Event Name: Q2 2023 GigaCloud Technology Inc Earnings Call
Event Date: 2023-08-15T12:30:00 UTC

P: Operator;;
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C: David Lau; GigaCloud Technology Inc.; CFO
C: Larry Wu; GigaCloud Technology Inc.; Founder, Chairman & CEO
P: Matthew Butler Koranda; ROTH Capital Partners, LLC;MD & Senior Research Analyst
P: Rommel Tolentino Dionisio; Aegis Capital Corporation, Research Division; Head of Consumer Products and Special Situations
P: Sophie Wang; HSBC
P: Len Brecken; BCA; Portfolio Manager ;
P: Howard Tsung; Retail Investor;

+++ presentation

Operator^ Good day, ladies and gentlemen, and thank you for standing by, and welcome to GigaCloud Technologies Second Quarter and Half Year 2023 Earnings Conference Call. (Operator Instructions)

Joining us today from GigaCloud Technology are the company's Founder, Chairman and Chief Executive Officer, Larry Wu; the company's President, Dr. Iman Schrock; and the company's Chief Financial Officer, David Lau. On today's call, Iman will give an overview of the company's performance and details of the company's operation results, and David will share the company's financial results. After that, we'll conduct a question-and-answer session.

As a reminder, this conference contains statements about future events and expectations which are forward-looking in nature. Statements on this call may be deemed as forward-looking, and actual results may differ materially.

Today's call and webcast will include non-GAAP financial measures within the meanings of the 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 today's press release as well as on the company's website.

With that, I'd like to turn the call over to Larry for your opening remarks. Please go ahead, sir.

Lei Wu^ Thank you, operator, and thank you, everyone, for joining us here today. I want to start off today by keeping my heartfelt thanks to the entire GigaCloud family for their diligent efforts across the board.

As Iman will speak to, our results continued to demonstrate positive momentum led by an over 200% period-over-period increase in net income in the first half of 2023. We continue to beat our own expectations (inaudible)across the board, and are thrilled to [freehold] deliver these results to our stakeholders.

Our 3P sellers and platform-wide buyers continue to see the inherent value in our supply fulfilled retailing model and we are continuing to onboard new buyers and sellers as we reinvest earnings into accelerating our organic growth. Our strong balance sheet and fresh cash flow generation give us the optionality to pursue a number of strategies to grow the business as well.

We're also adding a number of corporate positions and key decision-making roles to our headquarters in Walnut, California, supplementing our mature overseas back office personnel. We see this as a key part of our global strategy and will expand GigaCloud footprint and talent pool.

Finally, we are also thrilled to welcome 2 new board members, Mr. John William Visser and Ms. Lorri Kelly, who will bring deep industry expertise and diverse viewpoints to our Board.

Now I would like to turn the call to Dr. Iman Schrock, President of GigaCloud. Iman?

Iman Schrock^ Thank you, Larry, and thanks again to everybody for joining us. We could not be more pleased with our second quarter results. And I want to start by thanking the entire GigaCloud team for their tireless work and execution.

We are dedicated to changing the way suppliers and resellers do business in buying, selling and shipping all things large and bulky through the state-of-the-art technology and innovation, we believe this message and mission are resonating given the success of our marketplace.

Our outstanding profitability resulted in an ending cash balance of $181.5 million, up from $143.5 million as of December 31, 2022. As we have mentioned in the past, the strength of our balance sheet gives us the ability to selectively evaluate targets for tuck-in acquisitions. Our criteria for potential targets range from companies that would further penetrate our existing target markets, add new capabilities to our already robust technology stack, penetrate a new segment of market or technology that would further enhance our users' experience on GigaCloud platform.

Our cash balance also gives us the ability to make strategic moves on our share repurchase plan, which was approved for $25 million in June. While we did not repurchase any shares in the second quarter, the approval for the repurchase round runs through June 2024. We will update the investment community on this initiative as appropriate. We are carefully evaluating the use of repurchase plan to ensure we are striking the right balance within creating shareholder value and protecting our stock fundamentals.

Now let's walk through some of the operational highlights for the quarter. Our GigaCloud Marketplace GMV grew approximately 32% year-over-year to $607.5 million in the TTM period. On the seller side, the platform also saw an approximately 47% year-over-year increase in active 3P sellers, ending the total number for the quarter at $6.65, which was also a 10% sequential increase. Organically, expanding our ecosystem of

3P sellers is crucial to our achieving scale in our supplier fill filled retailing model.

And we continue to devote a significant amount of time and resources into quickly vetting and onboarding new 3P sellers and adding new SKUs to our platform. while buyers may churn on and off the platform or consolidate the number of accounts they are working on, we see the number of 3P sellers on the platform as a more important indicator of a healthy marketplace providing buyers variety in the number of SKUs they can choose from.

The trend of our 3P sellers Marketplace GMV expanding only accelerated in this quarter, increasing 65% year-over-year to $324.7 million and now making up approximately 53% of our total GMV. As I mentioned on our last call, while our 1P approach remains an integral part of our business strategy, ultimately, we believe that the growth of our organic 3P GMV will be very important to all to scaling our business as we see positive momentum in our organic 3P growth rate continuing to drive a larger, more productive marketplace.

On the buyer side, we saw active buyers increasing by over 7% year-over-year, ending the quarter at 4,351 with average spend per buyer increasing by 24% year-over-year to $139,629. The increase in the average spend indicates that we are seeing growth in the number of high-quality, high-volume buyers that we seek to attract to the platform. These buyers tend to be very sticky in their adoption of the platform and growth in their average spend can quickly fuel growth in our results. We will continue to invest in our platform, and we believe there is a still a very strong runway of organic growth that can be achieved as we penetrate new markets around the world.

One area that we continue to invest heavily in is to build out continued momentum in organic growth in our marketing and advertising, particularly to brick-and-mortar retailers of furniture, who historically enjoy a large market share in the furniture space and have a large amount of inventory requirements. We continue to specifically target this segment of resellers through additional advertisement and media campaigns and see a significant amount of white space for our business to continue to expand into this market.

I would also like to discuss GigaCloud's transition from a foreign private issuer or FPI, to following the same reporting and disclosure obligations as domestic companies. As many of you have already seen, on July 3, we issued a press release announcing that as of the end of the second quarter, it was determined that GigaCloud no longer qualifies as an FPI.

Practically, what that would mean for GigaCloud and investment community is that starting January 1, 2024, and GigaCloud will be subject to the same reporting, disclosure and filing obligations as the other S-Form issuers. Starting next year, you can expect the same cadence of filings, such as 10-K and 10-Q. And as you would, any domestic NASDAQ-listed company, we believe that this is a very important step forward in building confidence in our story for investors and we are laser focused on becoming even more engaged and transparent with our shareholders and potential shareholders.

We are also adding a number of corporate positions and key decision-making roles to our headquarters in Walnut, California, supplementing our mature overseas back office personnel. We also announced a number of changes to our Board of Directors on August 10, including the addition of 2 new independent directors, John Visser and Lorri Kelly, Mr. Visser is currently the Vice President of Logistics at doTERRA International, while Mrs. Kelly, has previously held a number of senior roles in the furniture industry, most recently as the President of BDI Furniture before founding her own strategic consulting firm. Both Mr. Visser and Ms. Kelly bring with them critical industry experience and new diverse insights, and we are thrilled to have them come on board.

Clearly, we are dedicated to building out our global presence and expanding the GigaCloud footprint around the world. and we believe these moves are strong step in the right direction to building an even stronger tie to the investment community in the U.S. and other nations.

Overall, we are encouraged by our progress in second quarter, and we believe we are making significant headway in our mission to build the world's best large B2B large parcel shopping experience for both buyers and sellers. We are thrilled by our second consecutive quarter of record profit and we believe we should see our gross margin support a similar level of profitability for the remainder of the year.

Our industry-leading marketplace saw significant growth in this quarter growing in total GMV by 32% year-over-year, with active buyers increasing by over 7% and average spend per active buyer by 24% in the same period. Our balance sheet provides us flexibility to pursue potential M&A target as well as support a steady pace of organic growth.

Finally, our move to become an S filer demonstrates our commitment to the international capital markets and increases transparency for shareholders and potential shareholders. And with that, I would like to turn the call over to David for a closer review of our second quarter and first quarter -- first half numbers. David?

David Lau^ Thanks, Iman. Let me walk you through our second quarter and first half numbers in more detail. Our total revenues for the second quarter were $153.1 million, which was an increase of 23.5% year-over-year and approximately 20% sequentially. On a first half basis, we generated $280.9 million for the 6 months ended June 30, '23, an 18.8% increase versus the year prior period.

Breaking this down for just the second quarter, service revenue from GigaCloud 3P saw a 31.9% year-over-year increase to $43.3 million. Product revenue from GigaCloud 1P saw a 14.9% year-over-year increase to $69.8 million, and product revenue from off-platform e-commerce saw a 31.6% year-over-year increase to $40.1 million. As Iman mentioned, these increases correspond with a 32.2% year-over-year gain in total market of GMV, which ended the second quarter at $607.5 million on a TTM basis.

Our gross profit for the second quarter was $40.4 million, which was an increase of 137.1% year-over-year and resulted in gross margin of 26.4% versus 13.7% in the year prior period. On a first half basis, gross profit increased by 106.4% to $69.9 million for the 6 months ended June 30, '23, which resulted in a gross margin of approximately 25% versus 14.3% in the year prior period.

These increases in gross margin were largely a result of the return to normalized ocean shipping rates from the all-time highs in the first 6 months of '22. As a result, our cost of revenues increased only 5.4% to $112.8 million for the quarter. We would expect ocean shipping rates to remain stabilized for the rest of the year.

Our total operating expense for the second quarter were $17 million, which was an increase of 93% year-over-year from $8.8 million. On a first half basis, total operating expense were $28.7 million, which was an increase of 57.8% from $18.2 million in the year prior period. Breaking this down further for just the second quarter. Selling and marketing expenses increased [74.9%] year-over-year to $9.5 million. General and admin expenses increased to 106.7% year-over-year to $6.9 million.

Research and development costs were $0.5 million in the second quarter of '23 versus none in the second quarter of 2022. The increases were due to additional headcount to support our growing organization, a larger amount of advertisement and more trade shows present in order to bolster organic growth and reinvestment in our technological platform to continuously improve our user experience.

On the bottom line, our net income for the second quarter was $18.4 million, which was an increase of approximately 202% year-over-year from $6.1 million. This resulted in basic and diluted earnings per share of $0.45 and versus $0.15 in the year ago period. On a 6-month basis, net income was $34.3 million for the period ending June 30, '23, resulting in a basic and diluted earning per share of $0.84 versus net income of $10.8 million in the year prior period, which resulted in basic and diluted earnings per share of $0.28. This resulted in adjusted EBITDA for the second quarter of '23 was $24.9 million, an increase of 219.3% year-over-year from $7.8 million.

On a first half basis, we generated adjusted EBITDA of $44.7 million for the 6 months ended June 30, '23, an increase of 203.9% compared to $14.7 million in the year prior period. Moving on to our balance sheet. We ended the second quarter with $181.5 million in cash on the balance sheet a net increase of approximately $38 million from the quarter ended December 31, '22, and an increase of $18.8 million from the quarter ended March 31, '23.

Finally, I want to briefly mention our financial outlook. For the third quarter of '23, we are now expecting total revenues in the range of $162 million to $167 million, which represent an approximately 28.5% gain over the year prior period at the midpoint. In addition, in the third quarter of '22 as a result of the successful completion of our IPO, we recorded a onetime stock-based compensation expense of $8.9 million. The SBC expense for Q2 was $1.5 million, and we expect our SBC expense to be more evenly spread out going forward.

Thank you all for joining. And with that, I would like to ask the operator to open the line for questions.

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Operator^ (Operator Instructions) And our first question comes from the line of Matt Koranda with ROTH.

Matthew Butler Koranda^ Just wanted to cover the third quarter outlook for revenue in a bit more detail. Is there a way you could maybe provide a breakdown between the product and marketplace revenue that you're assuming in that third quarter outlook, it looks like a nice acceleration that you're planning on. So just wondering where that sort of coming from, first of all? And then maybe just on the gross margin commentary as well, you mentioned a similar level of profit through the rest of the year. Just wanted to see if maybe you could comment on sort of does that mean we can stick with the mid-20% gross margin you put up in the second quarter for the third and the fourth? Maybe just a little bit more color on that as well.

David Lau^ Matt, it's David. Maybe I'll address your question around our margin profile. I think we are quite comfortable to our margin profile today. So I think it's depending on how the outlook of the second half of the year looks like given where ocean shipping rates are today, I think safe to assume that we can maintain this trajectory for the second half of the year.

And then going back to your first question, I think the breakup between our product and service has been on a revenue basis has been between 60% to 40%. I think going forward, that's probably in the second half of the year is probably in the same trajectory as well.

Matthew Butler Koranda^ Okay. All right. Got it. 60-40. That's helpful. And then just digging into the services revenue line for the second quarter, -- you mentioned a nice step-up in last mile as a driver of growth on a year-over-year basis. So I just wanted to see if you could maybe unpack that, discuss the types of last mile services that your sellers are paying you for what's that a function of maybe just, I would assume, better rate card versus your smaller sellers on the platform, but maybe if you could just kind of explain the drivers of that nice year-over-year growth.

Lei Wu^ Iman, you want to do that one?

Iman Schrock^ Matt, could you kindly repeat that question? I was trying to write.

Matthew Butler Koranda^ Sure. Yes. So just the step-up in last mile services revenue was notable in the second quarter. So I just wanted to see if you could discuss the drivers of that of that nice acceleration on a year-over-year basis.

Larry Wu^ Yes, maybe I can take this one. This is Larry Wu. I think in the past because of restriction that a lot of the shipping partner we have, that they have limited capacity -- so we didn't allow our customers to ship their product that not transacted with our market case. But we understand that our customers always have the need to get their product, they're selling on their own or through other channels. So because we are seeing that most of our shipping partners are removing those kind of restrictions.

So we are allowing our customers to ship the product that's not transacted on our marketplace that provide them the flexibility of using the marketplace in a different way. I definitely believe that we are offering more value by being able to provide in that service.

Matthew Butler Koranda^ Okay. That's helpful. And then just on the seller growth, it was pretty robust year-over-year at 47%. Just wanted to hear maybe a bit more detail on where you're seeing success in adding sellers. And then I noticed a bit of an uptick in the sales and marketing line. So I just wanted to see, are we spending into seller acquisition to get that acceleration? Just maybe a bit more detail on sort of the dynamics of seller acquisition that you're seeing?

Iman Schrock^ Matt. Sorry, I was talking on mute. And thank you, Larry, for taking that question. Obviously, as I mentioned earlier in the script as well, bringing in organic seller growth is going to be a clear indicator of a healthy marketplace. So we're investing a lot of energy into recruiting sellers of different kinds that could come to the marketplace. And a lot of these sellers will bring with them different intricacies.

A big portion of the recruitment as of late have been the sellers that go all the way to the end consumer with the LTL portion and last mile delivery and all those value-added services, which is something that alludes to the first question. But absolutely, we're going to invest in recruiting sellers, and we're anticipating that trend to continue, but the sellers went themselves, they'll bring in a variety of SKUs and that variety of SKUs, it tracks additional buyers.

Matthew Butler Koranda^ Okay. Great. And then just to that end, I guess, wondering on the spend per buyer, which took a pretty nice step up. Maybe just wanted to see if you could talk about are we adding larger buyers, is the assortment growing and then allowing more spend per average buyer? Are we turning kind of marginal buyers? Maybe just some of the movements underneath the hood there in terms of the spend per buyer?

Iman Schrock^ If I may take that question, we're kind of seeing both, Matt, because there is some buyer consolidation because some of the buyers operate multiple accounts, sometimes those consolidated to a bigger one. But also the competition kind of churns out the better buyers, and that's what really happens in the marketplace is becoming a place for the better as far as the fitter who can produce and generate results. So we'll see both of those dynamics happening concurrently.

And this is very pleasant for the marketplace because the model is becoming more and more sticky because that average spend growing is basically the indicator that we would like to see.

Matthew Butler Koranda^ Okay. Excellent. Maybe one more for me and then I'll leave it to others. But on the M&A funnel, you've mentioned some M&A in your prepared remarks and just potential sort of ideas around what you may do. Just wondering if there's anything in the funnel that's maturing? How should we be thinking about capital deployment toward M&A for the remainder of the year?

David Lau^ Matt, it's David, perhaps I'll take this one. Unfortunately, I don't think we'll be able to disclose anything further at this point in time. As we progress at the appropriate time, we'll disclose the market. But what we view M&A as a lever for us to quickly enter into areas or markets that we're seeking that seeking to enter or expand into. So we're just trying to look for the right target for us. And some of the areas that we're looking for is -- and then we discussed this in our prior discussion is looking for channels, looking for product portfolio expansion. And as you understand, we operate in a pretty fragmented market and M&A is a great tool for us to consolidate and bring in parties to come to our marketplace.

Matthew Butler Koranda^ Understood. Nice job in the quarter, and I'll leave it there.

Operator^ Next question comes from Rommel Dionisio with Aegis Capital.

Rommel Tolentino Dionisio^ I wonder if you could talk about -- I know you don't necessarily break out the geographic distribution revenues, but I know you're making a big push in Europe. And I just wonder if you could sort of characterize how much of the growth you saw in the quarter came from in the core U.S. business as opposed to some of the 4 markets, particularly Europe?

Larry Wu^ Maybe I can take that one. I think European market as of today is an important market for us. We've seen some pretty good acceleration growth for the quarter. Unfortunately, I won't be able to break it down to, that's not really something that we track, but we see a lot of good acceleration growth in the quarter coming out from Europe.

Rommel Tolentino Dionisio^ Okay. Fair enough. And just a follow-up, if I could. During the call, you talked about. I know you mentioned this before, a focus on some furniture retailers. And I wonder if you could just -- in terms of expansion of your customer base, I wonder if you could just talk about the difference in your marketing platform, what it will take to really continue to -- you've already seen solid penetration there, but to continue to see the growth in that segment. Are you going to have to shift gears from a marketing perspective, bringing additional hires, maybe change your marketing platform? Or are you just kind of continuing with your current trend, which seems to be working very well?

Iman Schrock^ Rommel, so -- as we alluded to earlier, brick-and-mortar expansion is a big part of our future growth plans. And absolutely, we are going to be actively involved in recruiting and advertising. And there's a lot of white space available, especially right now. I think with furniture brick-and-mortar retailers, a lot of challenges that we can tackle on with the concept of the marketplace, suppliers will build retailing and all the little things that we do so so well. So that is going to be a huge area of focus for us going forward.

Rommel Tolentino Dionisio^ Congratulations on the quarter.

Operator^ Our next question comes from the line of Sophie Wang with CMBI.

Sophie Wang^ Okay. Congratulations on strong quarter. 2 questions here. First, we noticed that you announced repurchase program. And we're just wondering you have repurchased insurance after that? And the second question is about the Q3 on look -- we noted that you had to consult the quarters of probability and you're guiding higher Q3 revenue. So do you want to share us more color on what the outlook for Q3 and beyond?

David Lau^ Sorry, I was on mute. Perhaps I'll take your question with respect to outlook for the rest of the year. I think if you look closely to our 2022 Q3 earnings, you'll notice actually our net income was a little under $1 million. And if you actually look closely, and that was because of a one-off stock-based charges and that was a result of a successful completion of our IPO at that time.

So -- and I alluded earlier in my speech, we expect our SBC charges to be more spread out going forward, and we will continue to record SBC charges to our various stakeholders in the company. So if you're putting all the pieces together, that's probably the extent I can share in terms of profitability or for the second half of the year. And then your earlier questions around repurchase.

So Iman actually alluded, we didn't repurchase any shares in the open market in our second quarter. What I can share is we executed a repurchase agreement with a broker by the end of Q2 to help the company to execute open market purchases, and we will share to the extent possible when we can to the market.

Operator^ And our next question comes from the line of Len Brecken with BCA.

Len Brecken^ Yes. Nice to talk to you. I had 2 questions. Some of this was broadly addressed, but I'm going to ask it anyway. I'm just wondering the efforts in regards to growth inorganically versus organically? And specifically, are there any geographic or product verticals beyond the furniture, for example, that you're looking at going into 2024 to continue the top line growth? And the second question is relating to volatility introduced by shipping rates and what the company is doing to mitigate the variability on the gross margin line in respect to that?

Iman Schrock^ So I can perhaps take the first question. So as a company, we're accelerating our spend in sales and marketing aimed at brick-and-mortar retailers. Because as of right now, we're seeing a huge, huge issue in the industry as a whole with large inventory needs, and that represents a lot of opportunity for us to basically penetrate and capture market share.

Digital-only retailers also continue to gain momentum and large -- but at the end of the day, the large majority of future cells are happening at the physical location, so gaining market share would require us to remain focused on the brick and mortar. And as far as your question about the opportunity, I believe that would also continue to remain with the brick-and-mortar side of things going forward.

Len Brecken^ Just a follow-up there, so where do you think your penetration rate is into that segment if you think it's so underpenetrated?

Iman Schrock^ So I can give you an idea about the total addressable market within that category. And by the way, the big and bulky is very, very fragmented. It includes for us, furniture is obviously the biggest, but there's also home fitness, there is gardening, there's even auto parts, there are so many categories that would qualify as big and bulky and super fragmented in every single one of those. Furniture being the biggest, the total addressable market in the U.S., one of our markets, the biggest market, is about $60 billion a year in wholesale volume.

Len Brecken^ I'd say you're pretty underpenetrated, but okay.

Iman Schrock^ Exactly. So lots of runway ahead of us.

Len Brecken^ Okay. All right. That's great. What about the variability introduced by shipping rates to margins?

Iman Schrock^ David?

David Lau^ Yes. I think if you look closely to our financials, you will see that ocean shipping rates was at all-time high first half of 2022. If you look at closely at our financials, we still maintain a profit. Obviously, there is a positive correlation between the 2, right? So when you see ocean shipping rates rising, it hurts our profitability. But I would say that's not the single factor that can push us in and out of profit. So while that's a big cost factor for us but I believe that we've gone through and navigated through the worst of times, and we still maintain a profit during that time. So I hope that kind of clears out what you had in mind.

Len Brecken^ Okay. And if I just may add one more. Can you just discuss who you see competitively out there and maybe 1 or 2 that you see day to day and who you think your biggest competitors are in an idea of why your clientele is choosing you over them?

Larry Wu^ So if you focus on what we do, the core value that we deliver, I don't think there is any part of a competitor for us because we're doubling in big and bulky on the wholesale end. And that is quite an advantage for us across the board. As far as the competitive landscape, there is a privately owned company based in Silicon Valley by the name of Faire.com, that is kind of similar in the concept but they don't dabble in anything big and bulky. They do smaller lighter stuff. But we believe all the value and the competitive advantage remains in handling the big and bulky, which is a nonstandard item. And the Fair.com, currently has a valuation of $12 billion.

Operator^ (Operator Instructions) Our next question comes from the line of Howard Tsung, private investor.

Howard Tsung^ I just have a very quick question. I noticed that the company is bringing in 2 new U.S.-based directors to the Board. Are you guys trying to be a bit more Americanized from a governance perspective?

Larry Wu^ Yes. Maybe I take that question. It's Larry. Actually no because the majority of our Board members today are already U.S. persons. While the proposed the Board of restructuring will have all our board members to be either U.S. resident or citizens. The purpose of this restructuring was mainly from operational and diversity consideration, like John had over 19 years of work experience at Walmart and currently serving as the Vice President of Global Logistics at doTERRA International. He will definitely provide us with a lot of invaluable experience that would continue to grow in the United States and internationally.

Lorri has a long history of experience in U.S. furniture industry she has established a consulting firm, providing advisory services to many top U.S. furniture companies. So we're confident that our proposed the Board will offer a lot of fresh insight and diverse perspectives on our business.

Operator^ And I'm showing no further questions at this time. I'd like to turn the conference back to Mr. David Lau for closing remarks.

David Lau^ Thank you, everyone, for joining our earnings call today. If you have any questions for the management team, feel free to e-mail us. We look forward to speaking with you again. Thank you, everybody.

Operator^ This concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.