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Q2 2022 GigaCloud Technology Inc Earnings Call

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CORPORATE PARTICIPANTS

Larry Lei Wu *Founder, Chairman of the Board of Directors, CEO - GigaCloud Technology Inc.*
David Lau *Chief Financial Officer - GigaCloud Technology Inc.*

CONFERENCE CALL PARTICIPANTS

Ashley Miller - *Airea*
Joseph Lee
Rommel Dionisio - *Aegis Capital*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to GigaCloud Technology's Second Quarter 2022 Earnings Conference Call. (Operator Instructions) Joining us today from GigaCloud Technology is the company's Founder, Chairman of the Board of Directors and Chief Executive Officer, Mr. Larry Lei Wu, the company's Chief Financial Officer, Mr. David Lau.

On our call today, Mr. Wu will give you an overview of the company's performance, Mr. Lau will share the details of the company's operational and financial results. After that, we will conduct a question and answer session to take your questions.

Before we continue, I would like to remind you that some information discussed on this call will contain certain forward looking statements. These forward looking statements involve known and unknown risks and uncertainties.

Although the company believes that expectations expressed in these forward looking statements are reasonable, it cannot assure you that such expectations will turn out to be correct and the company cautions investors that actual results may differ materially from the anticipated results and encourages investors to review other factors that may affect these future results in the company's registration statement and other filings with the SEC.

This call includes discussion of certain non-GAAP financial measures such as adjusted EBITDA. Please refer to our earnings press release for more information on the non-GAAP financial measures. With that, I'll now turn the call over to Mr. Wu, the company's Founder, Chairman of the Board of Director and Chief Executive Officer. Mr. Wu, please go ahead.

Larry Lei Wu *Founder, Chairman of the Board of Directors, CEO - GigaCloud Technology Inc.*

Thank you, operator, and everyone for joining Giga - GigaCloud's Second Quarter of 2022 Earning Conference Call today.

We are pleased to deliver a robust financial and operational results in our first quarterly earning release as a public company. Our NASDAQ listing in August represented a key milestone for our company and years of hard work, commitment and dedication from our shareholders, management team and the employees.

Despite the macro economic challenges that we face, we continued to deliver a solid year over year revenue and GMB growth. We are proactively adjusting our operations to adapt to these challenges and continue to focus on our long term strategy by strengthening our capability to create value for our customers.

By leveraging our data proven technology and our logistics solutions, we are well positioned to increase our overall market share in the B2B large parcel market.

Thank you for your continued support to the company. Next, I would turn the call over to our Chief Financial Officer, Mr. Lau for a closer review of our operational and financial results. Mr. Lau, please go ahead.

David Lau *Chief Financial Officer - GigaCloud Technology Inc.*

Thank you, Larry and good morning, everybody. Now, I'll go over our operational and financial results. Our GigaCloud marketplace GMV was \$458.8 million in the 12 month ended June 30 2022, and that's up 43.8% year over year. We had 452 active 3P sellers in the 12

months ended June 30 2022, and that's up 67.4% year over year. We have 4,061 active buyers in 12 months ended June 30 2022, up 58.9% year over year.

Spend per active buyer was \$112,987 in the 12 months ended June 30 2022 and that's down 9.5% year over year. Our 3P seller GigaCloud marketplace GMV was \$196.7 million ended 12 months ended June 30 2022 and that's up 71.1% year over year.

Now, let's look at our financial results for the second quarter of 2022, total revenues were \$124 million for the second quarter of 2022 and that's up 11% year over year. That's mainly due to increase in our service revenue from GigaCloud 3P and product revenue from our GigaCloud 1P, but partially offset by the decrease in product revenue from our off platform ecommerce channel.

Service revenue from GigaCloud 3P was \$32.8 million in the second quarter of 2022, up 39.4% year over year, and that's primarily due to an increase in revenues from our last mile delivery fees and fulfillment fees for other freight services such as delivery of products via our ocean transportation services.

Product revenue from GigaCloud 1P was \$60.7 million in the second quarter of 2022, and that's up 15.4% year over year, mainly due to an increase in the number of active buyers and better selection of products catering to buyers' preferences.

Product revenue from off platform ecommerce was \$30.5 million in the second quarter of 2022 and that's down 14.4% year over year, primarily due to an overall decrease in sales on certain third party off platform ecommerce, as consumer demand slowed down on such platform.

Cost of revenues was \$107 million in the second quarter of 2022, up 29.1% year over year, primarily due to an increase in ocean freight costs compared to the second quarter of 2021, and such increase is expected to stabilize in the rest of 2022.

Gross profit was \$17 million in the second quarter of 2022, down 41.1% year over year. Gross margin was 13.7% in the second quarter of 2022, compared to 25.9% in the second quarter of 2021.

Total operating expenses were \$8.8 million in the second quarter of 2022, down 28.3% year over year. Selling and marketing expenses were \$5.5 million in the second quarter of 2022, down 20.2% year over year, primarily due to a decrease in staff costs, as the sales commission decreased.

General and admin expenses were \$3.3 million in the second quarter of 2022, down 38.6% year over year, primarily due to a decrease in our professional services fees. Operating income was \$8.2 million in the second quarter of 2022, down 50.5% year over year.

Net income was \$6.1 million, with a basic and diluted earnings per share of 15 cents in the second quarter of 2022 compared to a net income of \$13.6 million with a basic and diluted earnings of 43 cents in the second quarter of 2021.

Adjusted EBITDA was \$7.8 million in the second quarter of 2022 compared to a \$16.6 million in the second quarter of 2021.

I'd now like to look at the financials on a six month ended basis. Total revenues were \$236.5 million in the six months ended June 30 2022, up 14.6% year over year, primarily due to an increase in service revenues from our GigaCloud 3P and product revenues from our GigaCloud 1P, but partially offset by the decrease in product revenue from our off platform ecommerce.

Service revenue from GigaCloud 3P was \$64 million in the six months ended June 30 2022, up 45.7% year over year, primarily due to an increase in revenues from our last mile delivery fees and fulfillment fees for other freight services such as deliver of products via ocean transportation.

Product revenue from GigaCloud 1P was \$115 million in the six months ended June 30 2022, up 21.2% year over year, primarily due to an increase in the number of active buyers and our better selection of products catering to buyers' preferences.

Product revenue from off platform ecommerce was \$57.4 million in the six months ended June 30 2022, down 14.9% year over year, primarily due to an overall decrease in sales on certain third party off platform ecommerce, as consumer demand slowed down on such platform.

Cost of revenues was \$202.6 million in the six months ended June 30 2022, up 29.4% year over year, primarily due to an increase in ocean freight costs compared to the six months ended June 30 2021. And such an increase is expected to stabilize in the rest of 2022. Gross profit was \$33.9 million in the six months ended June 30 2022, down 31.9% year over year.

Gross margin was 14.3% in the six months ended June 30 2022, compared to 24.1% in the same period of 2021. Total operating expenses were \$18.2 million in the six months ended June 30 2022, down 19.4% year over year.

Selling and marketing expenses were \$11 million in the six months ended June 30 2022, down 22.4% year over year and primarily due to a decrease in staff costs as the sales commission decreased.

General and admin expenses were \$7.2 million in the six months ended June 30 2022, down 14.4% year over year, primarily due to a decrease in our professional services fees. Operating income was \$15.7 million in the six months ended June 30 2022, down 42.3% year over year.

Net income was \$10.8 million, with a basic and diluted earnings per share of 28 cents in the six months ended June 30 2022 compared to a net income of \$21.6 million with a basic and diluted earnings per share of 67 cents in the same period of 2021. Adjusted EBITDA was \$14.7 million in the six months ended June 30 2022, compared to a \$26.7 million in the same period of 2021.

And as of June 30 2022, the company had cash of \$49.2 million with a restricted cash of \$1.5 million. And cash used in our operating activities was \$10.3 million in the six months ended June 30 2022, compared to \$11.7 million in the six months ended June 30 2021.

And cash used in investing activities was \$0.1 million in the six months ended June 30 2022 compared to \$0.6 million in the six months ended June 30 2021. Net cash used in financing activities was \$0.6 million in the six months ended June 30 2022, compared to 0\$.9 million in six months ended June 30 2021.

We remain confident in our business and our potential to grow, and we expect our total revenues to be between \$122 million and \$127 million for the next quarter. Now, I'd like to turn the call over to operator for questions and answer session please. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Rommel Dionisio from Aegis Capital. Please go ahead Rommel.

Rommel Dionisio - Aegis Capital

Good morning and thanks for taking my question. Just a question on - just the overall consumer spending environment, consumer demand for the furniture and home furnishings industry, in these last several months, there's a lot of talk about the housing market softening, obviously inflationary concerns, which you do discuss in the prepared comments, but I wonder if you can just give us a little more color in terms of - is there another leg down potentially on the home furnishings market should the housing market see a slowdown? Thank you.

Larry Lei Wu Founder, Chairman of the Board of Directors, CEO - GigaCloud Technology Inc.

Yes, I think we're seeing consumer spending is softening, especially for our home furnishing product because of the housing market is going down. We expect that that environment will continue but our focus is main - mainly focus on introducing more product for our 1P business as well as more market participant for our 3P business to overcome that strong headwinds.

And by doing that, we are confident that we're continue to gain market share despite the very strong macroeconomic headwinds that still give reasonably strong growth for our performance.

Rommel Dionisio - Aegis Capital

Great, okay. And maybe just one follow up, in the - you talked about in the third quarter, expecting to incur share based compensation expense, that'll be recognized in the third quarter related to share awards, is it possible to quantify what approximately what that amount might be, at this point?

David Lau Chief Financial Officer - GigaCloud Technology Inc.

Yes, so we actually - so this is David - so, we actually did disclose that - hey - we disclosed that in our prospectus. If I recall that number correctly, it's somewhere in the neighborhood of around \$9 million, so I think that's probably a good benchmark.

Rommel Dionisio - Aegis Capital

Okay, perfect. Thanks very much, congratulations on the quarter.

David Lau Chief Financial Officer - GigaCloud Technology Inc.

Thank you. Thanks for joining us.

Operator

Thank you for your question. Our next question comes from the line of Joseph Lee, please ask your question, Joseph.

Joseph Lee

Thanks for taking the questions. I have two questions today. We are seeing the company's GMV increased above 40%, buyer and seller base both increased over 50%, can you share the story behind this strong growth? And my second question is can you talk about - a little bit more about the strategies for maintaining and growing your buyer and seller base for the remainder of 2022? Thanks.

David Lau Chief Financial Officer - GigaCloud Technology Inc.

Sure, so - sorry, can I just make sure I got your question correctly, so did you say do we expect our GMV to continue to grow as the same rate that we're experiencing today? I just want to make sure I caught your question correctly.

Joseph Lee

(Inaudible) okay, I can repeat my first question. It's about your GMV increased over 40%, so the buyer and seller base, both increased over 50% and my question is can you share the story behind this strong growth?

David Lau Chief Financial Officer - GigaCloud Technology Inc.

Yes, I think right now - and I'll - I'll give it a go, Larry and see if you want to add to that. I think right now, we started the business with the platform in 2019. We've ran this close to getting into our fourth year now, and when we start building up this platform, we're basically trying to revolutionize how to transact on a cross border basis, without the hassle of seller has to worry about kind of the logistic part of that trade.

And I think when we start building that story people starting to appreciate that and when users are getting that experience and that really scaled up our business, so we picked up a lot of this momentum when users starting to appreciate the services that we offer, and that same goes to the user base - the number of active users that you pointed out, I think that's also a testament to the services offering that we're providing, the seamless logistic services, the warehousing that we provide.

And the cloud storage solutions that we provide all helped us to build that propositions to all the active users that is enjoying the business that they are using from us.

Larry Lei Wu Founder, Chairman of the Board of Directors, CEO - GigaCloud Technology Inc.

Yes, I think David's right. I think what you can see is we have a pretty strong growth of our marketplace participant. Although actually the average spending of the buyers slowing down a little bit, which is a result of the macroeconomic challenge I just talked about. It tells you that on average, every item that are being sold on the marketplace are generating less revenue because of consumer just spending less.

But the bright side of the story is that the whole idea of having the B2B model is trying to improve the efficiency of supply chain, which is getting more attention when people are facing this macroeconomic headwind. So, that's just benefiting our business model by giving us a result of the both buyer and sell - and seller growth is pretty strong. Thank you.

Joseph Lee

Thank you so much.

Operator

Thank you. Our next question comes from the line of Ashley Miller from Airea. Please ask your question. Ashley, your line is open. Please ask your question.

Ashley Miller - Airea

Hi, good morning, and thank you for taking my questions. I have two questions today. I know Gigacloud revenue growth seems very solid this year, so my first question is can you share a little bit more about the outlook for the second half year? And my second question is about your expansion, do you plan to further expand your business in the US or if there are any potential countries you are interested in? Thank you.

David Lau Chief Financial Officer - GigaCloud Technology Inc.

Sure, we expect the revenue growth for the second half of the year to remain at the current momentum that we're experiencing, just like what kind of Larry experienced - Larry had talked about and some of the things that are pointed out, I think we're seeing a lot of momentum, particularly on the 3P side as we continue to scale.

If you look at what we disclosed from an operational point of view, you see that our three key businesses continue to grow at a very high speed and a very strong growth, so we can - we expect this continue to grow at least with the current momentum for the second half of the year.

In terms of expansion, obviously right now, US continues to be our core market, but we do have businesses in other parts outside of the US, so we do see there are expansion areas that we could improve on, and I think US will continue to be an area where we're going to continue to focus our investment on.

Larry Lei Wu Founder, Chairman of the Board of Directors, CEO - GigaCloud Technology Inc.

Yes, the main reason I think - I - I'm not sure everyone noticed that for the market, we have operation outside the US including Japan and the UK and Germany. Actually, the currency depreciated more than 30% in the past 12 months.

You know, obviously it's not the most favorable time to expand in those market, so although we have multinational footprint enable us to expand globally, but right now, I think more focus is on US market and we'll - we'll be waiting for a better time to initiate more aggressive expansion in the market out of US when the macroeconomic environment improves. Thank you.

Ashley Miller - Airea

Thank you.

Operator

Great. Thank you. As a reminder, to ask a question, please press star 11 on your telephone. That's star 11 for questions. All right, there are no further questions, now let me turn the call back to Mr. Lau for closing remarks.

David Lau *Chief Financial Officer - GigaCloud Technology Inc.*

Sure. And thanks, everybody for joining this conference call. If you have any questions, please contact us through emails and our management team will respond to your question as soon as possible. We appreciate your interest in supporting GigaCloud, and we look forward to speaking with you again next time. Thank you very much.

Operator

Thank you again for attending GigaCloud's Second Quarter of 2022 Earnings Conference Call. This concludes our call today, and we thank you all for listening in. Goodbye.

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