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# Call Participants

## EXECUTIVES

**Reg Chai**

*Investor Relations Director*

**Xueji Wang**

*Founder, CEO & Director*

**Yao Liu**

*CFO & Director*

**Yi Yang**

*Co-Founder, COO & Director*

## ANALYSTS

**Yang Liu**

*Morgan Stanley, Research Division*

**Timothy Zhao**

*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 second 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 second quarter 2024 earnings call. Joining us today are Founder and CEO of Tuya, Mr. Jerry Wang; our current CFO, Ms. Jessie Liu; and our Co-Founder and incoming CFO, Alex Yang.

The second quarter 2024 financial results and webcast of this conference call are available at [ir.tuya.com](http://ir.tuya.com). A replay of this call will also be available on our IR 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 a corresponding English translation.

## Xueji Wang

*Founder, CEO & Director*

Hello everyone, thank you for joining Tuya's 2024 Q2 earnings conference call.

The second quarter of 2024 was another milestone for Tuya, with our revenue continuing to meet expectations and achieving a robust year-over-year growth of approximately 29%. Our three main business segments maintained strong gross margins, further reflecting our value proposition and product advantages. Moreover, we achieved our first quarterly non-GAAP operational profit in the company's history, with an operational profit margin of around 10%. This is an extremely encouraging profit level that not only validates the financial viability of Tuya's business model but also highlights our strong operational leverage and our resolute commitment to fulfilling our promises. With this, we have sequentially accomplished our short-term operational targets, and moving forward, we will continue to focus on long-term revenue growth and enhancing profit margins.

Today, on the occasion of this milestone, I primarily want to discuss with everyone several major aspects concerning the company's fundamentals and long-term development.

Firstly, as a leading global cloud platform service provider, Tuya is at a new starting point in the smart technology and industry landscape. This new beginning includes a better competitive environment and a reinvigoration of the smart consumer electronics and business scenarios.

In Q2, our IoT PaaS business experienced a year-over-year growth of approximately 32%, partly due to the industry's recovery and renewed consumer enthusiasm, as seen in the robust export data demand for household appliances and other consumer electronics during the quarter. More importantly, Tuya's ability to acquire new clients and advance with existing customers was amplified by a more favorable competitive landscape.

For example, in Europe, Tuya collaborated with France's leading energy integration firm, AX Tech Group, leveraging our cutting-edge advantages in AI-driven energy-saving technology to deeply explore the energy-saving market, which benefits from substantial policy subsidies and is a basic need in people's lives. We aim to set industry benchmarks and jointly promote the implementation of sustainable smart solutions. Tuya provided software technology including GenAI, strategic algorithms, and platform capabilities, as well as complete smart device solutions.

In Latin America, we saw strong demand for smart transformation and focused on opportunities for ISPs collaborations in the PaaS sector, servicing operator clients with Cube and smart device solutions, and exploring smart street lighting projects in the software scene domain. Based on our extensive cooperation experience with leading telecom operators, we began replicating benchmark projects with leading service provider clients in countries like Central America, Colombia, and Chile. In terms of consumer electronics brands, a six-year-old Brazilian smart home brand emerged as one of the largest smart home brands in Brazil, doubling its growth year-over-year. Our efforts in Latin America directly reflected in an increased revenue share from the region.

In Asia-Pacific, our operator customer base continued to expand, with two additional operators deploying Cube in Q2. Such as one of the largest telecom operators in Vietnam, and the other was a previous customer of Tuya's public cloud. The deployment of Cube will help accelerate their smart business and open up opportunities for cooperation in smart home solutions and industry solutions with Tuya.

These customer collaborations, in addition to recognizing Tuya's technology and product capabilities as a basis for their initial partnerships, also include shifts from other platforms or modes of cooperation to Tuya. This demonstrates that companies are considering both efficiency and quality in their investments under the strong demand for smart solutions. In scenarios where there are limited choices of partners with such comprehensive technical service capabilities, Tuya possesses a significant competitive advantage in customer acquisition.

Second, as a software technology company with over 80% of its revenue derived from various international regions, Tuya remains committed to delivering the best smart technology to global customers and consumers through different product models, ensuring they receive the best smart experience. This particularly includes the integration of GenAI technology and the iteration and development of various new products.

Smart Solution is our high-value integrated intelligent solution that we developed by combining generative AI, embedded operating systems, and cloud software capabilities. Since we formulated the product strategy for smart solutions in 2023 and selected high-value, software-intensive device categories to deliver complete smart products, revenue from smart solutions has been growing rapidly, achieving approximately 44% year-over-year growth this quarter while maintaining a gross margin of nearly 27%. We believe this gross margin level highlights the value of Tuya's software and products, as it is comparable to or even exceeds the overall business gross margins of some leading brands that design, produce, and sell their products.

Our PaaS products and smart solutions complement each other, meeting the personalized needs of different types of customers and providing Tuya with more substantial revenue. This is a highly efficient business model for Tuya for two main reasons: First, the complete smart solutions for devices greatly assist customers in expanding their product categories, helping them accelerate their go-to-market processes to gain a competitive edge. At this stage of smartification, a rich product matrix and smart product ecosystem are essential for every leading customer's business. In this regard, Tuya has a significant capability advantage, and smart solutions will help us better serve customers and enhance customer loyalty. Second, the core of smart solutions lies in generating higher revenue through products with more high-value software capabilities and obtaining correspondingly more meaningful gross profit amounts. Software capabilities have always been Tuya's strength, and through reasonable and controlled R&D investments in complete product solutions, we can achieve more scalable revenue and profits for each smart device.

At present, most of our new customer collaborations involve smart solutions for devices. For example, in the second quarter, we expanded our cooperation with six European brand customers, with Smart Solution orders exceeding 500,000 units, which is

approximately \$5 million. We also secured orders for temperature control valves, gateways, and other devices from Germany's leading retail chain, with a total value reaching \$1 million. Additionally, we signed a multi-million-dollar annual Smart Solution contract with the Dutch company Firefly at Tuya's Global Developer Conference, continuing our deep cultivation of the European commercial lighting market, among others.

Since the second quarter, we have continued to invest in Device & Edge AI, aiming to significantly enhance the smart product experience through Gen AI, thereby providing customers with better product competitiveness and users with more valuable smart experiences and features. We believe that the essence of intelligence should be the innovation of user experience driven by AI, Cloud, and other technologies, and genuinely promoting the increase in penetration rates. I'll give two product examples. The first one is the smart light strip product we have already showcased to the market; generative AI will understand consumers' personalized emotional needs in different scenarios and control the device to present corresponding colors and blinking atmospheres. The other is a pet camera enhanced with GenAI capabilities, which can intelligently capture interesting moments of pets and automatically generate commemorative videos with suitable BGM and effects, giving users a delightful surprise when they open the app. We see that customers are very eager for such products with differentiated competitiveness. On the other hand, we are also introducing GenAI capabilities into smart scenarios, helping users configure their desired smart scenarios through simple conversations, significantly lowering usage difficulty and barriers, and promoting the use and popularization of smart technology. Additionally, continuing to build the developer platform through GenAI and improving the developer efficiency and experience is also part of our platform competitiveness. In the second half of 2024, we will successively launch more new products related to GenAI for our customers and developers.

Finally, as the third point, Tuya's operating margin and financial leverage structure in the second quarter have fully validated the unique value of Tuya's business model. Moving forward, based on our existing experience and foundation, we will continue to strive for further financial improvements and share Tuya's long-term value with all those who support us on our journey—our partners, shareholders, and employees.

This special cash dividend is Tuya's first distribution, totaling approximately \$33 million, an amount roughly equivalent to our non-GAAP net profit for the first half of 2024. The non-GAAP metric, simply put, reflects the results of the company's direct business decisions at the operational level, excluding other factors unrelated to the business model. Based on this, Tuya achieved non-GAAP operating profitability for the first time this quarter and achieved a solid operating margin. At the same time, considering the company's abundant net cash and the fact that we have had positive operating cash flow for five consecutive quarters from Q2 2023 to this quarter, we believe that right now is an opportune moment with a solid foundation, while Tuya is capable of sustaining long-term development on its own, to start providing long-term rewards to all those who have supported Tuya, sharing in Tuya's success.

That's all for the business update. Lastly, as some of you may have seen in this morning's announcement, our current CFO, Jessie, will be stepping down from her role as CFO and Executive Director on September 16th due to personal endeavors. Over the past five years, Jessie's expertise in capital markets and finance has been crucial in shaping Tuya's long-term development strategy and growth. Her efforts in driving operational optimization and efficiency management have made outstanding contributions to improving Tuya's business and financial profitability. I would like to take this opportunity during this call to express our best wishes to Jessie and thank her for her significant contributions to the company over the past five years.

Next, Jessie will share some additional financial data with everyone.

**Yao Liu**  
*CFO & Director*

Thank you, Jerry, for sharing the Company's growth strategies and long-term development philosophy, and also thanks for your kind words. Now, I will discuss our financial results and provide more detail on the numbers that not covered by Jerry. Please note that all figures are in US dollars and all comparisons are on a year-over-year basis unless otherwise stated.

In the second quarter of 2024, our total revenue reached 73.3 million, up 28.6% year over year. Excluding the adverse impact of exchange rates between the US dollar and RMB, our year-over-year growth would have been 31%. Most importantly, we achieved non-GAAP operational profitability for the first time this quarter, with a solid profit margin of 10%. These core financial figures demonstrate that Tuya's strategies and efforts are yielding positive results. As Jerry mentioned, we are encouraged by the fact that Tuya is in a stronger financial and operational position.

Our IoT PaaS revenue in the second quarter was 54.3 million, representing a year-over-year growth of 32.0%. Regarding product categories, we saw robust demand growth across all product categories, with home appliances experiencing the highest year-over-year growth of about 65% due to our efforts on delivering high-value products to our customers, and lighting and electricals achieved an approximately 30% of year-over-years growth due to the normalization of downstream inventory compared to the same period last year. From a regional revenue demand perspective, Europe continues to be our largest market, accounting for about one-third of the total revenue demand. The Asia-Pacific region and Latin America have seen a continually accelerated demand growth, with contributions rising clearly compared to last year. The Asia-Pacific region accounted for around one-third of the total revenue demand, while Latin America's demand contribution increased to nearly 10% to 15% in the second quarter. This structure of regional revenue contribution is similar to Q1, which is a state we are pleased to see and aim to maintain.

On the customer front, we served approximately 3,000 customers in the second quarter of 2024, a slight decrease from the same period last year. The fluctuation in the number of customers in a single quarter is partly related to downstream customers' order placements and their own operational turnovers. However, overall, our "key account" customer strategy has built a larger top-tier customer pyramid, with increased customer efficiencies serving as the best evidence. In Q2, our per capita revenue and per capita gross profit continued to see significant year-over-year increases of about 53% and 57%, respectively. Additionally, our 12-month DBNER has sequentially rebounded for 3 quarters, returning to 127% at the end of this quarter.

The gross margin of IoT PaaS was 47.6% this quarter, remaining at a stable and healthy level, with an improvement of around 3 percentage points year over year. This improvement was driven by a higher proportion of high-margin products in our portfolio, such as home appliances including smart kitchen and pet devices.

Our smart solutions segment recorded revenue of \$9.4 million in Q2, an increase of approximately 44.2% year over year. During the quarter, we continued to achieve strong results in outdoor, central control and energy-saving device solutions such as smart temperature control devices.

The transformation of the smart solutions business has served as an important tool for us to increase customer stickiness and meet their demands for competitiveness in device intelligence. As Jerry mentioned earlier, strategically, smart solutions complement our PaaS products by providing customers with the smart devices they need in the form they desire, whether for the retail market or commercial projects. For Tuya, PaaS leverages our established PBT ecosystem to win with volume, while smart solutions win with pricing through the quality and value embedded in our software. The synergy between the two has driven growth in both revenue and profit, as well as improving revenue efficiency.

Our SaaS and Others sector recorded revenue of \$9.6 million in the second quarter of 2024. This was a stable quarter due to adjustments in revenue structure. Revenue of high-value software value-added services, such as cloud storage and Cube smart private cloud solution, remained substantial. The overall gross margin for SaaS and Others was 71% in Q2, consistent with our expectations based on the mix of services and products.

Regarding the operating activities and expenses, I will provide a detailed view on a non-GAAP basis, which excludes certain items to give a clearer picture of our operational efficiency. We continue to present our operating expenses primarily on a non-GAAP basis. In Q2 2024, our non-GAAP total operating expenses decreased by 15.6% to 27.8 million from 33.0 million a year ago, largely due to reduced employee-related costs in R&D, S&M and G&A expenses, as we now maintain a more streamlined team compared to the

second quarter of last year. These results were achieved not only through internal organization and team management optimizations but also through our continuous efforts to improve efficiency by embracing new methods and technologies. Under our comprehensive strategy of embracing generative AI, we are applying GenAI to improve our internal development, operations, marketing, and logistical efficiencies. Our workforce is expected to remain relatively stable this year.

Regarding sales and marketing activities, we continue to adopt a strategy of appropriately increasing market activities in line with revenue growth and market activity needs. For example, in the second quarter, we received significant attention by hosting the Global Developer Conference in Shenzhen at the end of May. One of our next major events will be participating in the IFA in Berlin in early September, where we will showcase the new experiences GenAI can bring to the industry and developers. On the other hand, by co-marketing with customers and hosting exhibitions, we help reduce our own costs while also assisting customers in increasing their industry influence.

Driven by strong revenue growth, enhanced efficiency, a stable gross margin supported by our product's strong value proposition, and excellent control over expenses and costs, the second quarter marked Tuya's first-ever non-GAAP operational profitability. We are confident in this achievement because Tuya's business model allows for profit growth at the topline without requiring significant additional expense. As a result, these profits will largely translate into profit increments for the company, which is why our non-GAAP operating profit margin directly reached around 10% in the second quarter, as the first-time achieving breakeven. This milestone also indicates that Tuya has entered a new phase of business operations, one that is self-sustaining.

Finally, in the second quarter, we continued to record approximately \$12.5 million in interest income, providing additional capital for our daily operations. We continue to follow a consistent capital strategy, prioritizing the protection of our principal while maximizing fund supplements. As a result, our non-GAAP net profit reached 20.8 million, setting a new quarterly record. Operating cash flow continued to exceed \$10 million, and our net cash reached over 1 billion by the end of the second quarter.

Overall, we are thrilled about the qualitative changes in our financial performance in the second quarter and believe that Tuya now has a solid financial and operational foundation, allowing us to reward our supporters with cash dividends. Looking ahead, we're committed to continue driving top-line growth, operating leverage, healthy cashflow and shareholders' return.

This concludes my presentation on the company's financial performance. Over the past five years, Tuya has experienced significant growth and transformation. I'm proud to see that Tuya today has become a public company with strong competitive advantages, financial growth, healthy profitability and ample capital reserve. Alex, a co-founder and colleague I deeply respect, will be succeeding me as CFO. Alex played a key role in early stage fund raising for Tuya before I joined and he was also a key member during our IPO roadshows. Post IPO, Alex also attended a lot investors communications and he has a lot capital market experiences. He's here today and will join us for the Q&A session.

**Yi Yang**

*Co-Founder, COO & Director*

Hello, everyone. I'm excited to engage in many discussions with you in the future.

**Yao Liu**

*CFO & Director*

With that, operator, we are 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*

My question is about the future demand outlook. Given we'll be facing relative high base starting from second half last year, what will be the expected top line growth and whether the -- almost 30% growth in first half can be sustained in second half? Thank you.

## Yi Yang

*Co-Founder, COO & Director*

Thanks for the question. This is Alex. So, I'd like to address this question from both an external and Tuya-specific perspective. As a company embedded within its industry and the current era, Tuya's strategy is to seize the right opportunities and take actions that align with our capabilities and vision. Thus, the macroeconomic environment is crucial, as has been demonstrated over the past three years. However, what's even more critical is how the company positions itself to capitalize on opportunities and expand revenue in the face of competition and market dynamics.

Externally, we observe that after a recovery in the first half of the year, the macroeconomic environment has stabilized. You might have closely followed China's export data for the first half and the second quarter, which serves as a significant indicator of global demand within the global supply chain. For example, driven by factors like inventory replenishment in Europe and the U.S. and new demand from emerging markets like Southeast Asia, the number of household appliances exported from China grew by approximately 25% year-on-year in the first half of the year, according to Chinese customs data. This is a robust result. Of course, smart devices extend beyond just home appliances, and we've seen similar trends in other categories, such as strong recovery and growth in smart lighting in the first half, with consumer security products also performing solidly. Additionally, in observable markets, we've noted that some downstream companies in non-smart sectors of consumer electronics have also shown quite good performance, with their market positioning and value chain stages being similar to those of our customers in the consumer electronics sector.

Of course, you might have noticed the July data. Although household appliance exports in July still achieved a year-on-year growth of 16% in value and 23% in volume, there was a slight slowdown in momentum on a month-on-month basis. This is a normal phenomenon due to the seasonal and cyclical nature of consumer electronics, with peak and off-peak seasons. Generally, Q3 is a relatively off-season, while Q4 is a peak season due to promotional preparations before Christmas and Black Friday. Taking these factors into account, we believe the industry is in a positive state of development.

The next key question is what Tuya will do and should do. In this context, Jerry's earlier presentation has also outlined Tuya's strategy and focus areas quite clearly. Currently, Tuya operates a "cubic model," comprehensively covering the intelligent needs of enterprises. The X-axis represents the diverse needs of customers. For instance, some customers possess strong supply chain capabilities but lack cloud and software intelligence, where Tuya's PaaS products come into play. Others need complete end-to-end smart device and business capabilities, which is where Tuya's smart device solutions and Cube Smart Private Cloud products meet their needs. Some customers require operational functions, so Tuya offers SaaS software products like cloud storage. So that's the X-axis.

And Y-axis represents industry diversity, covering everything from single smart consumer electronics retail products to multi-category ecosystems of smart homes, commercial scenarios, and specific industry attributes like space-saving energy efficiency, all fully supported by Tuya's platform.

So lastly, the Z-axis represents geographical diversity. As a global smart cloud platform service provider, our customers, developers, and ecosystem partners span the globe, providing a solid foundation for our overall business and performance to tackle regional



challenges and seize opportunities. You've seen that our European business remains steady, but the growth rates in Latin America and Southeast Asia are even more impressive. This has contributed significantly to the 29% year-on-year revenue growth in the first half and the 10% non-GAAP operating margin achieved in Q2.

So looking ahead to the second half of the year, it's well known that due to the ordering patterns of the downstream smart consumer electronics industry and the high base of year-on-year revenue growth in Q3 2023 as comparable period, it's challenging to provide an accurate year-on-year number today. However, considering all the above characteristics and competitive advantages together, we remain optimistic about continued year-on-year growth in our core business in the second half of the year.

**Operator**

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

**Timothy Zhao**

*Goldman Sachs, Research Division*

Thank you for taking my question. I have two questions here. The first question is regarding the OpEx and operating profit trend into the second half of this year? And secondly, after a special dividend announcement, I want to ask about the longer term shareholders' return policies? Thank you.

**Yao Liu**

*CFO & Director*

Okay. Thanks, Timothy. I think your first question is about our forward-looking of operating profitability, and the second question is about our long term view of cash dividend. So I would take on this first question and Alex will take on the second question.

So achieving profitability is not something that can be decided one quarter and accomplished next. It is fundamentally about the business model and the strategic direction followed by the collective execution efforts of the entire organization. Reaching non-GAAP operating breakeven this quarter is a significant milestone and achieving a 10% margin on our first attempt is something we considered to be a strong outcome.

Moving forward, we will continue to balance growth with profitability, with the next goal being to expand our scale of revenue so that the margin and profit figures become more meaningful. To this end, we have a solid foundation and experiences that we can share. First, Tuya's income statement has a rather clear financial logic. Thanks to our business model, our enterprise services developer community, and the platform, we do not need to make significant incremental investments to acquire customers to generate revenue. So this means that the additional gross profit generated will, under effective cost control, translate directly into profit, a significant portion.

Our overall gross margin is a structural result of the combined gross margin across our three major business segments, which themselves reflect market competition and product value. While there will be quarterly fluctuations, the margins remain stable overall. From a gross profit perspective, our gross profit has seen considerable and efficient growth over the past year, alongside the revenue and the current size of our team. This growth in gross profit is our source of profitability.

Second, our cost control measures have been evident to everyone. Since the end of 2021, we have consistently maintained a downward trend in expenses, with non-GAAP operating expenses remaining slightly over \$30 million over the past several quarters. Admittedly, the return to revenue growth has given us the confidence to modestly increase market and sales investments as needed, but we will rigorously control costs overall, balancing the need for operating leverage and profitability, and ensuring that every dollar is spent wisely. Overall, on the operational side, we hope and are willing to see non-GAAP quarterly operating margins maintaining a similar level to Q2.

Regarding net profit and net profit margin due to the expectation of interest rate cuts and considering market volatility beyond Tuya's control, we will strive to secure supplementary financial gains while ensuring capital protection. As for GAAP operating profit or loss and net profit, they may experience quarterly fluctuations due to some non-operational factors, such as share-based compensation expenses and the class action litigation costs, et cetera. However, we believe this doesn't affect the judgment of Tuya's fundamental business operations.

And Alex will go for the dividend question.

**Yi Yang**

*Co-Founder, COO & Director*

Yeah. So the dividend is a topic of great interest to everyone. Let me take the opportunity to explain the “special dividend” we announced. First of all, it is called a special dividend because there is no legal definition of non-GAAP earnings. Under GAAP, Tuya has not achieved full-year profitability due to relatively large non-cash share-based compensation expenses, making it difficult to issue a final or annual dividend from a compliance and prudence standpoint. However, the actual dividend amount of approximately \$33 million corresponds to Tuya's non-GAAP net profit for the first half of the year. We based this decision on our current non-GAAP operating profit level, cash flow, net cash position, and other relevant core financial indicators, planning the dividend amount and timing based on all these considerations including actual net profits.

We believe that it is the right approach to prioritize performance first and then build a long-term and sustainable shareholder return model while ensuring the company can invest and grow according to its strategic needs.

**Yao Liu**

*CFO & Director*

Operator, we can go for next question.

**Operator**

One moment please. Our next question comes from Kai Xiao of CICC. You may now go ahead.

**Kai Xiao**

*CICC, Research Division*

My question is regarding the Gen AI. As you mentioned, Gen AI is an important strategy for Tuya. Could you further share some of your progress in Gen AI, such as key AI function, typical customer case, customer feedback, and your further AI investment budget as well? And some color on the Gen AI monetization progress would be great? Thank you.

**Yi Yang**

*Co-Founder, COO & Director*

Yes, so we are currently actively developing several smart device products based on Gen AI technology, covering various categories such as smartwatches, smart rings, AI headphones, smart speakers, and AI glasses. Each product aims to further integrate large model capabilities on top of their existing functions to provide a more personalized and intelligent user experience. For example, smartwatches and rings will be able to generate more personalized AI reports for users, enhancing interactivity through AI watch faces and GPT voice assistants. AI headphones currently support transcription and summarization, and we plan to expand their capabilities to include real-time transcription and translation in the future. These categories complement Tuya's smart ecosystem well, which is why they have gained popularity in emerging markets like APAC and Japan. The addition of Gen AI capabilities will significantly enhance the competitiveness of Tuya's solutions, creating better customer engagement and user experience.

So, these products are currently under intensive development within ourselves, with many projects expected to enter trial productions in the fourth quarter this year. For example, we plan to launch smart speaker products with Gen AI capabilities, including a Chinese version, in Q4, and gradually integrate these AI capabilities into our PaaS offerings for developers. Overall, revenue from AI smart devices and software products may begin to manifest gradually starting next year.

Regarding the monetization of Gen AI, we believe there are two relatively feasible approaches. The first is to integrate these capabilities into products for customers and developers to use as they see fit. This way, the products they create will inherently possess Gen AI capabilities, which can then be sold to downstream end-users, such as consumers, who can subscribe to Gen AI features through their smartphones on a pay-per-use basis. This is a classic SaaS model, which has the advantage of not imposing additional costs on our customers, thereby helping Tuya's differentiated products gain market shares, with stable revenue generated through voluntary payments at the end-user level we have. The second approach is to include GenAI capabilities at an additional and appropriate price within our products, such as PaaS or Smart Solutions model. The benefit of this is that it allows us to precisely target customers who have a real competitive need and a strong desire to excel into the smart business. We will select the most suitable and business-driving charging model for different categories and scenarios.

**Operator**

Thank you. We've reached the end of the call, and I would now like to hand it back to the management team for any closing remarks.

**Reg Chai**

*Investor Relations Director*

Okay. Thank you again for joining our call today. If you have any further questions, please feel free to contact us or request through our IR website. We look forward to speaking with everyone in our next earnings call. Have a great day today. Thank you.