

Table of Contents

Call Participants	2
Presentation	3
Question and Answer	8

Call Participants

EXECUTIVES

Reg Chai

Investor Relations Director

Xueji Wang

Founder, CEO & Director

Yao Liu

CFO & Director

ANALYSTS

Yang Liu

Morgan Stanley, Research Division

Eunice Liu

Goldman Sachs, Research Division

Kai Xiao

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 2024 earnings conference call.

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

Reg Chai

Investor Relations Director

Thank you. Hello, everyone. Welcome to our first quarter 2024 earnings call. Joining us today are the founder and CEO of Tuya, Mr. Jerry Wang; and our CFO, Ms. Jessie Liu.

The fourth quarter 2023 financial results and webcast of this conference call are available at ir.tuya.com. A replay of this call will also be available on our website in a few hours. Before we continue, I refer you to our Safe Harbor statement in our earnings press release, which applies to this call as we will make forward-looking statements.

With that, I will now turn the call to our founder and CEO, Mr. Jerry Wang. Jerry will deliver his remarks in Chinese, which will be followed by corresponding English translation.

Xueji Wang

Founder, CEO & Director

Hello everyone, thank you for joining our first quarter 2024 earnings conference call.

Entering 2024, which marks the tenth anniversary of Tuya's founding, we are proud to have achieved significant milestones in the first quarter. Our total revenue grew by approximately 30% year over year, and our blended gross margin reached 47.8%, setting a new historical high. Most notably, for the first time ever, we achieved non-GAAP profitability in the first quarter, which is traditionally a revenue-light period due to the Chinese New Year.

Since we went public in March 2021, we have navigated numerous unprecedented macroeconomic events. Through proactive and ambitious strategic adjustments, we have driven significant qualitative transformations in our business. While achieving Non-GAAP profitability, we continue to build long-term competitive moats and extend total addressable market. From the perspective of the customers and scenarios supported and served by Tuya, we have evolved significantly over the past four years. Initially, our focus was on helping customers more efficiently and competitively achieve device intelligence through our IoT PaaS business. Today, we have expanded into spatial intelligence solutions in industries such as apartments, hotels, communities, parks, mobility, and energy. Furthermore, we have advanced to offering comprehensive smart solutions through a cloud platform that includes PaaS, SaaS, and smart devices, including our smart Cube Cloud. This enables us to build enterprise-level intelligent platforms for global giants using Cube Cloud. As a result, our TAM is now far larger.

In the first quarter, we witnessed a comprehensive recovery in our largest revenue segment, the PaaS business, maintaining a strong year-over-year growth trend. This growth is attributed to two main factors. First is the recovery in overseas demand for consumer electronics and the steady increase in global demand for smart solutions. Secondly, our market share is expanding as major competitors exited the market during the industry downturn from 2022 to 2023. More leading brands are transitioning from in-house IoT

development to our platform. We also continue to drive innovation through new product development, helping our brand customers quickly launch new smart products. These factors collectively contribute to our increasing market share.

We observed a new batch of developers and brand customers are thriving on cloud platform. Among them are Chinese e-commerce companies venturing overseas, which now possess stronger R&D and branding capabilities compared to four or five years ago. Additionally, well-known brands in North America, India, and Europe are growing steadily under a more localization-focused service model. Our robust foundation of both new and existing customers enabled our growth rate to surpass the industry average.

This year, in the European market, we responded to the French government's energy subsidy policy by securing orders for temperature control and energy-saving smart device solutions from French customers. We have integrated our solutions with the two government-designated green energy technology platforms, and the value of initial orders is over one million dollars. At the Frankfurt Lighting Fair in Germany, we showcased our innovative net-zero solutions with cutting-edge hardware and software products, helping our partners accelerate their transition to a low-carbon era. In the Latin American market, we have partnered with Fiber X, a leading ISP channel in Brazil, whose downstream network ultimately covers millions of households across the country. In the Southeast Asian region, we continue to make breakthroughs in the telecom operator sector through Cube Cloud technology and product innovations. In the first quarter, several telecom operator group customers began deploying Cube private cloud solutions, all through comprehensive smart solution cooperation models.

Overseas markets are approximately 83% of our revenue, balanced across all major regions. Driven by our innovative business model of private cloud and smart solution, coupled with a customer-focused approach, the Asia-Pacific region outside of China and the Latin American region are growing rapidly. Their combined revenue demand contribution increased for the third consecutive year. This more balanced global business has made Tuya's operations more resilient and opportunistic compared to three years ago. We are now more adept at sensing and capturing new smart technology trends worldwide, enabling us to better serve our global customers and support Chinese manufacturing enterprises in expanding overseas.

On the product front, our consumer security and sensor categories are growing substantially faster than the industry average, maintaining the strong momentum established in 2023. The revenue contribution from Tuya-powered small and large home appliances grew about 75% year-over-year in the first quarter. Notably, smart appliances such as air conditioners, thermostats, and temperature control valves, driven by leading industry brands, grew by more than 100%. The lighting category also experienced a healthy year-over-year growth, driven by customers actively replenishing their inventories. All categories within our PaaS portfolio entered a trend of healthy growth in the first quarter of this year.

As a technology-driven company, we fully embraced generative AI at the beginning of 2023. The rapid iteration of generative AI technology is paving the way for the application of large models in smart devices. Recently, Sam Altman mentioned on the All-In Podcast that new AI devices will emerge, with AI models becoming more efficient and affordable. This will enable their integration into devices like smartphones, allowing people to interact with AI in a more natural way, such as through voice. Leveraging our cloud platform technology and extensive smart hardware ecosystem, we are fully committed to generative AI research. We aim to achieve milestones in AI device experience and AI spatial use cases, rapidly advancing opportunities in device intelligence, spatial intelligence, and smart solutions.

In the direction of spatial intelligence, we are integrating these AI capabilities into the daily management of spatial use cases. This allows users to experience AI-driven device functionality and management, AI-driven smart spaces, and environment analysis with synchronized solution recommendations. At our upcoming global developer conference on May 29th, we will introduce Tuya's own AI large model—the Spatial LLM. Benefiting from the vast scale of smart devices within the Tuya ecosystem, the Spatial LLM, including the "Net Zero Carbon Model" used in energy-saving use cases, will generate optimal energy-saving and emission reduction strategies based on real-time spatial energy consumption data. This will provide leading AI technology value to customers and users in the field of spatial intelligence.

This quarter, our Smart Device Distribution segment has been officially rebranded as Smart Solution after more than a year of business transformation. The Smart Solution segment integrates generative AI, embedded operating systems, cloud software capabilities, and our strong reputation in global markets, along with our robust control over the Chinese device supply chain, to deliver high-value, integrated smart solutions to our customers. For example, incorporating generative AI-powered voice capabilities in wearable, central controls, lighting and electrical devices, small and large home appliances, as well as mobility and energy devices enhances user interaction and efficiency significantly. In smart pet devices, generative AI can also create content that adds emotional value.

As a global cloud developer platform, we are also committed to integrating generative AI technology into the core development processes of our platform, providing developers with advanced, convenient, and efficient development experiences. Developers can enter the development process through simple conversational interactions, generate UI interfaces, or use AI to check logs and return code suggestions. In product operations, generative AI will help customers analyze the strengths and weaknesses of product features based on user feedback, facilitating product improvement, iteration, and innovation. As of the end of the first quarter, the number of registered developers on our platform has exceeded one million.

As we look forward to the rest of 2024, we are confident in our competitive edge, our position within the competitive landscape, and the future of the smart technology sector. With that, I'll now hand over to our CFO, Jessie, who will share additional financial details with you.

Yao Liu

CFO & Director

That concludes the remarks by Jerry. As I discuss our financial results and provide more detail on the numbers that Jerry did not cover, please note that all figures are in US dollars and all comparisons are on a year-over-year basis unless otherwise stated.

In the first quarter of 2024, our total revenue reached 61.7 million, up 29.9% year over year, well surpassing the market consensus of around 15% year-over-year growth. This marked an encouraging start to the year. Excluding the adverse impact of exchange rates between the US dollar and RMB, the year-over-year growth would be an even more impressive 35%.

Our IoT PaaS revenue in the first quarter was 45.6 million, representing a year-over-year growth of 35.7%. This was driven by the normalization of downstream inventory compared to the same period last year and our commitment to delivering high-value products to our customers. Regarding product categories, we saw robust demand growth across all categories, with home appliances experiencing the highest year-over-year growth of over 75%. From a regional revenue demand perspective, Europe continues to be the largest market, accounting for about a little bit over one-third of the total revenue demand. The Asia-Pacific region and Latin America have seen accelerated demand growth, clearly rising compared to last year. Consequently, the Asia-Pacific region accounted for around one-third of the total revenue demand, while Latin America's demand contribution increased to more than 10% a little bit shy of 15% in the first quarter.

On the customer front, we served approximately 3,000 customers in the first quarter of 2024, a slight increase from the same period last year, with the number of IoT PaaS customers remaining stable year over year. The changes in customer numbers reflect our focused customer acquisition strategy. We continue to be prudent in our customer service and acquisition efforts, focusing on a targeted, strategic, and efficient method. As a result, our per capita revenue and per capita gross profit saw significant year-over-year increases of about 60% to 70% this quarter. Additionally, our 12-month DBNER returned to 116% at the end of the quarter.

The gross margin of IoT PaaS improved significantly year over year this quarter, driven by a higher proportion of high-margin products in our portfolio and, to a certain extent, due to the high base of inventory write-downs from the same period last year.

Our smart solutions segment represents an upgrade of our smart device distribution business before. By integrating our GenAI and software capabilities, along with our extensive familiarity with the consumer electronics supply chain, we are offering smart devices enriched with our proprietary software capabilities, especially those combined with GenAI, to end users. This segment recorded

revenue of 7.5 million in Q1, an increase of approximately 37.3% year over year. This quarter, we continued to achieve strong results in outdoor, gateway, and central control device solutions, with increasingly stable customer reorders. In addition to enhanced software capabilities, we saw the advantages of Tuya's ecosystem in the smart device solutions business. Customers and users are willing to pay for products like smart central control and smartwatches powered by Tuya, which can easily control all their other PBT devices.

The smart solutions segment achieved a gross margin of approximately 28.3%, an increase of 7.3 percentage points year over year, with some device solutions reaching gross margins of 30% to 40%, and some even exceeding 50%. In addition, we believe that the addition of AIGC capabilities will further enhance user experience and value.

Our SaaS and Others sector recorded revenue of 8.6 million in the first quarter of 2024. Due to adjustments in revenue structure, it was a stable quarter. Revenue related to customized technical services decreased in Q1 due to seasonal and business positioning factors, but the growth of high-value software value-added services, such as cloud storage, remained substantial growth. The overall gross margin of SaaS and Others slightly decreased due to product mix and increased costs in some technical service projects, but it remained stable within our expectations.

For operating activities and expenses, I will provide a detailed view on a non-GAAP basis, which excludes certain items for a clearer picture of our operational efficiency. We continue to present our operating expenses primarily on a non-GAAP basis, excluding share-based compensation expenses and credit-related impairment losses from our GAAP figures.

In Q1 2024, our non-GAAP total operating expenses decreased by 16.6% to 30 million from 36 million a year ago, largely due to reduced employee-related costs as we now maintain a more streamlined team compared to the first quarter of last year. Since the start of this year, our workforce has remained relatively stable.

Regarding sales and marketing activities, we increased our market and promotional budget as our revenue is on a stable growth trajectory. We will dynamically evaluate and potentially increase the budget this year to ensure effective investment in marketing and customer acquisition.

This quarter, our general and administrative expenses decreased due to relatively low external professional service fees. Additionally, it is worth mentioning that MSCI recently upgraded our ESG rating to A, surpassing some industry giants. Therefore, we will continue to strengthen our efforts in ESG, data security compliance, and other related areas to become a more contributive company to our customers, industry, investors, and society.

Overall, our non-GAAP operating loss in the first quarter of 2024 narrowed to only 600 thousand, nearly breaking even. Achieving such operational results in the traditionally slow first quarter is very encouraging, indicating that our business and operational leverage are making significant progress under the right strategy.

Regarding interest income and cash, we earned approximately 12.8 million in interest income in Q1, providing additional capital for our daily operations. This reflects our adept cash management, prioritizing the security of our principal. By the end of March 2024, our net cash position, which comprises cash and cash equivalents, bank time deposits, and U.S. treasury securities, totaled about 998.8 million, an increase of about 14.5 million compared to the end of 2023, despite payments for annual expenses such as employee bonuses in Q1.

Looking ahead, we're committed to driving top-line growth, sustaining strong gross margins, and optimizing operating leverage. We believe our performance in the first quarter allows us to look forward to the future with more optimism.

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

I have two questions. The first one is regarding the first quarter top-line growth, almost 30% pretty strong, and combining that with very solid export trend in China recently, I would like to ask management whether it's possible to raise the full-year revenue guidance or turn more optimistic about future growth. The second question is, after seeing the very strong operational performance and financial numbers, whether management can do more in terms of shareholder return and what is the current plan. Thank you.

Yao Liu

CFO & Director

Thanks, Liu Yang. It seems that everyone has noticed the excellent export performance in the first quarter. We've observed that Chinese concept stocks with large overseas segments have general performed well. Indeed, Tuya's growth in the first quarter, particularly in our core PaaS business, has been quite robust. Over 80% of our revenue comes from overseas, making us a prime example of a cutting-edge technology company with a globalized business. Based on the data and disclosures, we see some common characteristics among the strong macro factors driving exports in the first quarter:

Firstly, in general, we have seen almost cross the board overseas regions demand pretty strong in Q1, especially the most dazzling growth from Asia Pacific that including like Southeast Asia, Australia, Japan, Korea, those regions. This trend aligns closely with our business development and the opportunities we have observed. For example, our revenue from Southeast Asia increased by approximately 70% year-over-year in the first quarter. This growth is partly due to Tuya's Cube smart private cloud product, which has established strong, replicable benchmark projects in countries like Thailand through collaborations with leading telecom operators, real estate groups, and conglomerates, and then expand to other countries in Southeast Asia; and on the other hand, products empowered by Tuya's technology are also highly favored by end-users in Southeast Asia. So our ongoing projects which combine in private cloud and smart solutions in Vietnam with multiple Vietnam telecom operators are excellent examples.

Secondly, exports of home appliances and other electromechanical products, such as lawnmowers and robotic vacuum cleaners, performed very well. Consumer electronics, our main battleground, saw outstanding performance in our home appliance product line in the first quarter, with a year-over-year growth of around 75%. This has been mentioned previously. Additionally, the outdoor and cleaning robot sectors also performed excellently in the first quarter, which are areas that Tuya had previously identified and invested in. Other categories besides home appliances also showed impressive growth. For example, the lighting sector, previously impacted by the inventory reduction, saw encouraging growth in Q1 as overseas customers replenished their inventories.

China's supply chain and manufacturing have high efficiency and cost-effectiveness, allowing products exported worldwide to meet the essential needs of various customers from different regions in terms of both price and quality. Tuya plays a role in this process by leveraging its unique cloud platform and software products to support manufacturers and global brands with technological capabilities, helping OEMs serve global brands and large groups. Therefore, as end-user demand starts to recover, driving a macroeconomic recovery, Tuya has already made adjustments in the past two years under adverse conditions, preparing in various aspects such as business, technology, products, operations, and internal organizations. Consequently, we are more optimistic about the full-year outlook now compared to the beginning of the year.

Regarding the shareholder returns, we firstly look at Non-GAAP because it excludes items such as stock-based compensation that are unrelated to actual quarterly business and performance and do not affect cash flow. As the company's Non-GAAP operating loss has essentially nearly broken even and with a healthy cash flow status, and gross profit developing as expected, we are now, the

management team, very actively exploring ways to enhance shareholder returns. We hope to bring executable actions to the shareholders in the near future. That's my answer to Yang's question. We can go to the next one. Thank you

Operator

Thank you. Next question comes from Eunice Liu from Goldman Sachs. You may proceed.

Eunice Liu

Goldman Sachs, Research Division

Thanks management to taking my question. This is Eunice from GS asking questions on behalf of our analyst Timothy Zhao. My question is on the 2024 outlook, how will the company balance the revenue growth and profitability in this year? Thank you.

Yao Liu

CFO & Director

Okay, thanks for the Goldman Sachs analyst question so currently and also in the past year for the future few years to well-balance growth and profitability is our key principle and we also feel this is being a responsible company with long-term trajectory growth. This is the right principle.

So, given our products' ability to maintain their respective value proposition, we expect the PaaS, Smart Solutions, and SaaS and Others segments to continue their overall stable trends. Consequently, our overall gross margin will exhibit some structural fluctuations within a certain range, a small range, depending on the revenue proportion changes among these three segments over time.

After a year of adjustment in 2023, we believe our team operations and R&D are all well aligned. This has been validated by the per capita productivity and the customer efficiency data over the past three to four quarters. We are confident in maintaining this operational leverage, achieving customer acquisition and growth while staying efficient.

For financial figures, our non-GAAP operating loss was approximately \$600,000 in the seasonally low first quarter, excluding stock-based compensation and some non-operational expenditures. Our operating expenses will remain stable and controlled as revenue percentage. Therefore, from the perspective of the structure of the income statement, our non-GAAP operating loss will be positively impacted by increasing revenue and gross profit in the coming quarter.

We expect to achieve quarterly non-GAAP operating breakeven soon in this year. So, overall we believe the IoT business still has a long way to grow, especially Gen AI will fundamentally change or increase the value of smart products, smart space, and smart business for the end users and the customers. Given the IoT penetration rate is still relatively low, and also given the competition position of Tuya are very strong. Basically, the majority of the competitors already closed down their business in the past two and a half years. So, we believe we will see a long-term growth for our business and we are confident to maintain profitability while we continue to deliver the long-term growth. That's my answer to the first question from gomen sex and we can go to the next questions.

Operator

Thank you. Our last question comes from Kai Xiao of CICC. You may now go ahead.

Kai Xiao

CICC, Research Division

So, my first question is regarding your IoT PaaS in terms of the sectors. Which sector do you think will achieve stronger growth or have more potential in the first half of 2024? And my second question regarding AI. So, in order to achieve your ambition in artificial intelligence, whether it is opex pressure in the short term, how can we think of the how are in the AI investment? Thank you.

Yao Liu
CFO & Director

Thanks for Kai's question regarding your first question about a more detailed kind of forward-looking about different products growth, different categories growth. In 2024 we observed that demand trends across major regions and also major categories all experienced a pretty decent growth.

For example, consumer safety and sensor products continue to be essential needs for end users in like Europe, North America and also in developing regions like Latin America, Southeast Asia. Additionally, home appliance including both small appliances and the large appliances, like small appliances like pet appliance, kitchen appliances are in high demand. The rebound of especially home appliances are pretty strong also across different regions.

Also, we see that very strong demand for products like robotic vacuum cleaners and also energy related like temperature control devices which is policy-driven in Europe. The French government is giving out significant subsidies for all the families in France if they install temperature control valves to control the heating energy consumption. And also like electrical products including switches have shown stable performance in many different regions. The last one, the lighting products which contribute in terms of quantity, is the largest one in-home consumer electronics by categories. After two years pressure that the lighting products have shown a rebound due to the restocking efforts by the downstream. We believe downstream has seen that the selling to the end users will start to recover in the second half year.

In terms of different regions in 2024 for their growth, they have some slight different demand for different products. For example, Europe remains our largest revenue source. In the primary offline retail and brand-focused European market, we have gained traction by offering high cost-performance and a wide range of Tuya ecosystem products such as energy-saving kits composed of thermostats, walls and gateways, new cost-effective lighting solutions, central control screens, and the pet appliances.

So, currently, PaaS businesses in Europe is experiencing steady growth and our smart solutions are also progressing very well in Europe. They welcome that we provide highly cost-efficient but with very strong software value-added proposition smart devices to sell to the end users in Europe.

Southeast Asia, in comparison, is a newer, promising emerging market with very rapid development. We target professional channels such as leading telecom operators covering 100 million households in Southeast Asia. Currently, more than half of the telecom operators in entire Southeast Asia are in cooperation with Tuya. Using Tuya's Cube + SaaS + smart devices as a total solution has achieved great results. The demand for smart devices from brands or comprehensive smart business platform from corporate groups is strong in this region. For instance, Singapore has significant comprehensive energy-saving needs requiring smart meters and controllable devices, as well as effective energy-saving software algorithms. Meanwhile, telecom operators demand integrated smart platforms to provide smart home use cameras and smart water purifiers with recurring cloud storage or recurring water purifying services as their revenue source to 100 million families in Southeast Asia.

The Latin American market is somewhat similar to a combination of Europe and South Asia. Product demand is akin to Europe, primarily driven by our past enabled devices with strong demand in the first quarter. The presence of many system integrators and independent software vendors in Latin America also results in demand from telecom operators models and the comprehensive smart platform solutions. Currently, PaaS in Latin America is growing steadily. We will focus on promoting smart solution business, which we see that the governments of Latin America like Brazil and Mexico, they're trying to install, for example like the smart lamps on the streets then controlled by a SaaS business. So, that's a product solution we already have that we already installed in China and in some Europe corporates so that we can promote it to Latin America.

In terms of China market, due to the economic recovery, Chinese market growth is relatively slower. However, we'll continue to see a few key opportunities, the expansion of multinational customer business in China such as Philips projects and e-commerce customers with product and technology capabilities targeting international markets and extensive influence of live streaming channels selling

selected high-quality products. So, additionally, our main battleground for industry SaaS-based intelligence is still in the China market. So for example, our smart hotel business continued to grow steadily in China in the first quarter.

The business in North America is currently stable. We have introduced a smart solution into retail channels directly and we'll continue to expand that efficiently in this segment. So, overall, we are more optimistic about Latin America and Southeast Asia market and also we believe the European market will maintain healthy growth.

In terms of GenAI, we will have a large developer conference in Shenzhen next week on May 29th. We welcome all the analysts and investors to attend and can tell our IR team. So on that day, we will thoroughly discuss our efforts in GenAI on three different perspectives and to all our developers, customers, our suppliers and partners.

The first part is to apply GenAI to smart devices through some more creation that doesn't request very deep R&D investments. For example, connect ChatGPT global language capability to some devices that you can control devices by free verbal conversations, and that creates very interesting experiences and value for consumer users. For example, you can describe whatever you want to the lighting products. You can talk through speakers verbally say that you can create a lighting effect like a poem I like, like a song I like, and that the ChatGPT or other the large language models would understand that and create a feeling that similar to what you want. So, that would be much more interesting than that eight different lighting effects that you can only choose one of those eight in the app.

And the second aspect in terms of GenAI is that we're going to release the first space model, that net zero model, and there will be much more details in our developer conference. And the third one is we have implemented the GenAI capability in our IoT developer platform, the iot.tuya.com, which enables the developers to understand and to go through our developer platform to create differentiated products like basically smart devices or SaaS services much more effectively and quickly than before. So, we're excited about this. And again, welcome everyone to join our developer conference in Shenzhen on May 29th. So that's my answer to the questions.

Operator

This concludes today's conference. Thank you for joining. You may now disconnect your line.