

STACIE CLEMENTS, INVESTOR RELATIONS, THE BLUESHIRT GROUP

Thank you, operator, and good afternoon, everyone. Thank you for joining us on Cricut's fourth quarter and year ended 2022 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-Q. 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 7, 2023. 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 Stacie, and welcome everyone.

I want to acknowledge up front that we expected 2022 to be a much better year for Cricut than the results we discuss today reflect. Entering the year, we expected to sell more connected machines and accessories and materials. That said, we added 1.5 million new users in 2022, ending the year with nearly 7.9 million total users on the Cricut platform, just shy of our initial expectations at the beginning of the year of 8 million users, boosted in part by strong connected machine sales in Q4 '21 and the first two months of 2022. Subscriptions also continued to grow notwithstanding the headwinds for our physical products. Despite my disappointment in our 2022 financial performance, I'm extremely proud and grateful for the team's focus and all we accomplished over the past year. Let me explain why.

We significantly grew our subscriptions business. We ended the year with 2.6 million paid subscribers, up 28% over 2021. New features and functionality drove an increase in attach rates over the year, a particularly noteworthy highlight that suggests we are not just converting new users into Cricut Access but also reclaiming existing users.

The number of engaged users who cut on the platform increased sequentially in Q4, as expected with typical holiday seasonality. We also saw a significant increase in user interactions – like bookmarks and shared projects

- across the Cricut platform after rolling out multiple new user touchpoints and enhancements. Earlier in 2022, coming off a high-growth pandemic period, retailers reset inventory targets, which put additional pressure on our Connected Machines and Accessories and Materials revenue. We worked diligently with our retail partners to better adjust those levels to their new targets and managed down channel inventory over the second half of the year. As a result, we started 2023 in a much healthier position.

We also moved quickly to re-focus investments toward higher-impact initiatives and tightened operating expenses, delivering our 6th consecutive year of net income profitability. We will continue to operate the company in a fiscally disciplined way.

The opportunity for growth and international expansion has never been stronger. As we enter 2023, we will intensify our focus around new user acquisition and platform expansion in order to drive engagement, subscriptions and increased monetization. We are also on a focused two-year path to re-accelerate growth in Accessories and Materials.

Let me walk through each of these.

New User Acquisition

We acquire new users when someone buys a connected machine. We believe that we are in the early days of market development and have only penetrated 6% of our serviceable addressable market from our top 6 markets, including the US, Canada, UK, France, Germany and Australia. This is up from 3% two years ago, as Cricut has become a more widely recognized global brand. In 2022, we launched in five new countries and now partner with a network of distributors in over 50 countries. Our international growth remains a key priority in 2023 as we deploy the same playbook that has grown our business in North America. In addition, the investments we make today in new user acquisition, engagement and monetization can be leveraged across all markets. We believe our focus on industrial design, innovation, and our platform approach, along with our connected integration between Design Space, Content, materials and our connected machines, positions us well in the market.

Over the past year, we have conducted numerous research studies to understand our consumers and their purchase journey. Our research shows that we have a healthy top-of-funnel today with significant opportunity to drive consumer interest and shorten the path to purchase. There are several strategic initiatives in progress today to help simplify the journey from discovery to research to purchase.

Our research also shows that we are reaching a broader and more diverse demographic, with nearly 50% of new users identifying as beginner crafters, almost double the rate of 2019 users. And, even as we reach less experienced crafters, these new users are as likely to purchase our high-end machines and ultimately engage similarly to more experienced new users. We are also broadening our reach as we attract more Gen Z and Millennials. Going forward, we'll plan and design our marketing use cases to appeal to a broader audience, while still providing the right tools and resources for the more advanced user.

A majority of new users are introduced and interact with Cricut at multiple touch points prior to actively researching the brand. Word-of-mouth through friends & family and social channels – YouTube, TikTok, Pinterest, Facebook, and Instagram – continue to play a key role as the initial touchpoint for nearly 80% of our new users. Earlier in the year, we improved our audience targeting, launched new creative assets and refreshed content on Cricut.com. We continue to expand our influencer partnerships with greater focus around micro-influencers that have the ability to increase brand presence and impact social engagement across video platforms like TikTok and YouTube.

Beyond the initial touchpoint, we are also focused on a simpler, more streamlined purchase journey as we continue to roll out several new creative assets and tools that bring relevant information to consumers more quickly across all channels. Last month we launched improved product comparison charts and are developing a new, simple quiz to help consumers decide which machine is right for them. We are making changes to our website and digital marketing execution to pull users through the funnel to conversion. Many of these updates will be rolled out across our retail channels and global markets.

We believe this strategy will help bring more users into the funnel as well as shorten the typical purchasing path for consumers. By investing in these initiatives now, we will position the Cricut brand for growth and accelerate the purchase decision for when consumer spend returns.

Engagement

We're also focused on increasing user engagement, which starts the moment we acquire a user. Our data shows that the first few weeks of a new user's experience is often indicative of their engagement over time. In Q4, we introduced a new onboarding process. We have been testing a series of lesson plans for Explore 3 and Maker 3 with a small population of our users, and we are pleased with the initial results. We plan to scale our learnings, expand these initiatives over more machines and continue to refine our approach.

Once onboarded, our focus turns to frequency of engagement. Over half of our user base cut on our platform in Q4, and 74% of users cut a project in 2022. We have embarked on a number of initiatives to help increase user engagement. In line with that, I'm excited to announce that we have appointed one of our senior leaders to a new role entirely dedicated to user engagement. She previously was responsible for our connected machines portfolio and is one of our most seasoned leaders. Two years ago, we took a similar approach in our Subscriptions business, which resulted in revenue growth and higher attach rates. Both of these leaders will work in tandem, with expanded decision rights to drive strategic plans and roadmaps across several cross functional groups and are ultimately responsible for delivering results for engagement and subscriptions.

Inspiration drives engagement. Our research studies show that 16% of users get their project inspiration directly from Design Space and 25% from all other social media. This gives us significant opportunity to increase traffic sooner in the creative process – offering users thousands of ideas to help inspire and accelerate cutting. We

believe that our investments in mobile experiences and other platform enhancements will play a crucial role in this strategy.

In the fourth quarter, we saw a significant increase in bookmarks over Q3. We ended the year with over 150 million total bookmarks, an increase of nearly 30 million sequentially, making it easier for users to save ideas for later use when they come back.

Subscriptions

Subscribers are the most valuable members on our platform and drive increased engagement activities versus non-subscribers. We ended the year with 2.6 million paid subscribers, a 28% increase year over year. This growth is the direct result of investments we've made over the last 12-18 months as we better communicate the value proposition to users in more places throughout their Cricut experience. For example, in Q4 we used the onboarding process to optimize messaging around the benefits of Cricut Access. We also added more merchandising touch points within the engagement journey, giving us the ability to advertise annual subscription plans more effectively. This latter effort is already showing promising improvement to the mix of Annual vs Monthly plan sign ups, without impacting attach rate.

We also continued to expand new content and exclusive Cricut Access features, including automatic background remover, monogram maker, editable images, expanded collections, and more. In many cases, these robust, highly requested features become an important partstep in converting users to subscribers. We're also seeing increased engagement from our Contributing Artist Program, which has accelerated our efforts to bring new, relevant and diverse content to Cricut Access. Another increasingly important source of content for subscribers comes from community projects. These are projects users create with Cricut images, which sometimes include instructions, a list of materials to use and suggestions on design layout. These community projects pass through Cricut's curation process to ensure authenticity of content and makeability. When subscribers find a community project that inspires them, they can instantly personalize it or make it as is, saving them the design time of starting from scratch. This is an example of our community adding value to the platform that subscribers benefit from. Our goal is to make it even easier for Cricut users to share their projects and hence, increase the number of community projects, and significantly increase the value proposition for subscribers.

Accessories and Materials

And finally, we are increasing our focus on Accessories and Materials where we believe we have the right to play and to win. We are uniquely positioned to build innovative, high-quality, connected products that integrate with our hardware and our software. Our smart materials are a great example of this.

This segment has experienced headwinds since exiting the pandemic as the result of a few consumer dynamics converging at once, including increasing price sensitivity, slower machine sales and less frequent engagement.

First, we have seen increased price sensitivity from users, particularly as the current economic situation continues. As consumers become more price sensitive, shopping habits for materials are increasingly shifting from brick-and-mortar retail to online, third-party marketplaces, where we have seen an emergence of lower cost, lower quality materials.

In response, we have started to work with our retail partners to develop differentiated product configurations and promotional strategies by channel to meet the needs of their customers, whether in-store or online. Our goal is to simplify SKUs, reengineer and repackage materials, and drive greater supply-chain efficiencies to regain healthier margins, while competing and driving share gain across all channels. Some of this will take time to execute while we move through existing inventory. In the meantime, we will focus on being cost competitive for consumers and take a more deliberate and analytical approach to promotional strategies to maximize margins while capturing our share of the market.

Second, the pressure we've experienced in new machines sales has also affected our Accessories and Materials segment. A portion of our Materials business is generated through the sale of machine bundles, which is an effective way to deliver to new users the materials they need to quickly start their journey with Cricut.

Third, our Accessories and Materials segment is influenced by how much our users cut. The intensity of engagement has been lighter since exiting the pandemic. The strategies we are building to drive engagement and subscriptions should work in parallel with our efforts to build a more robust online channel with our retail partners and together, will reignite growth in Accessories and Materials.

We believe all of these things together – increased user engagement, combined with new product bundles, pricing and cost structures – will be a two-year journey to re-accelerate this segment of the business.

In summary, we are creating greater alignment within the organization to drive our key priorities: acquiring new users globally, driving increased engagement and subscriptions, and structuring our accessories and materials business for long-term success. We have in-depth knowledge of our user base and have identified multiple opportunities to grow and increase monetization over the long term. Our focus on strengthening every facet of the platform will help enable long-term sustainable growth and further enhance our defensible moat, with recurring monetization opportunities that are more characteristic of a platform business. Although the current macro environment will impact overall growth in the short term, the initiatives we are deploying now will position us well for when consumer spend returns.

I'll now turn the call over to Kimball for the financials.

KIMBALL SHILL, CHIEF FINANCIAL OFFICER

Thank you Ashish, and welcome everyone. Although consumer spend continues to be soft, Q4 delivered typical seasonal strength in connected machine revenue, new user growth, subscriptions revenue and

user engagement. In the fourth quarter, we generated revenue of \$280.8 million, a 28% decline compared to prior year Q4 and generated \$10.9 million in net income as we continued to invest in our key priorities.

Full year revenue was \$886.3 million, a 32% decline over 2021. Keep in mind most of 2021 reflected unusually high growth due to the pandemic.

Breaking revenue down further, revenue from connected machines for the year was \$252.6 million, down 54% over 2021, reflecting softer consumer spend and excess channel inventory levels throughout most of the year. In mid 2022, retailers began initiating lower inventory target levels in preparation for a weaker economy. As such, Connected Machine revenue doesn't necessarily align with the increase in new user growth over the year. In working with our retail partners, we prioritized channel inventory and entered 2023 with healthier alignment between sell in and sell out.

Revenue from Accessories and Materials for the year was \$361.4 million, down 35% over 2021. Similar to connected machines, we entered 2022 with heavy channel inventory, making a tough year over year comparison. We continue to see pressure in Accessories and Materials from the dynamics Ashish mentioned earlier, which contributed to the decline in revenue and ARPU. Our strategy for reacceleration in this segment is focused on cost reductions over time, sound promotional strategies for increased market share, more machine and materials bundles across more diverse channels, and driving an overall increase in user engagement.

Subscriptions revenue for the year was \$272.3 million, a 32% increase over 2021 and benefited from targeted investments in Cricut Access and the expansive improvements made over the last several quarters.

In terms of geographic breakdown, international revenue was \$142.3 million, compared to \$148.5 million in 2021. As a percentage of total revenue, international was 16%, compared to 11% of total revenue in 2021.

Users and Engagement

Turning to users and engagement.

I'm pleased to share we ended the year with nearly 7.9 million total users, or 23% growth over 2021. Despite softer consumer spend throughout the year, this was just shy of our 8 million total user expectation at the beginning of 2022.

We ended the year with over 4 million users who cut a project on a machine within the last 90 days. This is up 6% from 2021. To put this in perspective, in 2022, 74% of total users cut a project in the last 12

months. Through the initiatives Ashish outlined, we have a significant opportunity to reach these users, which is three quarters of our total user base.

We ended the year with over 2.6 million paid subscribers, up 28% from end of 2021. Attach rates were strong at 33%, up from 32% last year.

ARPU

ARPU for Subscriptions for the year was \$38.09, slightly down from \$38.37 in 2021. For context, three factors generally explain variability in subscription ARPU from one period to the next, when subscribers are growing and attach rates remain high: 1. Timing of signups, 2. Mix of new vs renewals subscriptions, and 3. The increasing mix of international subscriptions.

Accessories and Materials ARPU was \$50.54 for the year, compared to \$102.91 in 2021. We believe with renewed focus, we can re-accelerate accessories and materials revenue over time.

Gross Margin

Moving to gross margin. Total gross margin in the fourth quarter was 30%, an improvement compared to 27% in Q4 2021. As a reminder, Q4 has seasonal pressure due to increased revenue contribution from connected machines.

Breaking gross margin down further:

Gross margin from connected machines was 2.8%. This compares to a negative 1.5% in Q4 of last year, when we elected to take price protection on Air 2 and Maker units in channel. For the full year, Connected Machine margin was 3.3%, down from 11.7% in 2021, and was primarily impacted by higher fixed costs as a percentage of revenue in warehousing and operations expense, along with increased warranty expense and promotional activity. Looking at 2023, decreasing inventory levels along with fixed costs on warehousing and operations expense will continue to put pressure on margins. Partially offsetting this, we expect end-of-life machines to become a smaller part of machine mix, with small incremental improvements to machine margins.

Subscriptions gross margin for full year was 90.3%, up slightly compared to 2021 of 89.3%.

Gross margin from Accessories and Materials was impacted by increased promotions, as well as fixed operating costs amortized over lower volumes both for the quarter and the full year. Full year gross margin for Accessories and Materials was 26.5%, compared to 37.9% in 2021. Going forward, we'll continue to be competitive on price.

Operating Expenses

Turning to operating expenses. We continue to operate the business with discipline and flexibility to navigate current trends. In March, we began to see consumer spend softening and started to reprioritize investments. As a result, we eliminated \$50 million of planned spend and investments throughout 2022 and held operating expenses relatively flat year over year. Total operating expenses for the year were \$269.9 million and included \$40.2 million in stock-based compensation expense. This was up less than 2% from \$265.0 million in 2021.

Operating Margin & Net Income

Operating income for the year was \$80.0 million, or 9.0% of revenue, reflecting lower revenues compared to 2021 of \$192.4 million, or 14.7% of revenue. Despite the challenges we faced in 2022, we continued to prioritize net income and cash. 2022 was our 6th consecutive year of positive net income. Net income for the year was \$60.7 million, or \$0.28 cents per diluted share, compared to \$140.5 million, or \$0.64 cents per diluted share in 2021.

Balance Sheet

Turning now to the balance sheet and cash flow.

We continue to generate healthy cash flow on an annual basis, which funds annual inventory needs and investments for long-term growth. For the year, we generated \$117.7 million in cash from operations, ending with a balance of \$299.2 million. This strength allows for a flexible, yet purposeful approach to capital allocation, including returning capital to shareholders.

During the year, we repurchased 2.35 million shares of our stock at a cost of \$18.5 million. We have \$31.5 million remaining in the repurchase program. In addition, on February 15th we used \$77 million to pay a special shareholder dividend.

Outlook

As we look ahead to 2023, we continue to see softer consumer spend patterns and are thus taking a conservative approach in our planning. We will continue to take a prudent and prioritized approach to investments, while managing for small, incremental operating margin improvements and healthy cash generation in 2023.

In terms of new user growth, we expect to add fewer new users in 2023 than we did last year. For comparative purposes, user growth in Q1 '22 benefited from strong machines sales in Q4 of 2021 and early 2022. Conversely, Q1 '23 will see pressure from softer Q4 '22 holidays sales. In addition, we

started 2023 with softer-than-expected Connected Machine sales in January and February. While we have a positive outlook on Subscriptions, lower new users will put pressure on our subscriber growth rate and attach rate.

From a revenue standpoint, we entered 2023 with healthier channel inventory levels and revenue should be more directly linked to consumer demand. In other words, in 2023, Cricut could sell more connected machines than in 2022 and yet add fewer new users. As a reminder, Q1 2023 will be a tough year-over-year comp and we expect it to be materially below Q1 of last year. We expect year-over-year comps to improve starting in Q2.

Gross margins will continue to be pressured. On physical products, higher fixed costs as a percentage of revenue in warehousing and operations expense will continue to be a factor throughout 2023. Accessories and Materials will also continue at a similar promotional cadence to remain price competitive, and we will likely have reserves for aging inventories as it relates to materials, particularly in Q2. As a result, we expect full-year Accessories and Materials margins will be similar to Q4 '22 results. Machine gross margins should improve incrementally as machine mix shifts more to our newer machines in the second half of the year.

We remain focused on managing our profitability, while investing in areas with the highest impact. For 2023, we anticipate small incremental operating margin improvement on an annual basis, with small upticks in the second half that align with stronger seasonality. Should macro conditions worsen, we will continue to manage with the flexibility to make adjustments as needed, just as we demonstrated in 2022. We expect to continue generating healthy cash flow from operations and remain committed to our long-term operating margin targets of 15-19%. Our proven model has demonstrated that when we operate at scale and drive topline growth, these margins are achievable.

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