Table of Contents

Call Participants 2

Presentation 3

Question and Answer 7

Call Participants

EXECUTIVES

Monica Yu
Investor Relations Manager

Xueji (Jerry) Wang
Founder, CEO & Director

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

ANALYSTS

Yang Liu
Morgan Stanley, Analyst

Timothy Zhao
Goldman Sachs, Analyst

Kai Xiao
CICC, Analyst

Matt Ma
Jefferies, Analyst

Presentation

Operator

Good morning and good evening, ladies and gentlemen. Thank you for standing by, and welcome to Tuya Inc.'s third quarter 2026 earnings conference call. At this time, all participants are in listen-only mode. After the speaker's presentation, there will be a question-and-answer session.

Please be informed today's conference is being recorded. I will now turn the call over to the first speaker today, Ms. Monica Yu, Investor Relations Manager of Tuya. Please go ahead.

Monica Yu
Investor Relations Manager

Thank you, operator. Hello, everyone. Welcome to our third quarter 2026 earnings conference call. Joining us today are our founder and CEO, Mr. Jerry Wang, and our Co-Founder and CFO, Mr. Alex Yang.

Our results and webcast of the conference call are available at ir.tuya.com. A replay of this call will also be available on our IR website in a few hours. Before we continue, I'd like to refer you to our Safe Harbor Statement in our earnings press release, which applies to this call as we will make forward-looking statements.

With that, I will now turn the call over to our Founder and CEO, Mr. Jerry Wang. Jerry, please.

Xueji Wang
Founder, CEO & Director

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

In the third quarter, the global consumer electronics industry faced both opportunities and challenges. AI-native hardware continued to move from concept toward large-scale deployment, with emerging categories such as companion robots and AI toys rapidly becoming new drivers of industry growth. At the same time, upstream component costs, including those of memory chips, continued to rise, while demand in traditional categories remained under pressure. Against this backdrop, we maintained solid growth momentum. Total revenue reached US$98.61 million, up 19.5% year over year. Revenue growth accelerated from the second quarter, marking our 13th consecutive quarter of year-over-year growth and demonstrating the resilience of our business model. Our core PaaS revenue grew by 18.3%, reflecting the continued penetration of smart products across regions and categories. Gross margin remained at approximately 46%, underscoring our solid operating performance amid rising costs.

We continued to embrace AI across our business and made further progress in bringing our AI ecosystems to market. Let me highlight two areas.

First, we continued to expand into new AI product categories and made progress in diversifying our revenue models. In the third quarter, shipments of AI-related product categories grew by more than 400% year over year. At IFA Berlin and the Global Digital Trade Expo, we debuted Doova, an AI home companion robot. With our AI life assistant, Hey Tuya, as the core entry point, we integrated our three application ecosystems – AI Home, AI Robot and AI Energy – with our full-stack Matter solutions. This brought AI capabilities into everyday experiences that users can see and interact with, accelerating AI's adoption in the physical world. Meanwhile, subscription services, including value-added services for AI door locks and pet cloud storage, continued to gain momentum, driving a steady increase in the share of recurring revenue.

Second, our developer tools continued to evolve, extending from hardware development to application development. Following the launch of Tuya Cobuilder in the second quarter, we introduced Tuya AI Coding this quarter. This AI-native, no-code application development platform enables users to create fully functional, deployment-ready AI life applications using natural language, with direct access to Tuya's global cloud infrastructure and hardware ecosystem.

Looking ahead, we will continue to ramp up shipments of AI-native products while strengthening our developer toolchain and commercialization capabilities. We will keep enhancing Tuya Cobuilder, Tuya AI Coding and our agent orchestration capabilities as we extend our support from AI hardware development to AI application development.

With that, I will turn the call over to our CFO for more details on our financial performance and business progress.

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

Hello, everyone. This is Alex. I will give you a brief overview of our third quarter results. Please note that, unless otherwise stated, all figures are in US dollars, and all comparisons are on a year-over-year basis.

In the third quarter of 2026, total revenue was approximately US$98.61 million, up 19.5%, Across our revenue mix, all business segments delivering year-over-year revenue growth.

Within that, PaaS remained the foundation of our growth, with revenue of approximately US$70.1 million, up 18.3%. From a category perspective, education and entertainment, HVAC and thermostat, and home appliances all delivered impressive year-over-year growth. As of the end of Q3, the trailing-twelve-month count of PaaS Premium customers rose by 51 year over year, to 331. These customers contributed approximately 89.6% of PaaS revenue, and our core customer base remained stable.

AI Application & Others revenue was about US$13.58 million, up 18.6%, primarily driven by growth in cloud services, video cloud storage and AI value-added services. Within this segment, recurring revenue from consumer-facing AI subscription services posted robust growth of 59.28% and accounted for 63.87% of segment revenue. We will continue to develop AI-powered protection, AI energy management, pet care and other AI-enabled value-added services, while gradually improving subscription renewals and our ability to deliver ongoing services.

Smart home & robot product revenue continued to grow rapidly, increasing by 26.7% to approximately US$14.97 million. Growth was primarily driven by rising demand in categories such as AI multimodal, AI companion toys and AI energy.

Turning to margins, our blended gross margin was 45.8% for the quarter. By segment, gross margin was 45.7% for PaaS, 75.7% for AI application & others, and 19.3% for Smart home & robot product. Gross margin fluctuations were primarily due to changes in upstream semiconductor costs. Despite this, gross profit grew by 13.6% to approximately US$45.2 million.

We maintained expense discipline while continuing to invest in AI research and development and platform capabilities. Total operating expenses were about US$36.3 million, a slight 0.8% year over year increase. Research and development expenses were about US$25.0 million, up 9.7%, primarily due to higher AI cloud service fees and employee-related costs. These increases were partially offset by a US$0.8 million decrease in share-based compensation expenses.

Profit from operations was about US$8.9 million for this quarter, with an operating margin of 9.0%, up 4.4 percentage points year over year.

Net profit was approximately US$18.5 million, up 23.8%, with a net margin of 18.8%.

Net cash generated from operating activities remained positive at US$12.7 million for the quarter.

Looking more closely at our growth drivers, AI companion toys, AI audio, home appliances, AI door locks, smart displays and gateways, and AI energy performed relatively well during the quarter. Demand in categories such as traditional lighting and traditional IP cameras recovered more slowly, reflecting continued differences in performance across product categories.

AI entertainment companion robots performed particularly well, with revenue up 32% and gross profit up more than 480%. This category is a good example of AI-initial hardware reaching the market at scale. We upgraded these products with a range of new social and communication features, turning AI toys from standalone devices into emotional social endpoints that connect family and friends. Products developed with leading customers, including in-vehicle AI companions, have completed pilot production validation and begun volume deliveries.

Our energy business continued to make progress, revenue growing by 235% during this quarter. Home energy storage revenue increased significantly, and our consumer-grade plug-and-play energy storage products entered the ramp-up phase as we continued to broaden the product lineup. Brand customers in our ecosystem began expanding their distribution channels in key markets, including Germany, the Netherlands and France, while stepping up their branding and marketing efforts. We also continued to enhance our AI energy management capabilities. New features, including AirMesh AI intelligent scheduling, help differentiate our energy solutions.

In home appliances, kitchen appliances' revenue grew by approximately 72% during the quarter, with the integration of color displays and AI voice capabilities emerging as a key area of growth. Air conditioner revenue increased by approximately 66%, as demand for air conditioners with online voice control began translating into shipments. We continued to enhance our solutions that combine cloud-based natural language processing, or NLP, with workflows, further improving response speed and accuracy.

In pet products, camera-based solutions began to see large-scale adoption in categories such as pet feeders and litter boxes. We are progressively developing on-device AI recognition capabilities, moving from simpler to more complex functions, including pet detection, remaining food detection, eating detection and individual pet identification. Together with pet-related value-added services, these capabilities make pet care a key commercialization focus.

For AI door locks, continued upgrades to our Wi-Fi AI audio multimodal solutions supported steady growth. Our Matter solutions moved from development into mass production, with a growing number of customers obtaining Matter certification. We also launched a door lock solution with a separate display, which is expected to generate additional growth alongside our existing video door lock business.

We achieved a breakthrough in home robots this quarter. Home companion solutions using laser navigation and inertial navigation were launched and entered mass production. We also launched solutions for new categories, including mobile air purifiers and mobile trash bins. Our robotics business is evolving from traditional cleaning applications into categories such as companionship and mobile home appliances.

Our PaaS revenue remained geographically diversified, with multiple regions contributing to our business. Europe accounted for approximately 30%, while Asia Pacific (excluding China), China, Latin America and North America each contributed approximately 16%. Other regions, including the Pacific, together accounted for approximately 5%.

Next, let me briefly share our progress in the AI developer ecosystem.

By the end of the third quarter of 2026, our platform had more than 2.18 million registered developers, up approximately 34.67% year over year. AI adoption in smart devices continued to accelerate. Developers had created more than 29,000 AI agents on the Tuya platform for the devices, spanning new smart product categories such as companion robots, AI dishwashers and AI fish tanks.

On the developer side, the launch of Tuya AI Coding this quarter marked an important step in extending our tools from AI hardware development with Tuya Cobuilder to AI application development. Previously, developers who completed hardware development on the Tuya platform still had to build the accompanying apps and cloud services separately. Right now with AI Coding, they can use natural language to generate complete AI life applications and automatically connects them to Tuya's device management, user authentication and cloud service infrastructure, significantly shortening the full development cycle from hardware to applications. It also lowers technical barriers for developers and, more importantly, enables more customers and brands without technical backgrounds to quickly launch their own AI applications on the Tuya platform. This broadens our customer base and deepens platform stickness.

At the application level, we continued to improve Hey Tuya's ability to execute tasks on devices, its control reliability and its responsiveness improved. Subscription and value-added services in areas such as AI energy management, pet care and video understanding continued to grow, with some already seeing steady payments and renewals.

Overall, we continued to demonstrate resilience and growth momentum amid significant industry adjustments and rising costs. We delivered our 13th consecutive quarter of year-over-year revenue growth, with growth accelerating from the previous quarter. Shipments in new AI hardware categories grew rapidly, our developer tools expanded from hardware development to application development, and we made breakthrough progress in our commercialization models. We also maintained stable operating profitability and ample financial resources to support our long-term strategic investments.

Supported by our solid operating performance this quarter and ample liquidity, and in line with our consistently prudent and sustainable approach to capital returns, our board of directors has approved a cash dividend of US$0.0570 per ordinary share and per ADS, totaling approximately US$35 million. This marks the third consecutive fiscal year in which Tuya has paid a dividend, underscoring our board's ongoing commitment to delivering returns to shareholders, as well as the resilience of our profitability and our confidence in our long-term growth prospects.

Looking ahead, we will remain focused on AI-native applications, Physical AI use cases and our developer platform capabilities. We will continue working to turn AI from a set of tools into tangible, scalable commercial value.

Thank you, everyone. Operator, we are ready to begin the Q&A session.

Question and Answer

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions) The first question comes from the line of Yang Liu from Morgan Stanley. Please go ahead.

Yang Liu
Morgan Stanley, Analyst

Thanks for the opportunity to ask questions. And first, I would like to congratulations on the solid earnings in third quarter. I have a question in terms of the business outlook as we are approaching the year end and also the Thanksgiving big sale. Could management share about the business outlook going into fourth quarter next year, especially what is your recent discussion with big customers in terms of their next year plan and demand, especially for PaaS business? Thank you.

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

Thank you, Liu. So we will be starting to do the overview with the customers for the next year's plan, and I'd like to share three major points. The first one is that we found that the AI capability adaptions across PaaS continue to accelerate, from two directions. The first one is that all those existing categories. A typical example is the home appliances. And so those white appliances customers, right now, they're trying to put more and more AI capabilities on their previous generation of their smart appliances. And then that will help us to improve the penetration rate across the home appliances categories and also improve our adoption of AI capabilities with a different offering.

And the second part I could share is new categories. So I already shared some color out there like the AI companion toys and some home robotics. So those categories show robust growth rate, and so that continue to keep. So we were looking forward to have more and more new categories and innovations from this year to be able to scale at next year. So that's the first one where we really see significant or very strong indicators from the AI adoptions.

And the second one I can share is that we still have the fluctuations from upstream cost, including the semiconductors, including some key materials. The cost pressure is still out there. We will see how it goes up. So if the cost could be more stable, we will see that the growth will be more smoothly, but if there is any fluctuations on the cost side, and that will be stressful for the growth. This is the second one.

And the third one is that the growth expectations in different categories do differ a lot. The the more traditional smart categories like the smart lighting and the more cost-sensitive ones like the entry-level cameras. We'll find that in Q3 and in coming Q4, the growth recovery still slower than other categories. So you can still tell a big difference across different categories. But overall, we'll see that tomorrow will be a growing year. And whether it can grow significantly rapidly, and it depends on the point two and point three. And also, we keep a closing eye on how it goes on the global inflation situations, because that will tell a difference about the really consuming powers from the consumers.

Operator

Thank you for the question. Our next question comes from the line of Timothy Zhao from Goldman Sachs. Please go ahead.

Timothy Zhao
Goldman Sachs, Analyst

Good morning. Thank you, management for taking my question, and congrats on the very solid results. My question is about the profitability. Just want to follow-up on your earlier comment on the cost inflation. Just wondering if you can share with us more color on how you look at the PaaS gross margin into fourth quarter and next year. And separately, I noticed that the gross margin of the other segment, which is AI application and others, increased quite likely this quarter. Just wondering if you can also share the drivers behind and what is your outlook for this segment. Thank you.

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

Okay, good. I'd like to give you the answer of the second question first because that will be shorter. So the growth drivers from the margin of the AI applications majorly are as you can see that we continue to increase our recurring cloud-based services for the consumers. So that type of services contributed more to a better margin, and then so come as a revenue mix of the entire AI application segment, our margin continues to increase. So that's the first one.

And so for the PaaS, I already share some color of that. There's a differentiation across different categories in the PaaS. But overall, we'll consider that the PaaS margin will be stabilized for the coming quarter and for next year, and we'll see how it goes. So for us is that, for the first half of next year, it will be likely that we'll have more stable margins on the PaaS side. Whether we will be able to push that higher, I think we'll see how the upstream goes.

And right now, there's still a lot of uncertainty on the upstream side about the different pricing and whether people find a way to the cost down and rely very deeply on how the AI total CapEx goes. So for us, our plan or our expectation is that we look forward to stabilize that. And we find the opportunity, by any chances, if we can recover or if we can re-increase the margins on the PaaS side, we'll do that in the near term.

Operator

Thank you. Our next question comes from the line of Kai Xiao from CICC. Please go ahead.

Kai Xiao
CICC, Analyst

Thank you, management. Congratulations for this quarter. And I have two questions as well. One is AI companion you mentioned in the prepared remarks. So could you share which region contributes higher revenue growth for AI companion and whether this growth is recurring in the future and whether AI companion will bring higher ASP and GP margin for Tuya. That's number one. And second question is on operating cash flow. We see that the OCF has faced some headwinds in this quarter. So I wonder what's the main reasons behind this and what's the outlook for the future? Thank you.

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

Okay, thanks for the questions. The first one is that some what we call AI-native categories like the companion robots. For sure that they contribute the business grows in different way. The first one is that the overall revenue and shipping volume of that category is growing faster or even the fastest among all the categories.

And the second one is that ASP is different. So we have different offering in that category for AI companion robots. And that blended ASP is higher than the regular categories. That's the second one.

And the third one is that, the key very important opportunities for any what we call AI more initial categories is that it's not the one-time offer. So it's naturally combined with the charge per device into the usage subscription by consumers. So it will be naturally hardware and the recurring revenue combined, one-time fee and the recurring revenue combined.

So if we check on the lifetime values of the companion robots or any other AI-initial devices, it will become as a very long-term lifetime values with more recurring revenue coming in the future. So I think that will be the things we will feel very exciting about. So we continue to expand that segment and looking forward to find any new areas out there in the field. So I think that will be pretty much of that one. We love that business model.

And the second one is about operating cash flow. So like I mentioned in Q2 report, in Q2 we make the decision that we increase the inventory into higher levels to protect our future gross profit. And it turns out that our gross profit grows as we expected. But in Q3, the key part is that first one, we still have several payables in Q3, come from the inventory order in Q2. So that will use some of the working capital there. That will be one of the major reasons. And another one is that a few million dollars comes from the increase of my OpEx. So OpEx is less than 1%, slightly around $1 million to $2 million. So that will increase my working capital as well. So that will be the major ones.

Operator

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

Matt Ma
Jefferies, Analyst

Hey, thank you management for taking my question and congrats on the solid results. So my first question is on AI application. So the segment revenue grew almost 19% year on year this quarter, a short rebound from second quarter. How much of this has actually come from consumer subscription? And should we expect double-digit growth continue into the 2027?

And the second question is on dividend. Is the $35 million dividend the full distribution for 2026, or should we expect another one with full-year results?

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

Yeah, thanks, Matt. Let me answer the first one first.

So right now, when we're talking about the categories, and it's for PaaS, so which means that all those kind of offerings, we charge before customers produce the device. So that's the first one. So that shows that our customers are producing and selling more and more devices in that category.

And only after the device has been sold and used on the consumer side, the subscription will start taking place. So right now, we'll find that the majority of the revenues in that category, when we mentioned, has come from PaaS, so it's come from the shipment.

And the recurring ones, we believe that usually you will see that after nine or twelve months, after the device being sold and being well used. So that's how you can see that our AI application segment, those growth will be kind of laid-back effect and after my growth of the PaaS shipment and revenue. So that's for the first question.

So we remain to stick to the shareholders returns of the long-term strategy. So for the company that, we're always checking on our profitability and net cash flows and how the market goes and how the competition goes and future investments. So always making the committed decisions on the dividend. Once we on the situation that we'll be able to offer, we're trying to offer the dividend, as you can see right now.

Operator

Thank you. There are no further questions at this time. I'll now hand back to the management team for closing remarks.

Monica Yu
Investor Relations Manager

Thank you, operator, and thank you all once again for joining us today. If you have any further questions, please feel free to contact IR team of Tuya. Goodbye and see you next quarter.

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