

Table of Contents

Call Participants	2
Presentation	3
Question and Answer	8

Call Participants

EXECUTIVES

Reg Chai

Investor Relations Associate Director

Xueji Wang

Founder, CEO & Director

Yao Liu

CFO & Director

ANALYSTS

John Wang

Goldman Sachs, Research Division

Yang Liu

Morgan Stanley, Research Division

Hongjie 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 First 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 first quarter 2022 earnings call. Joining us today are founder and CEO of Tuya, Mr. Jerry Wang and our CFO, Ms. Jessie Liu. The first 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. First, I'd like to report our first quarter performance in 2022.

Our revenue reached \$55.3 million in the first quarter, exceeding the high-end of our previous guidance range. Revenue represented a year-over-year decrease of 2.7% compared to the first quarter of 2021, where we saw rapid growth across the industry. Our IoT PaaS business revenue decreased year over year to \$41.8 million in the first quarter. Consumer discretionary spending was adversely impacted by high inflation, and the Russian-Ukrainian conflict that started in first quarter further exacerbated global inflation. In this environment, we observe that IoT brands have become very conservative. On the other hand, our 2B-based SaaS and others segment maintained its strong growth momentum for the 5th consecutive quarter, with revenue reaching \$5.8 million, representing a year-on-year increase of 146.7%. This performance was driven by our consistent effort to offer targeted solutions to address the critical issues of our enterprise customers by leveraging our strong product functions and the Tuya device ecosystem. In addition, since our smart private cloud product, Cube solution, was launched in last November and officially released in early this year, it has achieved important breakthroughs with new customers in the first half of this year.

On the customer front, as we continued to iterate our products and services, our total number of customers increased by 29% from the same period last year to approximately 3,900 in the first quarter. IoT PaaS premium customers with revenue contributions of more than \$100,000 during the past 12 months increased from 216 as of March 2021 to 303 as of March 2022. Our ability to maintain a large-scale customer base enabled us to leverage our platform's economies of scale and improve the network effects between our businesses as well as our customers. In addition, the diversity of customers also helps reduce external risks in an increasingly uncertain macro environment. While some downstream brands are slowing down their sales and production plans, others are increasing their purchases. For example, the deployments of an established Canadian smart home brand with business across over 100 countries and regions reached millions the first quarter, 6 times more than what they ordered in the same period of last year.

Moving on to gross profit margin. In the first quarter, both our overall gross profit margin and IoT PaaS gross margin improved slightly year-over-year to 41.2% and 42.3%, respectively, remaining relatively steady compared to the same period of last year and the previous quarter.

Now, let me share specific progress of our business in the first quarter.

During the past 12 months ended March 31, 2022, the DBNER rate of our IoT PaaS business segment was 122%, remaining at the top of the Cloud PaaS and SaaS industry. We garnered nearly 500 new customers for our IoT PaaS business, growing the total number of our IoT PaaS customers by 21% year over year.

In this Q1, we continued to attract and acquire reputable new companies across the globe as customers of our IoT PaaS business through our Tuya Plus Strategy. In Europe, for example, we officially started a partnership with a German supermarket giant with business worldwide that has been one of the Fortune Global 500 for many years. We collaborated with its self-operated brand in the electrician lighting field. Another customer is a leading Dutch brand – Smartwares - with products sold all over the world. This Dutch customer entirely shifted from its own IoT platform to the Tuya platform, which will enable them to achieve breakthroughs in all their product categories, starting from home appliances and sensors. In the Czech Republic, EMOS, a dominant local tools & hardware brand also started a partnership with us and now have more than 30 SKUs in the pipeline already.

In Asia, we enabled Korea's top 3 smart home brand and listed company, KOCOM, to implement visual capabilities into its doorbell products. We also launched joint efforts with one of Japan's leading furniture retailer and listed company to explore new business opportunities in the field of home appliances. We are also in the process of helping India's well-known emerging consumer electronics brand "boAt" to expand into TWS Bluetooth headsets and IoT consumer electronics products, including smart glasses in the future. Given the current macro environment, light smart Bluetooth products will be a key strategic focus in 2022.

In South America and other regions, notable new customers included Macroled, a leading brand in Argentina that focuses on offline product distribution and has more than 1,000 partners covering the entire South America continent. Macroled became a strategic customer of the Tuya Star Volunteer Program. In North America, a listed company and market leader in the R&D and production of RVs, pickup trucks, yachts, and spare parts confirmed their partnership with us in the first quarter to build a smart RV ecosystem. We also further expanded our customer base in North America with a leading audio and video solutions and accessories brand, a leading residential irrigation equipment brand, a leading environmental appliances, health and personal care brand, and many others. These new customers' business scopes cover everything from personal entertainment to environment, outdoor and others.

Domestically, the resurgence of COVID after the holiday season in the second half of the first quarter substantially limited all business activities in China. However, our outdoor business line, which has been one of our key product categories, still acquired multiple customers with immense business potential. These customers included a leading vehicle information system developer and the undisputed leader of domestic helmet products, YEMA Helmets, and a leader in the portable and home energy storage industry. In addition, we launched the "100 days for 100 brands" plan to penetrate Chinese e-commerce IoT brands before the Spring Festival this year and successfully acquired more than 100 targeted customers by the end of April.

The addition of these new customers from all over the world further boosted our core customer base. The breadth and expertise of their products and services also serve to illustrate strong competitiveness of our platform in the global intellectualization market. The quality of our customer base will enable us to strengthen the core of our business during this market downturn for smart consumer electronics. The foundation we have set fills us with hope and excitement for the opportunities that will come when the industry eventually recovers.

In the first quarter, we continued to diversify our business and our IoT PaaS product categories are increasingly balanced. In terms of revenue contribution, electric lighting accounted for about 40%, consumer IPC and sensors accounted for about 25%, household appliances, kitchen appliances, pets and other small appliances accounted for about 20%, and other emerging categories accounted for

more than 15%. Among them, the electrical and lighting categories, which constitute a significant portion of our revenues, have been largely affected by inflation, recording a year-over-year decrease. This decrease was mainly because consumer-grade electrical and lighting products are price-sensitive products usually sold in large quantities. Smart products typically sell for approximately 3 times the price of traditional products. As a result, consumers tend to shift their purchasing needs to conventional products and will sacrifice smart functions or delay the purchase of smart products to save money. This market shift was especially notable in Europe and America. In other categories, we observed that smart IPC and security sensor products, which have relatively high IoT penetration rates, are in strong demand. This is driven by the unique characteristics of consumer IPC and sensor products where IoT functions are necessary to maximize security. Meanwhile, household appliances with little price gap between IoT and traditional products, maintained solid year-over-year growth momentum.

Next, I will share some updates on our SaaS and others segment. This segment continued its robust performance in the first quarter, with revenue increasing 147% year over year to \$5.8 million.

First, in commercial lighting, our Premium SaaS solutions were adopted by China Construction Development Corporation, which has been ranked among the Fortune Global 500 for five consecutive years, for its street lighting projects in Xiamen. Mexican industrial lighting brand Dimas Lighting also leveraged our software capabilities to complete the construction of its intelligent platform for commercial lighting and implemented several industrial lighting projects. A top 3 lighting brand in the world also expanded our partnership into its lighting business in its Korea business segment. The customer utilized our commercial lighting SaaS solution to improve its smart lighting capabilities and will leverage smart lighting products developed on the Tuya platform. This is a prime example of how our SaaS and PaaS businesses complement each other in our ecosystem. Turning to the progress of our hotel & apartment SaaS sector, we recently launched a strategic partnership with Alipay in China. Internationally, the leading hotel system integrator in Malaysia, Coresystem technologies, is using Tuya's hotel SaaS solution to land the first smart hotel in Malaysia. Additionally, the smart products arm of a world famous Fortune 500 group is cooperating with us to use our hotel rental SaaS and platform SDK capabilities for overseas hotel rental operations. As the pandemic is being brought under control in Q2, our hotel SaaS solution has received a number of orders from Europe and Southeast Asia.

For value-added services, the strong momentum of our consumer paid cloud storage services carried through into the first quarter, with revenue growing over 200% year over year. The number of active devices with paid cloud storage services by the end of the first quarter of 2022 also doubled from the same time last year.

Finally, let's talk about this year's core strategy, our smart private cloud product – Cube solution. In the first half of 2022, we have made substantial progress in our private cloud business. After thorough evaluation, analysis and inspection, several leading customers in different countries and industries have recognized our private cloud solution.

For example, Telkom Indonesia, the largest telecom operator in Indonesia with service coverage of over 55% of all Indonesia households and hundreds of millions of registered users will use our Cube solution to tap into the strong consumer spending power of consumers in its network to accelerate the development of its Indonesian smart home appliance market. Our goal in such collaborations is to become its long-term partner in three ways: first, private cloud platform software deployment; second, PBT ecological smart device interconnection; and finally, additional recurring value-added services for the end-users. In China, a China leading utility giant is establishing a long-term cooperation agreement with Tuya to build its own IoT intelligent platform in stages. Our Cube solution will help customers complete their deployment of IoT private cloud platforms and build their IoT platform capabilities. Cube can also support customers with security software capabilities to help address the energy consumption security issues for thousands of households. These qualities also helped us attract industry leaders, such as one of the China's top 5 two-wheeled and three-wheeled electric vehicles developer, to our Cube solution.

So far, we are getting positive feedback from our customers that they choose our products and trust us because of our product innovation of technology covering cloud, edge and application, and the scale effect of the integrated software and hardware products based on our deep cultivation in the intellectualization field for more than 7 years, as well as our rich PBT device ecology through a

long-term accumulation in the years. We believe in our ability to capture long-term opportunities in a market with strong demand for smart private cloud solutions.

Overall, the first quarter was full of challenges. Economic and other disruptions that started in the second part of 2021 intensified in the first quarter. Exacerbated by the Ukraine war, global inflation is running high and is not expected to improve in the second quarter. While we remain cognizant of these major challenges to our IoT PaaS business, we will explore additional growth drivers through our smart private cloud and smart industrial SaaS segments.

On profitability, in this quarter we focused on the optimization of our organizational structure efficiency as we aim to better balance our business growth and timeline to profitability, and were also improving our management efficiency simultaneously, which will sustain our long-term prospects.

That concludes my remarks. I will now turn the call over to Jessie, our CFO, to review the financial details.

Yao Liu

CFO & Director

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

As Jerry just mentioned, we are facing a series of unprecedented challenges. Nonetheless, our total revenue in the first quarter exceeded our previous expected guidance range.

Now I will provide a closer look into our financial results. For the first quarter of 2022, our total revenue was 55.3 million, down 2.7% year over year. The decline was driven by a 16.1% year-over-year decrease in our IoT PaaS revenue, which reduced to 41.8 million for the quarter, impacted by factors Jerry mentioned earlier.

If we look into the ultimate demand contributions to our revenue across the globe, which represents our estimate based on various business information from and regarding our customers, we did experience a slowdown in the U.S. and Europe, but we were able to deliver growth in China, Latin America, Southeast Asia and other Asian regions.

Moving on to our customer base. We had 303 Premium IoT PaaS customers for the trailing 12 months ended March 31, 2022, up 40.3% from 216 a year ago. During the quarter, premium customers accounted for approximately 85.6% of our IoT PaaS revenue, forming a solid customer foundation for our business. Our dollar-based net expansion rate for IoT PaaS segment maintained at a healthy level of 122% for the trailing 12 months ended March 31, 2022. Our DBNER demonstrated our ability to continue to expand customers' usage of the Tuya platform over time and generate revenue growth from existing customers.

On the other hand, as Jerry mentioned, we delivered a satisfactory performance in acquiring new customers with exciting business potentials. This is a direct result of the targeted customer acquisition strategies we have adopted. For example, in the first quarter, we still made decisive efforts in the Chinese market by launching the "100 days for 100 brands" plan, under which we obtained more than 100 China brand customers in various segments within 100 days. Among these customers who inked agreements with us, about 40% were customers in small and large household appliances, kitchen appliances and pet appliances, 40% were electrical and lighting related brand customers, and the rest 20% were customers in emerging verticals, including personal healthcare, home decoration, home safety, outdoor, automotive products, and other fields. We believe that our cooperation with these benchmark brands across different verticals, such as, according to the public industry ranking, one of the top 3 baby-care brands in the Chinese market, one of the leading brands in the vertical category of electric tools, one of the top 10 brands of bathroom heater switches, and one of the top 10 brands of screen lights, etc., will further complement us and enrich our ecosystem in the China market.

Our overall gross margin and IoT PaaS gross margin for the quarter remained stable at 41.2% and 42.3%, respectively, as we effectively implemented a series of initiatives to improve our business management efficiency.

Now, turning to our operating 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 greater clarity on the trends of our actual operating-based expenses, so that you can review performance in the same way as our management.

During the quarter, our non-GAAP total operating expenses were 60.6 million. Specifically, non-GAAP R&D expenses grew to 43.5 million, non-GAAP sales and marketing expenses increased to 13.6 million, non-GAAP G&A expenses increased 6.2 million, and other operating income, net, was 2.6 million compared to 2.5 million a year ago. The increase in the non-GAAP total operating expenses was mainly due to the increase in employee-related costs, for example, our average salaried R&D employee headcount increased by approximately 30% in this quarter versus a year ago. It is worth pointing out that we are actively optimizing our operational structures and have already reduced the average number of our R&D headcount by approximately 10% in the first quarter from highest point. As we carry through these optimization efforts, our headcount is now decreasing to an even lower level.

Our non-GAAP loss from operations was 37.8 million in the first quarter, representing 68.4% of total revenue, and our non-GAAP net loss was 37.3 million in the first quarter, representing 67.4% of total revenue.

In fact, with increasing uncertainties in the macro-economic environment, we are pivoting away from topline growth towards balanced efficiency, profitability, and sustainability. As part of our efficiency-first strategy, not only have we refined our team structure, we are also reducing our office lease by toning down our office plans to match our current growth trajectory. In addition, we continued to implement measures that help boost the efficiencies of our staff. For example, in our IoT PaaS and smart device distribution business, a small percentage of large orders contribute to the majority of our revenues while the rest are mostly small and scattered purchases. Since the man-hour and other related cost needed to process each order, regardless of its size, is usually similar, our teams are now bundling groups of smaller orders to reduce such costs. While the positive impacts of these optimization initiatives on our financial statements may not be evident immediately as it is offset by the substantial one-off costs occurred in terms of these initiatives, our refined cost and expenses structures will enable us to spend our money on what matters the most. In the first quarter, specifically, if we excluded those one-off expenses related to the compensations paid to employees due to team restructuring, rental penalties and restoration costs, our non-GAAP operating margin and net margin would have increased about 5%.

Moving on to the balance sheet. As of March 31, 2022, our cash, cash equivalents, and short-term investments were 984.2 million. We believe this balance is sufficient to meet our current liquidity and working capital needs in the long run.

Finally, turning to our share repurchase program. During the first quarter, we repurchased approximately 4.9 million ADSs from the open market for a total consideration of approximately 25.0 million pursuant to the share repurchase program, representing around 12.5% of the 200 million authorization announced pursuant to the share repurchase program. This shows our strong confidence in the Company's long-term growth prospects.

Now turning to outlook, for the second quarter of 2022, we expect total revenue to be in the range of \$60 million to \$65 million. As you can see, the market in the second quarter to date is still full of uncertainties, and the factors leading to the industry-wide challenges everyone is facing have not significantly improved. In terms of economy, last Friday, the CPI of the United States increased by 8.6% year-on-year, hitting a new high since 1981, representing a very high level of inflations; turning to geopolitics, the war between Russia and Ukraine continues; regarding the COVID epidemic in China, April and May were the most challenging months; and the inventory backlog experienced throughout the supply chain, including OEMs, brands and retail channels, have hindered these players from placing orders to upstream. These factors affected our sales and business activities, as well as the customer's acceptance of our products and services, and their implementation of smart industry projects through our SaaS and PBT devices. In general, the second quarter of 2022 will undoubtedly remain difficult. As a response, we will remain cautionary, and continue to move forward by firmly implementing the aforementioned measures and strategies.

This concludes our prepared remarks for today. Operator, we are now ready to take questions. Thank you.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Goldman Sachs. Please go ahead.

John Wang

Goldman Sachs

Good morning. Thanks, Jerry and Jesse, for giving me the chance to ask a question here. My question is that while we face challenging environments in the EU and US market, can management share some colours on the progress of our China business and what type of demands are emerging in China market? What type of clients are we focusing on? Can we have more meaningful progress in the next couple of quarters? Are we expecting a higher or lower margin in the China market in the near to medium-term? Thanks.

Yao Liu

CFO & Director

Let me take this question. China market is vast and the scale of each of our business is still small. Therefore, we're expanding a few of our business to grow quickly and to grow the revenue contribution from China, including PaaS, SaaS, and the Tuya Cube, our new strategic private cloud product.

Regarding PaaS, we're aggressively developing clients in electronic device brands, just as Jerry has discussed. And for the SaaS business, since the end of 2019, we have started SaaS business in hotel, property and community, and commercial lighting in China. Each of them has gained top 3 market positions by now in China, and is still gaining share. For example, we've formed strategic partnership with Alipay in hotel SaaS business in the first half of this year, to build up hotel-centric digital commercial ecosystems for thousands of hotels covered by Tuya's SaaS network. This partnership will enable us to quickly integrate business resources to provide 24/7, customized, quality and diversified digital services nearby for the guests that stay at their hotels, which will be converted into revenues.

Commercial lighting SaaS has launched many energy-saving use cases in China this year and are widely recognized very positively, including implemented in gas station, factories, communities, group lights in city centers, large-scale parking lots, et cetera. And our community SaaS supported quite a few cities in China to transit to smart residential community for the future generations this year.

We are also very excited that we have seen breakthrough of our Tuya private cloud, Tuya Cube product in China. We announced it last November. We have signed a contract with a number of industry-leading players in China for this new strategic product, including leading telecom operators, leading utility companies and auto group. And with a few other large enterprise in the process of signing contract, such as leading energy companies.

And these private cloud clients told us the reason they selected us for majorly four reasons. First, Tuya's IoT cloud connected hundreds of millions devices on global basis, with 8 years track record for safety and reliability. Second, our technology system most comprehensive that can provide a full service coverage IoT cloud, IoT OS, app and SaaS. And thirdly, our hardware ecosystem is unparalleled. And number four, our deep focus being IoT. So, we have a strong belief in China market and we believe China market has huge potential for IoT.

For the new strategic Tuya Cube product, the revenue contribution will start to reflect in Q3. In Q1 and Q2, we mainly sign up new customers and start the deployment of the private cloud and the recognition of the revenue will start in Q3. So, that's the answer for your question. Thank you.

Operator

Thank you. Our next question comes from Morgan Stanley. Please go ahead.

Yang Liu

Morgan Stanley

Thanks for the opportunity. I have two questions here. The first one is could management update us in term of the negative impact from the lockdown in China, whether Tuya and Tuya's customer, especially the OEM located in Yangtze River Delta has fully recovered after reopening? Or if not, what is the current status and the forward to recovery trajectory going to next few months?

The second question is could management update us in term of the overseas consumer electronics device-related demand outlook going to the second half? Assuming the – I think management mentioned, assuming the CPI will continue to be high? But what about the volume and the shipment growth or early colour from your customers in term of the second-half demand from overseas side? Thank you.

Yao Liu

CFO & Director

Thank you, Liu Yang. For the first question, we saw the most impact, our business activities in China happened in end of March, April and May, including customer acquisition efforts have been significantly slowed down and especially deliver our SaaS solutions which require the customer to be satisfied with the result, give us a paper confirmation, that was delayed as well. And also some of the customer acquisition of PaaS business and the private cloud business was also affected. And the sales performance of our brand customer in China was also slowed down in that two months.

However, we do see a recovery in June. So, it looks like right now all cities are restarting their normal business economy, the consumption is recovering soon. So, we saw the overall trend in China is improving and be positive. And at the same time, because Europe and US had inflation challenges too, so to address that this year we have been very focused on the cost control. We have realigned our business to focus resources on key business segment and pause the segment which require long-term investment, or the specific market size are not too big. And second, we refined our team structure and focus on improve organizational efficiency. And thirdly, to improve our PaaS long-tail business model, to more focus on large customers and the large contracts. We tiered our customers based on their revenue contribution and the potential. We also tiered our orders to adjust expenses for small orders, which led customer to combine into large orders to significantly improve our efficiency.

For the second questions regarding the overseas demands for the customers, from geographically, inflation has been moved higher by Russia and Ukraine war, and that impacted Europe and the US a lot. The purchasing power were weakened, so the consumer more forced to prioritize food and the daily necessities. However, India, Latin America, Southeast Asia, and other regions seems relatively better situation. So accordingly, we have observed a healthy growth trend for brands and markets in those regions. So, we think this is also the case for the consumer demand.

In terms of product categories, consumer electronics and lighting categories in the oversea market was impacted most by the inflation. And the price gap between IoT products and their traditional counterparts is large, especially in lighting and electrical product segments. In addition, purchase in this category often come to in large quantities, further magnifying the price gap. So, as a result, in like lighting and electrical segments, consumers tend to prioritize traditional products over IoT products.

However, for different other segments or products, for example, the home consumer camera and sensor products and home appliances, we saw less impact by the inflation. So, for the second half year, we think major factors coming from how US Treasury can effectively control the high inflation and also the European central banks. If the inflation can be quickly controlled, we do believe and also our brand customer believe that the demand will recover quickly from the end users side.

From the activation of new devices, actually since April, we do see a better trend than last Q4 and Q1 this year, like in Q1 this year, the new device activation, which we have visualized, was in a slightly negative zone. However, in April, May, and June, it's started turning to a positive trend. So we are still closely observing this trend. We hope this will continue that may mean that, although the inflation hasn't come down significantly, the customers' reaction to the inflation has peaked out. So we will closely monitor this with our brand customers.

One more thing, it's worth noticing that our customer-facing value-added services, for example, cloud storage, recorded an overall 200% year-over-year revenue growth in the first quarter. This performance indicates that end market has robust demand and feedback for the high-value IoT services. So for home appliances as a category with relatively high overall value, also have a single-digit year-over-year growth in the first quarter. And also despite our brand customer are facing huge challenges, they are conservative in terms of placing orders to OEMs, but the majority of them are keeping very optimistic for the long-term trend of IoT. So, for example, last two weeks, myself and our President, through Zoom, we have discussed with six, our top brands companies CEOs, they are all still focusing on R&D to expand new IoT SKUs and ask us to recommend more exciting, new, different types of IoT devices for them.

And based on statistics number in first half of this year, for all the brand customers we acquired before end of 2020, about 48% of them have expanded into new IoT devices SKUs this year. So that gives us a lot confidence that even in a very challenging period, the trend of IoT is not changing. So that's our view for the short-term future of the IoT market.

Operator

Our next questions come from CICC. Please go ahead.

Hongjie Li

CICC

As we newly launched the private cloud services, how should we expect in the mid to long run the revenue proportion as of total revenue? And -- do we see more from existing public cloud customers switching to private cloud solution? Or we could expand to a new customer profile. What is the marginal change to the gross margin and expenses? Thanks.

Yao Liu

CFO & Director

Thank you. Most of our private cloud services customers are new customers, almost all of them. So we are promoting the Tuya Cube product not to our existing customer base, but to new industry, new customers. And our acquisition efforts are progressing smoothly in China and outside of China right now. We have signed the legal contract with dozens of customers. All of them are very well-known, large-scale industry leaders in China and also outside China. These customers included the largest telecom operators in like Indonesia and in China, one of the largest utility group in China and also a couple more similar utility groups are in discussion with us for signing contracts, and the leading top three automobile group in China and in Southeast Asia.

So, we currently also have a very healthy pipeline for large-scale companies, including leading energy companies, in this stage of negotiating contract and also a very large European retail group, they have thousands large-scale retail stores in across the many countries in Europe. So, these clients have all demonstrated our private cloud technologies can be implemented in many different industries, which we feel very excited that the Tuya Cube product can enable Tuya to grow outside of consumer electronics industry.

In the past seven years, we have been very focused on consumer electronic industries, and we all have seen consumer electronics industry can be impacted significantly by high inflation, by the economy cycle, the consumer down-cycle in China. However, many other different industries, for example, utility industries, the auto industries, and the telecom industries, they are less vulnerable and more sustainable to this kind of economy cycle.

So we believe our focus on the Tuya Cube solution, which will not only provide a lot new growth field for us, but make our business in the long term much more sustainable in a down-cycle of the economy, so we will take the Tuya Cube as one of our most important strategy for the next few years. And we believe this will bring us the new growth support for the next three to five years.

And because this is a still pretty new business in early stage, we need time to determine the best pricing and deployment strategy. So based on our experiences with existing and prospective customers, our private cloud projects are typically operated at a large scale for very large customers given their commercial value and business binding model. So in addition to the implementation and deployment in the launch stage, there will be more business cooperation and revenue opportunities in the IoT product ecosystem and our SaaS capability for those large Tuya Cube customers in the long-term future.

So we are also making our private cloud deployment implementation process more standardized and packaged. As such, our future customers can even have their in-house R&D team or hire third-party implementation team to deploy our Cube product directly. So we want to emphasize that while private cloud are customer-specific systems, they will be a standardized product, because it is providing a very infrastructure-light capabilities, first, to use all kind of different communication ways, including Wi-Fi, Zigbee, Bluetooth, the CAT1, CAT4, and NB-IoT and also industry network to connect all kind of IoT devices. That's the number one capability. So the industry leaders, they don't need to worry about this very fundamental infrastructure-light capability. They don't need to invest R&D on this capability.

And second is to provide a highly secured cloud structure and which is in compliance with all the different countries' data security rules, including China, including Europe, US, and for example, in Southeast Asia. So the customer also doesn't need to invest heavily in how to – compliance with security law – the data security law in different region.

And thirdly, our private cloud structure can utilize our very ample, unparalleled hardware ecosystem we built in the last eight years. So thousands IoT devices can – different type of IoT devices can be connected into this Tuya Cube infrastructure. And if it's a different category we never worked with our ample experiences, and thousands OEMs we have worked in the past eight years, within 30 days, any new IoT devices can be connected into this private cloud structure.

So these three very fundamental infrastructure can be highly valuable in many different industries, it's like water and electrical services for many different industries. So, we are excited with these new business opportunities. We will – through next six to eight months, we will focus on deliver our first dozens of projects for our top customers well, and also figure out what would be the best pricing strategy to achieve a healthy gross margin and net margin for this new business

Operator

I will now hand over to Reg for closing remarks.

Reg Chai

Investor Relations Associate Director

OK. 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 good day. Thank you.