STACIE CLEMENTS, INVESTOR RELATIONS, THE BLUESHIRT GROUP

Thank you, operator, and good afternoon, everyone. Thank you for joining us on Cricut's third quarter 2021 earnings call. Please note that today's call is being webcast 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, prepared remarks and accompanying slides used on today's call will also be 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 Marty Petersen, Chief Financial Officer.

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. All non-GAAP numbers referenced in today's call are reconciled in the press release or the slide presentation on our investor relations website.

This call also contains time-sensitive information that is accurate only as of the date of this broadcast, November 10. 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.

We're pleased with the results in third quarter. Total revenue grew 24.4% year over year, driven by growth across all three categories; connected machines, subscriptions and accessories and materials.

We delivered an EBITDA margin of just over 16.4%, while at the same time increased investments in connected software, subscriptions, new product developments, and international expansion.

We remain focused on our mission, to help people lead creative lives. Our user base grew to over 5.7 million users at the end of the third quarter, up 56% year over year. Over 2 million of these users were acquired over the last 12 months.

One thing I love is that our COVID cohort of users is engaging very similarly to our pre-COVID cohort of users. This means that we have an opportunity to fuel our viral marketing engine as these 2 million new users make and share projects. Our job is to continue to provide a superior experience and drive engagement from existing and new users.

Of the 5.7M users, 3.2 million used their connected machines within the last 90 days, an increase of 37% from the same quarter last year.

One of the many ways we monetize this engagement is through our subscription service, Cricut Access. The number of subscribers and subscription ARPU over time are important indicators of our success. We ended the third quarter with over 1.8 million Paid Subscribers, or an attach rate of 32%, consistent with the accelerated attach rates seen last year due to the pandemic. Since 2018, attach rates have grown nearly 10 percentage points - a testament to the success of our investments and in driving increased user monetization over time.

As we expand the use cases of our connected platform, we expand our potential user base, or serviceable addressable market (SAM). For example, the launch of Cricut Joy last year enabled us to reach a more mainstream user base. Like small business owners and teachers. The Cricut Joy gave us opportunity to expand our retail partnerships with mass merchant retailers like Target, Walmart, and specialty retailers such as The Container Store. We also expanded into new verticals such as office supply and consumer electronics retailers around the world. These users may start off using our platform for one or two use cases, such as label making or organization, but we have significant opportunity to expand their level of engagement over time.

We continue to aggressively add content to Cricut Access, now with over 200,000 images, up from 175,000 images at the end of Q2. We added new genres, projects for new use cases, relevant content for international markets, and more.

We also continued to improve the user experience, adding new features and functionality exclusive to Access members. For example, in October we launched a feature called Automatic Background Remover, eliminating the need to manually clean an uploaded image.

Our passionate community of users provides a flywheel - the more they create, the more Cricut benefits from the network effects that drive new user acquisition and engagement. These communities around the world are organic by nature and serve as a competitive moat for us. Our users are at the center of everything we do and we take great pride in fostering these communities.

By aligning our values with those of our users, great things can happen. Through our Make-it-Forward program, we partner with organizations to help inspire and spread joy to others. Most recently we partnered with The Birthday Party Project, challenging users within our community to make 5,000 projects in 5 weeks for donation to help underprivileged kids celebrate their birthdays. Projects included cards, water bottles, banners, t-shirts, puzzles, stickers, and coloring pages for kids to receive on their birthday. I'm proud to say that we exceeded expectations, with over 11,000 projects made and donated. There's no doubt that our community continues to deliver above and beyond. Our users inspire us every day to do our best for them, so they can do their very best.

This summer, we saw amazing projects for outdoor events such as weddings, vacations, family reunions, baby events, and of course back to school. As we head into the fourth quarter, our seasonally strongest quarter, we are already seeing inspirational projects focused on holiday décor and gifts from our growing user base.

As I mentioned earlier, over 40% of new customers first hear about Cricut through word of mouth – providing a powerful, and cost-effective marketing engine for new user acquisition. We now have over 5.3 million social media followers and 2.8 billion views on #Cricut on Tik Tok which are almost entirely organic. We'll continue to foster these communities, amplify their voices, and share their amazing work.

In addition, we've created an expanded suite of tutorial videos, "how-to guides", live online classes, and inspirational ideas for projects and use cases to help drive engagement. For example, our Back-to-School Classroom Organization How-To provides a list of ideas for beginner-level users. We, include a list of materials and supplies needed, and step-by-step instructions for each project. Earlier this year we launched our live online classes and to date, more than 20 thousand users have already participated with very high satisfaction rates. Most recently, in October we launched Cricut Learn, a comprehensive resource featuring short, expert-led video education as well as live, interactive virtual classes. We are very excited about this new tool to help onboard users and drive engagement.

Revenue from international markets continues to outpace revenue growth from North America, growing 110% year over year in the third quarter.

I'm excited to have officially entered the Middle East and Hong Kong markets. We also made significant investments expanding our international retailer footprint. We entered partnerships in newer markets such as Germany, the Nordics, Benelux, Spain, Mexico, South Africa, and Singapore. In more mature markets such as UK, Australia and France, we continued to diversify retail relationships allowing us to reach new audiences and use cases in these markets.

In Q2 we rolled out our ecommerce site in the U.K. In Q3, we expanded this strategy, bringing a direct-to-consumer branded experience to users in Ireland, France and Germany.

We are really excited about our international opportunity. Our observation is that the motivations and behaviors driving international growth are very similar to those that have driven growth in North America since 2014. The proven Cricut playbook: invest in delivering great experiences to users that they will show and tell to others – can be executed across the globe. With this large opportunity in front of us and our momentum to date, we plan to increase investment to accelerate our international expansion.

We also continue to invest heavily in our platform including new features and functionality within our design apps. For example, our new Restore Brush feature enables users to selectively restore any part of an image that may have been accidentally removed.

We have also introduced a Featured Images ribbon on the home screen of Design Space that highlights our freshest and best content. Coupled with the new ability to bookmark images, we are focused on providing increased visibility and easy access to our ever-growing library of images.

We have made major strides in improving our mobile apps, with ongoing work to migrate both our iOS and Android apps to all new technology stacks that will provide the foundation for richer design experiences. We are currently in public Beta with our new iOS app and will launch broadly in the coming weeks, with the new Android version coming soon. We continue to accelerate investments in our software platform, mobile experiences, and data to drive the best user experience possible.

Before I conclude my remarks, I want to highlight the incredible work from our Operations and Product teams who have worked tirelessly to help mitigate supply chain risks. They have worked to secure components in advance, and rewritten firmware to accommodate real-time component substitutions where necessary. These teams have lived the Cricut values, always finding a way to serve our customers.

Overall, I'm very pleased with the quarter and the momentum in the business. We continued to add users onto the platform. We are investing in new products, improving the user experience, and growing the number of engaged users. Cricut is gaining worldwide visibility in new retailers and markets, and I couldn't be more thrilled about the opportunities in front of us. We continue to invest, drive growth, deliver profits and delight users around the world.

I'll now turn the call over to Marty for more details on the financials.

MARTY PETERSEN, CHIEF FINANCIAL OFFICER

Thank you, Ashish and good afternoon, everyone. Our third quarter's performance was driven by strong fundamentals in the business, a diversified revenue stream and our powerful community of users.

To understand the health and trajectory of the business we focus on annual trends, which normalize for seasonality. Normalizing for the effects of the pandemic, we believe looking at financial performance on a two-year stacked basis is helpful.

Revenue in the quarter was $260.1 million, an increase of 24.4% over Q3 last year, and 131% since Q3 2019, a solid performance off a tough comp last year and a continuation of our long history of consistent revenue growth.

Revenue from Connected Machines grew 35.7% over Q3 last year. As a reminder, the gross profit from Connected Machine purchases mostly covers our customer acquisition cost. The purchase then triggers a flywheel of engagement which in turn drives ongoing revenue from our higher margin categories of Subscriptions and Accessories and Materials.

Strong machine sales and healthy attach rates from our growing base of users helped drive 70.8% revenue growth in Subscriptions in the quarter.

Accessories and Materials revenue grew 2% over a tough comp last year when engagement on the platform was quickly rising due to the pandemic and stay-at-home orders at the time.

In terms of geographic breakdown, international revenue growth continued to outpace growth in North America, increasing 109.7% in the third quarter over the same quarter in 2020. We've made significant investments to grow our opportunity and foster a global community of users. As a percentage of total revenue, International represented 12% in the third quarter, up from 7.1% in Q3 2020.

As Ashish mentioned, we continued to rapidly grow our user base. As of the end of the third quarter, we have added 1.4 million users in 2021, bringing the total users on our platform to 5.7 million.

In the third quarter, the number of users engaged on our platform for the prior 90 days increased by almost 900,000, up 37.4% over the same period last year. As a percentage of total users, however, user engagement was 56%, down from a COVID-aided 63% in Q3 2020. As we said last quarter, we anticipated engagement on the platform to be softer than normal and to last longer than normal as people spend more time out of the home. Since late September, we have seen user engagement levels trending up.

Ending paid subscribers kept pace with user growth, growing to more than 1.8 million, up 55.8% over third quarter 2020. This equates to an attach rate of 32%, up slightly from Q3 2020 and up significantly from pre-pandemic levels and is a result of the investments we've made in subscription services to further monetize our growing user base.

We measure user monetization through ARPU in both Subscriptions and Accessories and Materials by dividing revenue in those segments by our entire user base within that period. ARPU for Subscriptions in the third quarter remained healthy at $9.60, up from $8.97 in Q3 2020, and reflected the relatively high attach rates I just mentioned.

ARPU from Accessories and Materials in the third quarter was $18.79. This compares to Q3 2020 APRU of $29.41, which benefited from higher-than-normal engagement levels related to the pandemic and some catch up on channel inventory in 2020.

Accessories and Materials ARPU closely relates to engagement. As expected, the number of engaged users increased in the quarter, but the general project activity was lower than normal, putting some downward pressure on Accessories & Materials ARPU. We expect engagement and ARPU to improve sequentially, especially around the holidays at year-end.

Moving onto gross margin. Total gross margin in the third quarter was 39.2%, down from an unusually high 42.8% in the third quarter of 2020. The decrease was primarily due to higher freight costs and significantly lower promotional activity in 2020 associated with lower inventory levels from the pandemic surge in demand. In Q3 2021, we returned to a more normal promotional cadence given that we were able to reestablish healthy inventory positions. We also benefited this quarter from the highest proportion of subscription revenue in our history, which commands high margins.

We expect gross margin in Q4 to come down on a sequential basis, which is typical, due to more promotions associated with the holiday season.

I want to take a moment to talk about the tremendous progress we have made to enhance our supply chain. We are subject to the same dynamics that are affecting companies all over the world. As Ashish mentioned, in the face of these global challenges, our teams have worked hard to strengthen our inventory positions and help mitigate future risks. Over a year ago, we began making key investments to accelerate the purchase of long lead-time components, including chips. We also increased inventory levels in Connected Machines and Accessories and Materials, and positioned onshore inventory to mitigate shipping delays. We are in a strong inventory position today, particularly as we head into the holiday season. And as discussed previously, we'll continue to carry higher inventory levels into 2022 until we are comfortable that supply chain risks have improved.

On the cost side, we are experiencing inflationary pressures just like other importers. To offset these costs, we will continue to take a proactive approach in managing margins, including possible price increases.

Moving on to operating expenses, total operating expenses in the third quarter were $64.3 million, and included $8.1 million in stock-based compensation. This was an increase over Q3 2020 of $32.5 million when spending was unusually low or paused as we navigated the uncertainties of the pandemic.

Total operating expenses as a percentage of revenue were 24.7%. This is higher than the prior year figure of 15.2%, reflecting increased investments in Sales and Marketing and R&D to help build out the platform and drive future growth, including international growth. About a third of the overall increase was attributable to personnel, a little more than half of which was in the form of stock-based compensation which increased as a result of our IPO in March with the balance coming from adding to our talent pool, especially in R&D. Roughly a fourth of the total op ex increase came from advertising and marketing where we leaned into international expansion and continued to foster influencer relationships. Most of the balance was catching up on unusually low spending across all categories during the pandemic.

We delivered our 11th consecutive quarter of positive net income. Net income in the third quarter was $30 million, down 33.6% from the same period last year in part due to the increased investments I just mentioned. Diluted earnings per share was $0.13 cents. Note that Cricut did not have a comparable EPS history prior to the reorganization at the time of the IPO.

Turning to EBITDA, which includes $8.1 million of stock-based compensation expense, we delivered EBITDA of $42.7 million or 16.4% margin in the third quarter, just shy of our long-term annual EBITDA target of 17 - 20%. Q3 2020 EBITDA margin of 29.2% was unusually high, benefiting from strong pandemic dynamics. On a two-year stacked basis, EBITDA has grown 256% over 2019.

Turning now to the balance sheet and cash flow.

We ended the quarter with $224 million in cash and cash equivalents. Our credit line of $150 million remains untapped. Cash used in operations for the nine months ended September was $131.8 million, reflecting payments for building inventory reserves to help mitigate the supply chain risks mentioned earlier.

Overall, we're pleased with the quarter and our progress to date. With a user base of over 5.7 million, we have a large market opportunity in front of us. We have taken a long-term approach to our growth strategy and are choosing not to give short-term guidance. However, I would like to provide some color as we head into Q4 and our typically strong holiday season.

For the full year 2021, we are now increasing our expectations to add approximately 2 million new users, up from 1.8 million new users added in 2020. We have already added 1.4 million in the first nine months. This foundation of new users, acquired through Connected Machines purchases, fuels future growth and profitability. Most importantly, engagement from the users we've acquired during COVID remains very similar to engagement patterns of users acquired pre-COVID.

With the upcoming holidays approaching, we are seeing increased engagement across our platform, up from the trough we saw in late September. For the fourth quarter, we expect the number of engaged users to increase year-over-year, but the percentage of users engaged to be down from the tough year-over-year comp.

On a sequential basis, Accessories and Materials ARPU will likely increase from Q3, with increased engagement leading into the holidays. However, on a year-over-year basis, we expect Accessories and Materials ARPU to decline significantly. Last year we benefited from stronger engagement related to the holiday season and significantly higher sell-in from replenishing depleted channel inventories.

Subscriptions ARPU in Q4 will likely remain relatively consistent with Q3.

Our EBITDA margins are on pace to fall within our long-term EBITDA target range of 17 - 20% for the full year 2021.

The fundamentals of our business remain sound. We continue to drive new users and healthy engagement. We have a durable business model with a seven-year track record of driving both revenue and profits and remain focused on running our business for the long term.

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