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Q1 2023 GigaCloud Technology Inc Earnings Call

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CORPORATE PARTICIPANTS

Iman Schrock *GigaCloud Technology Inc. - President*

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 the GigaCloud Technology's First Quarter 2023 Earnings Conference Call. (Operator Instructions) Joining us today from GigaCloud Technology are the company's Founder, Chairman of the Board and Chief Executive Officer, Larry Wu, the company's Chief Financial Officer, David Lau; and the company's President, Dr. Iman Schrock. On today's call, Larry will give an overview of the company's performance, Iman will provide details of the company's operational results, and David will share the company's financial results. After that, we will conduct a question-and-answer session.

As a reminder, this conference call 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 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 the company website. With that, I would now turn the call over to Larry, the company's Founder, Chairman of the Board and Chief Executive Officer. Larry, please go ahead.

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

Thank you, operator, and thanks to everyone for joining GigaCloud's First Quarter of 2023 Earnings Conference Call today. First and foremost, I want to express my pride in the entire GigaCloud family for yet another remarkable quarter where we continued to revolutionize the industry with our innovative business model and state-of-the-art technology. We achieved our most profitable quarter ever with \$15.9 million in net income, a 27.8% quarter-over-quarter increase and an impressive [236.4%](corrected by company after the call) increase year-over-year. And \$19.8 million in adjusted EBITDA, which represents a 30.7% quarter-over-quarter increase above our fourth quarter results last year. We also witnessed encouraging revenue growth that exceeded the upper end of our projected outlook, which came in at \$127.8 million for Q1 versus an outlook range of \$123 million to \$127 million for the quarter. We are confident of the outcomes from our ongoing improvements, further strengthening our position as market leader. I would like to thank the entire GigaCloud team for their tireless work as well as all stakeholders for their continued support for the company.

Now I would like to turn the call over to Iman to go over some of the operational highlights from this quarter.

Iman Schrock *GigaCloud Technology Inc. - President*

Thank you, Larry, and good morning, everyone. As Larry mentioned, we are pleased with our start to the year, including our record quarterly profit which was driven largely by a widespread decline in ocean shipping rates and a corresponding increase in gross profit. Our gross margin was 23.1% for the first quarter up a full 54% year-over-year. We believe that this moderation in ocean shipping rates should remain in place for at least the foreseeable future and expect our second quarter results to also benefit from this tailwind.

Now let's walk through some of the operational results. In the first quarter ended March 31, our GigaCloud Marketplace GMV grew 26.3% year-over-year to \$553.5 million. The platform saw a 46.8% year-over-year increase in active 3P sellers ending the quarter at 602 and as Larry just mentioned, we saw a 12.5% year-over-year rise in active buyers to end the quarter at 4,255 with spend per active buyer also increasing by 12.3% year-over-year to \$130,083 in the 12 months ended March 31, 2023. Further, 3P seller GigaCloud Marketplace GMV grew 62.2% year-over-year to \$285.2 million, representing 51.5% of the total GigaCloud Marketplace GMV for the 12 months ended March 31.

As I mentioned on our last call, in the fourth quarter, our GigaCloud 3P seller GMV surpassed our 1P GMV as a percentage of total

marketplace GMV, and that trend continued into the first quarter. While our 1P approach remains an integral part of our business strategy, ultimately, we believe that the growth of our 3P GMV will be very important to the scaling of our business and we see positive momentum in our 3P growth rate continuing to drive a larger and more productive marketplace. We remain focused on building the best B2B marketplace in the world for buyers and sellers to come together and grow their respective businesses by improving our effectiveness and increasing the efficiency of our ecosystem. The success of our customers is ultimately the success of our own business. We believe that we are well positioned to capitalize on this growing opportunity going forward. Our first quarter results were very encouraging and evidence that our ongoing investments in the platform continue to provide positive, profitable results from our balanced growth strategy.

Now I would like to turn the call over to our CFO, David for a closer [review of](corrected by company after the call) our financial results.

David Lau GigaCloud Technology Inc. - CFO

Thank you, Larry and Iman, and good morning, everyone. I'm pleased to share our outstanding financial results for the first quarter 2023. The company generated \$127.8 million in first quarter 2023, which represents a 13.7% growth from \$112.4 million in the year prior [period]. And as Larry mentioned, it was above the high end of our outlook range for the quarter which was between \$123 million and \$127 million. Our gross profit was \$29.6 million, an increase of 75.3% year-over-year and resulting in gross margin of 23.1% for the first quarter compared to gross margin in the year prior [period] of 15%. This improvement was largely the result of improved ocean shipping rates which [also helped] contribute to increased 3P seller activity [who typically bear the cost of shipping](added by company after the call) as well as improving our overall margin for our [product sales](corrected by company after the call).

Our supplier fulfilled retailing model provides end-to-end logistics services to our customers and as ocean shipping rates had declined steadily over the last year. [Therefore, we recognize a smaller revenue stream](added by company after the call) from ocean shipping accounts for a smaller percentage of total revenue in first quarter of 2023 that led to [modest year of year revenue growth](corrected by company after the call). On the bottom line, we generated \$15.9 million in net income in the first quarter, representing an increase of 236.4% from \$4.7 million in the year prior [period]. Adjusted EBITDA was \$19.8 million in the first quarter, representing an increase of 186.5% from \$6.9 million in the first quarter of 2022. We're also incredibly pleased to announce that this was our most profitable quarter in the history of GigaCloud so far. Importantly, we generated \$20.3 million in operating cash flow in the first quarter of 2023 compared to \$14.5 million in net cash [used](corrected by company after the call) in operating activities in the first quarter of 2022. This results in a \$164.2 million in cash balance at the end of the first quarter further enhancing our balance sheet and positioning the company well for additional investments into our platform or any potential M&A activity that may align with our business strategy.

Additionally, we have a \$50 million revolving credit facility with Wells Fargo Bank that can be drawn upon should we need to fund any additional expansion or investment. As Iman alluded, our GigaCloud Marketplace is rapidly shifting to becoming a 3P seller-dominated platform, which we believe is the result of the investment into the platform for our buyers and sellers as well as the continued adoption of our supplier fulfilled retailing model. Our operating expenses rose slightly on both a dollar and percentage of total revenue basis, which finished the quarter at \$11.7 million or 9.2% of total revenue versus \$9.4 million or 8.4% of total revenue the year prior [period](added by company after the call). The increase was due to a higher research and development expense as we continue to invest in our platform, which was slightly offset by lower sales and marketing and general and administrative expenses. Finally, for the second quarter of 2023, we expect the company to generate between \$140 million and \$145 million in revenue. And with that, operator, I would like to open the line for any questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the question comes from the line of [Oscar Tracey], who is a private investor.

Unidentified Participant

Congratulations on your outstanding performance in the first quarter. I have 2 questions to follow up on. First of all, it is really impressive to see that your revenue, your gross profit, net income and adjusted EBITDA all show really significant increases in the first quarter. So what are the main drivers? And do you expect this trend to continue in the upcoming quarters?

David Lau *GigaCloud Technology Inc. - CFO*

Yes. Thank you very much. Very good question.

David Lau *GigaCloud Technology Inc. - CFO*

Overall ocean shipping rate is starting to normalize to pre-pandemic level. When ocean shipping rate is at the current level, our 3P seller is more active in sending products to our warehouse, which in turn drives more activity on our platform that leads to overall growth in user count, user spend and GMV. So on the other hand, in a declining ocean shipping rate environment will naturally present, say, a margin expansion opportunity for our 1P business because the ocean shipping rate itself is a part of our product cost. I think more importantly is aside from ocean shipping rates, our supplier fulfilled retailing is offering a very unique solution to traditional retailers to reduce costs and help them to effectively and efficiently manage the entire supply chain from the manufacturing source all the way to the end consumer. So I think this is a very strong testament of the value that we offer to the market and I think the market is starting to realize the unique opportunity that's presented on the table here.

Unidentified Participant

And I have my second question is that I also want to know what the key components of GigaCloud business plan for the remaining 2023. Are there any specific initiatives or strategies the company will focus on to drive the growth and the value?

David Lau *GigaCloud Technology Inc. - CFO*

Iman, you want to take that one?

Iman Schrock *GigaCloud Technology Inc. - President*

Yes, but I'm not sure I understood the question. Could you please recite that question one more time?

Unidentified Participant

Sure. I would like to know like what will be any specific initiatives or strategies for the company to conduct for the remaining 2023 to drive the growth and the value?

Iman Schrock *GigaCloud Technology Inc. - President*

Sure. So our ecosystem is currently connecting thousands and thousands of participants on a recurring daily business through a multifaceted software that is giving visibility, as David mentioned, to their entire supply chain, end-to-end logistics, inventory management and also acting as a payment gateway. Going forward, we do have a few R&D projects in the mix that are going to help us make the system even more efficient. And also, we're exploring the possibility of a potential M&A to help us improve those capabilities to expand our service offerings to the marketplace participants. But without a doubt, a huge focus will also be placed on recruiting new sellers and expanding the availability of existing products through 1P on the marketplace. So that you can supplement the recruitment of buyers, so we can maintain and continue to grow it.

Operator

Your next question comes from the line of [Eva Moore], who is a private investor.

Unidentified Participant

I have 2 questions today. The first one is company had over \$160 million cash on March 31, 2023, what are your plans for utilizing this capital in the next 20 months -- 12 months?

David Lau *GigaCloud Technology Inc. - CFO*

Sure. We're always evaluating projects and alternatives where we're going to deploy cash to increase value for our customers and shareholders. We're constantly opportunistically evaluating potential inorganic growth targets that aligns with our business strategy. We have a very healthy balance sheet position today that's going to allow us to grow and expand multiple areas to capture market opportunities. So as long as we find a project that makes sense that's going to add value to us, we're always ready to deploy our cash to make it work.

Unidentified Participant

And the second one is, I saw operational highlights and the significant growth in some GMV, active 3P sellers, active buyers and spend more per active buyer. How do you plan to maintain this growth and continue attracting more sellers and buyers through our platform?

Iman Schrock GigaCloud Technology Inc. - President

So as far as recruiting sellers and buyers, that focus remains the same. Our focus will always remain on inviting more and more sellers into the platform, allowing them to take advantage of the software and hardware that we're just enabling them with to make trades and in turn, make the product more available for the participants on the other end, which would be the buyers transacting. And as I alluded to earlier in answering the previous question, increasing the recruitment of 3P sellers will remain a huge focus for us. So increasing the SKU density using our 1P to make product availability more. And that, in return, would result in us recruiting more active buyers. In addition, we want to continue to educate the market about the benefits of our very unique, yet super effective business model, what we call supplier fulfilled retailing that helps improve the efficiency across the board, lower the risk for the entire system and make the process more transparent and less prone to damages and waste of resources. And in addition to all of those, there is a huge focus within our organization on IT and engineering and improving algorithms and machine learning, and that is going to continue because that is the path forward as we are revolutionizing the wholesale end of the big and bulky market.

Operator

Your 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 know service revenue from 3P has definitely been a focus area for your growth. I mean you had strong last-mile delivery growth service revenue, strong growth in warehouse services. But I noticed there was a drop in ocean transportation services, about 78%. Now I know, obviously, you -- ocean freight costs have come down and prices have come down, but it just seems like a big drop. Was there something else unusual happening there or -- I just wanted to clarify that.

David Lau GigaCloud Technology Inc. - CFO

Yes. No problem, Rommel. No, I think you hit the nail on the head. It's because the ocean shipping rates has come down drastically from where it was from a year ago. We provide end-to-end logistics for our customers so when ocean shipping rates are high, we recognize that as part of revenue. When it normalizes, that part of the revenue as a percentage of our total revenue becomes much smaller. So it's because of macro cost factor that caused our revenue mix shift quite drastically from where it was from a year ago. So your understanding is absolutely correct.

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

Okay. And just a quick follow-up, if I could. The -- you've seen such strong growth in your 3P seller relationships. I wonder if you could just clarify, has the loyalty, the retention rate still been -- have you managed to maintain that very high rate close to 85%, 90% that you've had historically?

David Lau GigaCloud Technology Inc. - CFO

Yes. So we don't typically disclose this. But yes, it remains very high for us. So that's because of the unique solution that we offer to suppliers in Asia where we provide kind of the end-to-end logistics, payment gateway multiple distribution channels all through one easy-to-use platform.

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

Okay. Great. Congratulations on the quarter. Great quarter.

David Lau GigaCloud Technology Inc. - CFO

Thank you.

Operator

(Operator Instructions) And the question comes from the line of [Irene Martin], who is a private investor.

Unidentified Participant

My question is, could you please provide updates for your technological upgrades on your platform and how they contribute to the long-term success of your platform?

Iman Schrock GigaCloud Technology Inc. - President

Sure. I'll take this question, David. So a lot of the technological investments this year will be centered around optimizing the buyer and the seller data exchange to streamline the overall efficiency of the marketplace. We're in the B2B sector. So there are recurring transactions and data and machine learning can improve that process and make it more efficient. And with that being said, machine learning and the algorithms are a huge, huge part of what we do because unlike any other company, we optimize the process from end to end. And with that, I alluded to this as well earlier, over 1/4 of our entire workforce is dedicated to IT and engineering, and they're all dedicated -- their daily activity is into making this process as efficient and as effective as possible and our quest to make the cross-border B2B even better.

Unidentified Participant

And I also thought of one more question. So about your business outlook. You mentioned that your revenue range for the second quarter of 2023. So what factors or market conditions are influencing this forecast? And what key initiatives or strategies will implement to achieve these revenue targets?

David Lau GigaCloud Technology Inc. - CFO

Yes. We took into account a number of factors in arriving our current outlook for Q2 I think under the current economic environment, we see a lot of traditional retailers are struggling from overvalued inventory that's caused by a surge in ocean shipping rate during the pandemic. I think as more and more of our customers are paying closer attention to efficiently manage supply chain and inventory management, this presented us with a very unique opportunity, given our business model can effectively remove some of the inventory risk and associated costs from carrying inventory directly. And then also, as Iman alluded, we got a lot of tailwinds through the normalization of ocean shipping rates. So that's how we arrived in our outlook for second quarter of 2023.

Operator

There seems to be no further questions at this time. So we'll hand back for closing remarks.

David Lau GigaCloud Technology Inc. - CFO

Thank you very much for joining this conference call. If you have any further questions, please contact us through e-mail and we'll respond to your questions as soon as possible. We appreciate your interest and support in GigaCloud, and we look forward to speaking with you again next time. Thank you very much.

Operator

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

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