

First Quarter 2021 Prepared Remarks

Jessie:

Thank you, operator and good afternoon everyone. Thank you for joining us on Cricut's first 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 have also 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 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 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 and S-1 Registration Statement. 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, May 13, 2021. 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 to begin.

Ashish:

Thank you, Jessie. Welcome to our first earnings call as a public company. I want to start off by thanking all those that have supported us over the years – our passionate community of users around the world, the Perot family and their investment organization, Petrus Asset Management, for their early investment and continued support, and most importantly our entire Cricut team for their hard work and continued dedication to our culture and mission.

In March, we completed our IPO and I want to welcome our new shareholders. We look forward to sharing our journey with you as we continue to grow and fulfill our mission to help people lead creative lives. While the IPO will help support growth across multiple strategic initiatives, we will continue to be very disciplined in our investment choices.

We have had a long history of delivering solid growth. In 2020, in addition to Covid, we saw growth because of international expansion and the introduction of the Cricut Joy product family. Cricut Joy helped us expand our retail footprint, acquire more beginner users, and broaden our penetration.

I'd like to share a few highlights from the quarter. Then I'll spend a few minutes talking about the power of our platform and business model, our passionate community, as well as our growth drivers going forward.

Q1 was a continuation of growth in 2020 as we acquired new users efficiently and drove engagement. Revenue in the first quarter was \$324 million, or 125% growth over Q1 of last year putting us at a trailing 12-month run rate in excess of \$1BN dollars. EBITDA was \$68.6 million in the first quarter, a 232% increase over the first quarter of last year.

We experienced a significant increase in user growth in the first quarter, growing 76% year-over-year, bringing our total users to just under 5 million – all this while we faced connected machine shortages. For the large influx of users that we acquired in 2020, we benefitted from monetizing those users with accessories, materials, and subscriptions.

User acquisition is just the start of our users' journey with Cricut. Keeping them engaged and creating is one of the important ways we fuel the user acquisition and monetization flywheel. The more users are engaged, the more they are talking about Cricut and sharing projects with friends and family. As of the end of Q1 2021, 62% of our users created with their Cricut machines over the trailing 90-day period, up from 60% in Q1 2020. As our users create with their connected machines, we have an opportunity to drive revenue across our accessories and materials, as well as subscriptions that are recurring in nature. Ending paid subscribers grew 118% year-over-year.

Let me talk about the platform.

We have built a platform of software and products that accompany a user from inspiration to a finished project. We define our platform to include our highly versatile connected machines, design apps to discover and create projects, as well as hundreds of different types of accessories and materials that were designed to seamlessly work across our connected machines. For those new to the Cricut story, let me reinforce the key trends that shape our business and a typical user journey.

We are benefitting from major long term secular trends that include personalization, digitization of tools, technology enabling a new generation of entrepreneurs, and proliferation of social media.

Our user journey typically starts with the purchase of one of our connected machines. From the time the user opens the box, registers on our platform, and makes their first project, design plays a key role in that journey. Our goal is to wow our users at every touch point. Every user gets free design apps on PC, Mac, iOS, and Android. Because we are cloud-based, a user can start a project on one device and pick it up on another.

Users can access a selection of images, fonts, and ready-to-make projects, some free and some for purchase, as well as upload their own images.

We have two subscription offerings - Cricut Access and Cricut Access Premium. Through these subscriptions, users get access to our content library of over 140 thousand images as well as discounts on Cricut.com and priority Member Care. As of the end of Q1 2021, nearly 33% of our users were subscribed to Cricut Access.

Our platform offers several community features which allow users to follow others in the Cricut community, share projects, and create projects that other users have shared. The data from our users' contributions on the platform gives us valuable insight into their preferences and behaviors.

Many of our users share a love of our brand, products, and mission. Our users are passionate about sharing Cricut tips, tricks, personal stories and more. All of this helps foster a loyal community of users who are deeply engaged with Cricut. Our community creates a reinforcing network effect. As the number of our users grow, so does the number of projects made and shared physically or digitally. This generates even more shared projects and word-of-mouth that in turn helps to grow our community. This community network effect has allowed us to efficiently acquire new users and drive sales by word-of-mouth referrals, complimented by our targeted sales and marketing efforts.

We have over five million followers across relevant social media platforms. I encourage you all to visit our social media pages where we regularly showcase the creativity of our users. We also have over 2 billion views on hashtag Cricut on TikTok, which are almost entirely organic.

We also have a deep focus on creating a diverse community of users and improving the breadth and depth of content we offer. We are constantly offering new styles, genres, seasonal content, and content that supports causes – all with the goal of inspiring creative needs.

For example, in February, during Black History Month, we celebrated creators within our community and shared some of our favorite projects. We also plan to further expand the content in Design Space to reflect the interests of our diverse community.

Finally, 29% of our users use their machines to create projects to sell and many have created their own businesses.

We believe we have a huge opportunity to continue to scale our user base. We measure our opportunity in terms of a serviceable addressable market, or SAM. Our SAM includes active creatives who have created at least one project in the last twelve months in categories that we already address with our existing product portfolio. We estimate that our SAM in the US and Canada is roughly 85 million individuals. Combined with our international opportunity in our four top international markets alone, Australia, France, Germany and the UK, our total SAM is about 130 million individuals. With a user base of approximately five million, we have penetrated less than 4% of our SAM.

As we continue to grow and become more mainstream, the opportunity to expand beyond our SAM is significant. Fundamentally, we believe that everyone is innately creative and anyone can be a part of the Cricut community. As we make new products and expand our reach, we believe there is even greater opportunity for creatives and potential creatives anywhere to join the Cricut platform.

We believe there is a significant opportunity for Cricut to grow internationally. We began our international expansion by launching in Australia, Canada, France, Germany, and the United Kingdom. We have also localized our design apps in several languages such as French, German, Portuguese, and Spanish. We will continue to pursue disciplined international expansion by targeting countries with large populations of active creatives where we believe the Cricut value proposition will resonate.

International revenue grew 253% in the first quarter. We believe that the trends that helped drive user acquisition and growth in North America are truly global in nature. In addition, we are seeing similar network effects and a passionate community of users in each of the markets we have launched.

In the future, we expect to expand into new emerging markets strategically to continue to drive growth.

Our cloud-based software enables us to update the functionality and features of existing physical and digital products and to release new products that seamlessly integrate with our platform. Our platform is extensible, allowing for innovation and growth from new products, tools and accessories, increased content, and greater functionality available through our software and apps.

For example, in Q1 we launched the Cricut Mug Press, a machine accessory that allows our users to easily create professional-looking, personalized mugs for personal use, gifting, or for selling. Users can now get peel-proof, dishwasher-safe results with our Infusible Ink materials.

As part of this launch, we added new designs in our library for mugs and coupled that with new software capabilities, infusible ink transfer sheets, and infusible ink compatible mug blanks. These mugs are designed with a special coating that

makes it possible for the infusible ink transfers. They can also use our infusible ink pens to make customized mugs that have handwritten notes and drawings on these mugs. The Mug Press launch is a good example of the extensibility of our platform. Our users are being inspired with new mugs and gift ideas every time they use our apps and cloud-based software. It has been amazing to see our users' creativity not only in the mugs they are making but also in the occasions and friends they are making gifts for. We have been pleased with sales so far.

We spend a lot of time listening to our users, adding greater functionality to our software, and improving the user experience. We added some great educational tutorials and step by step "how tos" built right inside Design Space to increase ease of use and help drive engagement. We also enhanced our search functionality, added project collections to help users organize their creative work, and launched the highly requested Offset feature which allows users to add decorative outlines and shadowing to shapes, text, or groups of images to make designs pop. Software is core to our platform and you will see us continue to invest in this area going forward.

We have a proven ability to drive profitable growth which we believe positions us well to keep innovating and delivering great experiences for our users over the long-term. I'm extremely humbled by what our teams have been able to accomplish and how we've been able to enrich the lives of so many community users over the years. With continued strong demand, we enter the second quarter with positive momentum. Although we are taking a judicious approach to the medium-term, we are very long-term focused on executing well and continuing to build our platform and enriching our community.

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

Marty:

Thank you, Ashish and good afternoon, everyone. It's great to be here today on our first public earnings call. Before we move into the detailed financial results, I want to touch on the strength of our business model which has been the engine of our rapid growth.

Cricut has a proven track record of strong revenue growth and demonstrated profitability stretching back to 2014.

Our sales are diversified across categories and give us revenue streams that are largely predictable.

As Ashish discussed, the user journey generally starts with the purchase of a Connected Machine. The gross profit from that purchase mostly covers our customer acquisition cost. The purchase then triggers a flywheel of engagement which in turn drives ongoing revenue from subscriptions and accessories and materials.

Revenue in the quarter was \$324 million, an increase of 125% over Q1 last year and was the primary driver in delivering significant growth in Net Income and EBITDA.

Revenue from Connected Machines grew 148% over Q1 last year. Strong machine sales and new-user acquisition throughout 2020 and Q1 of this year helped drive 141% revenue growth in Subscriptions in the quarter and 102% growth in Accessories and Materials.

In terms of geographic breakdown, international revenue growth outpaced growth in North America, increasing 253% in the first quarter over the same quarter in 2020. As a percentage of total revenue, International represented 10.3% in the first quarter, significantly up from 7.4% in all of 2020 and 3.6% in 2019. We anticipate the investments we made in 2020, and ongoing future investments, will continue to expand consumer reach and brand awareness internationally.

The Cricut community of users drives healthy engagement on our platform and is one of the keys to building our long-term business with sustainable growth and compelling margins. The way we measure engagement is to look at what percentage of our entire user base is using their machines to create something in a given 90-day period.

In the first quarter, engagement remained strong at 62% of our entire user base, up from 60% in Q1 of 2020. Sequentially it was lower than Q4, which is to be expected, as Q4 is typically our seasonal high quarter in a given year. As we emerge from the COVID environment, we expect that overall engagement will generally be in line with historical levels, though the ways in which our users engage with Cricut may change. For instance, as users begin spending more time outside the home, we may see them doing fewer home improvement projects and turning back to other types of projects like weddings, parties, back-to-school, and t-shirts for family vacations.

We also saw higher year-over-year growth in both total users and paid subscribers. We ended the quarter with just under 5 million total users, which represents 76% year-over-year growth. Ending paid subscribers also grew in Q1 to 1.6 million, up 118% over first quarter 2020.

As engagement remains healthy on our platform, we're able to monetize that engagement through subscriptions and accessories and materials. We measure that monetization through ARPU in each of those segments.

We calculate average revenue per user for subscriptions by dividing total subscription revenue by our entire average user base – not just subscribers – within that period. ARPU for subscriptions in the first quarter was \$9.96, compared to \$7.20 in Q1 2020. The increase was driven by an increase in the attach rate of Paid Subscribers to total Users.

We calculate ARPU from accessories and materials by dividing that portion of revenue by our average user base for the period. ARPU from accessories and materials in Q1 was \$29.45, compared to \$25.40 in Q1 2020. This increase was driven by our typical monetization flywheel, and also by the launch of our Mug Press product line in Q1. Accessories and Materials ARPU experiences seasonality patterns similar to our overall business where Q4 is typically our strongest quarter of the year.

All three of our product segments experienced increases in gross margin this quarter. Our total gross margin was 37%, up from 31% in the first quarter of 2020. We benefited from lower tariffs associated with moving the bulk of our Connected Machine production from China to Malaysia. As a result, Connected Machine margins returned to levels closer to what we saw in early 2018 prior to the increase in tariffs. Strategically, primary production will remain in Malaysia, with the ability to flex manufacturing capacity in China as needed. In 2020, and in 2021, this strategy proved successful as we were able to increase production in an effort to help meet unusually high demands. Going forward, we expect to continue to incur some tariffs as we leverage production capacity in China to help address continued demand for Connected Machines. In addition, depending upon how the post-Covid environment plays out, we may choose to be more promotional in the second half of the year as demand and supply normalize, which could put some pressure on margins.

Profitability and a disciplined approach to spending have always been a priority for us. Our cost structure is characterized by three things: efficient Sales and Marketing spend, driven by our strong word-of-mouth adoption and network effects, investing in R&D for growth, and leverage in our fixed costs.

Total operating expenses in the first quarter were \$55.6 million, an increase over Q1 2020 of \$28.2 million. \$8.2 million of this increase was a one-time charge related to the corporate reorganization associated with the IPO.

As we move into 2021, we will continue to invest carefully in marketing initiatives, including those that support our international business, new products, our platform, our global community, and content to support future revenue growth to drive new users and increased engagement.

We have always focused on building a long-term, durable business model that allows us to grow the top line, invest for our future, and just as importantly, continue to deliver solid profitability. We are pleased to report a 9th consecutive quarter of positive net income. Q1 net income was \$49.4 million, up 279% from the same period last year, and diluted earnings per share was 24 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 stock-based compensation expense, we delivered EBITDA of \$68.6 million or 21.2% margin in the first quarter, compared to \$20.7 million or 14.4% margin in the first quarter 2020. Q1 total stock-based compensation expense was \$11.7 million, including \$3.5 million in recurring stock-based compensation expense and an \$8.2 million one-time charge related to the IPO corporate reorganization. Going forward, we expect stock-based compensation expense to be approximately \$11 million per quarter over the next three quarters.

Turning now to the balance sheet and liquidity. We ended the quarter with \$337 million in cash, cash equivalents, and marketable securities which includes \$243 million in proceeds from the IPO. Subsequent to quarter end, the underwriters exercised a portion of the overallotment option, bringing the approximate total net proceeds to \$261 million. We also have an untapped credit line of \$137 million as of the end of Q1. Cash used in operations for the first quarter was \$22 million, reflecting payments for higher levels of inventory as we continue to work to keep up with demand, especially on Connected Machines.

As we discussed during our IPO process, we are not providing quantitative guidance at this time.

That said, I want to provide some color as we look to the rest of the year.

Typically, Q2 is our seasonally low quarter and declines slightly from Q1 in a normal year. While we are only mid-way through the second quarter, current trends suggest that Q2 revenues will be in a range similar to Q1.

As we look to the second half of the year, we maintain a careful view as we navigate several different dynamics related to the pandemic and possible inventory supply challenges that might occur. However, we currently expect to add at least as many new users in full year 2021 as we did in the full year 2020. Please note that user growth in Q1 typically benefits from the increased number of machines sold in the last few weeks of the preceding Q4 holiday season. Due to typical seasonality, sequentially slower user growth would be expected in Q2, with new user growth picking back up later in the calendar year.

It's also important to remember that we have aggressively and consistently grown the business for many years prior to the pandemic. We have built a durable business model and a passionate and viral community of users that drive our new-user acquisition. We believe the fundamentals, the macro trends and the behaviors that drove our growth then remain intact. We have made significant progress over the years to reach our long-term targets and we are proud of what we've achieved so far. Longer term, we will continue to invest for growth, drive new user acquisition and engagement and bring the Cricut ecosystem to millions more around the globe. Our long-term model includes gross margins in the 37% to 38% range and EBITDA margins in the 17% to 20% range. We are committed and focused on the long term, and it is our job to continue to execute the way we always have.

With that we'll turn it back to the operator for questions.

