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Reg Chai
Investor Relations Director

Xueji Wang
Founder, CEO & Director

Yao Liu
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ANALYSTS

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Morgan Stanley, Research Division

Timothy Zhao
Goldman Sachs, Research Division

Mingran Li
CICC, Research Division

Presentation

Operator

Good morning, and good evening, ladies and gentlemen. Thank you for standing by, and welcome to Tuya Inc.'s Second Quarter 2023 Earnings Conference Call. [Operator Instructions]

I will now turn the call over to the first speaker today, Mr. Reg Chai, Investor Relations Director of Tuya. Please go ahead, sir.

Reg Chai
Investor Relations Director

Okay. Good morning. Thank you. Hello, everyone. Welcome to our Second Quarter 2023 Earnings Call. Joining us today are founder and CEO of Tuya, Mr.Jerry Wang; and our CFO, Ms.Jessie Liu.

The second quarter 2023 financial results and webcast of this conference call are available at ir.tuya.com. A replay of this call will also be available on our website in a few hours. Before we continue, I 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 to our founder and CEO, Mr.Jerry Wang. Jerry will deliver his remarks in Chinese, which will be followed by corresponding English translation

Xueji Wang
Founder, CEO & Director

Hello everyone, thank you for joining Tuya’s Q2 2023 earnings conference call.

The second quarter of 2023 marked a significant milestone for us. For the first time in our company's history, we achieved a quarterly break-even and recorded a modest profit on a non-GAAP basis of approximately $1.5 million, translating to a non-GAAP net margin of around 2.7%. Moreover, we achieved a positive operational cash flow for the quarter, bringing in about $7.5 million. The move into positive non-GAAP profitability and the expansion of positive operating cash flow both mark a turning point in our overall day-to-day operations. This signifies our growing capacity to generate value – an essential responsibility for any enterprise and its business operations. Undoubtedly, these accomplishments attest to the dedication of our team and the strategic operational adjustments we've implemented over the last two years. Each member of our organization has played a crucial role in this milestone. Going forward, we remain firmly committed to focusing on further refining our operations, both structurally and functionally, seeking avenues to enhance efficiency and reduce costs. Our aim is to ensure consistent financial performance and progress towards achieving break-even at the non-GAAP operating level.

In the second quarter of 2023, our total revenue reached approximately $57 million, representing a sequential growth of around 20%. This marks the third consecutive quarter of sequential growth. Comparing year-over-year, there was an 8.9% decline in our total revenue. A factor in this was the currency fluctuation, particularly the weakening of the RMB against the USD, which accounted for around 5.6 percentage points of the year-over-year decline. Excluding the impact of currency fluctuations, our total revenue was close to flat year over year. It's worth noting that the resurgence in consumer demand has not yet reached its full potential, and the cautious operating strategies adopted by downstream businesses during destocking cycles persist, thereby impacting this quarter's results. Our overall gross margin advanced to 46.7%. Within this figure, the gross margin for IoT PaaS climbed back to 44.2%. Meanwhile, thanks to the successful implementation of our IoT device solution strategy, the gross margin of our smart device distribution segment saw a growth to 23%. Our software and value-added services maintained a steady gross margin of 74.5%. Of particular note, our cloud storage service has been consistently generating solid cash flows and stable revenues, marking its transition into a period of scalable growth.

Regarding our corporate operational management, our non-GAAP operating expenses for this quarter showed a sequential decrease, a testament to our stringent cost budgeting across all departments. When we speak of efficiency, our revenue supported per headcount and gross profit supported per headcount reached historical highs in this Q2, following several quarters of continued improvement.

Now, let's dive into some business updates from the second quarter. In terms of our business strategies, our focus remains on three key areas: executing our customer-focus strategy, improving our IoT developer platform, and continual product enhancement.

The value of the Tuya IoT platform continues to be favored by top-tier customers. In early June, we held a signing ceremony in collaboration with our customer Haier Group's new energy brand, NAHUI New Energy Technology. Together, we aim to jointly develop smart devices for home energy management, including PV, storage, charging devices and heat pumps, and to establish a smart home energy management platform. We initiated services for a prominent listed company with a market cap close to a hundred billion RMB and a leading player in the electrical and home appliance industry. Tuya will provide them with a residential energy storage EMS management system combined with a smart communication stick solution. We have secured a partnership with a leading Swedish retailer, whose distribution channels extensively cover the Nordic region and whose business focuses on DIY and home products. All smart home brands under their umbrella will utilize the Tuya platform. Additionally, we have newly acquired a renowned global brand specializing in engineering joining products and irrigation equipment, which is also a subsidiary of a European listing leading company in engineering joining technology. They predominantly cover markets in North America, Europe, and Australia and have already made payments to commence preliminary preparations related to their IoT App, etc.

Cube Smart Private Cloud product also continues to help us acquire top customers. We recently forged an agreement with a subsidiary of a leading real estate conglomerate in Thailand, marking our third private cloud collaboration in the country. Tuya's growing presence and influence in Thailand are underscored by our collaborations with influential local companies, including conglomerates, telecommunications operators, and top real estate groups. The insights and experience garnered from our ventures in the Thai market will serve as a strategic roadmap for our expansion into other countries.

As we continue to enhance the IoT developer experience, we are also exploring opportunities and value beyond consumer electronics with developers and enterprises. For example, the energy-saving sector, with its practical and sustainable nature, garnered significant attention from global corporate customers. In light of this, we showcased Tuya residential PV energy storage solution at AWE. Additionally, these modular proficiencies have been seamlessly integrated into our SaaS offerings. A case in point is Tuya's SMB Bluetooth mesh lighting control solution, empowering small and medium-sized businesses to easily achieve a green, energy-efficient indoor environment.

Our smart device distribution business, as an integral component of our software and hardware enrichment strategy, has mainly originated from new customers we acquired since our strategic re-alignment in the middle of last year. The gross profit of this segment in Q2 was approximately $1.49 million, marking a sequential growth of around 30.8% and a year-over-year increase of around 68.2%. The overall gross margin was 23.0%. Our flagship products solutions, such as Zigbee gateways, and central control screens, as part of the IoT solution model, contributed to the healthy comprehensive smart device gross profit.

Regarding our product lines, in Q2, the comprehensive revenue from our voice central control product line registered a year-over-year growth surpassing 60%, with the smart device solution model seeing an impressive year-over-year surge of approximately 280%. From an industry standpoint, central control products act as the entrance for IoT interaction, possessing the capability to replace traditional panel switches in a variety of settings, indicating a dynamic and swift growth trajectory. Tuya boasts robust competitiveness in this sector. Our central control product solution encompasses a diverse array of operating systems, panel firmware. This also extends to software service features like multimedia, visual intercom, gateway, sensors, gestures, and content. In terms of hardware, we offer full-size adaptability, support for all communication protocols, and integration with popular controller ICs, meeting the product requirements of mainstream brands worldwide.

The dual model of IoT PaaS and Smart Device Solution, underpinned by our software and hardware enhancement strategy, has provided our customers with a broad spectrum of choices. For instance, KA customers can leverage the IoT PaaS model, incorporating OS, Cloud, and App SDK, in accordance with their unique business needs and organizational characteristics, enabling them to foster a more autonomous business development environment. At the same time, some cross-sector multinational corporations, SaaS service providers, and integrators can choose smart device solution for a streamlined and expedited market entry, which in turn further drive the sustained generation of software revenue.

Our SaaS and Others segment reported year-over-year revenue growth of 30.2% as Q2 revenue reached $9.4 million. Breaking this down to key products, as previously mentioned, our cloud storage value-added services consistently demonstrated strong revenue characteristics. Amid the steady growth in device scale, these services have continuously delivered high-quality revenues in the millions of dollars level, more than doubling year-over-year. As for SaaS, sectors such as hotel, rental, and real estate achieved moderate year-over-year growth despite the soft economic cycle. Conversely, commercial lighting, falling within the broader lighting industry, registered a year-over-year decline, attributable to macroeconomic challenges.

I also want to highlight another milestone we achieved in May 2023. Tuya officially became the world's only company to offer support for both Vendor Identification, the VID, and non-VID scoped Product Attestation Authority, the PAA, within the Matter full-stack solution. This allows us to sign Product Attestation Intermediates for VID to meet the requirements of any eligible alliance member. As a result, Tuya is capable of not only reducing the cost of Matter device certification for developers but also facilitating an autonomous and controllable authentication process, allowing developers to expedite their products' time-to-market. Moreover, Tuya can also provide comprehensive lifecycle management for PAA certification, enabling developers to focus on device development while enjoying a seamless experience.

Overall, during Q2 and the first half of 2023, the consumer electronic segment continued to face the residual pressures of high inflation and the associated inventory implications. However, there are encouraging signs globally. For example, inflation rates in Europe and the U.S. have descended to their lowest in over two years. Anticipated sales for several IoT smart device categories are trending towards positive year-over-year growth. Drawing from these external trends and our internal metrics, we believe that we have navigated through the toughest times, and we expect to return to year-over-year revenue growth in the second half of the year. Our leaner and more streamlined operational structure also gives us the confidence to pursue ongoing improvements in our financial performance. As we look ahead, we are looking forward to a future of sustained and steady growth.

With that, I will now turn the call over to our CFO Jessie to provide everyone a closer look at our financial performance.

Yao Liu
CFO & Director

That concludes the remarks by Jerry. As I review our results, please note that all amounts are in US dollars and all comparisons are on a year-over-year basis, unless otherwise stated.

In the second quarter of 2023, our total revenue reached 57.0 million and our gross profit was 26.6 million. Both metrics have shown sequential improvements over the past three consecutive quarters. However, both metrics recorded a decline on a year-over-year basis. When we exclude the impact of the depreciation of the RMB against the USD, which now has an exchange rate surpassing 7.2, our revenue essentially remained stable compared to the same period last year while our gross profit showed a 6.0% increase from the same period last year. Considering the currency rates, we anticipate facing ongoing challenges related to currency exchange in the third quarter.

The global consumer electronics sector is grappling with the pervasive impacts of heightened inflation. However, our forward-thinking and strategic interventions have yielded encouraging results. By adopting a customer-focus strategy, our average revenue per customer increased sequentially. Additionally, we've recorded a significant uptick in revenue and gross profit on a per-employee basis and have noted a more equitable distribution in geographic revenue contributions, fortifying our position against the market headwinds.

Our blended gross margin for the second quarter expanded to 46.7% from 42.8%, achieving a historically high level since our inception. I would like to emphasize that gross margin is pivotal for the long-term sustainable growth of the company, reflecting the value our services and products bring to customers, and securing our profitability. This margin is a testament to our value proposition, the efficiency of our operations, and our balanced approach between profitability and growth. Let's break this down:

In the second quarter, our IoT PaaS gross margin increased to 44.2% from 42.5% in the same period last year. This uplift contributed 1.2 percentage points to the year-over-year expansion of our blended gross margin for the quarter and represented a significant rebound of 3.7 percentage points from the first quarter. We are always confident in the value proposition of our IoT PaaS products, distinguished by our unique software capabilities, leading IoT functions, as well as effective pricing strategies and management. However, given the macroeconomic downturn and inventory backlog leading to slow-moving issues across many enterprises, our holdings in IoT chips were not exempt from these pressures. To address this, we have refined our inventory management strategy, emphasizing prudent control over chip inventory levels and strategic purchasing decisions. Furthermore, we've been guiding our customers in their IoT solution selections and, when necessary, utilizing specific pricing strategies to facilitate inventory reductions, thereby alleviating the financial impact of inventory allowances. In the second quarter, we have effectively minimized the impacts of these allowances. While it's essential to recognize that inventory management and potential write-downs are dynamic areas influenced by market conditions, we remain confident in our ability to maintain them within reasonable levels. So, overall, as our core business, we believe that IoT PaaS will continue to be a stable and robust contributor to our profitability.

The gross margin for our smart device distribution segment in the quarter reached 23%. This segment has evolved from initially facilitating customers in acquiring smart devices quickly, easily, and cost-effectively to providing logistic value and support for clients with IoTsolutions, aiding them in expanding product categories and penetrating new markets. In the second quarter, the smart device distribution segment contributed 1.3 percentage points to the year-over-year growth of our blended gross margin.

The gross margin of our SaaS and Others segment was at 74.5% in the second quarter, characterized by its diverse composition including SaaS, 2B & 2C value-added services, Apps and various custom developments, and smart private cloud projects. Notably, as our cloud storage revenue continues to grow, its profit contribution has become even more significant, accounting for approximately 1.8 percentage points of the year-over-year growth of our blended gross margin in the quarter. The consistent financial performance from these high-value software value-added services, coupled with the expansion of our device ecosystem, further affirmed our strategic direction and confidence for the future.

I have just detailed the profitability of our core business segments for the quarter. We believe that maintaining solid margins at the business segment level is crucial to ensuring the overall margin profit of our company.

Moving on to our operating activities and the related expenses, we are presenting our operating expenses on a non-GAAP basis by excluding share-based compensation expenses and credit-related impairment loss from our GAAP numbers. These credit-related impairment losses stem from our strategic investments in certain IoT related private companies. Some of these companies have encountered operational difficulties after facing two years of headwinds, leading us to provision for impairments. However, this has no material impact on our operations and business. Therefore, we've excluded it from our GAAP numbers. We believe this provides better clarity on the trends of our operating expenses, aligning with how our management team reviews our performance.

In the second quarter of 2023, our non-GAAP total operating expenses decreased by 32.7% to 33.0 million from 49.1 million in the same period last year. I will break down our costs and expenses to provide additional clarity.

Our employee-related costs, excluding share-based compensation, declined by 33.2% year over year in Q2, and costs related to office and property leasing concurrently decreased by 51.6%. Combined, these costs represented about 75% of our total non-GAAP operating expenses in Q2. As of now, our team size has been further streamlined to around 1,500 employees. We continue to explore opportunities for further optimization in both our business and organizational structure.

Marketing and promotion expenses decreased by 70.1% year over year, highlighting our commitment to budget control. Travel-related expenses were nearly flat year over year and decreased sequentially.

Cloud infrastructure costs now remained at a stable level, flat year over year. Our team remains committed to striking a balance between driving innovation, enhancing our cloud platform, and maintaining a large, stable global operation system, all while focusing on our cost efficiency.

Professional fees under G&A expenses dropped by 23.4% from that of Q1 following our annual reporting activities in the US and Hong Kong. Year over year, professional fees were down 30.7% compared to the same quarter last year. We are pleased to report that these overheads are now consistently managed and well-contained. The company remains dedicated to ensuring quality corporate compliance and professional services at a cost-effective rate.

Next on the income statement is the financial income section. During Q2, we generated approximately 12.1 million in deposit interest income because of our conservative capital strategy. The income was recorded as our financial income for the quarter. We will not elaborate on the remaining types of detailed expenses or income as they are not as significant to our overall financial performance.

As a result of our consistent efforts over several quarters, our non-GAAP net loss has been steadily narrowing in the past quarters. In Q2, we achieved profitability by recording a non-GAAP net profit of 1.5 million translating to a non-GAAP net profit margin of 2.7%. This transition from a loss to a profit is a significant milestone for us. With encouraging indications from our business, evident from stable gross margins, and our disciplined approach to expense management, we remain optimistic about sustaining and progressing our financial trajectory.

Moving on to cash. As of June 30, 2023, our cash balance, comprising cash and cash equivalents as well as short-term investments, reached 942.3 million. This represents a slight increase from the end of Q1, primarily due to an expansion of operating cash flow of 7.5 million. While cash flow is normally subject to fluctuations in working capital changes and payment terms, our operating cash flow now stays at a much better level compared to a year ago.

Furthermore, our financial position remains strong. Our accounts receivable turnover is less than a month, with the majority of our business collaborations requiring prepayments from customers. Our liability-to-asset ratio has consistently remained at or below 10% since 2021, and we have always been free from any interest-bearing liabilities or long-term capital commitments. Finally, as articulated in Jerry's strategic outlook, we remain confident in the long-term prospects of our company.

With that, operator, we are now ready to take questions. Thank you.

Question and Answer

Operator
[Operator Instructions] Our first question comes from Yang Liu from Morgan Stanley. Please go ahead.

Yang Liu
Morgan Stanley, Research Division

First, I congratulate for non-GAAP break-even this quarter. And the question is related with demand. In recent few months, we observed the export data in China is pretty weak. And I would like to ask, based on Tuya's communication with downstream, for example, the OEM based in China, how about their customers demand outlook and whether it was also impacted by the weak export number? And the second question is customer inventory. We are happy to see that management expects the second quarter year-on-year revenue growth to turn positive. Is it due to the inventory digestion of the customer side is close to the end, and they are about to restock inventory? Thank you.

Yao Liu
CFO & Director

Okay, thank you for Liu Yang's question. About demand, to start with a conclusion, over the past few months, we've observed an ongoing improvement in inflation in Europe and the US. The total sell-out of IoT products for all our brand clients during the first half of this year showed a modest year-over-year growth. So despite we do notice a recent export number weakness in China, we hold a cautiously optimistic view towards the future demand for end consumer IoT electronic products.

First from a macroeconomic perspective, there's been a notable easing in inflation in Europe and the US. As of July 2023, the inflation rate in the European Union has dropped to 5%, while the US saw a slight rebound to 3.2% in July, following a decrease to 3.0% in June. Since peaking in the mid to late last year, the decline has been pronounced, especially in the first half of this year. However, both from the CPI figures and core CPI indicators, most views suggest that the risks associated with inflation are not completely eliminated, and the prices of some consumer goods remain high, requiring continuous observation by companies in the sector.

In China, after a first half year resurgence in travel related spending, retail sales of consumer goods in the middle of the year dropped to a lower single-digit year-over-year growth rate, but stabilized in July. Regionally speaking, our perception is that overall trend is similar across the regions, but with differences in details. For example, in the United States even though the overall consumer electronics market was sluggish in Q2, there was still decent demand for home appliances, followed by a relatively stable year-over-year growth for safety products and an improving situation for electrical products.

In Europe, primary countries maintained a good rebound in consumer spending. With a significant demand for energy and efficiency related products, we've observed a strong resurgence in categories like gateway controls, safety and sensors, some home appliances, and electrical products. In China, based on official data, given the revenge spending on travel, tourism, and food during the first half of the year, consumer electronics like cell phones exhibited weak performance. However, echoing Europe, due to people's demand for safety and energy efficiency, certain categories stood out even amidst the overall weak electronics demand. Other emerging global markets for smart products, such as Southeast Asia, Latin America, the Middle East, have rebounded well and are more open to innovations. However, the lighting segment continues to face substantial pressures, as seen from the performance of leading global lighting companies that have reported their results.

Overall, we believe the long-term development trend for the IoT consumer electronics sector should be steady and consistent. Both enterprises and consumers will continue to explore and focus on realizing the value of IoT. Against this backdrop, as the world's leading IoT cloud development platform with a high market value, our overall growth pattern should align with the overall brand's end-user sell-out growth trend in the industry.

And then come to the inventory question from, Liu Yang. By the middle of this year, we observed our downstream inventory has markedly improved. And we expect it will return to a healthy level by the end of this year

At the end of last year, we devised a method to estimate downstream inventory levels by comparing total IoT devices activation with our sales. This "downstream" includes OEMs, brands, retail channels, and all other entities between us and the end consumer. We previously anticipated that downstream inventory would continue to be digested throughout 2023 and that by the end of the year, it would return to the healthy levels seen in 2019 to 2020. Current downstream inventory progress aligns with our expectations. Our recent surveys of top customers worldwide indicate varying paces due to individual business plans or strategies. However, the general feedback suggests that inventory management has returned to a controllable state.

Two years ago, the consumer electronics supply chain built excessive inventory during 2 to 3 quarters due to chip shortages and price hikes. This was followed by an almost two-year inventory de-stocking cycle. We believe that moving forward, businesses on the value chain of consumer electronics, will plan and operate more rationally, and overall inventory management will return to a steady state.

So considering the positive inflation trend and nearing the end of a two years destocking inventory cycle we are confident that after a low of six quarters, our revenue will show a year-over-year growth in the second half of the year. So this is my answer to the questions. Operator can go to the next question.

Operator
Thank you. Next question comes from Timothy Zhao with Goldman Sachs. You may proceed.

Timothy Zhao
Goldman Sachs, Research Division

Thank you for taking my question. And congrats on the strong results. I have two questions. One is the gross margin trend into second half of this year as you already got it that the revenue will improve on year-on-year basis. And secondly, is regarding the generative AI topic. I do noted that, I think you already launched certain part items shared and strategies few months ago. Could the management share further color on your thought on how to meet generative AI demand and how that will impact your business model. Thanks you.

Yao Liu
CFO & Director

Thanks for Timothy's question. First let me address the question about gross margin. So beyond promising signals in revenue we are particularly inspired by our gross margin. Since Q1 of 2019, our gross margin has consistently improved from initial 24% to almost 47% this quarter, despite challenges like the pandemic, inflation, and inventory issues.

Several reasons contribute to this steady improvement of gross margin. Firstly, the proportion of high-margin products in the IoT PaaS business has been increasing. Secondly, the overall high-margin SaaS sectors, the revenue contribution to the total revenue has been continuously grow -- reaching to about 16% in 2023 Q2. Lastly, the transformation of the business model of the smart device distribution business has made pretty big improvements to the gross margin. That segment, the gross margin improved from about 10% to now 23%.

Looking forward, our expectation we are likely to maintain a steady gross margin. We are now also focused on the growth of the company. We are looking for new directions of growth. And with some new business try out initially, usually we will make the gross margins more aggressive to attract new customers. So balance that, we expect a steady gross margin for the near future.

And then come to Timothy's second question about AI. In the midst of the AI boom during Q1 this year, we shared our insights and direction. We are optimistic about upgrades and efficiency that AI and AIGC can bring to IoT developers and end users. Our perspective remains consistent, and we're currently working on various AIGC-related projects.

Firstly, a common approach in the IoT industry is the utilization of AI in customer services. We are leveraging AI to empower Tuya's customer support, enabling more intelligent and flexible conversations with users, thereby providing more personalized and high-quality services. Additionally, by training on Tuya's documentation, we can pinpoint end-user issues with more precision and automated responses and interactions. This not only enhances the user experiences, but also significantly boosts efficiency for end-users enterprise developers, and the Tuya's internal R&D team.

The second direction is to empower developers. For instance, Tuya's SaaS development framework now allows for the auto generation of general service codes based on described requirements, such as device inquiries, scenario inquiries. This ensures that developers, when creating their IoT device management platforms or similar needs, can significantly improve efficiency, reduce development costs and entry barriers, and maintain code quality and consistency. It enables developers to concentrate more on the development and innovation of business logic.

The third direction is AI assistant. We're not referring to speakers, but mobile apps or central control panels with interactive screens. This AI assistant enables end users to seamlessly set up, enjoy IoT scenario setting, bridging the gap between various fragmented intermediate links. For example, when a user says, help me analyze energy consumption from August 3 to 12, they can instantly view the corresponding analysis result on AI assistant interface, followed by personalized recommendations for energy saving or other usage scenarios and so forth.

Besides the broader directions just mentioned, let's delve into a specific case related to enterprise level projects. We assisted clients in generating device management strategies using AI. Specifically, we begin by customer training several popular language models based on industrial verticals, creating professional models that understand device operation and energy saving requirements. Users can then state their needs, such as the maximum energy saving or utmost comfort in the model, considering historical data predicts device usage under different strategies. It weighs the cost and impact of strategy implementation, presenting users with several optimization options. The entire process eliminates the need for intricate parameter configurations, and is carried out through interactive dialogues with the primary goal being to enhance user energy efficiency and comfort.

Finally, it's crucial to emphasize that one of AIGC's most notable features is to transformation of human machine interaction methods. Whether the output results meet expectations, whether they are commercially viable, and how cost-effective AIGC is in various scenarios are intricate, industry-wide questions that are still being explored. It's currently in our segment, it's still the early stage of AI journey. Thank you. The operator can move to the next question.

Operator
Thank you. Next question will be from the line of Mingran Li with CICC. Please proceed.

Mingran Li
CICC, Research Division

Thanks for taking my questions. My first question is that what kind of projects in past and which downstream scenario things that you are saying will be more resilient to support our full year growth on the relatively weak demand? And my second question is that we see this quarter is the first time that you achieved break-even profitability on non-GAAP net income faster than our expectation. So could you please give us more color about the future trends of breakeven? Thanks.

Yao Liu
CFO & Director

Let me first address the growth patterns of different categories. So differences in categories are quite noticeable. Tuya's performance aligns well with the trends highlighted earlier for each region. However, between Tuya and the final consumer, the business operations and decisions of downstream companies also play a significant role. This quarter, our performance was significantly hampered by the lighting sector. But, most non-lighting sectors have already achieved a modest year-on-year growth. For example, the safety sensor sector, this quarter has almost leveled year-on-year. This can be attributed to the fact that during volatile periods, the fundamental demand for safety and protection remains stable. The home appliances sector has shown year-on-year growth since the fourth quarter of last year, with an impressive growth exceeding 20% this quarter, so very positive signs.

Furthermore, we remain bullish on the renewable energy segment itself, as well as the value generated from integrating renewable devices with other IoT home devices. While we're just at starting, we believe we are among the global competitive enterprises when it comes to integrating home alliance IoT with new energy products. Our residential PV energy storage IoT solution displayed at AWE this year, not only managed traditional household electricity consumption, but also visualizes real-time energy flow from solar power generation, the energy storage batteries, distribution, and the consumptions to electrical vehicle charging. It can optimize energy usage strategies and assist homeowners in managing household energy efficiently, especially like Europe, Australia.

In terms of SaaS & Others segment and end smart scenarios, we've discussed scenarios like cloud storage and intelligent business areas earlier. There are distinct differences in business models and products. For instance, software services addressing end-user rigid demands have a more pronounced advantage. SaaS, being a direct B2B offering, is greatly influenced by corporate budget decisions and business development efforts. However, we remain resilient in this area. The pandemic disrupted our global promotion of SaaS offerings years ago, but as restrictions eased towards the end of last year, we restarted our efforts. Focusing mainly on China market and Southeast Asian regions, we have been making steady progress. In Thailand, we secured projects with real estate groups. Furthermore, replicating our benchmark project in Spanish student apartments, we secured another project in the UK.

And now we'll go to the second question about the profitability. So we will continue to prioritize achieving a non-GAAP operating break-even as a key goal. While maintaining quality business operations, we will explore new avenues for growth. Our main operation focuses include first, we will rigorously maintain an efficient organizational scale and continue to seek areas for adjustments and optimization.

Second, we will persistently identify methods to reduce costs and improve efficiency within our operations, including refining our business models. Thirdly, as we explore new growth directions, we will remain rational in our capital expenditure, always keeping an eye on the return on investments. So, in summary, we are committed to pushing our top- line revenue return to a growth trend, furthermore, at the basis of sustaining our gross profit margin.

Furthermore, we aim to maintain or reduce non-GAAP operating expenses. We hope to achieve our non-GAAP operating breakeven within the next few quarters, and we aim to maintain non-GAAP net profit in the future. So, that's all my answers. Thank you.

Operator

So as a confirmation, there are no additional questions at this time. So I'll hand back to the management team for any closing remarks.

Yao Liu
CFO & Director

Thank you again for joining our call. If you have any further questions, please feel free to contact us or request through our IR website. We look forward to speaking with everyone in our next earnings call. Have a great day.