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Q4 2023 GigaCloud Technology Inc Earnings Call

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PRESENTATION

Operator

Good day, and thank you for standing by, and welcome to the GigaCloud Technology's fourth-quarter and full year 2023 earnings conference call. (Operator Instructions) Once again. Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today. Larry Wu founder and CEO. Please go ahead.

Larry Wu *GigaCloud Technology Inc - Founder, Chairman and CEO*

Thank you, operator, and thank you, everyone, for joining us on the call today, 2023 and the fourth quarter in particular, have marked a significant inflection point for GigaCloud, which has changed the trajectory of the business and that we believe will change the way people think about the industry. We have jumped in order of magnitude in the scale of our business and the potential of our supplier fulfilled rating model. On the top line, we saw revenue increase to \$244.7 million for the quarter, up approximately 95% period-over-period.

And for the full year revenue increased to \$703.8 million, an increase of approximately 44% from 2022. While these are certainly impressive results, especially keeping in mind that the Noble House transaction did not close until 1, November. We believe that we have still not seen the full power of our business Synergia.

In alignment with our integration with Noble House, we have taken strategic actions to further optimize this business. This includes streamlining Noble House operation by divesting its direct-to-consumer online retail triage and the manufacturing division. Additionally, we have outsourced the management of return. This has served two key objectives. First, by sharpening our focus, we ensure our concentration resources are directed towards strengthening our B2B marketplace propositions.

And secondly, we want to enhance our B2B market neutrality and are committed to provide that streamlined service to our buyers and sellers of the marketplace. Before passing it over to Iman to discuss our operational highlights, I want to remind everyone that you will see our first 10-K filed within the month. This year will represent our first year as S-1 filer we believe this is an important step to gain broader access to the international capital market and are pleased to have completed this transition in a timely fashion

Going forward, GigaCloud will have the same reporting disclosure and filing obligation as other S-1 issuer. And you can expect that the same cadence of filings such as 10-Q and 10-K as you would from any domestic NASDAQ-listed company.

With that, I would like to turn the call over to Iman.

Iman Schrock *GigaCloud Technology Inc - President*

Thank you, Larry, and thanks again to everyone for joining us. Our mission here at GigaCloud is to revolutionize the way suppliers and resellers manage big and bulky items. Our B2B marketplace streamlines the entire process, offering a seamless end-to-end experience and the successful integration of Noble House and Wondersign fueled this transformation through the integration of Noble House. We've expanded our sourcing origin to India and our operations into Canada with a warehouse in Milton, Ontario, in what we believe will be a strategic move to open our marketplace to even more buyers. We have also already onboarded some Noble House customers onto our B2B marketplaces buyers and will continue to recruit both suppliers and new buyers from the existing Noble House base of business.

Finally, the financial plan for Noble House remains on track with a minimal net loss in the fourth quarter, positioning us favorably to achieve our goal of breakeven by the end of 2024 and profitability within six quarters. Clearly, we've made tremendous progress in our integration and execution plan we laid out for these acquisitions, which pushed GigaCloud further into a full service and to end B2B solution provider in the big and bulky landscape.

Our Wondersign acquisition was a strategic entry into the brick-and-mortar space and has allowed us to begin work on the Giga IQ package, which will facilitate the seamless integration between retail systems and our constantly expanding B2B digital catalog for a more customer friendly, streamline and optimize transaction process. The beauty of the Wondersign integration and the future rollout of the Giga IQ package. The business model on the cloud side will remain similar, taking an order from the reseller and delivery through our supplier fulfilled retailing model directly to the end consumer.

This model opens up opportunities for GigaCloud marketplace to onboard new retailers. The integration of Wondersign and the development of our Giga IQ package is a testament to our excellent technology and R&D, primarily our in-house team of approximately 300 employees contributing to our R&D functions, including development of our prototype, proprietary cloud warehousing, collection of data and analytics and the design development and testing of our new GigaCloud marketplace.

I also wanted to mention our addition of three new global 3P sellers with product origins in Mexico, Colombia and Turkey, which we announced in February. We are committed to continuously expanding our supplier network.

This strategic approach diversifies our product portfolio and fosters supply chain redundancy, ensuring our buyers have uninterrupted access to products in a timely manner.

Now let's walk through some operational highlights. For the period ending December 31, 2023. Our GigaCloud Marketplace GMV grew approximately 53% year over year to \$794.4 million in the TTM period. On the seller side, the platform signed approximately 46% increase in active 3P sellers, which ended at 815 for the quarter. As I've mentioned in the past, we see the expansion of our 3P ecosystem as a crucial aspect of our proud platform expansion and achieving scale in our supplier fulfilled retailing model.

While we continue to devote a significant amount of time and resources into quickly vetting and onboarding new 3P sellers to our platform. We expect to see our acquisition and integration of Noble House continue to incrementally add a number of sellers to this number. We see our 3P seller marketplace GMV increased dramatically in the quarter, increasing approximately 65% year over year to \$426.3 million in the TTM period. Overall, this accounted for approximately 54% of our total marketplace GMV in the same period.

As I've mentioned on our prior calls, while our 1P approach remain an integral part of our business strategy. Ultimately, we believe that the growth of our organic 3P GMV will be very important to the scaling of our business, and 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 increased to over 5,000 in the 12 months prior period, an increase of approximately 21% from the year prior with average spend per active buyer accelerating 27% to approximately \$159,000. This further demonstrates that we've been successful in attracting the type of high-quality seller we want on our platform.

Finally, I wanted to briefly mention the incident in one of our Japanese warehouses. First and foremost, there were no injuries to GigaCloud employees, contractors or anyone else. And the incident, the safety and the well-being of our people is paramount, and we are thankful for this outcome in terms of business impact, we have direct insurance coverage for our IT inventory and involved in the incident.

While we believe the facts are still developing, we have three other warehouses in Japan, and we have a plan in place to minimize any disruption to business in the region. We believe this situation is well in hand. However, we will update the market as necessary should there be material change in status.

Finally, I could not be more pleased with our results for the quarter and the year, and I am incredibly proud of our entire GigaCloud

family, including those who recently joined from the Noble house and Wondersign from all over the world.

Our financial results were incredibly strong, including revenue for the quarter up approximately 95%. We are making excellent progress on the integration of Noble House and Wondersign with selective Noble house skews to be available in our marketplace starting today. We completed our transition to S-Filer, giving investors additional visibility into business and a consistent filing cadence. We expanded our warehouse footprint by over 100% ending the year with 8.2 million square feet of inventory space across 33 warehouses globally. We are seeing tremendous gain in our operational KPIs with our active buyers spend increasing over 27% and the buyer base increasing over 20%.

And with that, I would like to turn the call over to David for a more detailed review of our financials.

David

David Lau *GigaCloud Technology Inc - CFO*

Thanks Iman, I'll now walk through our fourth quarter and full year numbers in more detail. Our total revenues for the fourth quarter were \$244.7 million, which was an increase of 94.8% year over year and approximately 37.3% sequentially. On a full year basis, we generated \$703.8 million, a 43.6% increase versus the year prior period.

Breaking this down for just the fourth quarter, service revenue from GigaCloud 3P saw a 92% year over year increase to \$69.3 million. Product revenue from GigaCloud, 1P saw a 50.9% year over year increased to \$88.3 million.

And product revenue from off-platform e-commerce saw a 179.7% year-over-year increase to \$87 million. These increases correspond with a 53.3% year-over-year increase in total GigaCloud Marketplace GMV, which ended the full year at \$794.4 million on a TTM basis.

Our gross profit for the fourth quarter was \$69.8 million, which was an increase of 161.4% year over year and resulted in gross margin of 28.5% versus 21.2% in the year prior period. On a full year basis, gross profit increased by 127% to \$188.6 million, which resulted in a gross margin of 26.8% versus 17% in the year prior period.

I also wanted to briefly touch upon on ocean shipping rate fluctuation. The Red Sea incidents mostly affect routes from Asia into Europe, which is still a small part of our volume compared to the United States. We are already seeing the increased shipping rates from the most recent Red Sea incident starting to come down, and we're currently in the process of negotiating an attractive fixed price contract for a sizable portion of our shipping volumes soften the effects of these incidents going forward.

Our cost of revenue in the fourth quarter of 2023 were \$174.9 million, an increase of 76.8% from \$98.9 million in the fourth quarter of '22. On a full year basis, cost of revenues in '23 were \$515.2 million, the increase of 26.6% from \$407 million in 2022.

Our total operating expense for the fourth quarter were \$32.7 million, which was an increase of 181.9% year over year from \$11.6 million. On a full year basis, total operating expenses were \$78.6 million, which was an increase of 63.4% from \$48.1 million in the year prior period.

Breaking this down for just the fourth quarter, selling and marketing expenses increased 122.2% year over year to \$14 million. General and admin expense increased 235.9% year over year to \$13.1 million. R&D costs were \$2.3 million in the fourth quarter of '23, an increase of 64.3% from fourth quarter of 2022. Increases were due to staff costs related to selling and marketing personnel, an increase in platform services fee for certain third-party e-commerce websites and system-wide technological upgrades on GigaCloud Marketplace.

I also want to be mentioned that we have not fully realized the cost synergies from Noble house at this time. We continue to expect realization of these synergies to occur throughout the year.

On the bottom line. Our net income for the fourth quarter was \$35.6 million, which was an increase of approximately 184.8% year over year from \$12.5 million. This resulted in basic and diluted earnings per share of \$0.87 versus \$0.31 in the year ago period.

On a full year basis, net income was \$94.1 million for the period ending December 31, '23, resulting in basic and diluted earnings per share of \$2.31 and \$2.30 versus net income of \$24 million in the year prior period, which resulted in basic and diluted earnings per share of \$0.6. This resulted in adjusted EBITDA for the fourth quarter of '23 of \$43.8 million, an increase of 188.2% year over year from \$15.2 million. On a full year basis, we generated adjusted EBITDA of \$108.3 million (sic - form 8-K, page 4, "\$118.3 million") an increase of 183% compared to \$41.8 million in the year prior period.

Moving onto our balance sheet, we ended the fourth quarter with \$183.3 million in cash on balance sheet, a net increase of approximately \$40 million from the quarter ended December 31. I also want to mention that we currently have no outstanding borrowings on our debt-free. We do have a large noncurrent liability that's related to our warehouse lease.

As we mentioned in our investor deck, provided favorable cash on delivery terms for several Noble House suppliers, which were facing financial difficulties in the first quarter. We expect to see an associated impact on our free cash flow for the first quarter, resulting in less cash than usual flowing to our balance sheet. We anticipate the Noble house operation to start stabilizing in Q1 '24 and expect business to pick up in Q2 as new products are starting to roll in for the outdoor furniture season.

I also like to highlight at the time of the IPO, we have several VIE. in place across a number of jurisdictions today, I'm very pleased to announce that after a series of corporate reorganization, we have successfully converted these VIE. into fully owned subsidiaries of the company, and we do not have anymore VIEs in our corporate structure today.

Finally, I want to briefly mention our financial outlook for currently expecting between \$230 million to \$240 million in revenue for the first quarter of 2024.

Thank you all for joining. With that, I'd like to ask your operator to open the line for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions)

Matt Koranda from ROTH MKM.

Unidentified Analyst

Hey, guys, it's Mike on for Matt. Congrats on the quarter. Maybe just wanted to start with Noble house and the guide on how much exactly did Noble House contribute in the fourth quarter? I assume it was all in the Giga off-platform revenue, but just wanted to confirm there. And then was there any contribution in the fourth quarter to service revenue from onboarding, Noble house suppliers to the marketplace?

David Lau *GigaCloud Technology Inc - CFO*

Sure. Hey, Matt, it's David here. So right now, we have roughly \$30 million of contributions coming in from Noble House, and we won't be breaking that out further. But this 10-K, you'll see that we have stand-alone financials of Noble House on in the quarter of 2023 Q4, there isn't a service revenue being contributed from Noble House. And as you said earlier, on the Noble house, our revenue is contributed from our off-platform product revenue.

Unidentified Analyst

Got it. Okay. That makes sense. And the 1Q guide calls for \$235 million at the midpoint, any sense for what Noble House will contribute in the guide and any sense for service versus product revenue growth? Just trying to get to that \$235 million and get a sense for growth in each category?

David Lau *GigaCloud Technology Inc - CFO*

Yes. Mike, I don't think we will be breaking out further because right now the Noble House business is now being fully integrated to our group from a reporting standpoint. But as I alluded earlier, I think the Noble House business stabilizing in Q1, and we're expecting the business to pick up in Q2. On the other hand, our organic business continued to scale and expand and we've actually established a pretty good market position, as you can see from our operational metrics. So all these factors are some of the things that we consider when we lay out our Q1 revenue guidance.

Unidentified Analyst

Yes. Okay. And any sense for the service versus product revenue growth? I know we said we're integrating Noble House, but any way to think about service revenue growth was product revenue growth for the first quarter?

David Lau *GigaCloud Technology Inc - CFO*

Yes, I think what we're going to see is you'll see a bigger contribution from the product, given that the direct contribution from the Noble House directly into our product revenue on that, as you can see, we've always been that 70%, 30% split, and you'll probably see a bigger contribution coming in from product in Q1.

Unidentified Analyst

Okay. That makes sense. Thanks so much. And the last one for me on gross margins, what exactly is driving the product revenue gross margin gross margins higher? It seems like it's probably a higher gross margin contribution from Noble House. But just any other inputs to call out that explain the 4Q strength in product gross margins?

David Lau *GigaCloud Technology Inc - CFO*

Yes, I think the Noble House contribution is definitely there. I think another factor is, as you know, Q4 is a typical peak season for retail sales with a Black Friday, Cyber Monday we're able to generate a higher margin profile throughout those retail days. So that's kind of one of the reasons why you see an improving gross margin overall.

Unidentified Analyst

Got it. Okay. Very clear. Thanks, guys. That's all for me.

Operator

Sophie Huang, CMBI.

Sophie Huang *CMB International Securities - Analyst*

Okay. Thank you. Congratulations on a strong quarter and thank you for taking the question. I just have a follow-up question on the margin side. So how do you see the impact from freight fee change recently? And how do you view the margin trend in the next few quarters? (inaudible)

David Lau *GigaCloud Technology Inc - CFO*

Hey, Sophie. Sorry, can I confirm your question is about whether we were able to sustain our margin profile going forward. I just want to make sure I understand the question correctly.

Sophie Huang *CMB International Securities - Analyst*

Yes, the margin trend.

David Lau *GigaCloud Technology Inc - CFO*

Yes, on so as I discussed earlier, I think Q4 was a good year because of the typical retail peak season. I think going forward, obviously, we're trying to maintain that. But also, we're also facing some macro challenges and are things like softening of the housing market, elevated shipping rates, which we discussed a little bit earlier that we're actually in the process of negotiating a fixed price contract for some of our volume. So the management team and actually trying to steer the company through these challenges, we'll do our best to maintain that profile, but kind of the situation we're in right now.

Sophie Huang CMB International Securities - Analyst

Okay. And the second question is about your global expansion strategy. Can you shed more color on the performance of different markets? I remember you said that the [European] market has the highest revenue growth and you also expand the Canada market after Noble House consolidation. So how do you view the opportunity for new revenue recognition from those non-US markets in the long run?

David Lau GigaCloud Technology Inc - CFO

Iman, you want to take that one around our global expansion.

Iman Schrock GigaCloud Technology Inc - President

Sure. So as far as the total addressable market in the US, we're looking at an industry within furniture, our biggest, vertical of almost \$65 billion and as you mentioned, Europe has been a tremendous market for us as far as growth. And you also saw that, you know, we have onboarded three new 3P sellers from different regions Turkey, Colombia and Mexico.

So what we're going to continue to see is a global evolution of the business in the GigaCloud marketplaces adopted in more and more marketplaces, while our primary market in the United States would still be the growth driver going forward, the European market will be right behind it.

Sophie Huang CMB International Securities - Analyst

Okay, thank you. And the last one, can you explain more about your R&D expenses, [\$2.9 million] R&D expenses, clearly low for a company of this size

David Lau GigaCloud Technology Inc - CFO

Yes. Maybe I'll take this one actually is a very quick question, and I'm very glad you brought it up yet. We incurred close to \$4 million in R&D expense in 2023. And as Iman alluded earlier, we have over 300 team members dedicated to our R&D efforts, which includes developing and testing of our platform, collection of data and analytics, et cetera. Some of that R&D efforts are actually being accounted for in our costs. So therefore, our total cash, our cost associated with R&D is actually far larger than the \$4 million that you see in our R&D expense in our P&L.

Sophie Huang CMB International Securities - Analyst

Okay, thank you. Very clean. Thank you.

Operator

Brian Kinstlinger from Alliance Global Partners.

Brian Kinstlinger Alliance Global Partners - Analyst

Thanks so much for taking my questions. From an organic growth perspective, I may have missed it. Can you highlight the number of SKU's your platform had at the end of the year versus the end of 2022? And then I'm curious if you're seeing strengthening demand per SKU on average in the fourth quarter, maybe compared to last year or even the first half of the year?

David Lau GigaCloud Technology Inc - CFO

Yes, Brian, I think on the SKU point, I don't have the exact number in front of me. But if I recall, we have roughly 30,000 SKUs as of the end of last year. And I think that number for 2022 is somewhere in that 20,000 range.

Brian Kinstlinger Alliance Global Partners - Analyst

Great. And then on the demand side, I think in the first half of the year, demand per SKU on average was down because of that change in the fourth quarter. Are you starting to see strengthening demand on your SKUs.

David Lau GigaCloud Technology Inc - CFO

Iman, you want to do that or --?

Iman Schrock GigaCloud Technology Inc - President

I'll be more than happy to David. Hi, Brian. So obviously, when it comes to home furnishings, you know the entire industry is still experiencing and the headwind with the cooling of the housing market and the softening of the consumer spending under durable goods. And but with our business model, we're really well positioned in a very slow growth market. And as far as you know, the SKU density and the performance, we don't really make that information available. But by default, some of the best metrics to look at is the growth in the 3P supplier base. And on the reverse side, the average spends per active buyer up 27%, while the base of the buyers grew by 20% to over 5,000.

Brian Kinstlinger Alliance Global Partners - Analyst

Got it, thank you. And a little bit more forward looking if you can, I mean, you've done great at growing the SKU count? I know you made acquisitions that will drive an increase, but again, from an organic basis, can you continue to rapidly grow the number of SKU's?

Iman Schrock GigaCloud Technology Inc - President

Yeah, we're pretty confident on growing SKUs of both on the one side and now that we acquired Noble House, which directly give us access to 8,000 new SKUs from the Noble house business. And so there are a lot of new ways for us to kind of keep growing the SKU number.

Brian Kinstlinger Alliance Global Partners - Analyst

Great. Lastly, maybe for David, can you quantify the cost synergies you realized from the recent acquisitions thus far? And then you talked about a big chunk of them will be realized and again in 2024. Can you talk about maybe what those can you quantify those synergies?

David Lau GigaCloud Technology Inc - CFO

Yes. I guess it's kind of hard for me to quantify what the synergies are from both a revenue or a cost savings standpoint at this point. And what we can see from the health of the business is that we basically incurred a minimal loss in Q4, and Q1 is starting to stabilize. We got new products coming in for the outdoor freshman season. And so Q2, we expect there's going to be a pickup from the business. So that's kind of the health of the business. But hard for me to actually quantify what those synergies are at this point in time.

Brian Kinstlinger Alliance Global Partners - Analyst

Great. Congrats on a great 2023.

David Lau GigaCloud Technology Inc - CFO

Thanks, Brian.

Operator

Rommel Dionisio, Aegis Capital.

Rommel Dionisio Aegis Capital - Analyst

Thank you. Good morning. I wonder if I could just inquire about the new repeat business from Colombia and Mexico. Could you just maybe describe a little more detail how you know, the potential evolution there of that region of the world, which is you haven't talked about too much in the past. And also are you going to report the building of infrastructure sales force? I wonder if you could talk about how, you see that potential market opportunity playing out here over the next few years and the long-term opportunity. Thank you.

Iman Schrock GigaCloud Technology Inc - President

Thank you, Rommel. As far as the new sellers on as good cloud is getting more known and known and in the global arena as a better way to make trade and to the market. I think you know, organically, we're going to see an interest coming from a lot of the global supply for the suppliers into regions we do not currently operate and into becoming members.

In addition, you know, like you know, as far as recruitment of sellers, the existing infrastructure can support the expansion without reach into if the need be we can definitely expand into the region. But those of the countries that you mentioned are new to the marketplace

that kind of speaks volume to the true reach of GigaCloud business model globally as a better way of doing big and bulky. Because in reality, we kind of transformed the industry into making it more seamless end-to-end in a better way of trading for big and bulky.

So with that being said, I do expect the same trend to continue. As you know, we get to share our story with more and more manufacturers and distributors across the board, to see them onboarding and adopting the business model.

Rommel Dionisio Aegis Capital - Analyst

Okay. Thanks very much and congratulations on the on the quarter.

Iman Schrock GigaCloud Technology Inc - President

Thank you, Rommel

Operator

Thank you. We'll now move on to our next question, please standby. There are no further questions at this time. So I'll hand the call back to David Lau for closing remarks.

David Lau GigaCloud Technology Inc - CFO

Thank you for your continued support in the business and please feel free to contact us. Should you have any further questions, and we look forward to speaking with you all in our next earning announcement. And have a nice day. Thank you.

Operator

Concludes today's conference call. Thank you for participating. You may now disconnect. Speakers, please standby.

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