

TUYA Earnings Call Transcript

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Quarter: 3

Operator: Good morning, and good evening, ladies and gentlemen. Thank you for standing by, and welcome to Tuya Inc.'s Third Quarter 2025 Earnings Conference Call. [Operator Instructions] Please be informed that today's conference is being recorded. I'll now turn the call over to your first speaker today, Ms. Regina Wang, Investor Relations Senior Manager of Tuya. Please go ahead.

Regina Wang: Thank you, operator. Hello, everyone, and welcome to Tuya's Third Quarter 2025 Earnings Conference Call. Joining us today are Founder and CEO of Tuya, Mr. Jerry Wang; and our Co-Founder and CFO, Mr. Alex Yang. The third quarter 2025 financial results and website of today's conference call are available on our IR website at ir.tuya.com, and a replay will be posted shortly after our conclude. Before we continue, please note that our safe harbor statement in the earnings press release apply to today's call as we may make forward-looking statements. With that, let me now turn the call over to our Founder and CEO, Mr. Jerry Wang. Jerry will deliver his remarks in Chinese, which will be followed by a corresponding English translation. Jerry, please.

Xueji Wang: [Interpreted] Hello, everyone. Thank you for joining Tuya's earnings call for the third quarter of 2025. In the third quarter, the external environment remains volatile, continuing the trend seen since the beginning of the year. The global consumer electronics industry experienced an uneven recovery with customer demand becoming more cautious in the ongoing macro uncertainties. In addition, the high base from the same period last year created added pressure on year-over-year growth. Against the backdrop, our total revenue for the quarter reached approximately USD 82.5 million, marking our ninth consecutive quarter of year-over-year growth and underscoring the strength of Tuya's business model. Gross margin remained above 48%. This result further reflects the resilience of our business structure and the steady improvements we have made in product mix and operating efficiency over recent quarters. In terms of profitability, supported by an improved gross margin profile, greater expense efficiency and sustained scale leverage, our non-GAAP net margin reached 24.4%, while GAAP net margin was 18.2%. Notably, GAAP net margin expanded by more than 23.6 percentage points year-over-year. Overall, while maintaining key investments in business development, we have continued to optimize our expense structure, enabling incremental revenue and gross profit to translate more effectively in operating profit. At the same time, on the strategic execution front, we continue to fully embrace AI and deepen its integration across our ecosystem. As of the end of Q3, smart devices equipped with AI capabilities accounts for 93.99% of total shipments, an increase from the previous quarter, demonstrating that AI is swiftly becoming the default configuration for smart devices. On the user side, AI adoption is also scaling quickly. AI has clearly moved beyond single category features like AI voice to a broader spectrum of product categories. Tuya's AI agent service now handle 135 million daily interactions for global users, supporting diverse scenarios such as AI home, AI translate, AI health, AI energy, AI pet care, AI [play], AI gaming, AI secure [indiscernible] and AI robotics. AI continues to penetrate a broader range of daily devices and [lab] scenarios, laying the foundation for large-scale product innovation and long-term valuation creation. During the quarter, we also began global beta testing of our new AI agent app with Tuya ecosystem users, aligned with our Smart Life smart living mission, we are currently developing a universal AI life assistance for global users, which is scheduled for official release at the CES show in the United States in just over a month. Now let me turn the call over to our Co-Founder and CFO, Alex Yang, who will share more details

about our financial performance and business progress.

Yi Yang: Hello, everyone. This is Alex. I will now provide more details on the third quarter's results. Please note that all the figures are in U.S. dollar based and all the comparisons are year-over-year based. And we delivered a total revenue of approximately USD 82.5 million in the third quarter, representing a 1.1% year-over-year increase. Despite a strong comparison base last year and continued caution in external demand, we achieved our ninth consecutive quarter of year-over-year growth, underscoring our resilience and stability in our business. With the total revenue, our PaaS business delivered strong results, generating USD 59.2 million, a 2.4% year-over-year increase, driven primarily by our strategic focus on the customer demand and product optimization. In Q3, the number of PaaS premium customers reached 280, further strengthening our core customer base. In addition, fueled by growth in the cloud software products revenue, the SaaS and others business showed consistent expansion, generating USD 11.5 million this quarter, a 15.4% increase year-over-year. This momentum was driven by continued rise in installed devices and a high proportion of recurring revenues. Revenue from Smart Solutions reached USD 11.8 million during this quarter. We strategically scaled by lower efficiency projects and prioritize scalable high-value solutions such as AI energy management solution and spatial AI solution to further improve overall gross margin and cash recovery efficiency. From a regional perspective, in China market, AI Toy continued to show healthy growth in the third quarter. More than 50 customers, including brands, channel partners and solution providers, they launched products powered by Tuya and key product capabilities also continue to advance such as multimodal interactions, long-term memory and emotion expressions with several connectivity versions coming soon as well. These improvements further strengthened the foundation of expanding into new product categories and regional markets. In the European market, demand from AI-powered solutions such as AI cloud storage and AI energy saving solutions continue to rise. At the same time, we added several new industrial clients in the energy and HVAC sectors during this quarter. In Asia Pacific, deployment of Cube, the privatized platforms for several Southeast Asian telecom operators are scaling rapidly with additional cities entering the delivery phase. The Singapore HDB, Housing & Deployment Board of Singapore projects also progressed into implementation with the first bench of the hardware and software solutions delivered and installed in this quarter. In North America, AI-enabled products such as smart bird feeders continue to record healthy growth. The strong adoption validates the commercial potential of niche scenarios that integrates emotional values, frequent content interactions and long-term subscription model and underscores the structural growth opportunities for AI products in mature consumer markets. In summary, despite pressure in the global consumer environment, Tuya leveraged its diversified product portfolios and strong software capabilities to achieve a structural growth. Those trends further strengthen our resilience against external macro volatilities and uncertainties. Moving to gross margin. Our blended gross margin for Q3 in 2025 was 48.3%. Total gross profit reached approximately USD 39.8 million, representing a 6.1% year-over-year increase. This growth was primarily driven by concurrent improvements in both our revenue mix and cost structure. By segment, the PaaS gross margin rose to 48.8%, continued to upward trend from the second quarter of 2025. SaaS and others maintained a strong gross margin of 70.8%, remaining above 70% level. Smart Solutions posted a gross margin of 23.8%, slightly higher than last year's 23.5%. Overall, our Q3 performance in line with our expectations and continue to reinforce the profitability foundation at this stage. On the expense side, we continue to maintain prudent and disciplined financial management. Even as both our scale and profitability expanded, total operating expenses declined to \$36 million. down 34.1% year-over-year. GAAP operating margins improved significantly to 4.6% and GAAP net margins increased 23.6 percentage points year-over-year to 18.2%, while ensuring that R&D; investment in key AI initiatives and platform development remain intact, and we continue to exercise strategic cost control to balance growth quantity and profitability. On the cash flow front, operating net cash flow continued to grow steadily this quarter, reaching USD 30 million, a 25.7% increase year-over-year. Our cash collection cycles remain stable and cash flow quantity materially improved. At the end of the Q3, our net cash balance stayed above USD 1 billion, giving us ample flexibility to balance shareholders' returns, manage external uncertainties and support long-term strategic investment. Next, I'd like to briefly highlight some recent progress in our AI capabilities and developers ecosystem, which serves as a crucial foundation for Tuya long-term growth. At the end of

the Q3, Tuya's platform had 1.62 million registered developers, representing a 23% year-over-year increase. AI adoptions across smart devices also continue to accelerate. Commercial AI developers have collectively created more than 12,000 AI agents on the Tuya platform, covering a broad range of smart products categories, including toys and pet products, electronic, home appliances, IP cameras and wearables. Meanwhile, we continue to deepen and strengthen our AI developer ecosystem, anchored by TuyaOS, TuyaOpen and the T-Series AI Developer Board. On the open source front, TuyaOpen has seen steady growth in both documentation and code engagement. Since the beginning of this year, the GitHub repository star count has increased by about 80%. To date, over 2.3 million lines of codes have been contributed to open source projects. Beyond the rise of the Tuya developer participation, the overall quality of the ecosystem is also improving significantly. In summary, despite the prevailing external uncertainties, we still demonstrate strong resilience and operational agility, achieving solid financial growth and impressive profitability, which steadily advancing the AI plus IoT developer ecosystem across our core business segments. Thank you, all. Operator. We can begin Q&A; session right now.

Operator: [Operator Instructions] Our first question comes from the line of Yang Liu from Morgan Stanley.

Yang Liu: I have one question regarding the business outlook with more and more trade deals settling down in the international trade market, what is the business outlook going into fourth quarter this year, which is the peak season? And also, what is your early look for customers' demand going into 2026?

Yi Yang: Thanks, Liu. I'd like to share 3 points. So the first one is that this year, we still see that with the kind of the softened demand on the growth side. And because of the uncertainties on the global macroeconomy situation this year. And so this year, the Q4, we'll see that the regular promotion season will be kind of the soften versus the last year. So we will keep a closing eye to review that while we already have the stable -- kind of the stable turns across multiple countries that whether the demand will be going to return steadily on December. So that will be the short term. And for 2026, what we see here is that because like Jerry shared earlier before, that all those kind of AI features and smartphone portfolios become more and more inevitable trend for the entire sector. So which means that more and more consumers are already starting to familiar with this type of products, they really become the beginning users of these type of things. And all the major brands and the players, manufacturers in industries are already starting to enter these sectors and bring that into their growth factors. So those type of trend will never stop. So in 2026, we'll have a very positive outlook about the growth -- keep growing the entire business sectors. And the third one I'd like to share is that by reviewing all the technology improvements in the past decade, and we review AI will be one of the booster that bring the IoT experience into next level because in the past, the smart home experience is majorly focused on the connectivities, some automation and control. But while coming out with the AI capabilities, the user experience will come to a next level to more friendly, more easy to use and more smart. And so that's why we decided to provide a new AI assistant for life, which connecting all the home scenarios and to ordinary people and have more people be able to enjoy the smart devices experience. So that will lower another bar for the entry user. So combine that 3 together, the short times, we will see that 2025, there is still some uncertainty and pressure on that. But it's become more and more inevitable and become a default options for major brands and players there, and we're trying to bring the bar lower for more users who are not become the smart devices user as well. So I think that will be the overall -- it's very positive in the long term and [constant] in short term.

Operator: Our next question comes from the line of Timothy Zhao from Goldman Sachs.

Timothy Zhao: Congrats on the solid results. I have 2 questions here. One is regarding the AI home agent that you just mentioned. Just wondering if you can share more color on the detailed specs and the use case of these AI agents that you are going to officially release at CES next month? And how do you think about the impact on the overall business of Tuya with this new product? Secondly, is about the AI overall impact on your PaaS and SaaS and smart solution business. Just wondering for example, for the segment growth this quarter, would you please break down in terms of by volume and by pricing? Has AI brought any positive impact on the overall pricing of your product and services and also the impact on the gross profit margin?

Yi Yang: Okay. Thank you, Timothy. So the first one is that -- so we define this as AI assistant. So it's

bigger than agent. And because we think that if we review the live scenarios, even only for home that you find that you have multiple things you want someone to help you with. So this is AI assistant come with multiple agents that can help you to do almost everything you need in a home. So that's the first one. That's how we design this new assistant. And the key value for the other part, we believe in 2 things. The first one is that while coming out with the adaptations of the GenAI app, including the GPT, including like the Gen-1, et cetera, you found that the AI can help you to do a lot of things, a lot of tasks on the software side. But there's no assistant focus on home. That's what you need for your home and how you want to taking care of the home. So for us is that we design the different type of agents and capabilities focus on those scenarios people want to interact and people want to have a better life quality or easier life experience in home. That's the first one. And the second one is that the key differentiation of this assistant among any generic assistant is that this assistant will naturally be able to interact with the physical scenarios through the hundreds of millions of the Powered by Tuya devices. So which means that we're trying to bring kind of science fiction to come true, like the JARVIS in Iron Man's house, every people appreciate that. Every people, I mean, admire that, but there is no that type of JARVIS yet. So we want to create that type of experience for the global people. So that's how we define the key features and value for the user side. And I think the -- what does it mean for the ordinary users. I think the key part is that right now, we found the smart devices is still kind of complicated. They become way more easier than 10 years before, but still kind of complicated to -- I mean, to learn to use, to interact with by many nonuser, I mean, for those beginners. So those bar is still there. But coming out through the assistant, so you don't have to learn to use the app anymore. And you don't even need -- you just need to know how to speak, right? Like how you can tell the housekeeper to do something, how to tell a servant to do something, it's same like the assistant will be able to take the orders and to do all those kind of complicated operation for you. So we believe that will lower the bar significantly to the -- for the new users for home. And right now, we see that while the penetration of even smart home is still in the low digits and by the entry bar, we'll be able to open more doors for those new users while they found that the smart devices will be accessible for them to use. So that's for the AI assistant part. And the second part -- second question is for the AI. And so first one is that this year, we consider the beginning year of the AI device. So we are very happy to see that finally, our education to the market, to the developers, to the customers are already starting to offer some feedback. So like the numbers we shared before, by end of the Q3, over 93% of the products we shipped this year already been turned on some AI capability. So which means that my customers, my developers are already very actively to try whatever AI features or capabilities they can provide through their devices, even their existing devices. So that's the first one. So we really have a lot of innovative developers trying to try the ideas and try to educate the end users and test end users' feedback. And we believe that will be a very, very typical starting point for any new technology adoption. And so we really have that kind of scale test field taking places. And the second one is that we still provide the AI seamlessly through our 3 business model. So including the PaaS, including the solution, including the SaaS, right now, we have different type of AI offering in different business model as well. So which means that for my customer side, on the procurement perspective, so they don't have to learn how they will be able to purchase something from Tuya differently. It's a similar like offering, but come with different features. And maybe come with a different pricing, maybe not. So for that part is that we try to open -- have almost all my customers defaultly be able to try AI -- try to bring AI into their existing products and solutions. And through that seamless integration into my existing business models, we believe that, that will help in 2 things. The first one is that coming out with a new feature set, any new feature set will bring new demand. So that will be able to speed up the penetration and adoption of the entire market. And we're looking forward to have the AI coming as a booster. And the second one is that with some really new feature set that we reprice that and that will improve our GPM as well. But we're looking forward to have the GPM impact coming very soon because it's still in the beginning. So we try to promote the market. We try to incubate the market in the beginning, but not running very aggressively on the profitability side on that type of niche sector. So that's the overall outlook, Timothy?

Operator: Our next question comes from the line of Mingran Li from CICC.

Mingran Li: Congrats on the solid results, and 2 questions from my side. First is that following adjustment of recent global tariff policy, could management share more color on the downstream order

recovery progress in your overseas market, especially in North America? My second one is that could management share the latest progress on the AI technology, particularly in terms of commercialization?

Yi Yang: Yes. So the first one is that a couple of weeks ago that we get a temporary 1-year terms between China and U.S., right? And so which means that all the merchants importers right now, they have stable cost levels at a specific timing. And so that will be the good things, at least we get some certainty. But the promotion for this year will be pretty locked in. So those kind of new terms will be able to impact for next year's demand. So we're looking forward to have that to be a positive impact. And right now, on the customers and importer side, they still kind of review, okay, what will be the tune for next year and they'd like to review what will be the turns of sell-throughs for this promotion season starting from this week, right? We have the Black Friday this week. So we're looking forward to have more feedback in December, like I described. And while people already know that what cost they're going to get for next year over a year and what will be the demand looks like and then how they set the [teams] for the new projects and the new sell-in reordering. So that's the first one. So still under review. And the second one is for the AI. I think that I already answered part of that to Timothy earlier for the earlier questions. So the first one is that right now, we're offering AI across almost all my categories. We have some generic AI capabilities, can work on anything. And we also have some differentiated vertical AI capability for specific type of the products. But all those kind of offerings are seamlessly integrated into my existing 3 services, the PaaS, the solution and the SaaS. That's the first one. And in this year, on the new device side, including the PaaS and solutions, we're really happy to see some breakthroughs into some new sectors like the toys, and we shared that earlier last quarter as well. So this will be 2, 3 new vertical categories come up with a large total addressable market size and that we didn't touch before. And the IoT never get be able to enter that sector. But coming out with AI, so right now, we'll open the door. And in this year only, we're running 3 quarters only, that's many of the key players in the industry, starting from China in the toy industry and already starting to profit with us. And in Q3, we already helped the customer to launch a lot of use cases to test the demand. And it turns out that the end users love it. And so I would say the trial sales for many of the customers works out. So we're looking forward to continue to improve the experience and also the customers starting to reordering and running a new type of promotion across its all sales channels to scale it. So that's why we see that the AI open new doors. So that's the second one. And the third one is that not only upgrades, kind of upgrades on existing categories and open new categories. So the third one we try to open is the 2C experience. So we're looking forward to using the new AI assistant to open all the new home users doors, especially for those ones who still don't have any smart devices, they still consider that type of devices will be kind of complicated for them. So we're using assistant to help them up. That's it.

Operator: Our next question comes from the line of Matt Ma from Jefferies.

Matt Ma: So I just have one question regarding smart solutions. So the smart solutions revenue declined by around 14% in third quarter. Just wondering what is the reason behind it? And then could management provide any growth outlook for the segment in 2026? And also any thoughts on product category expansion going forward?

Yi Yang: Yes. So I think the first one is that in 2026, we're looking to have a better year versus 2025 because we should have less turbulence for the macroeconomy side on a global basis. And so like I described that the customers right now in many vertical sectors, the customers already think that the AI features or AIoT features will become more and more default for them. So like some categories that every single new project they've been doing, they have to come along with the AIoT. So we become to take a larger portion in their pie. So that's the first one. So we will see that the penetration will grow. I mean, for the overall industries, we continue to grow steadily, no matter what. It's only a matter of speed, which year will be the tipping point. And -- so that's the first one, 2026, and we keep closing eye. We think that we can share more colors around the second half of December, while the customers have more feedback on the end demand side and while they're starting to set the tunes for 2026 because they don't like to run in a very conservative operation base for a long time. They're really running for 2025. So that's -- I think that's for the first one. And the second one...

Matt Ma: The second one is also regarding -- yes, it's also regarding smart solutions. So just want to understand what is our thoughts on product category expansion for smart solutions going forward.

Yi Yang: Sorry, I missed one part. And so I think that for smart solutions, and we're very carefully looking for the expansion to new categories because we're already learning that business model for over 2 years. So I think for smart solutions, we still kind of focus on some strategically highly value categories. And for those ones that the AI can bring a total difference, like to bring some innovative idea to come true without the AI, it never exists and also to some categories that we're really helping customers to do a differentiation to help them out. So usually, the solutions is the one we design for the customers for their flagship model. So that's what we put out. So right now, the solutions, the major categories will be the video and related multimodeling capabilities, the control panels that's super comprehensive interactions on the touch panel side and including the gateways focused on specific scenarios and energy. So I think that for the middle term that we continue to put focus and scale those kind of verticals unless we see some opportunities with the scalabilities in some new vertical categories.

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

Regina Wang: Thank you, operator, and thank you all for participating on today's call and for your support. If you have any further questions, please feel free to reach out to our IR team. We look forward to speaking with you at our upcoming investor event. Thank you, everyone, and have a great day.

Operator: Thank you for your participation in today's conference. This does conclude the program. You may now disconnect your lines. [Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]