

Jim Suva, SVP Finance, Treasurer, and Investor Relations

Thank you, operator, and good afternoon, everyone. Thank you for joining us on Cricut's third quarter 2024 earnings call. Please note that today's call is being webcast and recorded on the Investor Relations section of the company's website. A replay of the webcast will also be available following today's call. For your reference, accompanying slides used on today's call, along with a supplemental data sheet, have been posted to the investor relations section of the company's website, investor.cricut.com.

Joining me on the call today are Ashish Arora, Chief Executive Officer, and Kimball Shill, Chief Financial Officer. Today's prepared remarks have been recorded after which Ashish and Kimball will host live Q&A.

Before we begin, we would like to remind everyone that our prepared remarks contain forward-looking statements and management may make additional forward-looking statements, including statements regarding our strategies, business, expenses, and results of operations, in response to your questions. These statements do not guarantee future performance, and therefore, undue reliance should not be placed upon them. These statements are based on current expectations of the company's management and involve inherent risks and uncertainties, including those identified in the Risk Factors section of Cricut's most-recently filed Form 10-K or Form 10-Q that we have filed with the Securities and Exchange Commission ("SEC"). Actual events or results could differ materially. This call also contains time-sensitive information that is accurate only as of the date of this broadcast, November 5, 2024. Cricut assumes no obligation to update any forward-looking projection that may be made in today's release or call.

I will now turn the call over to Ashish.

Ashish Arora, Chief Executive Officer

Thank you, Jim, and welcome everyone.

Total sales in Q3 decreased 4% YoY. We are pleased with the increase in paid subscribers in Q3 up 5% YoY, which exceeded our expectations. International sales grew 2% YoY with some benefit from foreign exchange rates.

In Q3, Platform revenue increased slightly on paid subscriber growth. Products revenue declined 7% as connected machines revenue declined 11% on higher promotions planned for the Q4 holiday season. Accessories and materials declined 3% on more favorable comps.

While paid subscriber growth is indeed a win, we would benefit from stronger acquisition and engagement. We ended the quarter with just under 5.9 million Active Users who cut in the past year, down less than 1% from a year ago and our 90-Day engaged users declined 3%.

We continue to experience engagement erosion from our large 2020 and 2021 pandemic cohorts, and from prior years, who age on their engagement curve and are not offset with as many new users in recent quarters. While we want to improve engagement for all our users, our focus remains to maximize engagement of our most impactful users from a monetization perspective which are new users onboarding onto the platform, or Onboarders, and Access Subscribers.

During Q3, we continued to make solid progress on our initiatives to drive engagement with our new members. We introduced several improvements to make it easier for new members to connect their new machines and

successfully design and make their first projects. As evidence of this success, we have seen almost a 50% increase compared to a year ago in new users who successfully connect their machine within the first 5 minutes of the connection process. As a reminder, Onboarders are a particular focus because the more they interact with our platform early the more likely they are to interact with our platform over time.

We have further integrated Education and Help resources directly within the onboarding flow and redesigned the Home page for new members to further tailor it with inspiration most appropriate for beginners. We have also automated steps that we know are common pitfalls for new members. At the end of Q3, we also introduced in beta an AI-driven Help assistant to a portion of our members. We are pleased with the initial response from beta users and plan to roll it out specifically with Onboarders during Q4.

Evidence that these efforts are having a positive impact is that this is the second consecutive quarter of a YoY increase in the share of members who complete a project during their first day and who complete multiple projects in their first week.

To benefit all members, we continued during the quarter to make improvements to our software platform, specifically in helping them search and find inspiring content on our platform and removing friction in designing their projects in Design Space. Based on our A/B testing, our filtering and machine learning algorithms have rolled out several improvements to our search capabilities. We have also made content flows simpler by placing images on panels directly adjacent to the Canvas, making images a single click away. Measured in terms of time to find and place an image onto the Canvas, we have seen an over 20% improvement year to date. A major focus in Q3, has also been our text and font editing capabilities, and we now have a much broader support of characters among our most popular fonts.

Recently our marketing team has made great progress bringing members back to Design Space after their last visit via email, push text notifications and paid social campaigns in a much more personalized, relevant and automated manner. Our first engagement marketing campaign utilizing this platform went live at the very end of Q3. We plan to scale this effort during Q4 and Q1.

While our overall Engaged User metrics have not stabilized as of Q3, we are confident in our efforts to deliver a simplified and more personalized experience using our Design Space platform and our ability to leverage a much more scalable engagement marketing infrastructure.

During Q3, we conducted a Market Mix Analysis for machine sales in the US and Canada. The results show that our investment in top and middle-of-funnel marketing had a positive impact on machine sales in the first half of 2024. In addition, the analysis shows that the overall spend on these channels has an attractive ROI. Given these results, we are continuing the higher level of marketing spend.

Our deeper promotional strategy during key selling times of the year that we started in late 2023 is working. For example, we are pleased with the results from the Fall Amazon Prime Day. During 2024, we have worked with retailers to get to more healthy inventory levels. We are pleased with this progress and believe the channel inventory is healthier this year compared to prior years as we head into the important holiday season. Notwithstanding, there remain pockets in the channel where we would like to see more on-hand inventory for holiday.

Accessories and materials declined 3% YoY on more favorable comps and compares to declines of 27% and 26% in Q2 and Q1, respectively. Our materials are engineered to work seamlessly with our machines to create the best user experience. Recall in late Q1, we launched the Cricut Value line of materials, which we designed to compete in online marketplaces. I am excited to say that the Cricut Value line has been well received and we launched additional SKUs in Q3 following the initial launch of a limited number SKUs in late Q1. We are even more optimistic about this product now that we have a bit of history in the market, but it's still early and a small portion of our portfolio. We have additional innovation, products and cost reductions coming in the quarters ahead.

We are focused on attracting more new users to buy our connected machines, reversing weakening engagement trends, re-injecting enthusiasm among our users and being more effective competitors in accessories and materials.

We are intensely focused on the overall customer experience, and we are motivated to work with those retailers that help us create a great experience both on shelf and for actual use of our ecosystem. It is our fundamental belief that when we give people more reasons and inspiration to make things that are appealing to them and ensure the customer has access to affordable and quality materials, we will see an improved user experience, which is one of the reasons that we offer bundles with many of our machines in select channels. We are driven to continue to innovate and improve our platform and user experience, while exhibiting both longer-term focus and current discipline.

I will now turn the call over to Kimball.

Kimball Shill, Chief Financial Officer

Thank you, Ashish

In the third quarter, we delivered revenue of \$167.9 million, a 4% decline compared to the prior year and in line with our expectations.

Breaking revenue down further, Q3 2024 revenue from Platform was \$77.7 million, up slightly YoY. While paid subscribers increased 5%, Platform revenue was up less, as the mix shifted more to annual vs monthly subscriptions, and geographic mix shifted more international. Both shifts are targeted efforts. Platform ARPU increased 3% to \$52.86.

Revenue from Products was \$90.2 million, down 7% over Q3 2023. Connected machines decreased 11%, driven primarily by more promotional activity planned for Q4. Accessories and materials decreased 3% on favorable comps.

In terms of geographic breakdown, international revenue was \$38.5 million or up 2%, compared to \$37.6 million in Q3 2023. Foreign exchange benefitted international sales by just under 2%. As a percentage of total revenue, international was 23% in Q3 2024, compared with 21% of total revenue in Q3 2023.

Turning to Active Users and engagement. We ended the quarter with just under 5.9 million Active Users, a decline of less than 1% from a year ago. We ended the quarter with over 3.5 million 90-Day Engaged Users, which was a 3% decline from Q3 last year. As Ashish mentioned, we are encouraged by improvement in leading indicator metrics for Onboarders but have more work to do to improve overall engagement.

We ended the quarter with over 2.8 million paid subscribers, up 5% from Q3 2023, and up sequentially. As discussed in earlier calls, there is some natural subscriber attrition; so, subscriber growth will be challenging until we increase the pace of machine sales and new user acquisition.

Moving to gross margin. Total gross margin in the third quarter was 46.1%, a slight decrease compared to 46.8% in Q3 2023.

Breaking gross margin down further, gross margins from Platform were 87.1% compared to 89.3% a year ago. The decline in Platform gross margins was primarily related to higher software development costs and higher hosting fees compared to a year ago, which we expect to continue.

Gross margin from Products was 10.7%, compared to 13.1% in Q3 a year ago. The decrease in gross margins was primarily due to our decision to be more promotional, offset partially by less inventory reserves.

Total operating expenses for the quarter were \$66.8 million and included \$11.4 million in stock-based compensation. Total operating expenses increased 15% from \$58.2 million in Q3 2023, driven primarily by increased sales and marketing efforts that we have talked about for the last couple of quarters. Recall, Q3 2023 benefited from \$4.5m of net bad debt reversal.

Operating income for the quarter decreased 55% to \$10.6 million, or 6.3% of revenue, from \$23.7 million, or 13.5% of revenue in Q3 last year.

We had some discrete items which lowered the effective tax rate for Q3. We expect our full year tax rate to be around 29.5%.

Net income was \$11.5 million, or \$0.05 per diluted share, compared to \$17.2 million, or \$0.08 per diluted share in Q3 2023. This marks our 23rd consecutive quarter of positive net income, as we continued to invest in our key priorities while running the company in a profitable manner and for long-term value creation.

Turning now to balance sheet and cash flow. We continued to generate healthy cash flow on an annual basis, which funds inventory needs and investments for long-term growth. In Q3, we generated \$70 million in cash from operations, compared to \$36 million a year ago. We ended Q3 with a cash, cash equivalents, and marketable securities balance of \$247 million. We remain debt free. Current inventory decreased by \$136 million from a year ago to \$168 million at the end of Q3 2024.

During Q3, we used \$10.3 million of cash to repurchase 1.8 million shares of our stock, resulting in \$30.8 million remaining on our \$50 million authorized stock repurchase program. In July, we paid approximately \$108 million in dividends for the special one-time dividend of \$0.40 per share, plus our first recurring semi-annual dividend of \$0.10 per share. The Board of Directors authorized our second recurring semi-annual dividend of \$0.10 per share for shareholders of record on January 7, 2025, and payable on January 21, 2025.

These capital allocations are possible due to past profitability and our confidence in the sustainability of our future profitable operations. We want Cricut to always have ample liquidity to sustain and grow our business, but not hold excess cash. We do not anticipate the need for any debt or utilization of our credit line in the near term. Now on to our outlook.

Outlook

Recall, we do not give detailed quarterly or annual guidance, but we do want to offer some updated color on our outlook for the rest of 2024, which remains generally unchanged.

Given the first three quarters of the year, we expect sales will decline for the full year. We expect continued sales pressure on our Products segment, and accordingly, total company revenue likely will be down Q4 YoY.

We expect paid subscribers to grow compared to Q4 2023 and we expect Platform revenue to be up slightly.

As we stated above, we plan to continue our increased spend on sales and marketing.

Given year-to-date performance, we continue to expect some incremental improvement in operating margins for the full year.

Our long-term financial model remains unchanged with operating margin targets of 15% to 19%. Our proven model has demonstrated that when we operate at scale, which we define as revenue above \$1 billion, and drive top line growth, these margins are achievable.

With that, I'll turn the call over to the operator for questions.