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Call Participants

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Founder, CEO & Director

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John Wang

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 Third Quarter 2022 Earnings Conference Call. [Operator Instructions]

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

Reg Chai

Investor Relations Associate Director

Thank you. Hello, everyone. Welcome to our third quarter 2022 earnings call. Joining us today are founder and CEO of Tuya, Mr. Jerry Wang and our CFO, Ms. Jessie Liu. The third quarter 2022 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 translations.

Xueji Wang

Founder, CEO & Director

Hello, everyone. Thank you for joining our third quarter 2022 earnings call. I will start today's call with an overview of our financial and operating performance.

Our third quarter results reflect both the challenges we face and the opportunities we are focusing on. In the third quarter, global inflation continued to increase and remained elevated. By the end of September, the U.S. CPI reached 8.2% while the Europe CPI hit a new record 10% in Europe. Meanwhile, the intensifying Russia-Ukraine war, geopolitical unrest, and the consequent regional turmoil created extensive impacts on the global energy and consumer sectors. As such, the overall business environment is still full of challenges and uncertainties. As you all know, the consumer discretionary sector is undergoing a severe inventory correction. Major online and offline retail channels, including Walmart, Best Buy, and Amazon, are reducing their inventory to appropriate levels, especially in electronics and household products. As the year has progressed, many consumer electronics brands maintained their conservative approach towards their inventory management and procurement strategies in the first three quarters of the year in response to the uncertainties in the market sell-out.

[COMPANY EDITED] The contraction of downstream purchase orders has resulted in pressure and volatility in the performance of most upstream companies, including Tuya. For example, some of our brand customers we are familiar with only placed very few orders for Powered-By-Tuya smart devices to the upstream OEMs in the third quarter. They are ordering a fraction of what they used to because their retail channels are focused on clearing the inventory instead of restocking them. Under such market conditions, our core IoT PaaS sales declined, as one would expect.

As part of our effort to navigate the down cycle, we are actively channeling our resources, refine our customer base structure, invest into new promising product lines, and optimize operating costs and expenses. We believe these efforts will enable us to emerge with an improved customer base and a more efficiency operation structure when the macro environment recovers.

Third quarter total revenue was \$45.0 million, among which our SaaS and Others revenue grew by 60% year over year to \$8.9 million. Our gross profit for the third quarter was \$19.6 million and the overall gross margin was 43.6%, maintaining steady amid a challenging environment. Most importantly, we reduced our non-GAAP operating expenses by 37.1% year over year to \$43.4 million, and narrowed our non-GAAP net losses by 49.0% to \$15.9 million, as we continued to streamline our operations.

Now, let me elaborate on each of these areas.

First, the number of our IoT PaaS premium customers was 265 in the third quarter, remaining stable compared to 267 in the second quarter. Looking closer, we had over 30 customers that dropped below the premium customer revenue contribution threshold. This is largely offset by more than 30 others that qualified for premium customers in the third quarter. The addition of these new premium customers is a positive sign that despite the difficult environment, we are still well-positioned to leverage our premium IoT PaaS offerings to continue the expansion of our customer base and navigate the challenging environment.

The total number of customers we served in the third quarter was 3,100, down 24% sequentially and 31% year over year from 4,500 in the same period last year. Let me explain what led to the changes in our customer number. First, the current environment forced downstream brands and channels to tighten their budgets and reduce orders. Many of our small and medium-sized customers on our platform had to suspend their businesses and stay dormant during the market downturn. Moreover, some of our long-tail customers with smaller operations and less business resiliency that were experimenting with IoT either reduced their business or transitioned away from IoT. The second factor is the consistent execution of our key-account strategy since the beginning of the year. With our focus now on efficiency, we upgraded our customer service systems and reformed our service teams to utilize the trilateral collaboration to provide targeted support to both new and existing customers. For our long-tail customers and those that suspended their businesses, we integrated them into our platform operation model to continue serving them through our operation teams while matching them with the appropriate resources.

With this strategy, we further refined the structure and improved quality of all the new customers we acquired in the quarter. In the IoT PaaS segment, the number of customers with an initial business scale, which we define as customers spending over \$20,000 on our IoT PaaS solutions, has exceeded the level of the same period last year. Notably, a Spanish project company contributed nearly \$1 million to our revenue in the third quarter. These kinds of customers with an initial business scale collectively contributed to almost 64% of our revenues from new customers compared to less than 50% in the same period last year. The refined structure of our customer base further illustrated the effectiveness of our improved and more focused customer acquisition strategies and will enable us to further improve our efficiency.

In the third quarter, as the world reopens in the wake of the pandemic, our senior management and operation teams visited our customers across the globe, from Hong Kong, Singapore, and other Asian and Southeast Asian regions to North America and Europe. Through our visits, we forged new partnerships with many region-leading brand customers and strengthened our long-standing relationships with existing customers by discussing their needs. I want to highlight a few examples of IoT PaaS customer updates.

The robot vacuum cleaner brand of a leading home cleaner manufacturer in the US with over 100 years of history has confirmed a partnership with us on small home appliances. One of the largest importers in Germany and Europe, with products ranging from battery packs and power tools to household appliances and personal health care also became our customer. One of Mexico's largest consumer electronics and office supplies retail channels is building its own smart home ecosystem, including pet, lighting, and electrician products based on our platform. Intral, Brazil's largest manufacturer of device drivers, became our customer in the third quarter. Our collaboration will focus on products, including gateway systems and device driver products, where we expect to complete the intelligence transformation of the local driver production in the fourth quarter. We also expanded our presence in the Indian regions during the quarter. We have acquired customers, including Chinese listed companies with operations in India and Indian business

divisions of telecom groups; including LAVA, a leading local mobile consumer electronics brand, and Kent RO Systems, which has 40% of the market share of purifier devices in India, etc. These customers can now leverage our value-added services through the Tuya platform to execute their smart device product strategies.

We also achieved solid progress in Europe. At the recent IFA, many of our key account brands and channel customers, such as Calex, Nedis and Pearl, shared their new product strategies, market insights, key product selections, and future strategy updates onsite. As our customers, we saw many dominant home appliance brands in Europe or across the world, such as Italy's well-known appliance brand Candy, Germany's well-known consumer electronic brand Hama, a leading home and kitchen appliance brand in Spain Taurus Group, and a leading home appliance brand in Greece Morris, all showcased a wide range of products they developed through partnerships with us. These products included home appliances, such as coffee machines, floor sweepers, oil diffusers, portable air conditioners, and outdoor products, such as lawnmowers and scooters. A world-renowned Japanese home appliance company will also pre-install the Tuya OEM app in its Android TVs as one of the portals to its home IoT ecosystem in its European businesses. We also inked a "made in Italy" partnership with a well-known Italian home appliance brand with an extensive network of local connections to accelerate the implementation of intelligent solutions in local Italian manufacturing enterprises. As for consumer electronics, such as TWS headphones, we leveraged our multiple EQ support and tracking capabilities to impress a number of customers. For example, a well-known Spanish consumer electronics brand, Energy Sistem, showcased its PBT smart headphones at the IFA. We then shared this successful use case with other headphone brand customers and garnered significant interest.

The above customers include existing customers that are deepening their partnerships with us and new customers who have just established the relationship. Although our customers and the downstream markets are facing severe inventory pressure and high inflation, they remain enthusiastic and optimistic about the transition to intelligent products in the long term. One of the leading brands in the world with a dominant share of the cooling fan market has partnered with us and purchased our value-added services to upgrade the voice control capabilities of its products. At the same time, this customer also told us that they are very optimistic about the smart device sector and ready to make large investments. However, they couldn't place substantive orders this year under the current market environment. They will wait for a clear signal of a market rebound to start scaling up their smart device business.

On the other hand, from a product perspective, we are encouraged by the warm reception of our central control products, and we believe that these products have the potential to explode onto the market. In the third quarter, our revenue generated from the central control segment grew by more than 140% year over year. Although the contribution is still relatively small in dollar amount compared to our overall business, this segment has demonstrated robust growth momentum and positive market response in the first three quarters. Similarly, in the current situation where energy and environmental issues are becoming increasingly prominent, there is a strong demand for energy-saving products in the downstream residential and commercial sectors. Tuya-enabled energy-saving products, including smart circuit breakers, utility meters, and charging-related products, recorded a 155% year-over-year revenue growth in the first three quarters of the year. We will also continue leveraging our industry research resources to maximize efficiency as we invest and develop solutions in these emerging areas.

In the SaaS and others segment, we slowed down the expansion of our hotel business in China due to the impact of COVID resurgence. However, we have completed several key milestones in our overseas expansion. Such milestones included signing our distributor in the UK and progressing towards signing our distributor in Hungary. These smart hardware distributors will match our SaaS customers with the equipment solutions and options needed for hotel and rental SaaS products to better support the smart business implementation of our customers.

In the commercial lighting and property SaaS segment, we have partnered with the world-renowned Honeywell. Honeywell is dedicated to helping building owners and operators build healthier, safer, energy-efficient, and sustainable facilities. And we will provide IoT ecosystem support in various aspects, such as smart hardware, apps, and cloud development platform. To date, for devices, we have collaborated on visual intercom devices, and Honeywell has completed the development of HLife Smart App. In cloud platform development, we will continue to utilize the Cube Smart Private Cloud and deepen our partnership. For example, we will improve the construction efficiency of smart properties by utilizing advanced construction SaaS solutions.

In terms of our value-added services, our VAS including various products such as cloud storage, app-related services, and device capability-related VAS such as voice skill services, delivered solid results in the third quarter. In addition, we partnered with several leading global telecom operators in their respective regions for our IoT services. These partners included a fortune 500 and also one of the largest telecom groups in Latin America, as well as the leading regional telecom operators in Thailand, Indonesia and Nigeria. Telecom operators have unique business strengths in users and channels as well as strong communication service infrastructures to support their technology capabilities. Our software capabilities and hardware ecosystems would allow them to offer more value-added services to their users and strengthen their user operations. These telecom operators may also be potential customers of our Cube smart private cloud.

Moving on to our private cloud business segment, with our key-account strategies and relentless efforts, we added several new customers or projects for our Cube private cloud business. For example, Thailand's construction materials industry leader with over 100 years of operating history will use Cube private cloud to expand its hardware ecosystem in its IoT residential projects through the Cube platform. Another example is a well-known Fortune 500 multinational conglomerate, which has been our IoT PaaS customer, also adopted Cube to build a complete smart home landmark project in India with plans to replicate its success in Europe in the future. An Australian distributor of a well-known cell phone brand has already paid in advance to leverage our private cloud, smart life APP, central control screen, and other devices for property installation to improve the local life quality. These customers have already paid the deposit, and these revenues will be recognized after the products are implemented and accepted.

In addition to the customer use cases I highlighted so far on the call, we are also actively acquiring a large number of high-quality new customers with high business potential. As such, we are solidifying our partnerships with existing customers while capitalizing on new opportunities. Admittedly, Tuya and many other companies in the industry are in the midst of an economic downturn and an increasingly challenging macro environment. However, I want to highlight the adjustments and efforts we have made in the face of these challenges, our steady path towards breaking even, and our long-term commitment to the IoT industry and pursuing mutually beneficial relationships with our customers.

Finally, I will talk a little about Matter, which has been a topic of interest. Last week, we participated in a launch event in the Netherlands organized by the Connectivity Standards Alliance, the committee behind Matter. One of our co-founders Alex delivered a keynote speech on the Tuya Matter Project during the event, which garnered the audience's attention. At the same time, the CSA issued the first batch of Matter Product Certifications to Tuya. This is a testament to our strong technology and product leadership, as well as our ongoing efforts to promote IoT development and the open, intelligent ecosystem. The President and CEO of the Connectivity Standards Alliance stated, "Tuya's commitment, as a Board member and active Alliance participant, is critical to Matter's success. Their adoption and integration of Matter will enable global customers to achieve commercial success and deliver enjoyable experiences for smart home consumers. "

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

For the third quarter of 2022, total revenue was \$45.0 million, down 47.4%. The decline was mainly driven by a 57.4% year-over-year decrease in our IoT PaaS revenue, which decreased to \$30.9 million for the quarter. Please note that the RMB weakened against the dollar during Q3—from 6.69 to 7.1—which resulted in RMB revenue translating to \$2.9 million less than it would have using the start-of-quarter exchange rate.

Let's focus on the business. Among all the product lines of our IoT PaaS business, the consumer lighting sector experienced the most pressure as consumer demand softened. In response, our customers slowed orders as they were adjusting their inventories. As Jerry

mentioned earlier, we believe that smart device developers overreacted to strong market conditions last year and overstocked their inventories. Consequently, almost all online and offline retail channels are now working through their excess inventory. This summer, brands and wholesalers experienced large order cancellation from retailers.

Naturally, we closely monitor our customers' demand and the overall environment through public macro and export data, estimated sales volume of retail channels, economic trends, as well as shipment information directly from our customers.

Breaking down the revenue contribution by product line in the third quarter, we achieved a more balanced revenue structure. Contributions were balanced between 20% to 30% for each consumer IoT PaaS category, which includes lighting & electricals, consumer security & sensors, appliances, and others. The revenue contribution of non-consumer products, such as industrial smoke detectors, circuit breakers, mining lights, heat pumps, electrical chargers, increased to nearly 3% of total IoT PaaS revenue. This is a result of the successful execution of our vertical expansion strategies.

Looking at geographic end market demand, we estimate that the contribution of each region remained stable. We constantly strive to maintain balance across our global business.

SaaS and others revenue in the third quarter of 2022 increased by 60.2% to \$8.9 million from \$5.6 million in the same period of 2021, sustaining its robust growth momentum. The growth was mainly driven by our continuous efforts in offering value-added services and various software products with strong value propositions for our customers.

Our gross margin expanded to 43.6% in the third quarter from 42.6% in the same period of 2021, primarily due to an increase in higher-margin SaaS revenue. IoT PaaS gross margin decreased from 42.9% in the same period of 2021 to 37.2% in the third quarter. The contraction was mainly caused by a \$1.6 million increase in accrued inventory allowance for certain slow-moving IoT chips, which negatively impacted our IoT PaaS gross margin by about 5 percentage points. We originally stocked these materials in 2021 to address chip shortage risks at the time. Excluding the inventory allowance impact, our IoT PaaS gross margin would have been about 42.2%, representing a steady and healthy trend over the past quarters.

Now, let's move on to our operating activities and the related expenses. Please note that we are presenting our operating expenses on a non-GAAP basis by excluding share-based compensation expenses from our GAAP numbers to provide better clarity on the trends of our actual operating-based expenses, so that you can review performance in the same way as our management team.

During the quarter, non-GAAP total operating expenses decreased by 37.1% to \$43.4 million from \$69.0 million in the same quarter of 2021. Specifically, non-GAAP R&D, sales and marketing, and G&A expenses decreased to \$29.3 million, \$12.4 million, and \$4.3 million, respectively, and other operating income, net, was \$2.6 million. Similar to the previous quarter, the reductions in our non-GAAP operating expenses were mainly due to large decreases in employee-related costs, such as payroll and benefits, partially offset by one-off additional costs arising from headcount optimization initiatives.

Our average salaried employee headcount during the quarter decreased by approximately 38% year over year. The reduced headcount was combined with initiatives to improve efficiency. We further optimized our team structure and work allocation in line with our financial and operating plans. We believe that these efficiency improvement measures will continue to benefit the company in the long run. We will also keep implementing initiatives that accelerate our efficiency improvements and drive our progress toward our business goals.

Now, turning to our bottom line. Our non-GAAP loss from operations narrowed by 27.1% to \$23.7 million in the third quarter from \$32.5 million in the same period of 2021, and our non-GAAP net loss significantly narrowed by 49.0% to \$15.9 million in the quarter from \$31.2 million in the same period of 2021.

In the third quarter, our non-GAAP operating margin was negative 52.7%, compared to negative 38.0% year over year, as total revenue declined at a faster pace than expenses, but our non-GAAP net margin was negative 35.4%, up 1.1 percentage points from negative

36.5% in the same period of 2021. The delta between our non-GAAP operating margin and non-GAAP net margin mainly included \$6.8 million net financial income, primarily consisting of interest income. As our monetary assets are mainly cash in USD held offshore in large banks, we generated more interest income as a result of higher interest rates on USD holdings.

Moving on to cash. Net cash used in operating activities for the third quarter of 2022 decreased by 70.6% to \$13.5 million from \$46.1 million in the third quarter last year, thanks to the significant reduction in operating expenses. As of September 30, 2022, cash, cash equivalents, and short-term investments that were mainly time deposits totaled 945.9 million, down only 5.6 million sequentially, representing about 0.6% of the total cash assets. Here I want to reiterate a point Jerry made. We are always committed to maintaining a strong cash position during this difficult economic period. Our stock market valuation is implying that we are going to consume a massive amount of cash. Our intention is quite the opposite. We have cut expenses significantly and are actively working to stabilize our gross margin. We have a sufficient cash position to support us through the recession. We encourage our investors to consider our efforts on preserving cash and our ability to conserve cash when you analyze our stock market valuation.

Finally, turning to the share repurchase program. Pursuant to the general mandate of share repurchase to the directors was approved by the general meeting, our board has approved a new share repurchase plan to purchase up to US\$50 million shares including the form of ADS as announced this evening Eastern Time or morning Hong Kong Time. This shows the company's long-term confidence in its business prospect.

Before I close, I want to discuss the near-term outlook. Inflation is still high, and global central banks seem intent on arresting inflation before it gets out of hand. They do not appear to be finished raising rates, and a global recession is a distinct possibility. Under this situation, our job is to first continue to operate prudently and conserve our cash during the downturn, and second invest in promising new products that will eventually enable us to grow rapidly and profitably in the long run.

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

My question is about the demand. Given the current relatively weak demand and based on Tuya's observations or discussions with the value chain, what is the inventory level now for key customers? And based on current inventory digestion speed, when should we see the inventory return to a comfortable level and customers restart to build their inventory, or we see a demand turnaround on Tuya side?

Yao Liu

CFO & Director

Based on the information we have now, it's still difficult to determine accurately when we can see the turning point in the downstream market demand. However, based on publicly available information from downstream customers or other sources, we can share some qualitative assessments for your reference. Please keep in mind that we cannot guarantee the accuracy and reliability of these market data.

On the inventory front, while the market conditions are rapidly evolving, we estimate that it will still take 8 to 12 months for the downstream OEMs, brands, wholesalers, and retail to altogether work through their excess inventory and return to a healthy inventory position.

What may be good news, however, is that the end-market sales of smart devices appear to have picked up slightly in the third quarter after experiencing continuous sequential declines or stagnant year-over-year growth since the beginning of the year. Therefore, as the slow but steady recovery trend continues into the fourth quarter, which is typically the peak sales season of the entire year, it would be a good sign for the industry as the market balances supply and demand balances under the current economic environment. We believe that there is still substantial downstream demand for IoT devices in the long term. The problem is simply too much inventory in the retail channels, brands, wholesalers' warehouses and OEMs. As a result, the supply from upstream sales lags behind the downstream demand by several quarters.

As such, if we assume first our brand customers worldwide sell the same number of end-market IoT consumer electronics devices in 2023 as they did in 2022 this year, and second assumption the number of IoT PaaS we delivered next year is almost the same as this year, then by Q4 2023, the downstream inventory level of PBT devices will return to a relatively healthy level as it was before.

In addition, we analyzed information from several listed companies in the consumer electronics sectors, as well as the upstream chip developers, downstream OEMs, brands, and retail channels. The upstream and downstream markets have shown a similar year-over-year trend in the first and second quarters of this year. However, starting from the third quarter, we noted that the consumer electronics upstream and downstream trends had diverged somewhat. The upstream chip developers, especially those focused on smart device chips, IoT communication chips, and consumer products, recorded year-over-year revenue declines in Q3 similar to or even greater than the first two quarters. Meanwhile, some downstream brands and manufacturers, such as robot vacuum cleaner brands, have started decelerating their revenue declines. Although this may be a positive result of the aggressive inventory corrections downstream, these companies' reduced order sizes and conservative procurement approaches still created pressure on upstream suppliers.

At the macro level, as mentioned earlier, inflation levels in Europe and the U.S. remained elevated but haven't increased any further yet. We hope that this is where inflation peaks. If the economy remains stable and stops deteriorating, we should see a gradual relief of inventory pressure and a short- to medium-term balance in market supply and demand. Of course, the industry growth will still be dictated by the overall economic conditions and the consumption landscape. We still need to analyze the sales figures from the peak sales season in the fourth quarter to make further judgments. With that said, we will adjust our sales and pricing strategies dynamically as needed to support our customers to weather the challenges.

Operator

Thank you. Next question comes from John Wang. Please go ahead.

John Wang

Goldman Sachs, Research Division

Can you share some colors on your cost control measures? What will be your target headcount by the year-end and next year? Any additional measures on the operation cost reductions? Can you share your target for profit breakeven? Thanks.

Yao Liu

CFO & Director

Since the end of last year, we have been strategically optimizing our team structure as we planned to improve our efficiencies in customer services, R&D, internal workflow, and expense control.

In the first half of the year, we focused on trimming down our business and product lines that are fragmented or yet to be proven successful. We recalibrated our focus on large customers by reforming our customer acquisition and service systems. We also adjusted the resource allocation of R&D projects at the top level. We established an evaluation system to assess the ROI of our every R&D project. We also set up a framework of tools for each business line to continue improving their efficiencies.

Our strategic focus since the third quarter has been implementing detailed adjustments in our core business and each product line. For example, each department will now analyze their workloads in detail and gather team members from different functions to review the decisions and ROIs. We request each product line to break even in a few years. These initiatives will help us control our costs as needed.

On the other hand, we perform various monthly and quarterly financial result for every product line to help us review and control expenses outside of R&D and customer support. Expenses such as T&E and marketing expenses are now under strict control. In fact, we reduced our marketing expenses by approximately 62% year over year in the third quarter, resulting in year-over-year expense savings of over \$2.5 million. Marketing activities are undoubtedly important, but in the current economic environment, we must evaluate what marketing activities are more effective. For example, some expenses we saved from our marketing programs can be used for visiting our core customers, helping us maintain key relationships, and developing business strategies.

We have been actively refining our team structure in the past year with these initiatives. Last year, we quickly expanded our teams as the industry snowballed. Now, our headcount has returned to the same level as in late 2020, two years ago, at around 1,900, and we are maintaining stable operations. The increased salaries over the last two years, higher expenses as a compliant public company, and incremental expenses as we expand our business have offset some of the expenses we saved by improving our efficiency. However, excluding one-time expenses such as employee severance and rental termination, we have slimmed down our non-GAAP operating expenses to the same level as in late 2020, two years ago. In addition, as we are executing the initiatives I mentioned earlier in stages, we still have room for future optimizations. So going into next year, we will still do our best to maintain a concise team, and whenever we see an opportunity to improve the efficiency we will continue to do that.

Based on our 2022 revenue, gross profit estimation, and the current 1,900 staff size, we estimate that our lighting, electrical, and home appliance product lines in our PaaS segment are profitable after all expenses, including all overhead, are appropriately amortized to each business line. As we budget for 2023, we have required all product teams to prioritize improving profitability by either turning profitable or significantly narrowing the losses with a goal to make profit in a few years for every line including new lines.

Meanwhile, we have dramatically improved our cash flow. Our cash outflows since the second quarter have reduced significantly compared to the period between Q3 last year and Q1 this year. So turning profit and improving efficiency will be our top priority in the next few years.

Operator

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

Mingran Li

CICC, Research Division

Given the relative weak demand for consumer electronics, do we need to step further on more growth drivers? And also could you give us more details on the progress besides consumer electronics, like the commercial and industrial segments and the private cloud or anything else? Thanks.

Yao Liu

CFO & Director

In addition to the traditional smart consumer electronics, we believe there are new use cases we can capture and expand into. For example, first the voice control products in our IoT PaaS business. Take the central control screen as an example. It combines voice capabilities, display control, and other functions into one entrance-level product. The product can cover all the intelligent interaction needs in any given space, with a similar positioning as an App in a smartphone. The current market demand is quite strong for this product, mainly in commercial use cases such as hotels, commercial buildings, offices, etc. Additionally, there is still demand for home use for this product. However, no brand has been able to deploy high-quality IoT software capabilities to integrate the relevant ecosystems.

Our central control product line covers different industries and use cases, integrating third-party voice functions into our software capabilities to make the product more versatile. As such, we can provide developers with voice workstations to reduce configuration and development barriers. We also offer operational value-added services and other capabilities to enable customers to improve the stickiness of their products and boost their revenues. We have also developed a flagship version, a cost-effective version, and a strategic version for different types of customers. Geographically, we have different solutions under the U.S. and European standards to meet the needs of various customer groups. As one of the products from our software and hardware enhancement strategy, the revenue we generated from the voice capability product line grew by over 110% year over year in the first three quarters of this year and over 140% year over year in the third quarter.

The energy-saving and power products in our PaaS business can serve a wide range of commercial and industrial use cases that align with today's environmental and sustainable development concepts. During our overseas trip in the third quarter, we found that the demand for energy saving in Singapore, Southeast Asia, and other parts of the world is increasing quickly. There is a lack of cost-effective software and hardware solutions. Based on our experience in commercial lighting SaaS and property energy management, we have already developed replicable use cases of energy-saving products in the industry.

I will share a few examples. First, we have a hardware ecosystem based on WiFi and Bluetooth dual-model SoC solution covering high-current applications and flexible remote power distribution. With the solution, we have partnered with an A-share listed company engaged in new energy and special equipment. The partnership focuses on developing energy storage power and inverter solutions by leveraging the multi-power adaptive smart charging solution based on our Tuya Link Interface with extensive data functions, quantitative power generation revenue analysis, and proficient self-test and alarm capabilities and other core competencies.

On the software front, at the end of September, we released an energy-saving and low-carbon applet to streamline our value-added services. The release has paved the way for our future launch of energy-saving algorithms, reports, and other application capabilities. We are now in the process of testing the energy meter management systems for smart meters in property use cases. We have also launched our smart sensor management system, focusing on the sensor market and brand enterprises. Meanwhile, we have various new energy storage solutions under R&D. These hardware and software solutions not only serve the needs of a single customer in the industry but will also provide sufficient product support for various new energy projects. In addition, these solutions can also complement our energy private cloud services to customers such as China Gas Holdings. The energy-saving and power sector is massive, and we will leverage our own strengths to focus on our strategic point of entry to avoid over-expansion.

We have been expanding steadily in the private cloud sector, and signed up more major customers in the third quarter, including one of the largest telecom operators in Latin America. For our SAAS solutions, we have been focusing on the Chinese market for the past three years. Now we are expanding into 12 countries, including the UK, Spain, Italy, Germany, France, Canada, Singapore, Mexico, Brazil, and other countries. Our expansion will have regional distributors in each country providing integrated hardware and software solutions to serve local customers. Currently, we have signed national distribution agreements in several countries in Europe while negotiating with very capable distributors in almost all the other 12 countries we have circled. We will continue to expand in the electronic segment to navigate this high inflation period.

Operator

There are no additional questions at this time. I will now 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.