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GCT.OQ - Q1 2024 GigaCloud Technology Inc Earnings Call

EVENT DATE/TIME: MAY 09, 2024 / 12:00PM GMT

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PRESENTATION

Operator

Thank you all for standing by, and welcome to GigaCloud Technologies first quarter 2024 earnings conference call. (Operator Instructions) Joining us today from GigaCloud Technologies are the company's Founder, Chairman and CEO, Larry Wu, its President, Dr. Iman Shrock, and its Chief Financial Officer, David Lau, Iman will give a performance and operational review, and David will share the financial results. After that, we will conduct a question and answer session.

Conference call contains statements about future events and expectations that are forward-looking in nature and actual results may differ materially.

Today's call and webcast will include non-GAAP financial measures within the meaning of SEC Regulation G. When required 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 website.

With that, I would like to turn the call over to Larry for opening remarks.

Please go ahead.

Lei Wu - *GigaCloud Technology Inc - Chairman of the Board, Chief Executive Officer, Founder*

Thank you, operator, and welcome, everyone to today's call. Building on last year's considerable success, our first quarter of 2024 demonstrated GigaCloud's ability to drive sustainable and profitable growth, amidst industry challenges and headwinds. We're pleased to share GigaCloud's strongest ever first quarter results and our fifth consecutive quarter of revenue growth.

This comes even after consumer spending softens, for instance, the US consensus Bureau reported an almost 8% year over year decline in retail furniture sales in Q1 2024. Despite these headwinds, GigaCloud achieved the top line result that nearly doubled year over year, while also generating significant improvement in other key financial and operational metrics. These achievements demonstrate our resilience and ability to thrive amidst the market downturns. As we continue to integrate Noble house and the Wondersign acquisitions. We expect to see ongoing revenue growth and the powerful synergies that we believe will create an even more robust and efficient online B2B market.

In addition to strategic nature of these acquisitions, we have taken extra steps to further accelerate the growth of our business.

Firstly, we launched a new marketplaceservice called the branding as a service or BaaS to help sellers amplify their product competitiveness in the GigaCloud Marketplace. Secondly, we expanded our supplier base by adding products from Colombia, Mexico and Turkey. As a result, we have increased our product diversity, allowing buyer to source a wider range of quality products from these new markets.

And lastly, we expanded our global fulfillment network to address increasing demand for our marketplace, further enhancing our world-class support for buyers and sellers. We will hear more or you will hear more about these important initiative shortly. We are very excited to continue our growth journey and believe that the GigaCloud will further enhance its position as a leader and the disruptor of the B2B commerce and technology solution. Going forward, we remain committed to streamlining the global supply chain journey for all our marketplace participants. Now I will turn it over to Iman.

Iman Schrock - *GigaCloud Technology Inc - President*

Thanks, Larry. I'll also like to add my welcome to everyone for joining us today. Despite challenging market conditions experienced by the industry, we're thrilled to share that GigaCloud marketplace GMV for the trailing 12 months as of March 31 increased by 64% year over year with 263 new sellers and 1,238 new buyers.

Our growth is driven by GigaCloud's highly robust technology suite that transforms and facilitates the way suppliers and retailers of large parcel items connect and transact. Our supplier fulfilled retailing model, streamlined the global supply chain, offering a seamless end-to-end experience. Our acquisition of Noble house and wonder sign are further transforming our company by adding diversified products and services to our already robust offerings.

I'll provide an update on the integration progress shortly. First, to discuss our latest groundbreaking initiatives, BaaS or branding a service, which we launched last month. This program is an industry first and holds significant opportunities for both our marketplace participants and for GigaCloud. This unique solution was developed to tackle the long-standing challenges associated with brand building in furniture industry. It's been highly fragmented, crowded and low purchase frequency nature. Furniture suppliers have traditionally had great difficulties when attempting to create brand recognition, including the need for significant amount of capital resources and time, of course. But with that, GigaCloud is changing the game. At its core, the BaaS program enables qualified sellers for the GigaCloud marketplace to offer their products under the banner of industry leading furniture brands, a solution that effectively resolves the difficulties of brand building and allows qualified sellers to compete more effectively, enjoy greater margins and stand out in the market.

The BaaS program is an example of yet another addition to our services toolbox. By providing an effective solution to the industry challenges, we're creating a powerful magnet for the marketplace. We're attracting not only established sellers, but also new suppliers, eager to join our vibrant marketplace community as we gear up for the inaugural transaction in the second quarter. This translates to widespread enthusiasm both from seasoned veterans and those new to the platform.

Our first brand partner, Christopher Knight home has been a consumer favorite with products that have generated over 1 million five-star reviews online and currently sold through some of the world's largest and best-known retailers. We also look forward to expanding this program with additional industry leading brands in the future. As part of the BaaS program, we've created the GigaCloud Brand Center Group, the brand center equipped sellers with the tools they need to thrive, including strategic guidance to maximize their visibility and marketability, while simultaneously maintaining strict quality standards as stylistic standards set by participating brands.

Through inspections and imposing other quality control processes and suppliers. We aim to protect the reputation of participating Furniture Brands and ensure that end consumers receive products that not only meet but also exceed their expectations. As always, sellers will be able to utilize our B2B marketplaces advanced fulfillment capabilities. Due to accelerating demandwe have added three new warehouse fulfillment centers in the US and one fulfillment center in Germany during the first quarter of 2024.

Our latest addition in April 2024 has brought us to 42 prime locations in five countries with over 10 million square feet of fulfillment space. We believe the expansion will enhance our global fulfillment operation by further improving efficiencies and transactions among marketplace participants. The new facilities are currently undergoing racking installation and will soon add to what is already a seamless, broad and strategic global network designed for ease for ease of use and efficiency.

By growing our infrastructure to keep pace with a dynamic market. We believe we are well positioned to capitalize on the amazing growth of the GigaCloud marketplace. We're seeing increased attention from the suppliers in new regions. As Larry alluded to, a clear indicator of our growing awareness. This reinforces our focus on enhancing our buyer's transaction experience by expanding our product breadth.

We are committed to growing our marketplace buyer community through diversifying the selection of on-trend furniture design and providing a broader product range. Our integration of Noble house and Wondersign is progressing as planned, and it's helping drive additional innovation and transformation. The integration of Noble House have successfully enhanced our reach and global presence, and we remain on track with our original plan to breakeven in 2024.

Integration of wondersign is a testament of our ongoing technological advancements and our combined expertise will unlock new avenues for innovation across the entire business ecosystem. Together, these acquisitions, signified more than just an expansion. They are driving innovation and fostering a powerful synergy that will empower us to deliver greater value to our customers.

Now let's dive into our operational highlights, showcasing the strength of our platform for the trailing 12 months ending March 31, 2024 our GigaCloud Marketplace GMV or the total gross merchandise value of transactions. Orders through the marketplace was $908 million, an increase of 64% year over year.

We generated a nearly 44% increase in active 3P or third-party sellers ending the quarter with a total of 865. We are successfully adding scale to our supplier fulfilled retailing network, which should continue to grow organically and through our acquisition of Noble House, GMV in our 3P seller marketplace grew almost 72% from the year ago and totaled approximately $490 million for the trailing 12 months.

3P sellers represented 54% of our total marketplace GMV for the same period. We believe the combination of our 3P and 1P are vital to our growth strategy with a focus on continuing to drive organic growth of 3P GMV. to build a larger, more efficient and more sustained marketplace. Active buyers are also grew substantially to 5,493 for the trailing 12 months, which is an increase of more than 29% from the same period last year. The average spend per active buyer increased 27% to $165,000 with ever growing high-quality seller participation in our marketplace and a growing product portfolio we look forward to additional expansion of buyer metrics.

Before I wrap up, I want to provide a brief update on the fire in one of our Japanese fulfillment centers. As we disclosed last quarter. On March 9, 2024, one of our facilities in Japan suffered damages due to a warehouse fire estimated at approximately $1.8 million with respect to the cost of inventory held at this fulfillment center. Insurance coverage is expected to extend up to $1.5 million. It's worth noting that the impact on our overall operation is expected to be minimal as the affected inventory in the fulfillment center represented less than 1% of our total inventory holdings.

I hope today's discussion has showcased our enthusiasm for GigaCloud's ongoing evolution and its promising future. Our financial performance remains robust with consistent growth quarter after quarter, we're strategically expanding our global fulfillment network to better serve our marketplace participants and to meet organic, growing and growing demands. And let's not forget the integration of two key acquisitions, further accelerating our scalability and technological innovation. We're actively driving the future of global e-commerce, and we're thrilled to have you with us on this journey.

Now I will turn the call over to David for a more more detailed review of our financials.

David Lau - *GigaCloud Technology Inc - CFO*

Thanks, Iman. For the benefit of those who are new to our company. I'll be defining some of our most used metrics. First, some quick housekeeping. The numbers I'll be discussing today are for the first quarter of 2024 compared with the first quarter of '23 unless otherwise stated.

Additionally, please note that this quarter, we began providing the non-GAAP measures of adjusted EBITDA and adjusted EPS in our first 10-Q filings after the transition of US filer.

As Larry and Iman previously discussed, we had a great first quarter by all measures total revenues nearly doubled to $251 million, an increase roughly 2.4% on a sequential basis. Notably, our first quarter's performance exceeded our fourth quarter, which is typically our strongest period due to seasonal trends in the industry. This achievement underscores our continued growth trajectory.

Service revenues from GigaCloud 3P, which mainly include platform commission, ocean transportation warehousing, last-mile delivery and packaging services grew 92% to $67 million. Product revenues from GigaCloud 1P, which mainly include product sales of our inventory through that GigaCloud marketplace improved to $90 million, an increase of nearly 47% year over year.

Product revenues from off-platform e-commerce, which mainly include the sale of our inventory to and through third-party e-commerce channels increased almost 200% year over year to over $93 million. These increases were in line with the 64% gain in total market GMV, which equaled to, $908 million at the end of the first quarter on a trailing 12 month basis.

GMV is defined as the total gross merchandise value of transactions order through our GigaCloud marketplace before deductions for value-added tax, Goods and Services Tax, shipping charge paid by buyers to sellers and refunds. Cost of revenues were $185 million or 74% of total revenues, compared with $98 million or 77% of total revenues. The reduction in cost of revenues as a percentage of total revenues underscores our success in enhancing a sustained operational efficiency across our business operations. Gross profit for the first quarter increased more than 125% to $67 million which resulted in an improved gross margin of 27% versus 23% in the prior year period.

I want to briefly touch on ocean shipping rates. Ocean shipping rate fluctuations have impacted the industry in the first quarter with cost rise compared to the same period last year, we have secured a substantial amount of our shipping volume under a fixed rate contract to effectively hedge against future price uncertainties.

As a result of our continued growth and increase in volume total operating expenses were $32 million compared to $12 million last year.

Breaking down our operating expense, further, selling and marketing expense for $15 million compared with $7 million, driven primarily by higher platform services paid to certain third-party e-commerce websites Staffing costs include the added personnel to support the continued growth of the company and higher commission and advertising costs.

General and admin expense totaled $15 million compared with $4 million This increase primarily was due to higher staff costs, including our R&D efforts to accommodate the expansion of our business volumes, higher professional services fees and increase in rental expense related to certain newly leased fulfillments centers that are currently under preparation, along with a set of expense required for the new fulfillment centers to reach full operational mode.

Our bottom line expanded quite nicely with net income growing more than 71% to $27 million compared with $16 million last year. Adjusted EBITDA grew by more than 74% to $35 million.

Moving now to our balance sheet. We ended the first quarter with a total of $196 million in cash, restricted cash and investments. We have strategically allocate our cash towards investment of $10 million in support of our growing infrastructure network, where we incurred $4 million in CapEx, including facility expansion and pallet racks, enhance our fulfillment capabilities. To ensure we can meet anticipated sales during the upcoming outdoor furniture season in Q2, we have strategically manage our cash flow to build sufficient inventory.

In addition, as we mentioned in our previous quarter, we provide favorable cash on delivery terms for Noble house suppliers that were facing financial difficulties, resulting in a less than usual cash flow generation into our balance sheet for the quarter. Additionally, we have we continue to have no outstanding borrowings and remain debt-free. Liabilities presented on our balance sheet represent obligation associated with our fulfillment center leases as we have substantially expanded our network organically and through acquisitions.

I'll finish up with our outlook for the second quarter. We're currently expecting revenues between $265 million and $280 million dollars. Thank you all for joining us today. And operator, we're ready for our questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Matt Koranda with ROTH MKM.

Matthew Koranda - *Roth Capital Partners LLC - Managing Director, Senior Research Analyst*

Hey, everybody. Good morning. Maybe just wanted to start off with the first quarter and the organic growth rate that you experienced versus contribution from Noble house. Just curious if you could clarify where the incremental revenue from Noblehouse else is coming from? I would assume it's basically all off-platform, but that revenue stream looks particularly strong on a year-over-year basis. And maybe you could just unpack that the drivers there first.

David Lau - *GigaCloud Technology Inc - CFO*

Hey, Matt, maybe I'll take this one. As we discussed in our last call, we don't break it out between what's organic, what's inorganic. Because right now we're kind of in the middle of fully integrating the business. So we don't really break that out as we see the business.

But you're correct, pointing out that the off-platform e-com revenue generation is driven mostly by the new Noblehouse business.

That's correct.

Matthew Koranda - *Roth Capital Partners LLC - Managing Director, Senior Research Analyst*

Okay. Got it, on the third party service gross margins. I was curious what's driving the strength there? And you mentioned ocean freight rates going up. So I would assume that typically would compressed margins in that segment. Maybe just and speak for a moment. If you could about the strength in gross margins that you experienced in the third-party service revenue in the quarter?

David Lau - *GigaCloud Technology Inc - CFO*

Yes, I think we're seeing a lot of momentum in our 3P side of the house, particularly now and Iman alluded a little earlier that a lot of our sellers are gearing up for the outdoor furniture season. So we're seeing a lot of velocity and momentum.

Yes, well, that we see the overall shipping rates has been going up, but I don't think it really impacted us as materially as others would have expect. And we also mentioned that we are now effectively hedging against future ocean shipping rates fluctuations. So we're fairly comfortable at the current margin profile that we're enjoying.

Matthew Koranda - *Roth Capital Partners LLC - Managing Director, Senior Research Analyst*

Okay. Got you. And then just wanted to hear a little bit more about the branding as a service business and any quantifiable metrics you can provide around that and how it's built into the second quarter guidance, I noticed I think in the release you mentioned the program a launch in the second quarter. So maybe just speak to sort of how we're thinking about revenue contribution from that is the right way to think about that program effectively like brand licensing or licensing revenue stream that layers into the third party service revenue that you get already from your sellers?

And then maybe just is that how do you view the branding of the service program as a whole just simply is it a seller acquisition tools that a retention tool? Maybe just a little bit more on sort of why might do this?

David Lau - *GigaCloud Technology Inc - CFO*

Larry, Iman you guys want to take this,

Iman Schrock - *GigaCloud Technology Inc - President*

I'll be more than happy to David. So basically, branding as a service is an additional service that is being offered to make the business model even more sticky with our both our seller base and the buyer base. And the whole idea behind this process is that through the end to end optimization process, we're able to manage the entire processing network, which kind of contributes to all those margins that you just in a listed off as far as the third party sellers. And at the end of the day, like you mentioned, this will be definitely a recruitment tool, but also a retention tool as we're trying to basically tackle one of the biggest issues in furniture business when it comes to building brands.

I talked a little bit about this that the nature of the industry is highly fragmented and it requires significant amount of investment as far as the capital resources and time to build those brand recognition because the purchase frequency is so low. So by giving the good products a chance to have access to good brands, we're hoping that you know, we truly give these product a chance better market. And with that, we increased the usage of existing supplier base, but also attract new with new sellers to join the marketplace. And by fueling the seller base would definitely add variety and styling choices for the buyers and the flip side to choose from.

Matthew Koranda - *Roth Capital Partners LLC - Managing Director, Senior Research Analyst*

Okay, got you. And then just for the second quarter, outlook. I think you guys provided a range of revenue in the $65 million to $80 million range. Maybe just since we're not breaking out Noble house at the very least, maybe just some commentary around third party service revenue contribution within that outlook versus product revenue in the second quarter and how we should think about that?

David Lau - *GigaCloud Technology Inc - CFO*

I think the way we see it is that the ratio between these two lines of business, if we will, remain fairly steady for a while. I don't think there will be any drastic changes in terms of the balance between the two business as a percentage of revenue.

Matthew Koranda - *Roth Capital Partners LLC - Managing Director, Senior Research Analyst*

Okay, got it. Maybe just last one for me. In terms of the margin profile on a go-forward basis, I guess the integration of Noble house may be creating a little bit of a drag on margins. When do we expect that to sort of release and we reach sort of at least a break-even to a positive operating profit contribution from Noble house. Maybe just help us understand a level set around when that happens, if it's within '24 or beyond?

David Lau - *GigaCloud Technology Inc - CFO*

Yes. I think breaking even within 24 is our goal. And I think we're fairly confident with that, that that call in mind, I think we're starting to see some profitability generating from the Noble house business probably by the end of the year, if not early 2025.

Matthew Koranda - *Roth Capital Partners LLC - Managing Director, Senior Research Analyst*

Okay. Thanks, guys.

Operator

Sophie Huang with CMBI.

Sophie Huang - *CMB International Securities - Analyst*

Thank you, and congratulations on the top-line growth rate increased first quarter of this year. So I noticed that revenues and gross margin both improved year on year, but net income margins since Jan decreased slighly. So could you please provide us with some insight into the region and how do we look at margins in the next few quarters? Thank you.

David Lau - *GigaCloud Technology Inc - CFO*

Hey Sophie, great question, I think from a high-level, I think we can categorize two main factors that contributed to a temporary downward compression on margins for first quarter.

I think the first one is the cost associated with some of the new fulfillment centers that we opened during Q1 in mind, and I talked a little bit earlier that we leased four new facilities in Q1 to keep up with our growing demand. It typically takes around four to six months. It's about new facility now with all the racking systems on to make sure that everything is working out.

So this is something that we are working on and it's also fairly standard for the industry that we receive a standard kind of seven to nine months of rent free for our new facilities in the US. But because we're leasing these facilities, we have to expense the costs evenly throughout the life of the lease. So that's why you see there is a temporary downward compression to our margin profile during this setting up phase and to give you a little bit more color around what the tenant lease or the establishment costs for these new fulfillment centers.

So for Q1, the expense for new fulfillment centers amount to around $2 million. And we're fairly confident that we'll see the benefits of these new added facilities in the near future.

And the second factor contributing to the margin is, as you know, we have a global business and it's because of the foreign exchange fluctuations that we experienced in first quarter. As you see the US dollar is very strong against the Euros, British pound British pound during the first quarter. And because of the fluctuation, we experienced some foreign exchange losses from our cash and receivables balance as of March 31, there are unrealized and that amount is roughly $2 million. So hopefully I'll explain kind of the margin profile for Q1.

Sophie Huang - *CMB International Securities - Analyst*

Very clear. Thank you.

David Lau - *GigaCloud Technology Inc - CFO*

Thanks, Sophie.

Operator

Thank you One moment for our next question.

Brian Kinstlinger, Alliance Global Partners.

Brian Kinstlinger - *Alliance Global Partners - Analyst*

Great. Nice results and thanks for taking my question and a follow-up on Noble house, if you will, to get that to a more profitable status, is that a combination of revenue growth and cost cuts? Or is it just cost cutting it needs to get you there?

David Lau - *GigaCloud Technology Inc - CFO*

Brian, I think it's both on the revenue side. We mentioned a little bit in our last call that we're expanding and plugging in Noble House SKU into our marketplace. And we're also utilizing some of the warehouse footprint that Noble house from that acquisition from Noble house.

And then on the cost side, because we also have a sizable warehouse footprint, and we also have personnel on the ground. So we're able to extract some synergies from the cost side of the house.

Brian Kinstlinger - *Alliance Global Partners - Analyst*

That's helpful. And then on the branding as a service going to follow up there, is that going to be a fee per unit or is that going to be more of a recurring fee or license to use the branding?

David Lau - *GigaCloud Technology Inc - CFO*

(multiple speakers)

Lei Wu - *GigaCloud Technology Inc - Chairman of the Board, Chief Executive Officer, Founder*

So basically it does the best the way it operates is per sku. So once the sku is qualified through that brand center mechanism that we discussed. And then, you know, a fee is charged a fixed fee and that nominal fee as of right now is I believe about 4% and the industry standard are about 10%. So it's very, very competitive right now.

Brian Kinstlinger - *Alliance Global Partners - Analyst*

My last question is the 3p seller count continues to grow at a solid clip. Can you remind us about the recruiting process? How long are the recruiting cycle? And then on average, how quickly do they ramp the number of SKUs once are onboarded.

Thank you.

David Lau - *GigaCloud Technology Inc - CFO*

And so our recruiting efforts is mostly meeting kind of suppliers locally, mostly out here in Asia on I don't know if I actually have the numbers in front of me, but I would imagine it will be a couple of months for them to join. And I think usually suppliers would put a couple of SKUs to kind of just trying it out and then they'll start ramping up when they see success. And so that's typically kind of the supplier profile for our 3P business.

Brian Kinstlinger - *Alliance Global Partners - Analyst*

Great thank you guys.

Operator

Thank you. This concludes the question and answer session. I would now like to turn it back to David Lau for closing remarks.

David Lau - *GigaCloud Technology Inc - CFO*

Great. Well, thanks, everybody, for joining this call. If you have any questions, feel free to e-mail our IR e-mail address, and we look forward to discussing our results in our next earnings call. And thank you all for joining and thank you.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.