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EXECUTIVES

Reg Chai

Investor Relations Director

Xueji Wang

Founder, CEO & Director

Yao Liu

CFO & Director

ANALYSTS

Yang Liu

Morgan Stanley, Research Division

Timothy Zhao

Goldman Sachs, Research Division

Mingran Li

CICC, Research Division

Presentation

Operator

Good morning, and good evening, ladies and gentlemen. Thank you for standing by, and welcome to Tuya Inc.'s fourth quarter 2023 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 fourth quarter 2023 earnings call. Joining us today are 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 Tuya's 2023 Q4 earnings conference call.

The fourth quarter of 2023 marked an exceptional period of progress, building upon the momentum of Q3, as we executed our strategic plan and thoroughly reviewed our operations. This approach led to significant advances across all business and performance indicators. Specifically, we reported total revenue of approximately \$64.4 million for the quarter, representing a robust year-over-year increase of 42.2%, which underscores our positive trajectory. The gross margins of our three business segments have steadily increased, driving our blended gross margin to a new high of 47.3%, which is a testament to the strong value that our platform, products, and services deliver to our customers. From an operational and profitability standpoint in Q4, our non-GAAP net profit climbed to around \$12.6 million, a quarter-over-quarter increase of about 25%. Our financial strength is further evidenced by our net cash from operating activities, which reached approximately \$31.8 million in net inflows for the quarter, enabling our net cash position to rise to \$984 million by the end of Q4. In summary, the fourth quarter results reinforce our confidence that we are emerging from the cyclical downturn in our industry. Looking back on the year, we returned to year-over-year growth and achieved full-year non-GAAP profit for the first time. Throughout 2023, we implemented strategic adjustments and transformations, further validating the operational and commercial benefits of combining our key account focus and product enrichment strategies. This strategy yielded significantly better results.

In 2023, our impact on B2B customers and end-users around the world grew even stronger, solidifying our market share. As we have mentioned before, since the latter half of 2022, a number of large IoT platforms have ceased operations due to challenges in maintaining efficiency. Last November, a well-known cloud computing service provider in China discontinued its IoT service. Many of their IoT customers are gradually seeking to switch to the Tuya platform.

Now, the smart consumer electronics industry is now embarking on a significant growth phase which will be a period of cultivation and expansion built upon a solid foundation. During this crucial period, our strategy will focus on engaging with high-quality customers, elevating our product offerings, and enhancing cost efficiency. We are committed to driving revenue growth by optimizing both the volume and pricing of our products, while also expanding into new smart domains beyond consumer electronics..

A cornerstone of our approach is the “key-account strategy,” which has increased our personnel efficiency and enabled us to dedicate resources to securing and better serving large and strategically significant customers with substantial long-term potential. This strategy is pivotal in driving the growth of future PBT device shipments. For example, our recent collaboration with Vivo, one of Brazil's leading telecom operators, aims to develop their brand's smart home ecosystem using the Tuya IoT Core and development tools. Similarly, we're making strides in the Net zero energy-saving project with Choppies, one of Latin America's largest supermarket chains. Moreover, our Cube smart private cloud product has also opened doors to significant opportunities, enabling us to engage with large-scale groups and high-quality customers. This includes a new partnership with Malaysia's premier telecom group, a longstanding German shipbuilding company, and others for edge cloud orders.

Furthermore, we are fueling expansion by adapting and replicating successful customer cases and strategies across different regions. In Latin America, for example, we've broadened our downstream channel customer base that distributes PBT devices, moving from initial retail channels to include operators and professional installer systems. This diversification is a new catalyst for revenue growth and enhances the penetration of smart devices in the region. In Europe, we have established deeper collaboration with Sharp Europe through our two-wheeled vehicle outdoor solution. Using smart device solutions to create the ultimate smart user experience, we are capturing significant share in the retail markets of Europe's leading brands.

Next, we are focused on enhancing our products. In the fourth quarter alone, our prioritized smart voice central control product line grew over 1.5 times year-over-year, and for the full year, sales doubled compared to the previous year. After more than a year of dedicated product development, we've created the industry's most comprehensive product matrix. This includes a variety of software tailored to different panel sizes and a complete range of multi-model solutions, including handheld models, to meet the diverse needs of our brand channel customers both domestically and internationally. Our 5-inch smart central control screen solution, powered by TuyaOS and featuring robust control capabilities, multi-mode gateway functions, and built-in Alexa voice capabilities, has become a cornerstone product in the North American, Latin American, Japanese retail markets, and the Asia-Pacific industry SaaS market. In terms of customer engagement, our IoT PaaS core customers and industry SaaS customers represent mature segments naturally inclined towards our smart device solutions. We assist them in diversifying their product lines by tapping into emerging and potential markets. Importantly, this expansion into new customer segments incurs minimal additional effort and cost for us in terms of customer acquisition.

In the fourth quarter, in line with the global push towards energy conservation and carbon reduction, we further enhanced our “energy-saving mini-program” alongside our “smart temperature control valve solution set.” By integrating energy-saving algorithms in heating applications with Tuya's advanced cloud algorithm capabilities and pairing them with more intelligent, precise temperature control devices, we achieved significant strides in smart heating and ventilation temperature control use cases. At the final leg of the 2023 Tuya Developer Conference in Suzhou in November, together with industry leaders like Enerlution (华宇) and Yienergy (易能), we showcased our strategy in the energy-saving arena, marking a confident step beyond the realm of pure consumer electronics.

Leveraging cloud technology and the mature software and hardware capabilities of certain smart device categories, in Q4, cloud software value-added service revenue, such as cloud storage services, maintained a robust sequential growth of approximately 27% and an impressive year-over-year surge of nearly 78%. This growth has significantly contributed to the SaaS and Others segment, accelerating our internal structural adjustment towards higher quality revenue, returning to a quarter-over-quarter growth trend of about 11% and a year-over-year growth of about 19%.

Over the past year, we've witnessed a global trend: an increasing number of influential companies worldwide are entering the smart technology arena, driven by competitive forces, industry opportunities, and their own strategic needs. This trend is especially

pronounced in emerging markets such as Latin America and the Asia-Pacific region, where the awareness and adoption of smart technology are on a noticeable rise. Looking ahead, as market penetration deepens, the developer community will become the backbone of the future IoT ecosystem.

In terms of our efforts to nurture this ecosystem, our developer community-building initiatives are advancing steadily. As of the fourth quarter, our registered developer base has grown to approximately 993,000, and we now collaborate with 12 pilot developer service providers. For example, a leading Korean developer service provider has been instrumental in serving several of Korea's top door lock manufacturers, including the top three, contributing more to Tuya's revenue in Q4 2023 than in the entire year of 2022. Our TuyaOS low-code development framework now supports over 280 types, encompassing all protocols and categories within the Tuya platform. We've also compiled nearly 1,000 development documents, and our developer forum has accumulated over 8,500 posts of technical support content. Moreover, our development tools have evolved to support more self-service operations, further popularizing, introducing, and laying the groundwork for the expansion of the developer community.

Before I conclude, I'd like to offer a summary of the year. 2023 was a period of gradual recovery - global inflation cooled rapidly in the first half of the year and fell to a lower but slightly stubborn level in the second half, but we feel that global smart consumer electronics device end spending is naturally building a new equilibrium in this environment. At the same time, manufacturers, brands, and channels have essentially returned to normal purchase pattern with normalized inventory level, overcoming the toughest valley in business turnover, and beginning to show a more optimistic attitude in business planning and product deployment, with many new year's joint promotions, product plans, and other collaborations already underway. 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 colors on the numbers, please note that all figures are in US dollars and all comparisons are on a year-over-year basis, unless otherwise stated.

In the fourth quarter of 2023, our total revenue reached 64.4 million, up 42.2% year over year, a higher growth rate compared to that of the third quarter of 2023, and led to a sequential improvement for the fifth consecutive quarter.

Our IoT PaaS revenue in the fourth quarter was 47.2 million, representing a year-over-year increase of 44.6%. This was driven by the normalization of downstream inventory and our commitment to delivering high-value products to our customers. As the smart devices sector encompasses a broad and diverse range of products, we concentrated our R&D as well as sales and marketing efforts towards fostering stable, balanced, and efficient growth for the company.

I will offer a breakdown by product categories. 2 years ago, smart lighting and electrical products comprised nearly half of our total revenue. Meanwhile, smart "safety and guardship" and "home appliances" products known for their potential to drive higher revenue efficiency and increase our influence in the industry, contributed merely 20% and 15%, respectively. Now in 2023, our strategic emphasis on product focus and enhancement has equalized these categories' revenue contribution to roughly 25% to 30% from each segment, achieving a more balanced category structure.

Geographically, our business has also evolved as desired in 2023, attaining a more balanced distribution. We're channeling our efforts primarily into the mature European market and the Southeast Asia region that are full of professional channel opportunities, and Latin America, where both retail and operator channels hold substantial potential. At the same time, we have tailored strategies to further boost our business in China, including helping high-quality cross-border e-commerce brands in their international ventures.

In terms of customers, we served a total of approximately 3,200 customers in the fourth quarter of 2023, a decrease of about 200 from the same period last year. However, both our revenue and gross profit per headcount have surged from Q3's highs, underscoring the success of our strategic emphasis on high-quality customers. Jerry highlighted our refined focus earlier, which not only attracted valuable new clients but also enhanced service for existing ones on our platform, boosting our 12-month DBNER to over 100% by year's end, a rebound from earlier declines starting in the first half of 2023.

Our Smart Device Distribution business segment generated revenue of approximately \$7.8 million in the fourth quarter of 2023, achieving a year-over-year growth of 64.6%, largely driven by our smart solutions. This shift towards our smart solution model and a decrease in our legacy smart device supply chain services for some clients led to a gross margin increase in this segment to nearly 30%, further validating our product enhancement strategy. In 2023, our smart solution model flourished across several major categories we've been focusing on, leading to a further diversification of the SKUs we cover. Beyond wearable and outdoor devices such as tags and smartwatches, smart gateways and smart control screens featuring Tuya's specialized solutions also made meaningful contributions.

Our SaaS and Others sector recorded a revenue of \$9.5 million in the fourth quarter of 2023, reflecting a 19.3% year-over-year increase. This growth reflects our strategic adjustments in business planning for software products and technical services, alongside a positive trend in high-quality revenue, including a growing share of recurring income.

Now, moving on to gross margin, our fourth quarter blended gross margin remained at an all-time high of 47.3%, consistent with the previous quarter, as each business segment demonstrated robust margin profiles. Specifically, the Smart Device Distribution segment recorded a gross margin of 29.7% in Q4, sustaining a level above 20% throughout 2023. This performance reflects the effective results of our product focus and enrichment strategy.

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. In Q4, we undertook a conservative reassessment of some early preferred stock equity investments, resulting in a one-time, \$7.4 million impairment loss within our GAAP G&A expenses. This impairment, however, does not materially affect our current operations or cash flow, and we continue to present our operating expenses primarily on a non-GAAP basis, omitting share-based compensation expenses and credit-related impairment loss from our GAAP figures.

Now, having completed our internal restructuring for optimal organization, structure, and team collaborations, our operating expenses have generally stabilized. In Q4 2023, our non-GAAP total operating expenses decreased by 13.5% to 30.7 million from 35.5 million a year ago, largely due to reduced employee-related costs as we continued to streamline our teams. By the close of December 2023, our workforce numbered just over 1,450, in line with our anticipated stable headcount.

Regarding sales and marketing, we upped our market and promotional investments as the industry normalized in the latter half of 2023 and our revenue returned to a solid growth trajectory. This contrasted with our strategy during the peak periods of downstream inventory and industry inflation pressure in late 2022 through early 2023, when we consciously curtailed spending to avoid ineffective marketing investments.

In a similar fashion, we have also stabilized our G&A expenses in the quarter. The past year has fully reflected the cost savings from streamlining our team. Meanwhile, as we navigate new operational developments, such as ESG investments and adherence to stringent compliance standards as a dual primary listed company in the US and Hong Kong, we anticipate a potential increase in professional service expenses, which we will manage effectively.

Finally, regarding interest income and cash, we earned approximately \$13.1 million in interest income in Q4 as extra supplement capital to our daily businesses, a testament to our adept cash management. We have always prioritized the security of our principal as we do not view earning an interest income as our business target. By the end of 2023, our net cash position, which includes cash and cash equivalents, bank time deposits, and U.S. treasuries, totaled about 984.3 million. In addition, we generated approximately 31.8 million in operating cash flow in Q4. Despite some cash flow fluctuations due to accounting practices and seasonal variations, such as the timing of annual bonuses, the overarching trend for the year was clear as we recorded strong and positive cash flow in 2023.

Looking ahead, we're committed to driving top-line growth, sustaining strong gross margins, and optimizing operating expenses. We're confident in our ability to deliver strong financial performance in 2024.

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 would translate my question into English. The first one is about 2024 revenue growth outlook, I would like to ask the management expectation based on the communication with key customers. And the second question is about the gross margin because fourth quarter 2023 gross margin sequentially increased to 47.3% due to some mixed change in smart solution. Is that due to seasonality or that represent a new norm for future.

And the third question is regarding the impairment loss because that also happened in second quarter last year. And I would like to ask whether the related item on balance sheet is clean or not. What is the future outlook for that impairment item. Thank you.

Yao Liu

CFO & Director

Okay, thanks Liu Yang. Okay, so let's come to the first question about the 2024 forward looking. So from the downstream end user's perspective, based on our constant discussion and communication with our customers, our perception of 2024 are similar to last quarter's expectation which is the global discretionary smart device spending maintained a moderate growth from Q4 to the beginning of this year.

Among these regions such as Southeast Asia and Latin America have shown stronger growth momentum than Europe and America. In terms of categories, since January, the end consumer spending of smart lighting categories has been relatively weak due to lack effect of inflationary pressures and its highly discretionary nature.

However, electrical products, because of its usage have related to energy saving in many cases have recovered better than the lighting products such as smart breakers, switches, those products. And the appliances segment remains the main focus of growth, among which typical categories like robotic vacuum cleaners which focused our growth strategy for emphasize and expansion, smart pet appliances. It is a new categories in last few years that meets strong emotional needs of global consumers and have a relatively high resistance to inflation pressure.

Other products like temperature controls, heaters in the appliance segment which also involves energy usage savings can bring cost benefit to users with addition of smart capabilities and so on. And at the end, demand for most product segments remained robust due to those characteristics. Safety and sensing products because it satisfies in global consumers fundamental needs for protection and family safety have continued to show steady growth momentum through the turbulent down cycles and currently in the recovery periods. It also shows a good growth trajectory.

So above all, our products focus and investment strategies are based on the assessment of the major demand logic for the above layout I just discussed. Regarding downstream customers, inventory normalization began in Q3 last year, so we have seen pretty good restocking activities in the retail channels and the brand and also OEMs. We currently, we expect the inventory level remain at a total four to five months for all the downstream channels adding together by the end of Q4, which is a quite healthy level. So the downstream enterprises have normalized replenishment for categories and we feel the destocking is completed and coupled with our joint efforts with customers in planning the categories, promotions and the market strategies, our revenue in Q3 and Q4 achieved both more than 40% year-over-year growth so it majorly benefited from downstream restocking.

So currently, the OEM's brands and retail channels are generally optimistic about the outlook for their smart business in 2024 and their operating and business turnover is no longer as severe as before. As such, everyone are starting to be more positive. In addition, we have also found that in 2023, many new professional channel opportunities, such as the professional telecom operators in various regions, that's like the Middle East, Saudi, Latin America, Brazil, et cetera have significantly increased attention and participation in the smart business.

But we want to bring to attention to all the investors because the Q3, Q4, it has greatly benefited from the restocking efforts of downstream and the restocking efforts probably coming to an end in Q1, it's just normalized. So, we, we are optimistic about the growth of 2024 but it may not be as strong as Q3, Q4, which has the temporary restocking effect.

And for the second question about the gross margin. So, in 2024, we have delivered continuous growth of our gross margin. It has come to a few effects. First, our IoT PaaS business has a steady growth of the gross margin and that reflects the continuous change in our product strategy and structure in the beneficial direction.

As a company that substantially has built a broad IoT ecosystem, the revenue and gross margin of IoT PaaS business results from a mix of categories and solutions. For different categories such as smart vacuum cleaners, switches, bluetooth, headsets or bulb products, the depth and complexity of their bases, basic IoT and cloud capabilities differ, thus have different prices and growth margins. Similarly, for different protocol solutions such as WiFi, Bluetooth, Zigbee or NB-IoT, their pricing and gross margin solutions also vary.

However, considering consumer's price sensitivity towards smart products, we have always been committed to reducing the cost of smartification, allowing consumers to enjoy good value with affordable price. Therefore, we continue to manage the gross margin of IoT PaaS from both aspects. We look forward to maintaining a stable gross margin of IoT PaaS business. And also we delivered a higher percentage in terms of revenue contribution of the SaaS and value added service segment, which enjoys a 75% of gross margin.

We expect the SaaS and value added service business contribute a similar percentage of business as Q4 in 2024 and for smart device distribution business which now majorly contributing from the smart solution business. Basically Tuya deliver an integrated software and hardware as one product, finished products to the downstream customers. That business now achieved a 30% gross margin in Q4.

We expect this gross margin remain relatively stable in 2024 and the portion of this business of the segment will increase their revenue contribution in 2024 as it will grow at a higher speed than the other two segments. So overall, we look forward to maintaining a stable overall gross margin in 2024 versus 2023.

So the third question is regarding the credit loss. So between 2018 and early 2022, we made a modest amount of strategic investments, approximately around \$30 million in total primarily in some of our downstream and upstream strategic partners. It could be our suppliers, our potential suppliers, customers or potential customers. It's about around ten companies in total. So several of them didn't perform well in 2022 and 2023, in this two severe downstream of the entire consumer electronics industry, so leading to an investment impairments due to strict accounting practices. So according to the latest expected credit loss, sorry, the ECL rules of the accounting policy was issued in 2020, we have made the credit loss on based on accounting policies. So in total, in 2023, the total credit loss was around \$15.5 million. So it was named as credit loss based on the accounting rule but in principle, it's actually the equity investment loss. So we believe currently that we still remain around \$11 million value on our balance sheet based on our strategic investment from 2018 to early 2022. And we believe the credit loss impairment has pretty much down. So in the future, if we have any credit loss, impairment will be much less than what happened in 2023.

So again, this majorly due to the industry down cycle. And all those companies actually are still operating, although we have largely made impairments on almost all the investment on these two, three companies that experience the difficulties but they're still, they're operating and if their operation improved in the next few years, we might add back the credit loss. So that's the answer to Liu Yang question for the three questions. Operator. You can go to the next question.

Operator

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

Timothy Zhao

Goldman Sachs, Research Division

Thank you management for taking my question and congrats on the strong fourth quarter results. I have two questions here. One is regarding the 2024 revenue outlook. I think you already mentioned quite a lot about the PaaS revenue outlook. I think on the SaaS part just wondering what is your outlook here and specifically on the key customers progress. What is their revenue wrap up look like in 2024.

And secondly, I think given 2023 is a year of very good OpEx control, I'm just wondering what is your OpEx plan and headcount plan for 2024 and how that will impact your OP margin or net margin, if any. Thank you.

Yao Liu

CFO & Director

Okay. Thanks for Timothy's question. So first, about the SaaS and value added services segment. So our software services and other revenue sectors are still reflecting the adjustments in revenue structure within which high quality revenue maintains good momentum. So, for example, first, our cloud software services, such as cloud storage which is a recurring SaaS revenue in principle with a pretty high gross margin have achieved year-over-year revenue growth for five consecutive quarters. While consumer payment have increased number of enterprise customers using our cloud storage technology has also steadily increased to nearly 80 of them globally.

Secondly, our Cube smart private cloud products has also already helped us secure over a dozen strategic large clients such as several industry or telecom giants in Southeast Asia, well known major channels in Australia or better serving the expansion needs of existing large clients like Philip's new Asia Pacific projects. We have several clients whose projects are steadily progressing and we will share more with everyone when we have the client's consent for PR or as we approach project completion and deployments.

Thirdly, in terms of industry SaaS products, although the domestic real estate in the community industry in China faced significant challenges in 2023, posing the pressures to our community SaaS solutions, we still achieved nearly 30% annual year-over-year growth in other sectors such as smart hotels.

Additionally, our Cube products and industry SaaS products have generated good synergy with several typical Cube customers acquisitions in regions such as Southeast Asia like some leading real estate group clients in Thailand serving as benchmark cases of win-win projects for us and for the customers.

On the other hand, in SaaS and value added service segment, our customized development technology services and some other one time value added services like OEM App are still undergoing structure adjustment. So we have successfully kept the number of related clients and projects at a limited and non-expanding level while trying to increase the average order value to enhance the benefits of this client's projects.

In the future, this segment will be retained at a lever for specific strategies and customer service rather than the main source of revenue for the company. So, in summary, since SaaS and others comprises a diverse mix of services and software technical products, it may still face overall revenue fluctuations in the upcoming few quarters. However, the proportion of our core high quality recurring income is continuously and steadily increasing.

For the second question about our big customers. So the key customers, the high-quality key accounts is an important strategic direction for our development in the last two years. The opportunities of key accounts can bring multi-dimensional revenue for us, including revenue from Cube private cloud software, ongoing operations and iterations fees and also they can bring subsequent revenue for us

on IoT PaaS business. Also the revenue for smart solution business and also the opportunity of recurring SaaS and value added services revenue in the coming years.

Additionally, key accounts have the advantages of large scale, high market share and also high resistance to economic down cycles. So we have already shared some cases that customer have allowed us to disclose covering Southeast Asia, Latin America and also in Europe. We also have some promising key account cases in emerging markets like the Middle East, but we are currently unable to deffill name yet. Of course, acquiring key accounts is a tough battle. Securing ten or fewer key or high quality customers each quarter is already a significant result of our efforts. And we will continue, the entire company will continue this strategy to focus our best technology resources and sales marketing efforts on the key accounts.

Regarding the third question about the expenses and the profits. So our expenses have a relatively clear structure. On a non-GAAP basis, about 70% of our net operating expenses related to salaries and the benefit cost of employees as we are a light asset business model. Therefore, the future trend of this part of expenses especially based on the size of the total number of employees. Essentially we have already completed adjustments to our team size. So we expect to maintain the current team size in 2024.

The remaining 30% of the expenses cover daily activities including cloud costs accounted as expenses, professional promotional marketing activities, travel activities and rent et cetera. So aside from technical and marketing expenses which will be moderately invested in accordance with the growth of the revenue, the rest of the expenses are also mainly linked to the number of headcounts.

Overall, considering factors leading to expense reduction and preserving some space for basic expense increases, we expect this year's total operating expenses remain relatively stable. So our profit margins also link to revenue scale. So we will continue to focus on growing revenue based on the current team size. So, Operator, you can move to next questions

Operator

Thank you. Our last question comes from Mingran Li of CICC. You may now go ahead.

Mingran Li

CICC, Research Division

Thank you management for taking my questions. First off, congratulations on your robust performance. As previous discussions have already covered much about the outlook or demand in 2024, I have one quick follow up plus we have to wait longer for the Federal Reserve rate cut. So how does this change of expectations influence the demand based on your recent observations, that's the first question.

And for future development, could you elaborate more on the strategic plans and investment priorities for PaaS, SaaS and smart device distribution over the next two to three years. Thank you.

Yao Liu

CFO & Director

So, first, let's come to the first question. So interest rate cuts themselves are beneficial for releasing capital to promote consumer spending. However, considering that inflation is still present, the market currently feels that the pace of interest rate cut is slower than originally expected. Furthermore, if inflation rebounds quickly after a recut, the consumption such as food and the gasoline prices will rise which could suppress discretionary electronic consumer devices spending to a certain extent. So we think the extent of the problem still comes back to inflation itself. So we feel that our customers like the brands or retail channels are less sensitive to the interest rate, more react quickly to inflation itself. So as we mentioned before, players in the market are spontaneously reaching a new equilibrium point for discretionary consumption and if inflation and prices maintain at current level, then we estimate the downstream demand is likely continue at current performance.

For the second question, if we divide the company's development into early, middle and long-term stages, Tuya, with its unique IoT cloud software technology and products, scalable business strategy and neutral cloud-agnostic positioning, has captured a significant market share and influence by seizing the tremendous opportunity for rapid growth in IoT penetration rate and the market from nearly zero to one during the first stage from 2014 to 2021. Now, as the industry enters the second phase of from one to ten and after experience downturn cycles over past two years, the enormous TAM for IoT smart devices requires an increase in further penetration rate to be unlocked.

Therefore, following our CEO, Jerry's earlier remarks, our current main direction is to drive efficient revenue growth from both quantity and price aspects of our products offering. Therefore, enhancing company's revenue, while further assisting customers in promoting smart penetration and usage. In the long-term as the penetration rate of smart devices continue to increase and with developers to tackling the issue of fragmentation, the widespread adoption of smartification is anticipated to further expand and we are looking forward to this with great expectations.

So, returning to the present, we, our focus for development in the next two, three years will revolve around centering on key accounts, creating, efficient and higher potential revenue through comprehensive solutions composed of high value products. Under this approach, the IoT PaaS Smart Solutions and SaaS software will complement each other in a collaborative manner to meet need of various type of major clients. For example, for local retail brand group overseas it enhance smart solutions which is supported by IoT PaaS technology will together serve as the key to acquiring such customers. And for overseas, telecom operator groups from Asia Pacific to Latin America, Cube and Smart Solution will join force to serve their customer's needs. And once they adopted our Smart Solution and Cube to deliver the IoT services to their own customers like millions of families in their region, we will use SaaS offering to help them to generate further recurring revenue which we can usually split a good chunk of it. For industry clients or multinational corporations with industry needs, a lot of times they can mix match all three types of products as needed.

So that concludes the call today. Thank you 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 earning call. Have a good day.

Operator

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