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Q4 2022 GigaCloud Technology Inc Earnings Call

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## CORPORATE PARTICIPANTS

**Iman Schrock**

**David Lau** *GigaCloud Technology Inc. - CFO*

**Larry Wu** *GigaCloud Technology Inc. - Founder, Chairman & CEO*

## CONFERENCE CALL PARTICIPANTS

**Rommel Tolentino Dionisio** *Aegis Capital Corporation, Research Division - Head of Consumer Products and Special Situations*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to GigaCloud Technology's Fourth Quarter 2022 Earnings Conference Call. (Operator Instructions) This conference is being recorded today, Friday, March 17, 2023.

Joining us today from GigaCloud Technology are the company's Founder, Chairman of the Board of Directors, and Chief Executive Officer, Larry Wu; the company's Chief Financial Officer, David Lau, and Dr. Iman Schrock, President of the company.

On our call today, Larry will give an overview of the company's performance. Iman will provide the details of the company's operational results and David will share the details of the company's financial results. After that, we will conduct a question-and-answer session to take your questions.

Before we continue, I would like to remind you that some information discussed on this call will contain forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties. Although the company believes that the expectations expressed in these forward-looking statements are reasonable, it cannot assure you that such expectations will turn out to be correct and the company cautions investors that actual results may differ materially from the anticipated results and encourages investors to review other factors that may affect its future results in the company's registration, statement and other filings with the SEC.

This call includes a discussion of certain non-GAAP financial measures such as adjusted EBITDA. Please refer to the company's earnings press release for more information on the non-GAAP financial measures.

With that, I'll now turn the call over to Larry, the company's Founder, Chairman of the Board of Directors, and Chief Executive Officer. Larry, please go ahead.

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### **Larry Wu** *GigaCloud Technology Inc. - Founder, Chairman & CEO*

Thank you, operator, and everyone, for joining GigaCloud's fourth quarter of 2022 earnings conference call today. First of all, I would like to express how proud of the entire GigaCloud family I am for delivering another outstanding quarter, leading the way in transforming the industry with the pioneer business model and cutting-edge technology.

Looking back to 2022, we achieved a significant milestone by completing our IPO and becoming a U.S.-listed company while also improving our operational and financial metrics. As part of our effort to create an adhesive ecosystem, we have prioritized enhancing our platform's user experience, optimizing operational efficiency and technological upgrades. These initiatives are expected to strengthen our long-term market leading position. We are glad to see our brand has a strong market demand from our loyal global customers on the marketplace.

Please allow me to introduce our President, Dr. Iman Schrock, an insightful and innovative leader with extensive domestic and international management experience. As an industry veteran, Iman has a proven ability to improve performance and productivity and profitability through effective implementation of process, programs and policies. I would like to highlight that this is Iman's first time joining our earnings call, and he will be presenting the operational results of the company. Again, thank you for your continued support

to the company.

Now I would like to turn the call to Iman for closer operational view.

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**Iman Schrock**

Thank you, Larry. Good morning, everyone. As we reflect back on the past year, we acknowledge that 2022 presented us with several challenges. Including currency depreciation against U.S. dollars and all the markets that we operate in and the skyrocketing ocean shipping rates. Despite these difficulties, our team at GigaCloud put forth significant efforts to navigate through the storm and drive our business forward. Through strategic planning, effective execution and steadfast commitments we have successfully overcome obstacles and achieved significant progress.

Let's now walk through the operational results of the GigaCloud. In the 12 months that ended December 31, 2022, our GigaCloud Marketplace GMV grew 25.1% year-over-year to \$518.2 million. The platform saw a 46.6% year-over-year increase in active 3P sellers to 560, a 16.5% year-over-year rise in active buyers to 4,156 with spending per active buyer also increasing by 7.4% year-over-year to \$124,692 in the 12 months that ended December 31, 2022.

Furthermore, 3P seller GigaCloud Marketplace GMV served 64.3% year-over-year to \$257.7 million, representing approximately 50% of the total GigaCloud Marketplace GMV for the 12 months ended December 31, 2022, serving as a strong indication of the impactful value we provide to industry.

For the first time ever since the launch of the Marketplace, our GigaCloud 3P seller GMV surpassed GigaCloud 1P GMV as a percentage of total marketplace GMV in Q4 2022. This underscores the growing dominance of 3P sellers on the marketplace showcasing our scale and market recognition as a thriving 3P seller dominated platform.

As we look forward to 2023, our focus remains on executing our strategic plan with the goal of expanding our business, enhancing profitability and capitalizing on emerging opportunities. These impressive growth highlights our ongoing success as we remain committed to providing buyers and sellers with a robust and efficient ecosystem to connect and grow their businesses.

We strive to keep up with the ever-changing market demand and expectations of our customers while also elevating our global brand recognition. Looking ahead, we are confident in our ability to maintain this upward trajectory.

Now I would like to turn the call over to our Chief Financial Officer, David, for a closer look at our financial results.

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**David Lau *GigaCloud Technology Inc. - CFO***

Thank you, Larry and Iman, and good morning, everybody. I'm pleased to share our outstanding financial results for the fourth quarter of 2022. The company generated \$125.6 million in fourth quarter 2022, which represents a 20.5% growth from \$104.2 million in the fourth quarter of '21. On the bottom line, we generated \$12.5 million in net income in fourth quarter '22, representing an increase of 34.2% from \$9.3 million in the fourth quarter of '21.

Adjusted EBITDA was \$15.2 million in the fourth quarter of '22, representing an increase of 34.9% from \$11.3 million in fourth quarter 2021. The company generated \$49.7 million in cash flow in 2022 compared to \$8.6 million in 2021. In addition, the company had \$143.5 million cash balance as of December 31, 2022.

As you can see, our company has delivered an exceptional fourth quarter results in '22. The growth is attributed to the continued adoption of our supplier fulfilled retailing model that allows products to be fulfilled by fewer touch points, which leads to lower cost and higher margin for both buyers and sellers.

As Iman already alluded, our GigaCloud Marketplace is becoming a 3P seller dominated platform in fourth quarter '22, which is a huge testament of the value we're offering. Our overall profitability had improved significantly in fourth quarter '22 due to ocean shipping rates has largely normalized along with our continued focus on user quality, building deeper user engagement, continued efforts to offer more

value-added services and enhanced operating efficiencies.

The surge in ocean shipping rates in end of 2021 had compressed our margin in our 1P business in the first half of 2022 as products typically need 2 to 3 months to arrive at our warehouse from its origin, which in turn impact our profitability for the same period. Similarly, 3P sellers are more cautious in sending products overseas as they will have to directly bear the ocean shipping costs. As ocean shipping rates stabilize, our profitability in the second half of 2022 had largely recovered.

Our operating expense has remained stable for the fourth quarter as well as for the full year 2022 at around 9% of our total revenues. As we're in the process of implementing a system-wide technological upgrade on our marketplace platform to enhance on user experience and inventory management capabilities, we have started to incur some research and development expense in the fourth quarter 2022.

The company had generated \$49.7 million in cash flow in 2022, and the significant improvement in cash flow generation was a result of effective business management, cost optimization and the continued growth of our GigaCloud Marketplace. We have \$143 million of cash with essentially no debt on the balance sheet as of December 31, 2022. We also have a credit facility of \$50 million with Wells Fargo Bank that we can draw on to fund our expansion plan. Our healthy balance sheet allows us to be actively exploring potential M&A opportunities to enhance our product development and distribution capabilities. We will share more details when the timing is right.

Perseverance and determination were the key factors to our success in 2022, especially during a challenging period where supply chain constraints had driven up the overall ocean shipping rates. We're very confident with the year ahead as we see continued growth in our active user count as well as the growth in our 3P seller GMV. We expect the company to generate \$123 million to \$127 million in revenue for the first quarter of 2023.

Now I'd like to turn it back to the operator to answer any questions on the floor. Thank you.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from the line of Katherine Ross.

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### Unidentified Analyst

Great presentation. And I have two questions related to the company's future plans and the market trends. So could you share with us some insights into your business plan for the 2023?

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### David Lau *GigaCloud Technology Inc. - CFO*

Sure. Maybe I'll take a first crack. And Iman and Larry, please feel free. We are a pioneer in the industry to rolling out what we call a supplier fulfilled retailing model that connects buyers and seller and GigaCloud provides a full-service end-to-end logistic fulfillment. And we, as one of the few companies that provides this service and we're helping the market to educate what the value that we offer from such a service.

And we had a pretty challenging economy in 2022. And what we're trying to do is we're trying to provide effective solutions to both the suppliers and buyers on our platform and help them to cut cost and improve their margin profile, and we're really working hard to educate the market on the value that we can bring to the table.

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### Unidentified Analyst

Great. And I'm also interested in learning something more about the demand for the company's product category. So has the demand for the different product categories remain constant? Or have you observed any variation? And also moreover, do you expect any changes in the coming year?

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### David Lau *GigaCloud Technology Inc. - CFO*

Iman, you want to take that one?

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**Iman Schrock**

Sure. I'll be more than happy to. What we're expecting is a slowdown in the overall consumer spending regardless of the category. But with our business model, just like David alluded to earlier, we are confident with supplier fulfilled retail. Not only will cut cost, but it will also remove touch points creating a more efficient system. And we're going to continue to educate the industry about the benefits of adopting such robust business model, as you guys just saw with the financials. And we are confident that we can outperform the industry, and we're going to continue to do so.

**Operator**

Our next question comes from the line of Irina Rabano.

**Unidentified Analyst**

And I think it's good to see your revenue and profit keep growing. I want to ask if you anticipate any challenges to such kind of growth in 2023? And what would be your plan to cope with these challenges?

**Iman Schrock**

Sure. This kind of ties into the first question. So we are expecting an industry slowdown, and we're going to continue to expand on our adoption of supplier fulfilled retailing across the industry. It's a business model that we're pioneering and it allows for savings and efficiency across the board. Obviously, one of the challenges is that we have the first movers' advantage. And being the pioneers of this new business model, there's an educational curve because we have to take that model and educate our customers in its adoption. So that's something that we're going to work on improving. We're going to continue to maintain a strong balance sheet and maintain positive cash flow. That's something that we're challenging ourselves with in 2023. And like I alluded to earlier, we're planning on outperforming the market within the industry by providing a sound business plan that is efficient and results driven.

**David Lau GigaCloud Technology Inc. - CFO**

And, Iman, if I can add to that. I also mentioned earlier that we have a very healthy balance sheet. As you can see, as of December 31, we have roughly \$143 million in cash, essentially no debt. So we're very healthy from a balance sheet standpoint, and we're trying to leverage this cash balance to actively look for M&A opportunities that can help us to grow both on the product development capability standpoint as well as our distribution capabilities.

And another point I want to highlight is that the company is in the process of converting to becoming an S filer or it becoming a domestically listed company instead of a foreign private issuer. And that's because if you look at our business today, most of our assets are based in the U.S. and our shareholder profile are mostly based in the U.S. So it will make more sense for us to become a domestically listed company rather than listed as a FPI. So this will be in the process, and we expect that conversion to take place on the first day of 2024.

**Operator**

Our next question comes from the line of Eva Hurst.

**Unidentified Analyst**

It looks like the revenue from off-platform e-commerce is decreasing in the first 3 quarters, but it increase during the fourth quarter. Can you share more details about that?

**David Lau GigaCloud Technology Inc. - CFO**

Yes, sure. I'm more than happy to. So Q4 is typically one of the highest performing quarter for us given the traditional retail consumption season or sales, particularly in the U.S. You have your Black Friday, Thanksgiving, Christmas holiday where typically consumptions are being made during those times. So typically, that's where we see a lot of growth and I think, especially in Western countries and the United States, I think a lot of the consumer had a lot of pent-up demand that they didn't get to spend during COVID. And now that COVID had subsided a lot of the shoppers are back and starting to make their purchases during the fourth quarter of 2022.

**Unidentified Analyst**

Okay. I got you. But I still have another one. I noticed that you have research and development expenses this quarter. Could you provide more information on your R&D project?

**David Lau GigaCloud Technology Inc. - CFO**

Yes, sure. I talked a little bit about this earlier. We had started to book an R&D expense in fourth quarter 2022. We are continuing to focus on upgrading our technology, 1/4 of our employees today are IT staff. So we're consistently and constantly making upgrades to make sure that our marketplace is serving our customers in an impeccable and seamless way as possible. So we're starting to upgrade our facilities, upgrading our technological capabilities to hopefully help our marketplace to be easier for our users to use and help us enhance profitability.

**Iman Schrock**

And if I may add to that, you guys might know that more than 1/4 of the workforce for the company are stationed in engineering and IT. And we have a lot of initiatives across what David just spoke of, AI and machine learning focus-driven approaches to drive those efficiencies.

**Operator**

Our next question comes from the line of Rommel Dionisio from Aegis Capital.

**Rommel Tolentino Dionisio Aegis Capital Corporation, Research Division - Head of Consumer Products and Special Situations**

I thought particularly noteworthy in the quarter was our growth in service revenue. I think, 36% from the year ago quarter. I wonder if you could just delve into a little more there. I know you provide third-party logistics services to your customers. And you can talk about the drivers that really drove that growth. And the outlook for service revenue, continued growth and that acceleration in 2023 and beyond?

**David Lau GigaCloud Technology Inc. - CFO**

Sure. I think the service revenue component is growing component of our revenue generation. As you can see, our GigaCloud Marketplace GMV is growing pretty fast, and we have an active user growth that's also doing very well. So we're taking market share. We're growing that piece of business. And then you alluded earlier about third-party logistics. We -- because of COVID had to stop and prioritize our logistic capabilities to deliver and fulfill for the users that transact on our marketplace. But as COVID subsided and we start regaining our distribution and fulfillment capabilities, we started to offer our third-party logistics services to other customers. And this will continue to be a growth for us looking into 2023. I don't know, Larry, do you have any other inputs to that?

**Larry Wu GigaCloud Technology Inc. - Founder, Chairman & CEO**

No. I'm good with it. Thank you.

**Operator**

(Operator Instructions) I'm showing no further questions, and that concludes the question-and-answer session. Let me turn the call over to David for closing remarks.

**David Lau GigaCloud Technology Inc. - CFO**

Sure. And thank you very much for joining this conference call. And if you have any questions, please contact us through e-mails. Management will respond to your questions as soon as possible. We appreciate your interest in supporting GigaCloud, and we look forward to speaking with you again next time. Thank you very much.

**Operator**

Thank you again for attending GigaCloud's fourth quarter of 2022 earnings conference call. This concludes our call today, and we thank you all for listening in. Goodbye.

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