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Q3 2022 GigaCloud Technology Inc Earnings Call

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## CORPORATE PARTICIPANTS

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

**David Lau** *GigaCloud Technology Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Rommel Dionisio** *Aegis Capital - MD, Equity Research*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to GigaCloud Technologies Third Quarter 2022 Earnings Conference Call. During today's call, all participants will be in a listen-only mode. This conference is being recorded today, Wednesday, November 30, 2022.

Joining us today from GigaCloud Technology is the Company's Founder, Chairman of the Board of Directors, and Chief Executive Officer Mr. Lei Wu and 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 and 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 forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties. Although the Company believes that the expectations expressed in these forward-looking statements are reasonable, it cannot assure you that such expectations will turn out to be correct. The Company cautions investors that actual results may differ materially from the anticipated results and encourages investors to review other factors that may affect its future results in the Company's registration statement and other filings with the SEC.

This call includes discussing specific non-GAAP financial measures such as adjusted EBITDA [and adjusted net income](added by company after the call). Please refer to our earnings press release for more information on the non-GAAP financial measures.

With that, I will turn the call over to Mr. Wu, the Company's Founder, Chairman of the Board of Directors, and Chief Executive Officer. Mr. Wu, please go ahead.

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

Thank you, operator and everyone for joining GigaCloud's Third Quarter of 2022 Earning Conference Call. We are very pleased to deliver another quarter of healthy growth despite a challenging macroeconomic backdrop. We leverage our technology and e-commerce platform to reach continuing growth in our revenue, GMV, and positive operating cash flows.

During the third quarter, our [GigaCloud 3P GMV](added by company after the call) continued to increase as a percentage of total GigaCloud marketplace GMV, demonstrating an increased economies of scale and user base achieved through our current marketplace model. Coupled with our successful IPO and improvement in operating cash flows in the third quarter, our liquidity and capital resources also saw an increase, providing sufficient capital for us to pursue our business objectives. The results demonstrate our strong capability of navigating our business strategy in today's challenging market [environment](added by company after the call).

Facing the dynamic business environment, we strive to provide the best possible service to customers while simultaneously delivering steady business growth. We're committed to providing the best possible user experience and helping users to feel assured when they shop on our Marketplace. Moreover, we will continue our efforts to grow our buyer and seller base, improve our GigaCloud Marketplace features, and increase our presence in the global market.

We have opened our first Malaysian office in November, which reflects our strategic initiative for optimizing regional supplier screenings and increasing our presence in the Southeast Asia.

Going forward, we will continue to leverage our data-driven solutions, technological capability and resources to expand and optimize our marketplace, gain market share and better serve our global customers with a stable and efficient B2B e-commerce platform.

Thank you for your continued support of the Company. Next, I will 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.

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**David Lau *GigaCloud Technology Inc. - CFO***

Thank you, Larry, and good morning everybody. Now I'll go over our operational and financial results in details. I'm very pleased to share that we delivered another record quarter despite the uncertain macroeconomics environment.

Our GigaCloud Marketplace GMV was \$486.3 million in the 12 months ended September 30, 2022, up 31.7% year-over-year. We had 517 active 3P sellers in the 12 months ended September 30, 2022, up 57.1% year-over-year and 4,198 active buyers in the 12 months ended September 30, 2022, up 36.2% year-over-year.

Spend per active buyer was \$115,834 in the 12 months that ended September 30, 2022, down slightly to 3.3% year-over-year. Our 3P seller GigaCloud Marketplace GMV was \$221.3 million in the 12 months ended September 30, 2022, up 59.2% year-over-year.

Now, let's move to our financial results for the third quarter of 2022. Total revenues were \$128 million for the third quarter of 2022, up 23.4% year-over-year. And that's mainly due to increased service revenue from our GigaCloud 3P and product revenue from our GigaCloud 1P, partially offset by the decrease in product revenue from our off-platform e-commerce.

Service revenue from GigaCloud 3P was \$40.5 million in the third quarter of 2022, up 45.9% year-over-year, primarily due to increased transactions in our GigaCloud Marketplace as our marketplace continue to gain scale in the provision of third-party logistics services to specific existing customers.

Product revenue from GigaCloud 1P was \$58.2 million in the third quarter of 2022, up 30.5% year-over-year, and that's mainly due to an increase in the number of active buyers and a better selection of products catering to buyers' preferences.

Product revenue from off-platform e-commerce was \$29.3 million in the third quarter of 2022, down 6.4% year-over-year. That's primarily due to an overall decrease in sales on certain third-party off-platform e-commerce as consumer demand slowed down on such platform.

The cost of revenues was \$105.4 million in the third quarter of 2022, up 26.3% year-over-year. That's primarily due to the overall increase in our revenue, as well as an increase in staff cost and warehouse cost.

Gross profit was \$22.5 million in the third quarter of 2022, up 11.6% year-over-year. The gross margin was 17.6% in the third quarter of 2022.

Total operating expenses were \$18.3 million in the third quarter of 2022, down 5.6% year-over-year. Selling and marketing expenses were \$6.8 million in the third quarter of 2022, up 30.7% year-over-year, and that's primarily due to increased sales commission to personnel engaged in selling and marketing activities.

General and administrative expenses were \$11.5 million in the third quarter of 2022, down 18.8% year-over-year. That's primarily due to share-based compensations attributable to employees involved in the general corporate functions and a decrease in professional service expenses.

Operating income was \$4.2 million in the third quarter of 2022, up 423.2% year-over-year.

Net income was \$0.7 million, and basic and diluted earnings per share of \$0.01 in the third quarter of 2022, compared to a net loss of

\$1.6 million and basic and diluted loss per share of \$0.19.

Adjusted EBITDA was \$11.9 million in the third quarter of 2022, compared to \$10.0 million in the third quarter last year. Adjusted EBITDA means net income excluding interest, income taxes, and depreciation further adjusted to exclude share-based compensation expense. Our share-based compensation expense was \$8.9 million in the third quarter of 2022 due to consummation of the IPO in August, compared to [\$9.7 million](corrected by company after the call) in the third quarter of last year.

Net cash provided by operating activities was \$23.3 million in the nine months ended September 30, 2022, compared to net cash used in operating activities of \$15.3 million in the same period of last year.

Net cash used in investing activities was \$0.6 million in the nine months ended September 30, 2022, compared to \$1.5 million in the same period of last year.

Net cash provided by financing activities was \$33.8 million in the nine months ended September 30, 2022, compared to net cash used in financing activities of \$1.8 million in the same period of last year.

As of September 30, 2022, the Company had cash of [\$116.2 million](corrected by company after the call) and restricted cash of \$1.5 million.

In July 2022, we entered into a two-year credit facility agreement with Wells Fargo Bank, [National Association](added by company after the call), under which the Company can borrow up to \$50 million during the term of the facility, demonstrating confidence and support from financial institutions.

We believe we're well-positioned to expand our business globally on a sustainable path with the ample cash reserves and the positive cash generated in this quarter.

We anticipated that our ocean freight fees per container [might decrease from the fourth quarter of 2022](corrected by company after the call), which might result in a slight decrease in the freight services fee for delivery of products via ocean transportation. We expect our total revenues to be between \$117 million and \$122 million for the next quarter. We also expect our cost of revenues will be decreased due to the lower ocean freight cost. Therefore, [we believe we will see an improvement in our gross profit for the next quarter. We estimate the ocean freight fees per container will stabilize or rebound in 2023](corrected by company after the call).

Now, I'd like to turn the call over back to the operator for a question-and-answer session. Thank you very much.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions) And our first question today will come from [David Wong] with Blackfield Capital. Please go ahead.

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### Unidentified Participant

Hi everyone. Thanks for taking my question. When talking about your headwinds such as economic uncertainty, COVID-19 pandemic and the supply chain issues, how much do you think these factors can affect GigaCloud's profitability and the operations? And what kind of measures the Company will take to ease the influences? Thank you.

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### David Lau *GigaCloud Technology Inc. - CFO*

Larry, do you want to take this question?

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

Yes, in general, I think we have under the impact of COVID for pretty long time. We're definitely under the pressure of the supply chain challenge and also the ocean shipping price that went through the roof during the past 12 months, but we're definitely seeing the

situation improving given the supply chain challenge have been pretty much relaxed.

We expect the situation will gradually improve the incoming 12 months on the condition that we don't see the tighten up of the measures taken by the China's government is going any further. We will be on the path of normalizing our operation.

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**Unidentified Participant**

Okay. Thank you.

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**Operator**

Our next question will come from [Nicole Shang], a private investor. Please go ahead.

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**Unidentified Participant**

Hi, thank you. I'm wondering if you could provide us the latest update about product category trend on your GigaCloud's [marketplace platform and what is the Company's plan for expanding the product offering](corrected by company after the call). Thank you.

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**David Lau GigaCloud Technology Inc. - CFO**

Yes, thanks, [Nicole]. It's David here. So that's something that we are always spending time to optimize and improve our product category. One of the reasons why we wanted to expand and open an office in Malaysia is exactly for that reason. We see a lot of activity in the Southeast Asian region. And having a presence there could help us diversify and expand our product category. And that's one of the key drivers for the growth in our business.

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**Unidentified Participant**

Okay.

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**Operator**

Our next question will come from [Laurent Wong], a private investor. Please go ahead.

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**Unidentified Participant**

Good morning, management and everyone. Thanks for taking my question today. We can see the company's key operational metrics increased significantly this quarter, including GMV, active sellers and buyers. Could you please share the story behind it? And also, do you think such growth will continue in the long run? Thank you.

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**David Lau GigaCloud Technology Inc. - CFO**

Sure, thank you.

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

Yes, I think ...

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**David Lau GigaCloud Technology Inc. - CFO**

Sorry, Larry.

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

You just go ahead.

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**David Lau GigaCloud Technology Inc. - CFO**

Yes, okay, sorry. I think, well, definitely it is a very impressive quarter for us, and we're very confident that because of the value proposition that we're offering we will continue to believe that we're going to capture the growth.

One of the kinds of key reasons why, with the supply chain constraint and with the ocean shipping rates that we're all experiencing, that

hinder some of the growth. But as we can see that the supply chain constraint to slowly relaxing and the ocean shipping rate is starting to stabilize and returning to the pre-pandemic level, we continue to believe that given all these macroeconomic factors starting to normalize, we believe the long-term growth of the company will be very positive from here.

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**Unidentified Participant**

Okay, thank you very much.

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**Operator**

Our next question will come from [Ava Johnsons], a private investor. Please go ahead.

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**Unidentified Participant**

Good morning, managers. My feedback, well, GigaCloud opened the first office in Malaysia. Could you please elaborate the big picture of your company plans in Southeast Asia?

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

Yes, we're seeing that the global supply chain has been diversified pretty much shifting part of the shipping from China to other part of Southeast Asia. So that's reason we opened our first sourcing office outside of Asia in 2018. And we are seeing the trend is going further, so we're following that what is going on and try to follow where the supply chain is moving to better serving our customer and also to improve in coverage. So we definitely will continue looking at where the supply chains are moving to and follow those manufacturing capacities and to better serve our customer in the market we cover.

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**Unidentified Participant**

Okay, great. Thank you.

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**Operator**

Our next question will come from Rommel Dionisio with Aegis Capital. Please go ahead.

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**Rommel Dionisio Aegis Capital - MD, Equity Research**

Yes, good morning. Thanks for taking my question. I wonder, Larry, if you could just give some of your insights in terms of the change since being public. What are the implications been these first few months since being a publicly-traded company? And the second question, just a brief one is the tax rate. I know there's a mention of share-based compensation expenses affecting the tax rate. I wonder if you can just give a little insight you've done that going forward. Thank you.

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

What was ...

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**David Lau GigaCloud Technology Inc. - CFO**

Sure.

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

... the second question?

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**Rommel Dionisio Aegis Capital - MD, Equity Research**

Just on the tax rate that was mentioned in the comments about the effective tax rate being higher because of share-based comp since the IPO, and I just wondered is that going to be true going forward as well or was it just unusual in the third quarter? Thank you.

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

Okay.

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**David Lau *GigaCloud Technology Inc. - CFO***

Yes, Larry, let me take that one. So the reason why there is an exceptionally higher tax rate for the quarter was because of our IPO that took place in August, which was a third quarter event because, I mean, obviously, the SBC are issued to the employees who have been working for that company for over the years. And because of the company, we have a global presence. A lot of these employees are based and located in different parts of the world, and because of SBC obviously as an expense, that will be tax-deductible.

So some of these tax expenses will get deducted in the fourth quarter, so rather in the third. So I guess to address your question earlier is this will likely be a one-off event going forward. We don't see this will be a recurring type of phenomenon in the company's books.

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

All right. I think for the first question, I would talk about that a little bit. I think the primary purpose of us being listed publicly for our company is not really try to raise fund because you guys are seeing we have pretty strong operating cash flow. The reason we're doing that, the first one would be we're trying to be transparent to all the business partner we're working with because the fundamental business model we're doing here is we're trying to use a technology to make the global supply chain to function more efficiently than before.

But given that, we're operating across the globe. Right now, we have operation in seven different countries and using our technology to connect and to transact on the marketplace. So how to build that trust to provide the necessary trust in the operator of the marketplace so that it's critical to the marketplace participant. So that's why we chose to be listed publicly and try to provide everyone the confidence that doing business with us because it is really hard to do the branding efficiently in so many countries that we have operation in.

We realize that to be listed as a public company will be that way to do so. So we're already seeing that kind of benefit when we communicate with the customer and also when we try to recruit the talents. And we realize that the impact is pretty much in line as we expected and to help us to build the necessary trust more efficient than before.

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**Rommel Dionisio *Aegis Capital - MD, Equity Research***

Great, thank you.

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**Operator**

And that concludes the question-and-answer session. Let me turn the call over to Mr. Lau for closing remarks.

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**David Lau *GigaCloud Technology Inc. - CFO***

Thank you everybody for joining. We're very excited that you guys could continue to support and join the session. If you have any questions, please get in touch with us through email. And the management 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.

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**Operator**

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

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