Jim Suva - Cricut, Inc. - SVP Finance, Treasurer, and Investor Relations

Thank you, operator, and good afternoon, everyone. Thank you for joining us on Cricut's fourth quarter 2025 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, tariffs, capital allocation, 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, March 3, 2026. 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 - Cricut, Inc. - CEO

Thank you, Jim.

While we are pleased with increased profitability and growth in paid subscribers and global machine sell-out units, we are disappointed in the lack of total company sales growth for both Q4 and 2025. We are working with tremendous urgency and focus to drive a mass market experience, accelerate our development cycles, and compete better.

I would like to look back on 2025 on what went well, what we could do better, and our priorities for 2026. Kimball will go through much of the financial details and how we look at 2026.

We are pleased with our increased profitability and the over 4% increase in paid subscribers in 2025, along with positive machine sell-out units. This was our ninth consecutive year of positive net income as we generated $76.7 million of net income, which increased 22% or $13.9 million compared to 2024. In 2025, we launched two new cutting machines, a new mini heat press, several new materials including greatly enhancing our Cricut Value line, and significant improvements in our software platform that includes compelling AI offerings and easy-to-use project guided flows. We are disappointed we did not post positive full-year revenue growth. Total company sales decreased less than 1% for the full year and decreased 3% YoY in Q4. We believe Cricut is a growth business, and we are intent on proving it.

Last year, I mentioned we were fundamentally simplifying our user experience. We are delivering on this commitment with our new project guided flows, which are in the process of being rolled out to our entire user base. While it is still early, we are pleased with initial results and feedback.

We are relentlessly focused on increasing our speed of execution and are accelerating investments that will help drive future revenue growth. These accelerated investments are in hardware product development, materials, and engagement. You can see the early fruits of these efforts from our 2025 launches that I summarized above. Thus far in 2026, we have already launched two next-generation cutting machines, new heat presses, a new Direct To Film (or DTF) service, and I am excited about our future roadmap. We will continue a similar cadence of marketing and promotional spend as the prior year.

We are focused on four main priorities: New user acquisition, User engagement, Subscriptions, and Accessories & Materials.

New User Acquisition

We continue to focus on new user acquisition and engagement growth on our platform, which ultimately drives our monetization flywheel.

In Q4, we amplified our marketing reach by strengthening our visibility during this key shopping period. We continued with increased marketing investment and activated several high-profile partnerships alongside new advertising opportunities. These efforts led to increased marketing engagement and an increase in Google searches for “What is Cricut,” which we have historically watched as a leading indicator. We believe these efforts will continue to bear fruit in 2026. While we did not grow revenue in the quarter, we did see a continued improvement in sell out of connected machines, which we believe is a result of our ongoing marketing efforts. Quarter to date in 2026, we continue to see positive connected machine sell out.

In 2026, we are leaning even more into our bundle-first strategy with a cohesive out-of-box experience that includes tools and materials with the machine along with a tightly integrated guided software flow. With that, we are excited to announce the introduction of two next-generation cutting machines with all-new architectures: Cricut Joy 2 and Cricut Explore 5. The overall consumer experience embedded in these new machine bundles represent the start of a new era at Cricut.

User Engagement

Recall last year, I mentioned we would fundamentally simplify our user experience. We delivered on this commitment as we introduced guided project flows for our most popular use cases. These include Vinyl Decals, Iron-On T-Shirts, Folded Cards, Cardstock Cutouts, Insert Cards, and Stickers and Labels. While it is too early to see a material change in engagement from these improvements as they were only recently rolled out, we are pleased with early feedback, especially for onboarders.

Engagement erosion continues to moderate as we held active users about flat for the year at just under 5.9 million Active Users. 90-Day Engaged Users, who cut during the quarter, declined 3% YoY.

Our ability to hold active users about flat is the result of multiple efforts. The performance and reliability of our platform continue to increase, which made this holiday making season a more frictionless experience for our users. We have introduced several improvements to the core functionality of our design experience.

Our AI-driven features, both user-facing such as Create AI, or behind-the-scenes such as search algorithms, continue to drive positive impact. For example, Create AI lets users take their personal images, easily add complementary text, and choose an output style to create unique designs ready to cut, draw or print. This dramatically improves the likelihood of user success.

Create AI lets users generate ready-to-make images using credits as part of their subscription plan and is an acquisition driver to attract non-subscribers to sign-up for Cricut Access. We see the use of AI-assisted images and project creation as complementary to our growing image library from our Contributing Artist Program and our curated guided flows and associated templates for the most common project types.

Beyond these continued improvements within our app, we have continued to improve our engagement marketing efforts to drive returning visits to Design Space.

As a result of all of our efforts, we have seen our Net Promoter Score (NPS) improve meaningfully in the past 12 months.

Despite the continued pressure on our Engagement metrics, we are confident in our efforts to simplify our design experience by assisting users based on their project intent, selling more of our connected machines in bundles configured to work seamlessly with these new guided flows, and continuing to grow the number of images, fonts, editable templates and AI features available to users. We look forward to 2026, which will be the first year of our cohesive consumer experience that integrates our bundle-first strategy, coupled with our new, simplified project workflows that leverage AI throughout the making experience.

Subscriptions

In Q4, our paid subscribers increased by over 4% YoY to just over 3.09 million.

Paid subscribers continued to be a big positive for us and increased 132,000 YoY in Q4. We are also seeing positive trends on win-backs, where our promotional offers are driving increased sign-ups from prior subscribers. We believe our new platform enhancements including new project guided flows, templates, and Create AI enhancements will continue to provide benefits and value to our subscribers.

We have a rich roadmap to continually increase the value proposition for subscribers. As I previously mentioned, we launched Create AI for our Cricut Access Subscribers, and we will continue to introduce more AI-driven features. Our goal is to make it incredibly compelling to be a subscriber to leverage our content and software tools.

Accessories & Materials

Accessories and Materials sales decreased 13% YoY in Q4 and declined 9% for the full year. We realize that over the last several years, we have lost ground to competition in material types where there are low barriers to entry. We continue to see competitive pressure increase, manifesting in white-label brands in retailers, as well as new entrants in online marketplaces and in retail. We have embraced the challenge of providing refreshed and cost-competitive materials and accessories offerings. As these offerings continue to roll out, we intend to reclaim market share and, by doing so, enhance the making experience of our users. I am pleased to report that we have seen share improvements globally within online channels and at select, large retailers across the category. For example, we see our Value line continue to accelerate in online marketplaces, we continue to regain share in heat presses, and we continue to make progress with driving costs out of our supply chain as we fight to counteract tariffs and address affordability for our consumers.

In Q4, we launched a new EasyPress Mini LT that addresses affordability concerns and is available in four attractive colors. During Q1, we launched our new heat press, Cricut EasyPress SE, which comes in two sizes and a variety of colors. These machines provide a professional-quality heat transfer experience without the complexity or large size of an industrial press. They support a wide range of materials, including iron-on, Infusible Ink, sublimation, and DTF.

I am also excited to share that in Q1, we launched a DTF service. DTF lets users create in Design Space vibrant, full-color, personalized artwork that is printed onto a special film, coated with adhesive powder, and then pressed onto fabric or other substrates. DTF gives us the opportunity to leverage our Design Space platform and guided flows that we have been investing in over the past year. This is an example of new opportunities we are exploring to monetize our platform and content beyond cutting machines.

As you can see, our team has been very busy with R&D, innovation and new products. We are not done and we have a great line of new products on our future roadmap. We continue in our relentless focus to drive costs out of this business. We are intensely focused on the overall customer experience. It's our fundamental belief that when we give people more reasons and inspiration to make things easily and affordably, we will see a lift in materials consumption. We are driven to continue to innovate while exhibiting both long-term focus and current discipline.

With that, I will turn the call over to Kimball.

Kimball Shill - Cricut, Inc. - CFO

Thank you, Ashish, and welcome everyone. In the fourth quarter, we delivered revenue of $203.6 million, a 3% decline compared to the prior year. Full year 2025 revenue was $708.8 million, less than a 1% decline from 2024. We generated $7.8 million in net income or 3.8% of total sales in Q4, and $76.7 million or 10.8% of total sales for the year.

Breaking revenue down further, Q4 2025 revenue from Platform was $83.9 million, up 6% YoY. We ended the year with just over 3.09 million paid subscribers, which is up 132,000 or more than 4% YoY and up 87,000 or 3% from Q3. For the full year, Platform revenue was up 5% and ARPU increased 5% to $55.77 from $53.12 a year ago. Platform revenue was up slightly more than paid subscribers primarily due to the benefit of FX.

Q4 Revenue from Products was $119.7 million, down 8% YoY. Connected machines revenue decreased 4% YoY in Q4, driven primarily by lower average selling prices as we were more promotional preparing for new product launches in Q1. Accessories and materials decreased 13% in Q4. For the full year, revenue from Products decreased 5%, driven mostly by the 9% decrease in accessories and materials while connected machines revenue was about flat. As Ashish mentioned, machine sell-out units were positive for the year and continue to be up quarter to date. As a reminder, we don't have perfect coverage for sell-out data in all channels, so treat this as directional.

As we shift to our bundle-first strategy, where we will only sell next-generation connected machines bundled with materials, we will no longer provide the supplemental revenue breakdown of Connected Machines and Accessories and Materials in our SEC filings and data sheet. We will continue to report Platform and Products revenues and costs as we currently do in our consolidated statement of operations and comprehensive income.

In terms of geographic breakdown, international sales were positive at $57.8 million, an increase of 9%, compared to Q4 2024. As a percentage of total revenue, international was 28% in Q4 2025, compared with 25% of total revenue in Q4 2024. For the full year, 2025 international sales increased 8% and represented 24% of total company revenues compared to 22% in 2024. FX benefited international sales by 6% for Q4 and by 4% for the full year. Our Australian business stabilized through enhanced pricing and marketing programs in the 2H. Europe showed solid growth thanks to increased marketing investment and store expansion for the peak season. Our emerging markets also demonstrated strong performance, especially in our fledgling Japan and India markets. We continue to make progress in increasing brand awareness in international markets, which we expect to have a positive impact on member acquisition in 2026.

We ended the quarter with just over 3.09 million paid subscribers, up over 4% from Q4 2024, and up sequentially. This continues to be a bright spot for us, and Ashish detailed our efforts that are gaining traction in this area. But I do want to mention, as discussed in earlier calls, there is some natural subscriber attrition; so, subscriber growth may be challenging until we increase the pace of machine sales and new user acquisition. Recall, this could result in a seasonal pattern of QoQ paid subscriber growth in Q1 and Q4 but flat to declining QoQ subscriber growth rates in Q2 and Q3.

Moving to gross margin. Total gross margin in Q4 was 47.4%, an increase from 44.9% in Q4 2024. For the full year, total gross margin was 55.1%, also an increase compared to 49.5% for 2024. The full-year improvement reflects higher product gross margins and a higher amount of subscription revenue as a percentage of total revenue.

Breaking gross margin down further, gross margin from Platform in Q4 was 88.6% and increased compared to 87.9% a year ago. For the full year, gross margin from Platform was 89.0%, which increased from 88.1% in 2024. The increase in Platform gross margin for the quarter and full year was primarily related to lower amortization of software development costs. We are excited about our AI investments. Recall, as we previously mentioned, there may be some gross margin pressure as we continue to ramp our AI features.

Gross margin from Products was 18.4%, compared to 18.7% in Q4 a year ago. For the full year, Products gross margin was 26.0% in 2025, which increased from 19.3% in 2024. The increase in gross margin for the full year was primarily due to selling previously reserved inventory and a reduction in inventory impairments.

Total operating expenses for the quarter were $82.5 million and included $7 million in stock-based compensation. Total operating expenses increased less than 3% from $80.1 million in Q4 2024. For the full year, total operating expenses in 2025 of $294.4 million increased just over 6% from 2024. As Ashish mentioned, we are focused on increasing our speed of execution and are accelerating investments that will help drive future revenue growth for hardware product development, materials, engagement, and marketing.

Operating income for the quarter was $13.9 million, or 6.8% of revenue, compared to $13.9 million, or 6.6% of revenue in Q4 last year. For the full year, operating income increased to $96.0 million, up 26% compared to $76.1 million in 2024. As a percentage of sales, full year operating income was 13.5% in 2025 compared to 10.7% in 2024.

Our tax rate in Q4 2025 was 51% due to the full-year true up associated with our higher profitability, bringing the full-year tax rate to 28.9%, in line with our expectations.

For the quarter, net income was $7.8 million, or $0.04 per diluted share, compared to $11.9 million, or $0.06 per diluted share in Q4 2024. For the full year, we generated $76.7 million of net income and diluted EPS of $0.35, up from $62.8 million in net income and $0.29 diluted EPS in 2024.

Turning now to balance sheet and cash flow. We continue to generate healthy cash flow on an annual basis, which funds inventory needs and investments for long-term growth. In 2025, we generated $200 million in cash from operations, compared to $265 million in 2024. We ended 2025 with cash and cash equivalents of $276 million. We remain debt free. Inventory decreased by $13 million from a year ago to $103 million at the end of the year.

During Q4, we used $5.6 million of cash to repurchase 1.1 million shares of our stock. For the full year, we used $24.6 million to repurchase approximately 4.6 million shares. As a result, $41.3 million remain in our approved $50 million stock repurchase program, which the board replenished in May 2025. During the year we paid $202.1 million in dividends. After the close of Q4, we paid approximately $21 million for the declared $0.10 per share, semiannual dividend on January 20, 2026.

Outlook

Recall we do not give detailed quarterly or annual guidance, but we do want to offer some color on our outlook for 2026.

We are focused on bringing excitement to our category. We are doing this by accelerating our investments in R&D, new product launches, and marketing, including international markets, and continuing our promotional strategy to drive affordability. Thus far in 2026, we have already launched two next-generation cutting machines, two new heat presses, and a DTF service, but these have only been available a short time. We expect to see the benefit in 2026 and beyond.

Previously, we talked about the headwinds that tariffs presented to our business. Given the recent Supreme Court ruling overturning IEEPA tariffs and associated dynamics, we are not providing any guidance on margin impact.

We expect to be profitable each quarter and generate cash flow from operations for full year 2026. We also expect to continue to be active with our authorized $50 million stock repurchase program, which has $41.3 million remaining.

While tariff uncertainty is a reality of today's world, our team continues to be proactive and nimble with how we execute our strategy, as we continue our investments to position the company for growth.

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