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Call Participants

EXECUTIVES

Regina Wang

Investor Relations Associate Director

Xueji (Jerry) Wang

Founder, CEO & Director

Yi (Alex) Yang

Co-Founder, CFO & Director

ANALYSTS

Yang Liu

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 first 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.

Briefly informed that today's conference is being recorded. I'll 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 first 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 will give his remarks in Chinese and English translation follows. Jerry, please.

Xueji Wang

Founder, CEO & Director

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

During the quarter, despite ongoing uncertainties in the external environment and disturbances from certain regional factors, the company delivered solid growth momentum and a strong execution capability. Benefiting from a continued recovery in downstream demand, our business scale has been expanding modestly since the fourth quarter.

Total revenue increased by 8.3% year over year, with growth momentum improving quarter-on-quarter and posting positive growth for multiple consecutive quarters. Gross margin remained at a healthy level, reflecting the continued enhancement of our product value proposition and platform competitiveness.

In terms of execution of our key strategies, we continue to advance our AI-driven development strategy. As we have mentioned earlier, AI is shifting from simple feature stacking towards deep integration with hardware devices and vertical industry scenarios.

It is gradually evolving from a mere conversational tool into an intelligent agent that interacts and operates in the physical world. This trend has been further validated by a richer portfolio of application offerings and customer scenarios in quarter one 2026.

At the same time, we are accelerating the transition of AI capabilities from the platform layer to application layer and the scenario-based products. With successful deployment across multiple real-world use cases, we keep upgrading our developer tools and platform capabilities, empowering global developers to access and apply cutting-edge AI technologies at lower cost and higher efficiency. The sustained growth in AI-related revenue also reflects steady progress across our commercialization efforts.

During the quarter, we introduced a range of applications aligned with this direction, including the AI-powered smart life assistant, Hey Tuya, and AI Security Guardian. The significance of these initiatives lies not only in single products, but in validating the capabilities of AI agents to move beyond handling digital tasks into physical world execution and device coordination. We are seeing AI gradually develop the ability to operate across both digital and physical worlds, marking a critical step forward in the real-world deployment of physical AI.

Looking ahead, we will further deepen our strategic focus on the following key areas. First, we will continue to advance AI-native application innovation, centering on high engagement categories such as smart toys. We will accelerate the penetration and large-scale adoption of AI capabilities in consumer scenarios, extending physical AI into a wider range of everyday use cases.

Second, we will scale the global rollout of proven AI solutions, particularly in the energy and green technology sectors. By bringing mature solutions to international markets, we aim to enhance our industry recognitions globally.

Third, we will continue to strengthen our developer ecosystem. Through open platforms and enhanced tool capabilities, we will lower the barriers to AI application development and work closely with industry partners to drive deeper exploration and the commercialization of AI technologies.

Now, let me turn the call over to our co-Founder and CFO, Alex Yang, for a closer look at 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 first 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 first quarter of 2026, we generated total revenue of approximately USD80.9 million, representing a year-over-year increase of around 8.3%. Despite ongoing uncertainties in external environment, the company maintained its steady growth trajectory. Our core platform business remained stable, while AI-related business continued to demonstrate a strong growth trend.

On profitability, our operating margin continued to improve. GAAP operating margin reached 9.2%, representing a significant year-over-year increase, while non-GAAP operating margin was 10%. Net margin further improved to 19.5%, reflecting continued optimization in operating efficiency and cost structure. Overall, the combination of improvements in revenue mix and disciplined expense management has driven sustained profitability gains.

Before going to segment details, we would like to note that we have adjusted the names of certain business segments this quarter. The former SaaS and Others segment has been renamed to AI application and others, reflecting our continued push forward AI-enabled software services and more applications, accurately capturing the transition from traditional cloud services to AI application services.

Meanwhile, the former Smart Solution segment has been renamed to Smart Home and Robot Products, highlighting our increased focus on AI-powered home products, household robotics, and scenario-driven AI-initial devices on the hardware side. We would like to emphasize that these changes are purely presentational and do not affect the revenue composition, recognition methods, or historical comparability of each segment.

Within our segments, the PaaS business generates revenue of USD59 million this quarter, representing a year-over-year increase of approximately 9.8%. As customer demand gradually recovered, we continue to drive steady growth in our core business through ongoing optimization of our customer mix and those capabilities. At the end of this first quarter, the number of PaaS premium customers reached 306, reflecting the stability of our core customer base and the structural resilience of the platform business.

The AI application and Others segments generated revenue of USD11.6 million in this quarter, representing a year-over-year increase of approximately 16.9%, continuing to outpace overall company growth. This growth was primarily driven by increased revenue from the cloud software services and AI application services, including AI cloud storage, energy management and storage, value-added services like SMS and voice services, as well as app OEM and SDK offerings.

This reflecting the continuous progress in commercialization of our AI applications. As more software products completed their AI-driven upgrades, this segment is gradually becoming a more growth-oriented and software service-centric component of our revenue mix.

The Smart Home and Robot Product segment generated revenue of USD10.2 million, representing a year-over-year decrease of approximately 6.9%. The fluctuation in this segment primarily reflects our proactive effort to phase out relatively low-value hardware products and optimize the product mix, and reallocate resources towards higher value-added, especially AI-initial hardware terminals. As the segment undergoes structural adjustments, we expect its long-term profitabilities and scalabilities to gradually improve with a higher mix of a higher value product.

From an operational perspective, several verticals this quarter have demonstrated structural opportunities driven by the integration of AI and smart hardware. Like in the Security segment, our smart door lock business achieved 73% year-over-year growth, driven by upgrades in the multi-modeling Wi-Fi solutions, video intercoms, as well as AI voices and vision capabilities.

PaaS revenue from Wi-Fi-enabled smart door locks increased 75% year-over-year growth. At the same time, the AI application revenues from the video-enabled locks increased substantially 500% year over year. This demonstrates that AI and multi-modeling capabilities are driving the traditional smart lock vertical to evolve from a standalone hardware model into a higher value business model of hardware plus software service plus AI capability combined.

In the energy sector, related PaaS products, including the EV chargers, metering plugs, and professional metering solutions, are emerging as new growth drivers. We are also continuous to advancing the higher value solutions such as AI-enabled display, gateway, and voice capabilities, providing a strong foundation for our customers' product upgrades and the future growth.

In the AI energy, demand in the European market for home energy management, energy storage, and AI-driven energy-saving solutions continue to grow. During this quarter, we made solid progress in advancing AI energy-related initiatives with key milestones achieved in the commercialization of energy storage and ecosystem accessories.

Our customers received the very positive feedback and secured multiple channel partnerships and orders at the exhibition such as Light + Building in Frankfurt and the Solar Solutions in the Netherlands. In the Singapore's HDB project, NILM capabilities, app panels, and deliveries are progressing on schedule. AI energy is gradually evolving towards a comprehensive solutions model integrating hardware bundles, software, and AI orchestration, plus channel operations.

From a regional and scenario perspective, Europe remains a key deployment market for energy and green technology solutions, with growing demand for AI energy, smart electrical systems, spatial intelligence applications, AI smartphone appliances, and AI safety and security protection.

In Asia Pacific region, the Singapore HDB projects continue to move through implementation and validation, while Southeast Asia and other emerging markets are beginning to generate opportunities in energy management, spatial intelligence, and SME scenarios as well. In China, AI-enabled smart door locks, AI toy, and AI home products, including AI companion, continue to attract strong customer interest, with some customers already advancing project upgrades and solution integrations.

On margins, our blended gross margin for this quarters was 46.9%, with a slight year-over-year fluctuation, primarily due to the change in the product mix and certain upstream cost variations. By segment, gross margin for PaaS was 46.1%. Gross margin for AI application and others was 71.7%, remain stable and reflecting the structural advantage of software and AI-driven business.

The gross margin for Smart Home and Robot Product was 23%, maintaining a level of above 20%. While advancing AI applications and high value, we continue to focus on the cost efficiency and product value.

Our expenses, we maintain disciplined cost management during the quarter, with total operating expenses, OpEx, of approximately USD30.4 million. While continually investing in core AI development and platform capability, improvements driven by AI and digitalized operations enable further operating leverage.

In terms of profitability, we recorded profit from operations of about USD7.5 million for this quarter. Non-GAAP profit from operations was approximately USD8.1 million.

Net profit reached USD15.8 million. The improvement was primarily driven by positive contribution from gross profit growth, as well as lower share-based compensation expenses.

Our cash flow, net operating cash flow remained positive during this quarter. At the end of this quarter, the company's total cash, cash equivalents, time deposits, and treasury securities amount to approximately USD1 billion plus. The strong cash positions provide solid support for our continuing investment in long-term AI capability development, our ability to navigate external uncertainties and opportunities, and our capacity to enhance shareholders' returns.

We will also prudently evaluate and pursue higher quality strategic investment opportunities. Overall, the company continued to deliver revenue growth and improved profitabilities amid a complex environment, while the accelerated development of AI application business is driving the ongoing evaluation of our revenue mix towards a higher value segment.

Next, I will briefly walk you through our progress in the AI developer ecosystem. Within our developer ecosystem during the first quarter, we continued to advance to the open source capabilities of TuyaOpen and further development on our AI agents. To better address the diverse needs of AI-native developers, we also launched our new offerings, including the ultra-lightweight Agent-Kit for the developers and the Vibe Coding powered by Tuya hardware applications. So the Vibe Coding will be able to help lower the bar for many new developers as well.

Those tools enable developers to build a wide range of AI-native hardware products in a more flexible and agile manner. We remain committed to lower the bar for AI hardware and application developments while enhancing flexibility and openness, allowing developers, brands, solution providers to accelerate the process from ideation and prototyping to product commercialization.

At the end of the first quarter of 2026, the number of registered AI developers on our platform exceeded 1.97 million, maintaining steady growth. At the same time, engagement within the TuyaOpen community continued to increase. Based on our current acquisition data, the TuyaOpen documentation platform has been accumulated over 340,000 views, with more than 16,000 community members. It has accumulated abundant open-source projects, resources, and launched a standardized demo cases library covering mainstream applications scenarios and development needs. TuyaOpen is gradually evolving from an open source framework into an open ecosystem infrastructure for AI hardware innovation.

From deployment perspective, AI capabilities are increasingly extending from the platform layer into a broader range of end device formats. Whether in AI-enabled door locks, energy management solutions, sensors, AI companion toys, or AI robots, they all reflect the same underlying trend. AI is evolving from isolated functions towards deep integration with the devices, scenarios, and user needs. This is fully aligned with our previously articulated vision of physical AI, enabling AI to engage in real-world environments and actively participate in sensing, decision-making and execution in real life.

In summary, our first quarter performance further validates the commercial viability of our AI strategy. Our core PaaS business continues to provide a solid growth foundation, while the deep integration of AI application services with physical hardware is emerging as a new driver for the value creation. At the same time, we have achieved meaningful progress in deploying AI solutions across high-value scenarios such as energy, entertainment, and security.

Looking ahead, we will remain focused on two key priorities: physical AI scenarios and higher value-added AI products. While maintaining financial discipline, we will accelerate the transition of AI technology from a tool-level capability to products with tangible commercial value, creating sustainable long-term returns to our shareholders.

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

Thank you for the opportunity to ask questions, and congratulations on the solid result. I would like to ask about the value chain, because a lot of the sectors are suffering from the chipsets shortage globally. Could management update us in terms of Tuya's situation in value chain, especially the chipsets sourcing? And also update us on the pricing strategy, if there's any shortage or constraint from the value chain, and how to pass through the inflationary cost to the downstream. Thank you.

Yi (Alex) Yang

Co-Founder, CFO & Director

Thank you, Liu. We already noticed those kind of fluctuations around one and a half quarters ago. So that's why we give a heads up of that type of trends around end of last year. The things we're doing is, the first one is that, considering of large buyers of some of the major chips that in the industry we are, and so the fluctuations we maintain as limited as we could because of the bargaining power.

In the same time that for those costs that inevitably will have to increase, we'll pass through those costs to the downstream side. That would be the basic idea and how we've been doing. You can notice that there are several reactions where we've been doing.

The first one is that, in Q1, we're really do some strategic purchasing before any cost change. You can notice that in our balance sheet that our inventory increased slightly. That majorly is kind of the procurement, we do that before the cost increased. That reflected to my inventory level, and including my net cash as well. That's the first one. So we try to use larger inventories to buy more times to working through the fluctuations.

The second one is that you already noticed that, especially on the PaaS side, so the change or those kind of difference of the gross margin of PaaS reflects that we're really starting to pass through the cost. But we didn't add the margin on the cost change because we don't want to bring more burden for my downstream side. So that reduced slightly on my gross margin on the PaaS as well.

We'll continue to keep focused on that and to working along with my customers and through those fluctuations. So no matter using our scalabilities to manage the cost difference at the least level as we could, in the same time that we're using our inventories to try to bring more balance coming through with that.

So that would be the basic idea there. But we found that the shortage and the density of the momentum continued to increase in Q2, in the beginning of Q2.

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

Thank you, management, for taking my question, and congrats on the solid results. I think my question is on the revenue front. I noticed that this quarter you achieved a pretty solid sequential acceleration on the revenue growth. However, given the very dynamic geopolitical and the macro environment globally right now, I was wondering what is your latest thoughts on the demand outlook and revenue growth outlook for the rest of this year? And what measures have you taken to stabilize or further boost the demand?

And my second question is, I noticed, as you mentioned, you changed the reporting line or changed the reporting name of the two of the segments that you report. Could you further elaborate on the rationale behind and specifically on AI applications and on robotic products? Just wondering if you can share more color on your plan regarding these two specific sub-segments. Thank you.

Yi (Alex) Yang

Co-Founder, CFO & Director

Okay. Yes, thank you for that. First one, on the market environment, we already noticed that, as we share the colors when we released our Q4 results, we found that while the international trading environment becomes stable after the November of last year, so the momentum is starting to recover, and the customer is starting to return to a growing plan on the business side.

So it's not that conservative. Starting from December, we already see that they're starting to recover. It's not overnight, so they're doing that gradually. Even though in March we'll know that there will be a new fluctuation coming home. But overall speaking, the downstream side is recovering. But we have to break down into different sectors.

So what we see here is that, like the appliances, like the energy, like the innovative devices, including the securities or the locks, we found that the growth momentums are more positive and almost for sure. Because no matter is that we found a more solid demand or pinpoint on the user side, or those sectors, those companies are doing a better.

But in some other sectors, like the lightings, we don't see significant recovery. It's kind of the still doing in what we call is into evaluating stage on the lighting side. Some sectors that those chipset cost variations, not from our side, but from their own side, like the cameras or like some control panels with a screen.

So the memory chip cost variations will bring a more significant cost difference for the finished part for the device side. The factories and the brands, they can do less to change that direction. So that price increase might be significant for them. Like the camera for business, the entry-level cameras, usually the FOB price or the retail price will be like \$20, and FOB will be below \$10.

But during those kind of memory chip and the amount chip increase, we've noticed that the FOB price might be able to hit above \$15, which mean that the retail price have to increased around to \$35. So that significant increase on the retail price side might influence the consumer's buying decision. So we already notice some sectors might be more sensitive or be more impacted more on the cost increase., some will be more resilient. So that will be on the product sector side.

On the region side, so combined with that is, that still for the energy that Europe and Southeast Asia is a strong demand for, including Australia, is a very strong demand for the energy management solution. Especially in this year, while people are starting to notice that the energy become more and more crucial and on the cost sustainability side. So they have more willing to pre-invest on any energy efficiency, so for that part.

But for some other regions, like the Latin America, they are more price sensitive. Like I mentioned, that some sectors like the cameras for this market, consider that they have a lower buying power based on the macroeconomy in that region. So for them, some sectors will meet some challenge out there.

So for us, is that still that we're trying to use our very comprehensive hardware category mix and combined with a multi-region mix to going against different type of fluctuations. We're always looking for opportunity in some regions to balance the seesaw on the other side. So that's overall for the macro environment.

And the second one is for the AI transition. No matter is the AI application or the Home and Robot Products, both sides that we're looking for, to give the market the signal, is that we're doing so hard to reallocate our resources since 2023 that to transit our previous, we'll call it, the first version of smart devices offering into the AI initial offering.

So starting from the end of 2023, we really upgrade our entire platform architectures into large language model agnostic, which mean that since end of 2023 and all those decision-making on the platform side for the device and the software applications can be based on the different large language model or the mainstream one.

And in May of 2024, we already launch our hardware agent platform that enable our customer to design an agent on top of the devices. So, make the devices be more smart and doing some things autonomously, but even no customers understand what it is, what is the agent.

In last year, we launched our new AI platform as a new AI foundation that, including the multi-modelling offerings, including the open-source projects, to open some new doors for the new innovative ideas for those customers, and then give them a bridge, giving a path at how they can combine technology into innovative ideas and make it come true.

And in April, in our new developer summit, we launched our new offerings, including the Agent-Kit that allows the hardware designers to do things more freely and including our Vibe Coding and tools, that right now they can design any software, including the apps, including the firmware on the hardware side, including the cloud services, they can do that all through Vibe Coding.

So all the things we're doing is to show that we are kind of initial in AI user and AI enabler. And so for that thing, we're starting to upgrade our offering in those two segments. So take the AI application, for example. We're really starting to provide that for all the AI cloud storage on the camera side that right now come with AI capability.

So customer will be able to customize the event. So it's not just a dummy detect any movement on the picture and give you the alarm. You can find that you get so many false alarm, then you have to turn down the notification. Because the camera cannot tell whether it's something you should pay attention to or not. Like the delivery boys come by, that anyone come from your door that you get alarm.

So starting from there that you can build an event. So if it's a package, so don't give me notification. If someone stays at my front door, like over 10 minutes a day, I notice. If someone showed up every day and seems like very suspicious, give me a notice. So people start to be able to create their own event and then have the camera to watch out for them. So that things will be provide significant more values and killing more annoying pain points for the end user side.

So that kind of seamless upgrade on those kind of offerings. It's a natural upgrade from our previous SaaS offering. So we think that right now, we're starting to provide more and more AI capabilities seamlessly to the previous SaaS. And then we show that normal users start to subscribe that services, because of the AI offering, and then we're doing the upgrade on the AI applications. And no matter the scale, it's an agent, or it's a purely services on the recurring model.

And for the home products and robotics, so some scenarios including like the companion, that's when we're offering the AI toy. For some customers, they have their own brands, they have their own very good toy design capabilities and the channel distributions, but they don't have the capability to design things from scratch, especially if they don't know anything about coding, they don't know anything about the circuit boards, about the microphone array design.

So for some of that part, we're starting to offer them the entire solution. And through that, we'll put more focus not on some, what we call is the first generation of smart devices. We're trying to focus more on the AI, what we call, AI-initial devices, so like the toy. They need the multi-modelling capability. They need the very huge noise cancelling and the microphone array designation. They need the string projection technologies to reflect different type of reactions from the toy side.

So for that part, that's how we allocated the resources since last year. And so right now for this segment, the directions is that we guide the entire department to put focus on all those kind of AI-enabled and AI-initial devices. And usually, those devices will come naturally with AI, not only the AI feature, but combined with larger opportunity for the AI application business.

That's how we driving force to that. So not a kind of connected devices segment anymore. It's become a more AI-initial offering for those customers by helping through that. Yeah. So that would be the typical use cases.

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, and I have two questions. First one is on computation. Following the emergence of agents. On-device agent deployment has become an industry trend. Could you share how has the competitive landscape evolved in Q1, and how do you view Tuya's advantage in this field?

And my second question is on R&D. Could you share how is the company applying AI tools like agent coding tools in internal R&D, and what's the potential impact on margin and profitability? Thank you.

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

So the first one, I already covered some of the parts in the market environment side. So as we see here is two things: the first one is since the customer is trying to kind of escape from over conservative momentum in last years. They're starting to get back into the growth path. So what we're doing is that we just identify the right roadmap along with them and to fulfill that and help them to providing a better products, better offerings on their shelf, on their own channels, and to catch the customers, catch their own end users, I mean.

In the same time, we really see that end user's stickiness on AI are growing very healthily. So which means that more and more users are trying whatever AI features and AI offerings. And I believe that it's not that significant right now, but in the near future, and the consumers, when they're sourcing the smart devices. AI features or what type of AI features will be kind of the key differentiations or key factors for them to make the decision.

So we are very happy to see that since second half of last year, that our penetration among my ecosystem to integrate AI capabilities we offer to their new products design and become significant and proved. So that will help us capture the trend. That's for this part.

So what we see is that we will always be kind of the early adapter and to notice the trend for the industry maybe two or three quarters ahead is that, because I can see that what type of technology my customer is trying to pre-study, starting to try, and when they starting to implement that into the new product roadmap and produce that.

So what we see is that, last year, consider as a early education for the entire industry, or in most of the sectors we cover, that to give them type of the right educational coach, that AI will be considered as the next generation of key differentiations for any new things they built and to the market. They need to try that or need to try to understand and to learn that. Starting from the second half of last year, that the customers, majority of the new products or the new projects that they kicked off, they try that.

And so then the new products they start to offer maybe at the end of the last year or at the second half of this year. Bring that into market, going through a long procedure into the development, manufacturing, logistics, and to the end of design. So that's what we see here. It will be a very positive trend.

On the second part is for the AI usage. I'd like to share some things. First one is that, at the end of last year, the front end, which means that those ones design the UI user interface and the UX user experience, using most of our R&D set overall. And at the end of last year, around 40% of the codes we design for UI side are doing through AI. That's the first one.

And we're improving that as well, considering that in this year, in this Q1, that the AI coding capability improved a lot, so we found that we can use more AI to do more terminals, including the Agent-Kit I mentioned for the hardware designers. The Agent-Kit, a significant part of that is doing by AI. And while we open that kit, we also combine with the Vibe Coding tool for that kit as well. And which mean that not us design the kit for AI, the customer will be do that through the Vibe Coding more freely as well, and very quickly to turn that into a hardware prototype.

In the same time, the AI usage is not only used for the R&D. So all our departments, including the financial, including the human resources, including the legal department, we're using heavily through AI, so no matter it's improving our efficiencies on some office processing, office work processing, but also including the data analytics, the BI and decision makings, et cetera.

We consider that AI to improve the efficiency in two parts. The first one is that to release some of my labors to focus more on higher value works. That's the first one. And the second one is that even on the coding side, on the development side, that is to enlarge our capacity that to meet the future demand growth.

Because we already noticed that while more and more AI-initial developer coming in, that trend is very good one. In this year, we noticed more and more new developers that not come from the hardware industry. Which mean that people trying to identify that the AI capability might be a new opportunity for new team to engage in the new smart devices business sectors that only come in a new idea and something that didn't happen in the hardware world before.

So special one is like the toy companion ones that many of my very fast-growing customers in the toy sectors, they are not toy players out there. And right now we'll see, including some of the youth market, like they do the batch, is animation batch, is the focus on the cartoon. Those batch players, they don't have that business before, so that type of industry breakthrough or crossover players. They rely more on the AI capability usage themselves, and also they are more come with the AI-initial ideas or native ideas.

Not only to reduce the cost, but also use the same level of cost to improve the capacities to capture those demands. That's where we'll have more priority to check out too. Like I mentioned that, the net cash flow considered as a strategy for the company, not only for the future competition, but also for the future opportunity. And I think that's even more important is that, the industry is growing faster, and some breakthrough happen, especially like the crossover happened, we'll not hesitate to increase the investment to capture those demands.

So I think that will be the overall momentum. And how we use AI, and we empower customer with AI. What we see is that, we need to be a very powerful AI user, and until then, we'll be able to empower customers.

Operator

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

Matt Ma

Jefferies, Analyst

Hey, good morning, management. Thank you for taking my question. I have two questions. The number one is on the Smart Home and Robot Product segment. I would like to know how do we think about the growth trajectory of this segment in 2026? Should we expect a growth recovery in the coming quarters?

And my second question is on the AI application segment. We are seeing that the growth margin of this segment has declined by 2.7 percentage points year over year in the first quarter. Are there any specific reasons behind that? That's all. Thank you.

Yi (Alex) Yang

Co-Founder, CFO & Director

So the first one is for the Smart Home and Robot Product that we're looking for to have a recovery in the coming quarter or in the coming two quarters. Because it's a structural change, we have to make the hard decisions. You can see that even to maintain the revenue and the gross profit growth, but in the same time, we cut off some of the production. Even we got the orders, we decided we're not to do that anymore because we don't like the model out there for the long term.

So there is a structural hard decision. Even we'll make some not that good numbers, we're looking to speed up to catch it up. So we're having a new offerings starting to taking places in Q2, and we're looking for to capture on orders and to deliver that to make it up.

So either it's end of the Q2 or it's Q3, we're looking for to get that recovery. That's the first one for the Home and Robot Product.

And for the AI applications, yes, we found a seasonal difference. It's very interesting that we found that the key part is that the AI applications is relying on the usage of the end users, based on the devices that are running. And the typical things that we found that maybe is that in the Q1, the usage is always kind of the lower seasons for the entire year. So that's why the usage is kind of low, so the service-based revenue is become lower for us.

Maybe one reason is that, the Q1, many of the users, kind of the new users will have the new devices for the Christmas, for the holiday season promotions, and while they start to try the products, usually they're combined with some of the vacations, the usage start to dropped. So we're looking for to see that the natural recovery and on the usage side will start to taking places on Q2.

So that will be the stuff. It's kind of very interesting one.

Operator

Thank you for the question. I'll now hand the call back to 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 Tuya's IR team. Goodbye and see you next quarter.

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