

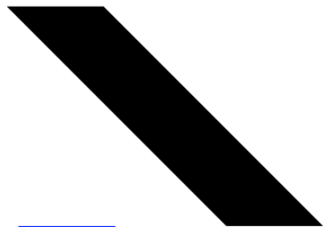
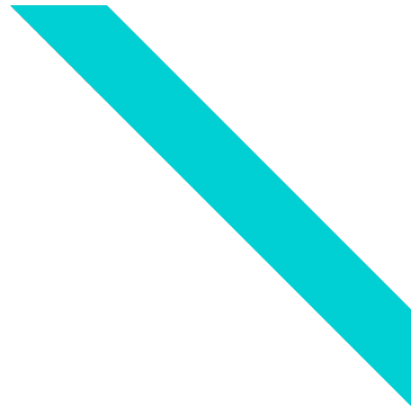


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Q3 2024 GIGACLOUD TECHNOLOGY INC EARNINGS CALL

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CORPORATE PARTICIPANTS

- **Lei Wu** *GigaCloud Technology Inc - Chairman of the Board, Chief Executive Officer, Founder*
- **Iman Schrock** *GigaCloud Technology Inc - President*
- **Erica Wei** *GigaCloud Technology Inc - Interim Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Matt Koranda** *Roth MKM - Analyst*
- **Ryan Meyers** *Lake Street Capital Markets, LLC - Analyst*
- **Thomas Forte** *Maxim Group - Analyst*

PRESENTATION

Operator

Thank you, all, for standing by. Welcome to GigaCloud Technology's third-quarter 2024 earnings conference call. (Operator Instructions)

Joining us today from GigaCloud are the company's Founder, Chairman, and CEO, Larry Wu; its President, Dr. Iman Schrock; and its Interim Chief Financial Officer, Erica Wei. Iman will provide an overview of our performance and operations, and Erica will discuss our financial results. After that, there will be a question-and-answer session.

As a reminder, this conference call contains statements about future events and expectations that are forward-looking in nature, and actual results may differ materially. Additionally, today's call will include non-GAAP measures within the meaning of SEC Regulation G.

When required, a reconciliation of all non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP, can be found in today's press release as well as on the company's website.

With that, I would like to turn the call over to Larry for his opening remarks. Please go ahead, sir.

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

Thank you, operator, and welcome, everyone, to today's call. The third quarter built upon the very strong growth path we have followed since the launching of our B2B online marketplace. Despite the continued industry headwinds, we are successfully navigating these challenges.

This is shown by the new record high net income and adjusted EBITDA, and growing numbers of marketplace participants due to its unique ability to streamline operations and enhance efficiency for buyers and sellers of big, bulky nonstandard item globally.

Among other accomplishments, our acquisition of Noble House is on track to reach breakeven by the end of this year. Additionally, we are enhancing our technology through Wondersign, expanding its capability to better serve the brick-and-mortar stores. We believe that GigaCloud's current valuation doesn't fully capture the progress we have made or the exciting path ahead.

To demonstrate our confidence in the future, on September 3, 2024, our Board authorized a \$46 million share repurchase program. As of November 6, 2024, we have repurchased an aggregate of approximately 467,000 Class A ordinary shares in the open market at a total consideration of \$11.4 million, pursuant to a repurchase plan under Rule 10b5-1.

Our approach to creating lasting shareholder value is anchored in the strong operational performance and disciplined strategic capital decisions. In line with this commitment, we plan to retire the shares we have repurchased, effectively reduce our total issued shares.

This step shows our belief in GigaCloud's long-term potential and strengthens each shareholder's stake in that journey. We view this as one of the many actions aligned with our vision for sustainable growth. And we are dedicated to building on our momentum in the quarters ahead.

We maintain a very strong balance sheet with no debt and are generating positive cash flow from operations, allowing us to fund future profitable growth. We are extremely proud of what we have been able to accomplish this year to date. And we'll continue driving progress as a leader and innovator of B2B e-commerce technology solutions.

Thank you, everyone, for joining us. Now I will turn the call over to Iman.

Iman Schrock GigaCloud Technology Inc - President

Thanks, Larry. I would like to add my welcome to those joining us today. It was another great quarter for GigaCloud. We're especially gratified by our ability to continue growing at a fast clip, even as we manage through those industry headwinds Larry mentioned.

Because our B2B platform has become a powerful and proven way for buyers and sellers of nonstandard items to seamlessly transact, our GigaCloud Marketplace GMV continued to grow for the trailing 12 months ended September 30, 2024. Specifically, GigaCloud Marketplace GMV increased by more than 80% year over year, keeping pace with our second-quarter growth.

We continue to see significant increases in our buyer and seller basis, which drove overall GMV growth. Our active 3P sellers has crossed the 1,000 mark for the first time, now standing at 1,051. Meanwhile, our active buyer base has grown to 8,535. These milestones reflect our platform's growing momentum and appeal.

Our plans to further increase participation in our marketplace include adding 3P sellers through geographical expansion, enhanced outreach, and marketing initiatives. We expect to increase active buyers through a combination of onboarding brick-and-mortar retailers that are subscribed to the Wondersign catalog kiosk, enhancing our marketplace product categories, and leveraging referrals from existing users, among others.

GMV in our 3P seller marketplace grew 72% from a year ago and was \$635 million for the trailing 12 months ended September 30, 2024. This represents a healthy 51.5% of our total marketplace GMV. Our combined 1P and 3P strategies are helping us build critical mass, enhancing the network effects that drive incremental value for all participants, while average buyer spending saw a modest 2.9% decrease compared to Q3 of last year, primarily reflecting the recent onboarding of a large number of over 1,000 buyers, who typically begin with a lower trading volume as they familiarize themselves with the platform.

We're encouraged by the continued expansion of our marketplace, which is becoming a central and dynamic hub for buyers and sellers of large parcel goods to connect and transact. As more participants experience the benefits of our supplier-fulfilled retailing model, we're confident this ecosystem will continue to grow, empowering businesses to drive efficiency and profitability.

I also want to call attention to the strong momentum we're building in the European market. Diversifying across different regions is one of GigaCloud's core strengths, creating a balanced approach that benefits both our market reach and our marketplace ecosystem. Revenue from Europe has grown organically by 140% year over year for Q3, and we're excited about this region's further growth potential.

I would now like to spend a few minutes on Noble House. We're on track to reach breakeven for Noble House by the end of this year. Here's a recap of what we've done so far and how it will impact us going forward.

After closing the acquisition during Q4 of last year, we prioritized placing large orders for existing SKUs. This helps support our existing vendor base, many of which had been hit hard by the bankruptcy process; and build up inventory for off-platform sales as we begin the integration process.

While these existing SKUs have made meaningful top-line contributions to the company in 2024 and help diversify our product offerings, the operation has not been making bottom-line contributions yet. Having a well-prepared portfolio of products and a steady supply of new offerings is critical to profitability.

During its bankruptcy process, Noble House experienced an extended period of approximately a year without development of new SKUs, which significantly harmed profitability and further diminished vendors' capacity to collaborate effectively with the company in meeting new development needs. As such, the second phase of our integration effort focused on developing new SKUs. And we submitted our first production orders in Q2 of this year.

As of today, I am pleased to share that we have developed approximately 300 new SKUs and continue to develop more. Do keep in mind that furniture typically has a long manufacturing and fulfillment cycle that requires one to two months at each stage of design, sampling, manufacturing, and ocean shipment. Order deliveries for our newly developed products have started trickling in starting October, and this starts phase three of our integration plan.

Phase three will focus on identifying winning products and capturing profitability. Sales in the coming months will help us identify successful products and focus on those with larger reorder sizes, which will typically take another three to five months to be ready for sales. We expect to begin seeing more substantial bottom-line contribution from the legacy Noble House operation beginning in the third quarter of 2025, that will initiate a productive cycle of profitability and new product growth.

I also want to take a moment to talk about how Wondersign strengthens our already solid tech-driven model here at GigaCloud. It's a natural addition that enhances our platform's power efficiency, particularly for our brick-and-mortar clients. Wondersign is a part of a broader upgrade to our tech advancement facilitating smoother transactions and driving more value across the board.

Right now, we're focused on advancing Wondersign's tech stack and aligning it with our own, so we're even better equipped to meet our client needs. In the coming months, we'll be rolling out detailed updates to the market with key functionality upgrades, including advancement with Wondersign. Please keep an eye for that, what's ahead.

Our unique business model is a proven success. And we plan to continue our growth trajectory by adding new products, buyers, and sellers through the GigaCloud Marketplace. We remain excited about our future opportunities. And we believe that our unique platform will become more and more necessary for adding increasing value for buyers and sellers of big and bulky items.

Now I will turn the call over to Erica for a more detailed review of our financial results.

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

Thank you, Iman, and thanks to everyone joining us today. As I review our third-quarter results, please keep in mind that all figures I'll be referencing are rounded for clarity. Our third-quarter and year-to-date financial results continue to exemplify our ability to successfully execute our growth strategy, even amid heavy industry headwinds that is outside of our control.

Before diving into the quarterly details, I'd like to briefly touch on our anticipated growth trajectory and the impact of seasonality to our business. Regarding seasonality, our second and fourth quarters remain our strongest, driven by outdoor product demand from Noble House in Q2 and heightened holiday demand in Q4.

As we look forward, it's important to recognize that while GigaCloud has experienced rapid expansion, the pace of growth will naturally moderate as we reach larger scale. This trend reflects the typical progression for companies reaching critical mass, and it reinforces the stability and resilience of our business as we mature.

Total revenues grew 70% for the third quarter to \$303 million. The improvements were primarily driven by the increased market recognition and scale of our marketplace, which resulted in increases to our marketplace GMV, sales volume, and the number of active sellers and buyers.

Breaking down our third-quarter revenues. In the third quarter, we saw significant growth across our revenue stream, underscoring the strength and adaptability of our platform. Service revenue from our 3P business grew substantially to \$100 million, reflecting strong marketplace demand and continued engagement from our participants.

We also saw a significant increase in service revenue margin of 8.7% sequentially from Q2 as we have utilized more fixed-rate ocean freight contracts this quarter, that stabilizes cost in a heightened freight environment.

On the product side, revenue growth of over 60% speaks of enhanced reach of our product offerings. Sales from our GigaCloud 1P delivered healthy year-over-year growth, as we continue to scale naturally with the growth of our marketplace.

Our off-platform product growth of 110% is driven by an increase in both sales channels and volume across third-party e-commerce platforms. This balanced growth reinforces the resilience of our business model, positioning us effectively as we deepen our engagement with the platform and expand our presence in external markets.

Product revenue margin decreased 1.6% sequentially due to higher procurement costs incurred that are accounted for as part of cost of goods sold. This is because products sold during the third quarter were procured during the second quarter where ocean freight costs were elevated and our use of fixed rate contracts were limited.

When looking at our cost structure into the future, we are expecting increased ground shipping cost of potentially up to \$4.5 million during the upcoming holiday season, that would temporarily compress margins. We expect those costs to decrease starting from the first quarter of next year once peak season ends. In response, we're implementing a targeted approach to manage these fluctuations and strengthen our relationships with providers to secure favorable rates and mitigate volatility.

Driven by our rapid growth and higher business volume, operating expenses increased compared to prior year, as we invested strategically to expand our fulfillment network. Breaking that down by expense category, selling and marketing expenses have remained stable at approximately 6% of revenue.

General and administrative expenses amounted to \$15 million compared to \$6 million last year, primarily due to an increase in rental and insurance expenses relating to excess capacity in newly leased fulfillment centers this year. Third-quarter net income grew more than 68% year over year to \$41 million and increased 62% year over year to \$95 million for the first nine months of 2024.

For the third quarter, foreign currency exchange gain on a net basis were approximately \$3 million, primarily attributable to the depreciation of US dollars against the Japanese yen and euros. We generated similar growth rates in adjusted EBITDA, which improved nearly 64% to \$49 million for the third quarter. We ended Q3 with a liquidity of approximately \$260 million, which includes cash, cash equivalents, restricted cash, and investments.

We incurred \$14 million in CapEx for the third quarter, primarily for the purchase of equipment and racking to be used in our fulfillment center infrastructure. As Larry mentioned earlier, we remain debt-free with no outstanding borrowings, and the primary liabilities on our balance sheet relate to our fulfillment centers.

We know that tariffs remain a central topic of interest and want to take a minute to talk about how these would impact our business. We began our supply chain diversification journey several years ago to manage potential risks arising from tariffs and changing political landscapes.

We are happy to share today that more than half of our 1P supply chain servicing the US market is coming from Southeast Asia. By continuously diversifying our supply chain, we limit our exposure from overconcentration and potential impact from tariff increases.

When it comes to our 3P business, where we are connecting suppliers and resellers, the GigaCloud Marketplace is providing a strong diversified supply chain foundation and ecosystem that empowers our customers to stay flexible and make adjustments as the market evolves. We are confident that the solutions and infrastructure provided by GigaCloud puts us in a good position to manage potential tariff impacts effectively while continuing to deliver value across our marketplace.

I'll close my remarks today with our outlook for the fourth quarter. We expect total revenues to range between \$275 million and \$290 million. As you consider this, please keep in mind the temporary margin impact from the profitability levers that I mentioned earlier. Nevertheless, we are confident in our ability to drive sustained long-term profitability.

The GigaCloud team continues to work toward our common goals, and I sincerely believe that we can continue to grow our leadership in the global B2B e-commerce landscape. While we continue to face some macro headwinds that may persist for a little bit longer, we are extremely confident that the resiliency in our model and believe our significant expertise will help us successfully navigate those temporary challenges.

Thank you for all joining us today. Operator, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Matt Koranda, ROTH Capital.

Matt Koranda Roth MKM - Analyst

Hey, guys. So maybe just starting off on the outlook for the fourth quarter, wanted to get a sense for the breakdown between service and product revenue in the fourth quarter. It just looks like pretty big deceleration on a year-over-year basis.

And if I sort of assume that Noble House gives you a full contribution in the fourth quarter this year, organically, that might imply a little bit more deceleration. Maybe just what's going on there and then the mix between service and product.

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

Yeah. Hi, Matt. Thanks for the question. So in terms of looking forward, a few things to think about. So service and products proportionately, we expect to somewhat stay similar to Q3.

And then specifically on your question towards Noble House. So Noble House from a product perspective is contributing somewhere between 15% to 20% of product revenue even though we don't do a separate breakout of -- in terms of disclosure. And that will likely continue for Q4. Do keep in mind when comparing Q4 this year against Q4 last year that Q4 of 2023 had two months of Noble House included already.

Matt Koranda Roth MKM - Analyst

Yeah, okay. Got it. And then maybe just on the service side, a pretty decent step-up in onboarding buyers onto the platform. Maybe just where did you see success? Could you talk a little bit about like sort of where we're essentially getting growth out of the buyer ecosystem?

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

Sure. So I think a big part of it has to do with the market -- the furniture sector getting a better understanding of who we are and what we do. So it's very much a combination of our go-to-market efforts, including direct outreach. And it's also equally important word-of-mouth referrals that we're receiving, folks that are [seeing] more efficiency, more cost savings, more efficient solutions, especially right now when the environment is quite challenging.

Matt Koranda Roth MKM - Analyst

Yeah. Where are those buyers mostly sort of reselling? I'm just curious. You guys probably have good data on that, I would assume, or maybe just platforms where they're sort of plugged into where they're seeing growth and success.

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

Yeah. So it's a lot of folks that are on the [e-commerce] platforms, right? So those are big players that folks like you and I would be shopping from. There's a lot of that. There's also -- some of these are also vendors to those larger platforms.

We also have a smaller number of non-large-scale e-commerce, such as smaller independent stores and a very small number of brick-and-mortar as well.

Matt Koranda Roth MKM - Analyst

Okay. Got it. And then maybe just on the product revenue side. Curious how -- like last quarter, I think you mentioned trying to get more Noble House product as 1P on the GigaCloud platform. Maybe just speak of success there, how we've seen that progress over the last quarter or so.

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

Yeah. We're still executing the original plan, where over time, we are going to slowly open up the (technical difficulty) expect to see more and more of that revenue shifting from off-platform into our 1P revenue stream, right?

This also goes hand in hand with what Iman has talked about earlier in terms of new product development. So right now, we're seeing the initial influx of -- in terms of deliveries. And we expect to see sales pick up and diversification pick up more next year.

Matt Koranda Roth MKM - Analyst

Okay. Got it. On the tariff front, I guess, you addressed part of it up front there. What I'm curious about, I guess, is if we think about the impact to the sellers on the marketplace, your third-party sellers, maybe just talk about sort of how much of their capacity -- do you have a view into how much of their capacity comes out of China?

And then maybe just refresh everybody on how tariffs would even flow through the marketplace in a typical transaction. I guess, you don't take [title] of the inventory. I assume you don't pay import duties. So does it just take effect as sort of a higher potential order value on the marketplace, and you would take a take rate on that, so it may even be beneficial? Maybe just walk us through the mechanics of how that works.

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

Sure. So a few questions packed into one there. I'll try to answer them one by one in order. So first off, from a seller perspective, yes, on the 3P side, we're seeing more that's coming out of China compared to Southeast Asia, right? So the platform is something that gives kind of all participants a little more flexibility.

And we are also encouraging our clients or our customers to think about the potential impact on us accordingly as well. However, I do want to clarify that because of a lot of the inherent limitations, it's not -- we're seeing a lot of folks make a move in terms of where the supply chain is located. But it's not something that could 100% be moved nor is it a terribly easy thing, right?

And then in terms of mechanically how this flows through us. So as we think about the typical 3P seller who's listing on the marketplace, that would include a component of the product cost itself, leaving the manufacturing facility. There would be a tariff added to that cost and ocean freight added to that product, right? And then there would be warehousing cost that's incurred and drayage services incurred for the aforementioned.

So by the time it gets to the US, if you think about, let's call it, a hypothetical jump of 25% tariff to maybe 50% or 60% and you think about the percentage of the product itself, which is what the tariff would be applied to, and the fraction of that against the entire cost when you throw in fulfillment, it's not a terribly large percentage, right?

So the question becomes, when the seller is facing the buyer, which is the retailer, especially when considering the margin a typical seller would expect, how impactful is that increase in tariff? It's not as large as what sound if we're thinking about a number of 60%. Does that make sense?

Matt Koranda Roth MKM - Analyst

Yeah, I think I have the mechanics of it. Maybe we'll take the rest of mine offline around tariffs. And I'll turn it over to whoever wants to ask other questions here. Thank you.

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

Thank you, Matt.

Operator

Ryan Meyers, Lake Street Capital Markets.

Ryan Meyers Lake Street Capital Markets, LLC - Analyst

Hey, guys. Thanks for taking my questions. Just curious, if we think about the guidance that you gave for Q4 here -- I mean, obviously, if you think both the guidance that you gave for third quarter here, you came in well ahead of that expectation. So maybe what would you need to see to come in maybe at the high end of the guide for next quarter or even kind of beat like you guys have sort of shown a history of doing?

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

Thank you for the question. So there's -- a big component of that is how the market performs. So given that we have a very large number of market participants that are really covering all major channels when it comes to furniture e-commerce, our exposure is really [entirety], right?

Obviously, we're growing very, very quickly with the newcomers and new additions. But that would be offset by -- partially -- by any softness that is experienced by all of our clients. So to answer your question, depending on how the market performs, how all of the retailers, the suppliers -- how their results are in the quarter, that would directly impact us.

Ryan Meyers Lake Street Capital Markets, LLC - Analyst

Okay. Got it. So it sounds like it's mainly just kind of a demand type thing is where a lot of that would kind of drive that maybe upside or downside.

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

That's a big part of it.

Ryan Meyers Lake Street Capital Markets, LLC - Analyst

Okay. Yeah, okay. It does makes sense. And then it sounds like there'll be some nuances kind of on the margin side in Q4 here.

But maybe can you provide a little bit of commentary on what we should be expecting as far as margins in 2025, especially if there's some of the initiatives investments that you guys are making, just kind of how we think that margin should show in '25?

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

So Ryan, I'm sure you know we don't typically give a year-long or beyond-the-quarter guidance. But we can kind of maybe talk about the color or what we're seeing a little bit.

So we do expect positive things from Noble House, right? As our newly developed SKUs come in, we expect to see better margins on that front. But when it comes to the bigger market, it's hard to say at this point what exactly would happen.

We definitely think in the near term, including maybe the beginning of next year, there are still going to be strong headwinds that's going to make it a little tougher on the margin side for everybody, including us. Towards the later of the year, it's going to depend on a number of things, including how the economy is doing and the demand side, especially the housing market. If we see differences there, that could really drive up demand for us.

Ryan Meyers Lake Street Capital Markets, LLC - Analyst

Sure. Okay. Got it. Thanks for taking my questions.

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

Of course.

Operator

Thomas Forte, Maxim Group.

Thomas Forte Maxim Group - Analyst

Great. So first off, Larry and team, congrats on the quarter. I have five questions. I'll go one at a time. So the first question is, can you talk about the ability to grow the business by ramping existing categories, such as home exercise equipment, versus adding new categories, such as auto parts or other bulky items?

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

Hey, Tom. Thanks for the question. Iman, you want to take that one?

Iman Schrock GigaCloud Technology Inc - President

Absolutely. So basically, we have to discuss the TAM when it comes to furniture alone. The TAM for the furniture industry on the wholesale front is about \$60 billion a year. And like a quick back-of-the-napkin math will kind of show you that we're presenting a small fraction of that as of right now. So there's a lot of runway.

And absolutely, the platform is optimized for big and bulky nonstandard products. So -- but at the same time, while they are not the core focus because we're so dialed in on becoming a more meaningful player in the furniture industry and home furnishings, the other categories are starting to trickle in by default.

Thomas Forte Maxim Group - Analyst

Okay. And then for my second question, can you talk about what's driving the impressive growth in Europe?

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

Hey, Tom. I'll take that one. So Europe is -- we're still quite small in Europe, right? The scale is nowhere near what the United States is. So we've kind of entered a phase where things have fallen in line. The infrastructure is at a good place, and we've also attracted enough attention for ourselves.

So combining those factors with a small base or small denominator, that's very, very fast year-over-year growth. And we do feel quite positive on the outlook there, right? We feel like Europe is, in terms of potential market size, quite close to the US. And in terms of how fragmented it is, it actually seems to be a little more, which really adds on to how much value-add GigaCloud could provide to the market. So hopefully, good things there for us.

Thomas Forte Maxim Group - Analyst

Great. And then for my next one, I wanted to talk about -- the last two years, for example, Amazon has had big fall sales in October in addition to Prime Day, which is usually June, July.

And then you saw from Target, Walmart, and others, others having big sales in October. How, if at all, is that impacting your results? And do you see that as kind of a pull forward in sales, or do you see it as accretive?

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

So this time of year compared to some of the more -- the recurring holiday seasons that we see and promotions that we see, this year feels a little softer. And it's not necessarily limited to any specific channels, kind of across the board, and it's hitting a lot of folks.

The names you mentioned earlier are part of that list. So in terms of would it be a pull forward, it kind of depends on where we land early next year and how things develop from here. It's very hard to say exactly what the impact is right now.

Thomas Forte Maxim Group - Analyst

All right. So last two -- and thanks again for taking my questions -- can you give your current thoughts on strategic M&A following the very successful deals you've had to date?

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

Yes, absolutely. So we're always on the lookout for the right opportunities. There's kind of, I'd like to call it, the three buckets that we are interested in.

Bucket one is going to be a target that complements our existing businesses on the product side, so a target that will fit in nicely and enhance our portfolio offerings both on the product side and in terms of the market connections from a channel and supplier perspective. So think of Noble House here. It's a good example. Also, brands such as Christopher Knight are also very nice additions that help us broaden our market presence a little.

The second category would be a technology target that helps us execute our long-term goals. So this is someone that would help us both understand and reach the brick-and-mortar market a little bit better. So Wondersign here is a good example.

Third bucket we're interested in is Europe. So Europe, obviously, right now, is our fastest-growing market. And we are very confident in good things that will happen in the future. So from that perspective, we're looking for a target that will help us accelerate our growth a little more in terms of infrastructure and connections locally.

Thomas Forte Maxim Group - Analyst

Thank you. And then for my last question, can you talk about your pricing and your ability to pass on the incremental freight costs. You identified, I think, some specific freight costs. But I was wondering if you have any pricing power and ability to pass on any of that.

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

Yeah. So direct and short version is, yes, we do. However, it's very, very important to consider market conditions and the strength of demand, right? So it's always a balance. And right now, the market is a little harder.

But on the topic of ocean freight specifically, I think, Tom, you're thinking of the sequential decline in products margin. So important thing to keep in mind there is --

Thomas Forte Maxim Group - Analyst

Yeah, I think you gave a specific comment on like \$5 million or something like that in the fourth quarter, I believe.

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

I see. Yes. So that's referring to ground delivery, not ocean freight. On the ocean freight front, we're doing a lot more --

Thomas Forte Maxim Group - Analyst

Okay. So (multiple speakers) the ability to take price to offset any of that inflation on freight costs?

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

So we don't feel like right now is necessarily the best time to be pushing costs downstream. Alternatively, our strategy on this front is going to be more focusing on managing cost and limiting the volatility there to the extent we can. So that would entail us working with different partners and strengthening the relationships and contracts there, similar to how we did with our ocean freight.

Thomas Forte Maxim Group - Analyst

Thanks, Erica. Thanks for taking my questions.

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

Of course.

Operator

There are no further questions at this time. I'll hand back to Ms. Erica Wei for closing remarks.

Erica Wei GigaCloud Technology Inc - Interim Chief Financial Officer

So thank you, everyone, for joining the call today. The future looks extremely bright as we work to bring everyone -- to bring even more value to our marketplace participants and our investors. We will speak to you again next quarter. But in the meantime, don't hesitate to reach out to our team if you have additional questions. Thank you, and take care.

Operator

That does conclude our conference for today. Thank you for participating. You may now disconnect.

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