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Call Participants

EXECUTIVES

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Xueji (Jerry) Wang
Founder, CEO & Director

Yi (Alex) Yang
Co-Founder, CFO & Director

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Morgan Stanley, Analyst

Timothy Zhao
Goldman Sachs, Analyst

Kai Xiao
CICC, Analyst

Matt Ma
Jefferies, Analyst

Presentation

Operator

Good morning and good evening, ladies and gentlemen. Thank you for standing by, and welcome to Tuya Inc.'s second quarter 2026 earnings conference call. At this time, all participants are in listen-only mode. After the speaker's presentation, there will be a question-and-answer session.

Please be informed that today's conference is being recorded. I will now turn the call over to the first speaker today, Ms. Regina Wang, Investor Relations, Associate Director of Tuya. Please go ahead.

Regina Wang
Investor Relations Associate Director

Thank you, operator. Hello, everyone. Welcome to our second quarter 2026 earnings conference call. Joining us today are our founder and CEO, Mr. Jerry Wang, and our Co-Founder and CFO, Mr. Alex Yang.

Our results and webcast of the conference call are available at ir.tuya.com. A replay of this call will also be available on our IR website in a few hours. Before we continue, I'd like to refer you to our Safe Harbor Statement in our earnings press release, which applies to this call as we will make forward-looking statements.

With that, I will now turn the call over to our Founder and CEO, Mr. Jerry Wang. Jerry, please.

Xueji Wang
Founder, CEO & Director

Hello, everyone, and thank you for joining Tuya's earnings conference call for the second quarter of 2026.

Tuya maintained solid growth momentum during the quarter, despite the continued complexity of the global operating environment. Total revenue reached US$92.9 million, a year-over-year increase of 16.0%, with growth accelerating from the first quarter. Within this, revenue from our core PaaS business increased 16.9% year over year. These results reflect the ongoing rise in smart product penetration – including steady demand across home appliances, increased adoption of differentiated solutions such as smart door locks, and growing demand for emerging AI-enabled product categories – and also underscore the resilience of our platform business across different regions and product categories.

In terms of strategic execution, we continued to advance our AI-driven development strategy, extending our AI capabilities beyond foundation models and standalone features toward platformization, productization, and scenario-based deployment. In the second quarter, shipment volumes of AI companion product solutions continued to expand, and consumer acceptance of new forms of AI hardware began to be validated. Meanwhile, we launched Tuya Cobuilder, which applies Vibe Coding to AI hardware development, enabling developers to cover the core development process – from product concept to physical device validation – using natural language, further shortening AI hardware development cycles. These developments further reinforce AI's evolution from a mere conversational tool into a technology that operates in real physical environments and participates in sensing, understanding, and execution.

Looking ahead, we will deepen our focus on the following three key areas:

First, we will continue to advance AI-native application and product innovation. Centering on high-potential scenarios such as AI Home, AI Energy, and AI Robot, we will drive the large-scale adoption of AI across a broader range of physical devices.

Second, we will continue to enhance AI development tools such as Vibe Coding, Agent orchestration, and cloud-edge-device collaboration, further shortening the cycle from ideation and development to deployment on physical devices for AI hardware.

Third, we will advance the global expansion of proven solutions while further strengthening our developer ecosystem and industry partnerships to jointly explore long-term opportunities in the AI application market.

Now, let me turn the call over to our Co-Founder and CFO, Alex Yang, who will share more details about our financial performance and business progress.

Yi (Alex) Yang
Co-Founder, CFO & Director

Hello, everyone. This is Alex. I will provide a brief overview of our second quarter results. Please note that unless otherwise stated, all figures are in US dollars and all comparisons are on year-over-year basis.

In the second quarter of 2026, we generated total revenue of approximately US$92.9 million, up 16.0% year over year and accelerating from the 8.3% growth recorded in the first quarter. Our PaaS business maintained strong growth, while revenue from the Smart home & robot product segment also increased by double digits.

Of our total revenue, the PaaS business generated revenue of about US$67.9 million, a year-over-year increase of 16.9%, serving as the important growth driver for the quarter.

As of the end of the second quarter, the number of PaaS Premium customers for the trailing 12 months reached 318, contributing approximately 89.5% of PaaS revenue, with our core customer base remaining stable.

The AI application & others segment generated revenue of about US$11.5 million, a year-over-year increase of 3.9%, primarily driven by growth in cloud-based service revenue (i.e., video cloud storage). We continued to advance value-added services, including video cloud storage and AI-driven energy saving, among others, with AI-enabled application capabilities, while gradually strengthening our renewal and recurring service capabilities.

Smart home & robot product revenue was about US$13.5 million, a year-over-year increase of 23.2%, primarily driven by growing customer demand for smart security, energy, and other differentiated smart products. We will continue to increase the contribution of high-value-added products and strengthen their integration with software and value-added services.

Looking at the specific drivers of PaaS growth, home appliances, smart door locks, electrical and energy products, and AI companion product solutions performed relatively well during the quarter. Growth in the home appliances segment was mainly driven by customers' rollout of smart-enabled models, the expansion of their geographic reach, a higher contribution from smart-enabled products, and the migration of certain overseas brand projects from customers' legacy solutions to Tuya's. Growth in smart door locks was primarily driven by increased adoption of audio-video and low-power Wi-Fi solutions. By comparison, demand recovery in categories such as traditional lighting and IP Cameras has been relatively slow, reflecting continued divergence in performance across products and regions.

In AI companion products, shipment volumes of devices powered by our solutions continued to expand. During the 618-Shopping Festival, Fuzozo, built on Tuya's solutions, ranked first in the AI toy category on Tmall, while a number of other ecosystem products also delivered strong ranking and sales performance across major e-commerce platforms. This provided early validation of both consumer acceptance and the commercialization potential of new forms of AI devices. Beyond basic voice interaction, we are building out capabilities in multimodal perception, persona and memory, content services, and user engagement, helping customers accelerate the development and mass production of AI-native consumer hardware.

In the energy sector, solutions including EV chargers, smart power distribution, metering, and home energy management maintained solid growth. We are expanding our AI Energy capabilities from electricity consumption analytics, anomaly alerts, and personalized recommendations toward dynamic electricity tariff management and user-authorized automated device coordination.

Within the smart home ecosystem, customer adoption of Matter-based solutions continued to increase across categories such as electrical products, lighting, and climate control. In parallel, we enhanced local control, multi-protocol interoperability, and third-party ecosystem compatibility.

On margin side, our blended gross margin for the quarter was 46.3%. By segment, gross margin for PaaS was 46.8%, gross margin for AI application and others was 72.0%, and gross margin for Smart home and robot product was 21.9%. Gross margin fluctuations were mainly driven by volatility in upstream semiconductor costs and changes in business mix, in line with expectations. Despite this, gross profit increased by 11.1% year over year to approximately US$43.0 million.

On expenses, we maintained disciplined expense management while continuing to invest in AI R&D and platform capabilities. GAAP operating expenses for this quarter were approximately US$33.7 million, down 10.4% year over year, primarily due to lower share-based compensation expenses.

In terms of profitability, we recorded GAAP profit from operations of approximately US$9.3 million, with a GAAP operating margin of 10.0%. Non-GAAP profit from operations was approximately US$9.6 million, a year-over-year increase of 11.7%, while Non-GAAP operating margin remained in the double digits at 10.3%. While delivering revenue growth, we maintained relatively stable core operating profitability.

Net profit for the quarter was approximately US$18.6 million, while Non-GAAP net profit was approximately US$18.9 million. The year-over-year decline in Non-GAAP net profit was primarily due to lower financial income and foreign exchange losses, while core operating profit continued to grow.

On cash flow side, net cash generated from operating activities was US$6.2 million during the quarter and remained positive.

As of the end of the second quarter, the Company's total liquid assets, including cash and cash equivalents, time deposits and treasury securities, amounted to approximately US$976 million, continuing to provide ample resources to support the development of AI capabilities, global business expansion, our ability to navigate external uncertainties, and long-term strategic investment.

Next, I will briefly walk you through our progress in the AI developer ecosystem.

As of the end of the second quarter of 2026, the number of registered developers on our platform exceeded 2.09 million. Launched during the second quarter, Tuya Cobuilder serves as the AI development gateway to the Tuya developer platform, applying Vibe Coding to AI hardware development. By describing their requirements in natural language, developers can complete product definition, APP user interface, embedded firmware, AI Agents, and workflow development in one place, and then proceed directly to device flashing and debugging. This covers the core development process from product concept to physical device validation and helps shorten AI hardware development cycles.

In just over a month since launch, Tuya Cobuilder's AI-powered panel generation capabilities have expanded to cover 30 product categories, with the average generation time for a single panel reduced to approximately 190 seconds. This progress demonstrates that we are advancing our developer tools beyond development assistance toward end-to-end delivery capabilities spanning product definition, software generation, and deployment on physical devices.

At the application layer, we continued to enhance Hey Tuya's device task execution capabilities, control reliability, and response efficiency, while exploring subscription-based and value-added services across scenarios such as AI-driven energy saving, pet care, and video understanding. Certain scenarios have already begun to generate early payments and renewals. We will continue to focus on high-frequency use cases and long-term user value.

From a broader perspective, AI capabilities are gradually expanding beyond single-model integration to encompass device sensing, contextual understanding, memory, Agent orchestration, and device-side execution. We will continue to leverage the strengths of our platform, device ecosystem, and global developer base to translate AI capabilities into scalable commercial value across a broader range of real-world scenarios.

In summary, our revenue growth accelerated in the second quarter of 2026, with the PaaS business continuing to serve as the primary growth engine. Meanwhile, our AI capabilities are being commercialized in parallel across multiple paths, including PaaS, smart products, and AI applications. Despite the impact on gross margin from semiconductor supply chain price fluctuations and business mix changes, we maintained stable operating profitability and ample financial resources.

Looking ahead, we will remain focused on AI-native applications, Physical AI scenarios, and developer platform capabilities and continue to advance the transformation of AI technologies from tool-level capabilities into tangible and scalable commercial value.

Thank you all. Operator. We can begin the Q&A right now.

Question and Answer

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions) The first question comes from the line of Yang Liu from Morgan Stanley. Please go ahead.

Yang Liu
Morgan Stanley, Analyst

Congratulations on the solid earnings. My question is about the future demand outlook. Based on your discussion with key customers, in current environment, what is the growth or demand outlook going into the second half of 2026? If you can provide a little bit more breakdown by geographic, that will be even better. Like what is the demand profile in US or in Europe and ASEAN, etc? Thank you.

Yi (Alex) Yang
Co-Founder, CFO & Director

Thank you, Liu. So right now, we see that the end demand and internal momentum is still within our expectation. So as we stated in the beginning of this year, the entire customers and the consumer side, they're looking forward to consuming more and transform more legacy devices and solutions into the new AI one that we provide. So this momentum continues.

So what we see that we have the accelerated type of rebouncing on the demand side. So this will be the overall view. We see that the recovery will not come overnight, so it's gradually climbing. What we found here is the momentum still continuing, and especially based on those kinds of very positive sales through feedback from the end user side. That's the first one.

If I break down into the geographic areas, so there are different types of demand drivers. Europe still show very strong on the demand side, especially for all type of energy-related segments. So including the new AI home management solutions, we provide as a total solution or include different types of energy efficiency improvement, single device, no matter it's what we provide as a PaaS or we provide as a smart home and robot product to the solution together. That shows very strong demand still. That's the first one.

And on Southeast Asia and Latin America, the driving force majorly comes from our strong channels in the telecom carriers. so whilst trying to establish a strategic partnership along with them around 2.5 years ago, and we are starting to scale, commercialize that part.

So through their own channels to deliver some comprehensive total solutions for their users in the AIoT field, that's a very strong potential and very promising one because they're running as a B2B cycle. By the end of the time, it's a B2C, but they run a really strong B2B cycles rather than a retail side. They're campaigning on that. That's for Southeast Asia and Latin America.

And the Middle East is still kind of in a pause right now because of the military conflict going on in the second quarter. So right now, we're still kind of wait and see. The customer is still there, and the customer is still doing a lot of preparations, including the product development and the new concept definitions and type of stuff. But right now, I think that overall, the business is not coming back yet.

And we're looking forward to having a better scenario, perhaps maybe end of Q3 or Q4. We’re looking forward to having some agreements for those conflicting countries and then we’ll be able to catch the demand. And so, that is the overall.

And North America, the sales team is still there, but some price sensitive, especially low-price type of the devices, that shows kind of fluctuations, by the pricing raise coming from the supply chain side. And so, we restructured that type of product mix along with the customers and to deliver a better sale too in the second half of this year. I think that is the overall.

And for China right now, we’ll be seeing some really good promising categories, including part of the home appliances. But we can find that recently the major brands right now, they are speeding up the transformations from the legacy type of devices into the smart one and from a first-generation IoT type of smart devices into the AI one. So we are catching the transformation trend and helping a lot of China brands to do that.

The second one is that in China, so some AI native categories starting to boom in like the AI companion. So our first market we start to break through for AI companion categories is from China. So that’s why Fuzozo is sweeping Tmall. We already see that based on a large target consumer scale in China and where we find the right type of applications coming along with a very active customer base and we’ll try to find more potentials in the new type of the innovations in China.

Operator

Thank you for the question. Our next question comes from the line of Timothy Zhao from Goldman Sachs. Please go ahead.

Timothy Zhao
Goldman Sachs, Analyst

Congrats on the very solid results. My question is on your gross profit margin. I noticed that in the second quarter, the IoT PaaS margin declined on a year-on-year basis, although stabilized sequentially, while your smart home and robot products margin actually declined sequentially on a year on year. Just wondering if you can share more color on what were the margin drivers behind, and what is your margin outlook for these two segments for the third quarter and rest of this year. Thank you.

Yi (Alex) Yang
Co-Founder, CFO & Director

Okay. First of all, as everyone knows that the upstream cost fluctuations started to increase over two quarters on a global basis. And we're the last one to catch the impact because of our buying forces. So in Q2, what we're doing is that the major of the products we just passed through the cost raise, which means that we maintain the gross profit, but we do not stick to the gross margin.

But till now that we will really build a very good buffering on the inventory and cost balance between now and future. In the next two quarters or three, right now we have the confidence that we'll be able to work through a more stable cost level of my major type of materials which we needed. So we're looking for to either to stabilize the gross margin, and we figure out whatever or all the possibilities that by offering new capabilities, new technologies, would like to improve the gross margins overall. So that's pretty much of that.

For the customer side, we really show our kindness that we best pass through the cost. But in the future, if anything happens, we're looking for the most positive way to help the company to continue to run the business. So it's not stick to the cost, but more stick to the value and the competence that we deliver to the customers to help them get through that.

Operator

Thank you. Our next question comes from the line of Kai Xiao from CICC. Please go ahead.

Kai Xiao
CICC, Analyst

Thank you, management. This is Kai. I have two questions. One, Tuya Cobuilder, you mentioned in the quarter. So I wonder what's the current adoption status of Tuya Cobuilder and what's the company's medium to long term outlook?

Yi (Alex) Yang
Co-Founder, CFO & Director

Okay. So Cobuilder is something we have to do for a couple of quarters. So starting from second half of last year, some departments in Tuya R&D centers were really starting to do Vide Coding to improve our own coding efficiency, and also to bring more ROIs on R&D side. So we start to do that as a major user of Vide Coding.

And while we have enough experience, how we will be able to use that and the different right ROIs, and be able to know how to manage that, and we start to think about the way we need to duplicate our experience and open that to our customers. So at the beginning of this year, we start to build the Tuya Cobuilder. And we're happy to launch it at the second quarter.

We believe that will be the new type of default gateway in the future for many developers, not only device developers, but many developers to lower the bar. And including me, like right now, including my financial department. So many of them, they do not know coding at all for their entire lifetime, but they're starting to write their own agent to improve their own workflow, to improve their own individual efficiencies. I believe some of you did that, too.

So Tuya Cobuilder will be kind of the shower where how low the bar can reach and how easy those idea developers will come with some innovative ideas. They can really quickly to testify the innovations and to validate whether those kinds of crazy ideas make senses for some of the users and build a demo and get some pilot users and starting to run, including the fundraisings and scale it.

So Cobuilder, we believe in the hardware world, should be the momentum, like, wow, you have the cloud code maybe one year before. We believe that will be default gateway. So in Q2 after we launch it, we continue to do a lot of webinar trainings for those developers, even while they don't know what does coding mean and how they can deal with it. And we're starting to train a lot of developers.

And also, in the same time, we'll use this tool to attract those not developer at this moment, but they're more considered as a product manager, maybe in some hardware companies. In the past, the strength or capability for those type of talents are user insight, product definition, and interface and design, and psychological understanding. But right now, we offer them a better tool that they can transfer that part with or without annoying any of their engineers. They'll be able to scratch that out themselves.

Yeah. So that will be the value of the Cobuilder. And so, we can further use that to enlarge the entire developer base by building up a better target and also be able to improve my customers' R&D efficiencies in the long run.

Operator

Our last question comes from the line of Matt Ma from Jefferies. Please go ahead.

Matt Ma
Jefferies, Analyst

I have a question on the AI application segment. So it seems like in Q2, the revenue growth has been decelerated from 17% in the first quarter. I'm just curious, what's the reason behind that? I calculated it. It seems that Q2 growth is only 3%. What can get this line back to a double-digit growth?

And also on the segment margin. On the Q1 call, you pointed that a seasonal rebound in device usage from Q2 would help you to increase the margin for this segment, but it doesn't seem that have come through. Could you walk us through what could actually happen in this quarter or the coming quarters to help the margin recovery for this segment?

Yi (Alex) Yang
Co-Founder, CFO & Director

Thank you for bringing the question. So for AI applications, right now, the growth slowing majorly come from the mix of my offerings. So as you might know that in that segment, they cover two offers. One is B2B, and especially some of the project-based customization services we provide for the key customers.

And the second part of that is the B2C, so directly services we offer for the consumer, which are the user of the devices. So they activated my value-added services through subscription. So the growth major is that we gradually still slowing, and we don't want to handle this kind of B2B projects for a long time. So the B2B project-based revenue grows slower.

But actually, the CN grows good. So my CN service recurring revenue growth in Q2 is 22%. We're happy to see that change because we want to have their segment in the B2C will be able to cover more and more portion of their segment because we believe that would be a better value for that. So that's for the first question.

So the second question about the margin is on the application segment. So for this one, the segment we want to have more is based on the cloud and based on the AI capability. So that will be a higher valued one. So 7% up is the target margin for this segment. So right now we hit it. So in the future, we have to hit between 75% to 80%.

And the driver for that, the first one I explained that, we don't want to have this kind of project and customization-based services take a larger portion because that's kind of more labor-centric and lower-margin type of services. We try to lower the entire portion of that, so by increasing more and more cloud-based one, B2C side.

And on the B2C side, not only enlarge the contribution percentage on revenue, but also in the same time, by we scale the services and be able to improve more and more efficient architecture on the technique side. So we'll be able to figure out a better way to manage the cost and the L&M of functions in our model. So through that, we'll be able to push the cloud-based services margin from 70% into 75% and 80%.

Operator

Thank you. There are no further questions at this time. I'll now hand back to the management team for closing remarks.

Regina Wang
Investor Relations Associate Director

Thank you, operator, and thank you all once again for joining us today. If you have any further questions, please feel free to contact IR team of Tuya. Goodbye and see you next quarter.