Companies 2025 list, multiple wins in Furniture Today's Readers' Ranking for the second year in a row, and we're able to be added to the Russell 2000 Index.

While accolades are gratifying, their real value lies in what they represent a validation of the marketplace we pioneered and the transformative impact that we continue to make in large parcel B2B commerce. For us, success isn't just about growth. It's about impact we make where it matters most.

In response to the recent wildfire in Southern California, we donated over \$1 million in home furnishing to support those affected. Beyond this, we remain committed to giving back supporting City of Hope and other community initiatives.

We also reaffirmed our commitment to our shareholders in 2024. Our \$46 million share repurchase program approved in September is a testament to our confidence in GigaCloud's long-term growth strategy. As of today, we have executed approximately \$29 million in share repurchase under the Rule 10b5-1 plan.

Before we wrap up, I want to take a moment to share an important leadership update. Erica Wei, who has been serving as our interim CFO, is officially stepping in as the Chief Financial Officer. She has played a key role in strengthening our financial strategy and elevating our financial reporting quality, reinforcing our commitment to transparency and robust financial governance.

In line with this, we have made significant progress in advancing our reporting standards and financial controls, which Erica will provide more details on this later in the call. Her leadership will be key as we continue to scale our business and drive sustained growth. Congratulations, Erica. With that, I will turn the call over to Iman.

Iman Schrock^ Thanks, Larry, and congratulations to Erica on her appointment as CFO. Everyone at GigaCloud is proud of what we accomplished in 2024. But as Larry said, there's always more work to be done. Growth is more than what we achieved. It's about what comes next.

We continue to diversify our marketplace across geographies, product categories and participants while making strategic investments to enhance our services and strengthen our platform. These efforts are designed to drive consistent profitable growth, positioning us for long-term value creation.

Before diving into marketplace metrics, I want to take a moment to address the broader macroeconomic environment. Conditions remain challenging, especially for the furniture industry, which is closely tied to consumer discretionary spending. High interest rates, persistent inflation and shifting consumer priorities have created a more cautious spending landscape.

As a result, furniture demand has softened. According to Smith Leonard, new orders in November declined 9% year-over-year and full year orders trailed 2023 levels. While these headwinds present a short-term challenge, GigaCloud is built for resilience. Even against this backdrop, the GigaCloud marketplace is still growing. Here are some notable stats.

For the trailing 12 months ended December 31, 2024, GigaCloud marketplace GMV grew almost 70% to \$1.3 billion as we empowered buyers and sellers of nonstandard items to transact seamlessly on a highly efficient global platform. Growth in the number of marketplace participants also saw continued expansion with our active 3P seller base hitting more than 1,100 and our active buyer base growing to more than 9,300.

It is becoming clear that a wide variety of buyers and sellers see the immense value we have built into the platform and the increasing recognition of our supplier fulfilled retailing model. GMV in our 3P seller marketplace grew 63% from one year ago and totaled \$694 million for the trailing 12 months. 3P currently accounts for about 52% of our total marketplace GMV, maintaining a stable mix alongside our 1P throughout the year.

Average buyer spend declined slightly compared to last year and again, reflects the onboarding of a large number of buyers who typically begin on our platform with lower trading volumes. We remain encouraged by the trends within our marketplace and we'll continue educating the industry on the many advantages of our supplier fulfilled retailing model, one that is clearly resonating with our users given its ability to enhance efficiency and profitability. It's an obvious choice.

During the fourth quarter, our momentum in Europe continued to evolve. As I've said, diversification is a key to our strategy and is one of our core strengths in operating a global business-to-business marketplace. GMV from Europe grew over 150% organically year-over-year.

We see a long runway for further expansion as we continue to scale our operations and enhance our local market presence. To support this growth, we opened a new fulfillment center in Germany at the start of 2025, further strengthening our infrastructure and commitment to serving

the European customers efficiently. As Larry mentioned, we are happy with the progress on Noble House.

During our last call I outlined a four-phase approach and I'd like to briefly recap our progress in 2024. In Phase 1, immediately after closing the acquisition, we prioritized placing large orders of existing SKUs.

While not expected to be strong margin contributors, these orders serve two important purposes; providing stability for Noble House' factory vendors, many of whom have been negatively impacted during the bankruptcy; and two, ensuring adequate inventory supply for downstream channel partners while we continue to deepen our relationships.

In the second quarter, we turned to focus on our -- on addressing the void of the new product development left by Noble House's bankruptcy. A constant supply of new competitive and quality products is critical to profitability.

As such, Phase two centered on revitalizing the product development process, one that has been shut down for over 18 months due to the bankruptcy process. With significant efforts from the team, we reestablished and improved the product development process. I am proud to share that by the end of the Phase 2, production orders have been put in for approximately 300 new SKUs, setting the runway for long-term future profitability.

We began receiving the first of many shipments of the newly developed SKUs in November. These consist of smaller order quantities of each SKU aimed for the purpose of identifying an optimal product mix.

Now as we are in Phase 3, our focus is on collecting market feedback on the newly developed SKUs and identifying successful SKUs for scaling and larger reorders with respect to retiring the older SKUs.

This will be an ongoing effort. Given the time required for production and ocean shipment, we expect to receive our scaled reorders by the end of the second quarter in 2025 and for volume to pick up towards the end of 2025.

Looking ahead, Phase four will be all about capitalizing on successful new SKUs for profitability and further optimizing our operations and development process for sustained long-term returns. We continue to work on better streamlining the GigaCloud ecosystem to maximize legacy Noble House' bottom line contribution and expect a more meaningful profit contribution from legacy Noble House as we move towards 2025 year-end. A quick word on Wondersign before I turn things over to Erica.

We are continuing to advance Wondersign's tech stack by further aligning it with our own. As a part of its evolution, Wondersign will officially be rebranded as Wonder, which better reflects a shift from a kiosk app provider to a comprehensive sales enablement platform for brick-and-mortar retail. The centerpiece of this transformation is the Wonder app, a mobile-first sales acceleration tool that bridges the gap between suppliers and retail sales associates.

It gives suppliers a direct connection to sales teams on the showroom floor, offering real-time training, performance tracking and rewards to keep them engaged and selling more. This is all part of our larger GIGA IQ package, our technology stack that powers both the GigaCloud B2B marketplace ecosystem and our back-end B2C enabling system including the Wonder app.

The goal is simple. Use technology to help the industry participants succeed. The Wonder app is a great example. It gives suppliers real-time visibility into retail sales activity, making it easier to engage, train and drive better outcomes where sales happen.

We're already seeing strong early adoption with leading furniture and sleep industry suppliers being the first to roll it out across their retailers' network. This is a great example of how Wonder is helping suppliers connect with frontline sales, boost engagement and drive better outcomes in store.

We are excited about where this is headed and see Wonder as a key driver for our continued push into the brick-and-mortar market. Our unique SFR model is the backbone of our marketplace and our growing base of buyers and sellers understand its clear value.

But we are more than just the marketplace. GigaCloud is an ecosystem that empowers our partners with resources, infrastructure and strategic support they need to thrive. Thanks again, everyone. Now Erica will share a detailed review of our financial results.

Erica Wei^ Thank you, Iman. As Larry and Iman mentioned, 2024 was a real milestone year for us. We saw strong growth across key metrics including GMV, market participant numbers and a strengthening geographic footprint.

On top of that, I'm pleased to share that we have fully remediated the previously identified material weaknesses in our internal controls, reinforcing our commitment to operational excellence and sound corporate governance.

Before diving into our financials, I'd like to provide important context for our year-over-year comparisons. In Q4 of fiscal year 2023, we completed the acquisitions of Noble House on November one and Wondersign on November 15.

As a result, our reported figures for the first three quarters of 2024 reflect both organic and inorganic growth, while Q4 mostly reflects organic performance. This is a key distinction to keep in mind when evaluating our year-over-year trends.

Now let's get into our financials. Please note that all figures I'll be discussing today have been rounded for clarity. Total revenues grew 21% year-over-year for the fourth quarter to \$296 million, principally driven by ongoing market recognition and increases in the number of active participants on our platform.

Our annual revenues have exceeded \$1.1 billion, which represents a 65% increase from 2023 levels. Approximately a third of our overall year-over-year growth was inorganic with the remaining two-thirds being organic. Let's take a closer look by revenue stream and start with services.

In the fourth quarter, service revenues exceeded \$97 million, representing a 40% year-over-year increase, driven by strong demand and heightened engagement across our platform. For the full year, service revenues reached \$350 million, marking a 76% increase year-over-year. Our service margin was 19.5% in the fourth quarter, expanding approximately two percentage points year-over-year, but declining 2.5 percentage points sequentially.

As discussed during our previous earnings call we experienced high service margins related to ocean shipping services in the third quarter of 2024 due to the combination of high ocean freight spot prices in that period and lower fixed rate contracts from our vendors. Ocean freight prices began returning to their normal levels in the fourth quarter. And as such, we see a reduction in service margins reflecting this dynamic.

On a full year basis, service margin was 18.6% compared to 19.1% in 2023. The slight decline primarily resulted from ocean freight-related cost volatility in the earlier half of 2024 prior to our use of large-scale fixed rate contracts that started in the third quarter and will continue to be used for future periods.

Now let's move on to product revenue. Fourth quarter revenue increased by more than 13% and full year product revenue grew by 61% to \$811 million. The moderation in growth rate seen in the fourth quarter has a few drivers.

A significant reason is the timing of the Noble House acquisition. The first three quarters of 2024 included both organic and inorganic growth, while the fourth quarter primarily consisted of organic growth. Other drivers included softening of general consumer demand and headwinds for our sector, as previously discussed.

We were also negatively impacted by channel-specific softness from some of our largest e-commerce retail partners that have faced significant sales declines during this time. Despite these headwinds, we continue to grow effectively, expanding our marketplace, broadening our product offerings and increasing transaction volumes to scale.

We are also actively looking to further diversify our channel and buyer relationships. Product margin declined both year-over-year and sequentially, primarily due to the elevated ground delivery fees during the holiday season, increased procurement costs reflected in our cost of goods sold and overall headwinds in the category.

As discussed in our previous earnings call from the third quarter, we expected a higher-than-usual holiday season surge on the fulfillment cost front for the quarter -- fourth quarter of 2024, which resulted in short-term compression to our quarterly product margins. Margins were also negatively impacted as we continue to move through inventory that had been procured during times of elevated ocean freight spot rates prior to GigaCloud's utilization of large-scale long-term ocean freight contracts in the third quarter.

While these costs were unavoidable, ocean freight rates have since moderated. We are also focused on transitioning more of our procurement volume to fixed rate contracts, which will provide us with more cost stability moving forward.

With that said, we expect to still see some margin impact in the first quarter of 2025 as we move through the last of our high capitalization ocean freight inventory. Our rapid growth and higher sales volumes naturally led to increased spending, driving a year-over-year rise in both Q4 and full year operating expenses.

We see these investments as essential for scaling the business and strengthening our market position and we anticipate continued investment to support future growth. By category, on a full year basis, selling and marketing expenses remained steady at approximately 6% of total revenues.

G&A expenses were \$74 million versus \$30 million last year, primarily due to an increase in rental and insurance expenses as we expanded our fulfillment infrastructure to support rapid growth. Driven by the factors discussed, we ended the fourth quarter with net income of \$31 million, down 13% from \$36 million in the fourth quarter of 2023. Full year net income was \$126 million, an increase of \$34 million -- 34% from \$94 million in 2023.

We ended the year with liquidity of approximately \$303 million including cash, cash equivalents, restricted cash and short-term investments, which is up 65% from \$184 million at the end of 2023.

Now we have gone through the company's financial results for the year. Let's turn to the integration of Noble House. As previously discussed, we had set the goal of breaking even for this operation by the end of 2024. I am happy to share that we have successfully completed this task.

I would also like to add a minor clarification. As legacy Noble House operations, processes and team members have been fully integrated into the GigaCloud ecosystem, stand-alone financials for legacy Noble House are not available given the shared infrastructure costs.

However, we are able to confirm breakeven by deducting prorated costs from legacy Noble House channel gross margins. We are extremely proud of the combined efforts of the GigaCloud and Noble House teams for this accomplishment.

Before the acquisition, which was in 2023 and not all that long ago, Noble House had over \$35 million in annual net losses. Through combining the relationships and talent from Noble House with the GigaCloud model, we have not only reversed the final trajectory of the operation, but also positioned it for sustainable growth within our ecosystem.

Our focus moving forward will be on leveraging synergies, enhancing operational efficiencies and expanding our market reach. We anticipate that these initiatives will not only improve profitability, but also contribute significantly to our overall business objectives in the coming years. Moving to our first quarter outlook. Revenues are expected to range between \$250 million and \$265 million.

Looking further ahead, we anticipate further temporary softening in Q2 with potential year-over-year revenue declines. This is due to our planned contraction as we execute Phase three of our

legacy Noble House integration plan. During this time we expect to be retiring a number of older, less profitable SKUs, which may temporarily impact revenues. As always, our sites are focused on profitable growth, not just growth.

We believe that having an optimized product mix and strong supporting process that is constantly adjusting to new market demands is critical for long-term success and continue to be focused on disciplined execution while scaling our marketplace. Thank you so much for joining us today. We appreciate your support. Operator, we're ready to take audience questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Your first question comes from Ryan Meyers from Lake Street Capital Markets.

Ryan Meyers^ First one for me. So obviously the implied guidance for the first quarter is kind of a low to mid-single-digit growth rate, which is a bit of a deceleration based on what we've seen at least here in Q4 from an organic growth rate basis. Just wondering if you can kind of call out what the main drivers are there? Is it predominantly just a softer macro environment and you guys are trying to look at that conservatively? And then even if we think about the commentary, Erica, that you just gave on the second quarter, how much of that is that sort of SKU rationalization versus how much of that is just kind of overall macro softness that you're expecting to see?

Erica Wei^ Yes, absolutely. Thank you, Ryan. So there's a few items to be considered there. The overall environment or macro environment you mentioned is definitely one of them. Other factors are -- so we have some specific channel partners that have been hit a little harder during this time given that we do have buyers that have strong relationships with them and ourselves as well that does create a temporary negative impact. And then the main player for Q2 is the Noble House integration. So as you know Noble House's strongest quarter is typically Q2 given the outdoors focus.

As we move into Phase three of the execution plan and we have successfully developed a number of new SKUs that are being scaled for order sizes, it's now time to really scale back and retire on a lot of the older, less profitable SKUs. So considering the timing of peak sales and the seasonality, that's why you'll see a slower growth in the first two quarters and especially Q2.

Ryan Meyers^ Got it. Makes sense. And then if we think about the gross margins, at least for the first quarter and as we progress through 2025, I think you had provided some commentary that you expect things to be somewhat similar to what we saw here in the fourth quarter. So should we expect to see improvement in gross margins as we progress through the year? Any commentary there would be helpful.

Erica Wei^ Yes. Great question. So with all the different moving parts, especially in the macro environment, it's hard for us to give specific guidance on that. However the key things to consider here, similar to revenue, we are experiencing the same pressure points for margin on Q1 and Q2. The other special component for Q1 is we still have some of the higher capitalization ocean freight inventory that need to be moved through in Q1.

These are inventory that were purchased in Q2 during the very high spot rates. So if you recall we started using our fixed rate contracts in large scale starting Q3. So moving forward, we won't really experience the same issue, but we do have to kind of take that pressure in Q1.

Operator^ Your next question comes from Matt Koranda from ROTH Capital.

Matt Koranda^ Just can we talk a little bit more about the impact from Noble House that's built into the first quarter guide? I guess, any color on sort of the amount of SKUs that you're scaling back that are legacy SKUs that are impacting the product revenue guide for the first quarter?

Erica Wei^ Yes. Great question. Thank you, Matt. So we don't have a fixed target number of exact amount of SKUs we are looking to retire. This is more of a dynamic process.

So as new developed products are coming in, we send them to market to identify based on market feedback, which ones are what we call winners, the ones that we believe will show good sales results and good margin results. Those are sent back for scaled larger-sized reorders for future profitability capture. This process does take time though.

If you think about how long it takes for a new order to be manufactured and then shipped, this takes up to several months. And as we identify more and more of these winners, we kind of remove roughly a similar amount from the old pile of SKUs that are less profitable. Does that make sense?

Matt Koranda^ Yes. I guess I'm just looking for something more simple to quantify the headwind here because it's a big step down in terms of growth rate to sort of the 3% at the midpoint of the guide.

So I'm just trying to figure out how much of this is sort of a headwind from Noble House? And can we quantify it? I think last year, you guys haven't provided a lot of data on what Noble House contributed, but I would assume it contributed north of \$30 million of revenue in the first quarter last year. So what do you have it sort of contributing in the first quarter? Or maybe what's the drop in Noble House revenue that we're assuming in the first quarter?

Erica Wei^ So I would say, roughly speaking, we expect Q1 for Noble House to maybe be flat or a little bit lower depending on how much of the SKUs we retire. This also depends on Noble House's channel partners' performance. So compared to GigaCloud, the Noble House channels are a little more concentrated. So it really depends on their performance as well.

Matt Koranda^ Okay. All right. Got it. And then maybe just since tariffs have been a hot topic for the last week plus or several weeks plus, maybe just wanted to give you guys a chance to address sort of how we built that into the first quarter guide, how we're thinking about the impact of tariffs, both for your 1P business, where I think you're probably less exposed and then the 3P business, how that sort of will impact your third-party sellers?

Erica Wei^ Yes, great question. So we have -- we don't really expect any terribly material impact from tariffs directly. I think we had this discussion last quarter. So since we last spoke, it's been -- or since the new administration, it's been a 10% increase to the already 25% for the category.

If you think about the cost structure of large and bulky such as furniture, it's a very non-value dense category, which means impact from the increase to cost, which usually takes up around maybe half of the total COGS stack when you add on margins and convert that to retail pricing impact converts to a very, very low single digit.

And given the infrequent purchase nature of this category, we don't particularly expect very strong negative push down. And similarly, from our seller group that's on our platform, we haven't, at this point, observed any amount of meaningful pull forward on the inventory as you would during times such as high ocean freight, where folks are worried about the uncertainty down the line. And in terms of 3P, GigaCloud is really here to provide a platform or a solution for folks to transact across borders more seamlessly.

We're channel agnostic and this solution is not really fixated on a specific route. So during times like this, I think GigaCloud would be a good partner to provide support for folks who are looking to change or maneuver with their supply chain as they need. During times like this, this could mean a U.S.-based retailer potentially looking to source more from Southeast Asia or a China-based factory looking maybe to export more to Europe.

Operator^ Your next question comes from Thomas Forte from Maxim Group.

Thomas Forte^ Great. So first off, Larry, I hope you and your colleagues are okay when it comes to the California wildfires. I think you're more than \$1 million in donations for those affected is very admirable. And then second, congratulations, Erica, on being named CFO. So I have one question and one follow-up.

I'll ask my question and then wait for the answer and then ask my follow-up. So Larry, it seems like the number of major sales in e-commerce space has increased over time. Amazon Prime Day used to be a single event.

Now it seems like that company holds multiple Prime Day type sales during the year. I think we could say the same thing for Wayfair with Way Days. What are the implications to you from more big sales events in e-commerce? To what extent is that an opportunity? And then to what extent is it incremental competition?

Lei Wu^ Go ahead.

Erica Wei^ Yes. It's definitely -- we see this space really becoming more and more competitive. And like you said, a lot more sales have been observed during this time. To us, it really does seem like the consumers are showing a little more price sensitivity, right? So the sales have been really big driver -- the sales events have been really big drivers in the last few periods and we do see differences when there are and are not.

So for us, I think a few things. The platform or the marketplace is really a place that offers retail operators, whether e-commerce or not, to find ways to find more efficiency from supply chain and also a more diversified and less reliant or concentrated form of sourcing.

Thomas Forte^ Okay. My follow-up is, can you give your current thoughts on strategic M&A? You have a very strong balance sheet and I imagine you're being presented with a lot of opportunities.

Erica Wei^ Yes. Yes. We are. Great question. Thank you, Tom. So we are still looking for the right M&A opportunity. We are very open to different ideas and have been presented with a number of different things in the past period. So similar to what we discussed last quarter, this really focuses on how the right target could help GigaCloud expand in the right way, meaning a few things.

So Europe, for example, is growing very, very quickly, and we would like to see infrastructure that's very strong. This includes not only just a fulfillment network, but relationships that are strong and support better pricing, more efficiency that in turn supports better margins for us. Other than the Europe-specific focus, we're also open to other forms of targets that really expand our reach to ultimate participants of the marketplace.

So for example, brick-and-mortar penetration is something we're always very interested in. This doesn't necessarily mean restriction to product-type sector-focused businesses such as Noble House. Something like Wondersign, a SaaS company that provides a reach to that buyer base is something we're also very interested in.

Operator^ Thank you. I'd now like to turn the call back to Erica for closing comments.

Erica Wei^ Thank you all for your continued support. We believe the future continues to look extremely bright for GigaCloud as we work to bring even greater value to all of our stakeholders.

We look forward to speaking to you again after our first quarter. But in the meantime please don't hesitate to reach out to us if you have any additional questions. Thank you.

Operator^ That does conclude our conference for today. Thank you for participating. You may now disconnect.