

Jim Suva, SVP Finance, Treasurer, and Investor Relations

Thank you, operator, and good afternoon, everyone. Thank you for joining us on Cricut's first 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. 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, May 6, 2025. 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.

Let me begin with a few words about tariffs. We acknowledge that tariffs have introduced uncertainty into our markets and into our financial plans. That said, we have spent the last several years moving the majority of our finished goods spend outside of China across all of our product categories. So, while we have exposure to Southeast Asia tariffs in general, we feel we have a competitive advantage in our current supply chain configuration relative to competition. We will discuss the potential impact of tariffs later on this call.

Total sales in Q1 decreased 3% YoY. We are pleased with the increase in paid subscribers in Q1, up over 6% YoY, the continuation of positive International sales growth, which increased 8% YoY, and strong profitability with operating income up 16% YoY.

Given the confidence in the sustainability of our profitable operations and rightsizing our balance sheet post COVID, the board of directors approved three capital allocation items: a special dividend of \$0.75 per share, approval of our recurring semi-annual dividend of \$0.10 per share payable in July, and replenishing our stock repurchase program up to \$50 million. Kimball will provide more details on these three capital allocation items in a few minutes.

In Q1, Platform revenue increased 2% on paid subscriber growth. Products revenue declined 7%, as connected machines revenue growth of 4% was more than offset by the 15% decline in accessories and materials. We were pleased with the progress in connected machines as our higher investment in marketing and promotions over

the past few quarters appear to be making a difference. Both sell-in units to retailers and sell-out units to end consumers were up for the quarter. We are dissatisfied with our results in accessories and materials, which would have declined further but for the benefit of one-time items.

While paid subscriber growth is indeed a win, we would benefit from stronger acquisition and engagement. We ended the quarter with just over 5.9 million Active Users who cut in the past year, down less than 1% from a year ago, while our 90-Day engaged users declined 4%.

As I mentioned last quarter, in 2025, we are relentlessly focused on increasing our speed of execution and are accelerating investments that will help drive future revenue growth. We are continuing to lean into these investments even as we navigate the uncertainty introduced by tariffs. These accelerated investments are in hardware product development, materials and engagement. In Q1, we launched two new cutting machines and also more Cricut Value materials, and we are pleased with the new launches.

We need to reignite our top line to satisfy the expectations of our team and our shareholders. We have conviction in what we need to do to return to growth. We need to attract more new users to buy our connected machines as we focus on addressing affordability, ease of use, and increasing marketing and awareness. We need to reverse weakening engagement trends and re-inject enthusiasm among our users by enhancing and simplifying the making process. We need to take back our share in accessories and materials.

I will now talk about four 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.

I am excited about the recent launch of the next generation of our most popular cutting machines – Cricut Explore 4 and Cricut Maker 4. These new machines became available at the end of February in the US and Canada and other locations in March. While these machines were just launched in late Q1, we are pleased with the initial feedback, which is positive from both retailers and users. Furthermore, we are seeing an increased uptake with our bundles where we add increased value to users and make the out-of-box experience easier.

In Q1, we focused heavily on tailoring our paid social content across Meta, Pinterest, and TikTok to drive users further down the funnel. This platform-specific approach helped strengthen mid-funnel efforts across platforms. At the same time, we continued to see strong results from our streaming TV ads and have expanded our strategy to incorporate sales messaging, further supporting our full-funnel marketing approach.

Recall, last quarter we mentioned that we expected to continue marketing spend for 2025 at a similar level to 2024, as we reaccelerate consumer excitement for the brand and category. Given the uncertainty created by tariffs and the potential ripple impacts on household discretionary spending, we will be data-driven in our future marketing investments.

User Engagement

We continue to experience expected engagement erosion from our large user cohorts from 2020 and 2021, and from subsequent years, who age on their engagement curve and are not being replenished with as many new users. Also, our more recent new users tend to create fewer projects and use fewer material types in those projects than crafters in past years. Our initiatives to improve our experience for new users joining our platform (or onboarders) remain a key focus. We are also increasing our investments to enhance the overall user journey by helping them go smoothly from a project idea to a physical project in their hands.

Our growing content library of images and fonts, along with our continued improvements in AI and Machine Learning search algorithms, continue to be strong value drivers on our platform, especially for our Cricut Access subscribers. Users seek a broad and diverse selection of high quality, makeable content, which often fall short when using external sources. We continue to see a favorable trend in the share of projects cut using our library versus external content. This trend helps retention of our Cricut Access subscribers.

We continue to simplify the out-of-box experience and guide first time users step-by-step through the most popular project types. This includes new, personalized first-cut experiences, visualization of digital designs as a physical product preview, adding guided touchpoints, and leveraging AI assistance all the way through successfully making their creations. In 2025, we will continue to enhance and simplify Design Space, focusing on specific use cases and streamlining the entire customer journey for each of those use cases – both from a design and an assembly perspective.

Q1 was also the first full quarter of operating our new engagement marketing platform with personalized push notifications in the US and Canada. Our goal is to bring more users back to our platform to drive inspiration and reasons to make. We are pleased with the increase in returning traffic we are generating. A portion of users came back for the first time in the quarter thanks to these efforts. We are continuing to expand the capabilities of our platform to enable more omnichannel campaigns. At the end of Q1, we also started deploying our new engagement marketing campaigns to countries outside the US.

Despite the continued pressure on our Engagement metrics, we are confident in our efforts to simplify the design experience, continue to grow the number of images, fonts and editable designs, and improve our capabilities to bring users back to our platform to make a project. Cricut is a platform company and Design Space is our core platform. Nothing is more important to us than providing our users with a deeply rewarding creative experience every time they come to Design Space. We are not there today, but we believe that the focus and resources we are bringing to bear will result in significant improvements over the next 12 months.

Subscriptions

In Q1, our paid subscribers increased over 6% to just over 2.97 million.

Paid subscribers continue to be a big positive for us and increased 177,000 YoY and increased 15,000 sequentially in Q1. We are doing a more effective job of capturing a higher percentage of onboarders as subscribers. We are also seeing positive trends on win-backs, where our promotional offers are driving increased sign-ups from prior subscribers. Recall, in the second half of 2024, we focused promotional efforts on reducing cancelations and we are seeing improvements in our ability to mitigate cancelations with these promo offers and improved explanations of subscriber benefits. These efforts continued in Q1.

We have a rich roadmap to continually increase the value proposition for subscribers, including over 1 million high-quality makable images and a suite of premium design tools, along with the content strategies described above. Our goal is to make it incredibly compelling to sign up as a subscriber to leverage our content and software tools. As our engagement efforts bear fruit, we expect to see a further boost to subscriptions.

Accessories & Materials

Accessories and Materials sales declined 15% in Q1, which includes about 5 percentage points of help from one-time items. In our efforts to return Cricut to growth, we know we have to return accessories and materials to growth. We also continue in our relentless focus to drive costs out of this business, including diversifying our finished goods supply base largely outside of China over the last several years. We are also focused on having the right product configurations in the appropriate channels, so Cricut materials are the obvious choice when users want to make.

Over the last several years, we have lost ground to competition in materials types where there are low barriers to entry. This has manifested in white-label brands in retailers, as well as new entrants in online marketplaces. We have embraced the challenge to provide refreshed and cost competitive materials and accessories offerings. As these offerings continue to roll out over the coming 12 months, we intend to reclaim market share and, by doing so, enhance the making experience of our users.

Recall in 1H 2024, we launched the Cricut Value line of materials with over 30 SKUs staged throughout the year as a test. Given the success we saw, we are accelerating this business as we launched over 100 SKUS in late March and early April this year. We have expanded the Cricut Value line beyond the initial assortment of Iron-On, Vinyl, and Cardstock to include Glitter Iron-On, and there is more to come. Consumers love the value proposition of Cricut Value line of materials with its quality and ease of use. We continue to be optimistic about this product now that we have some history in the market, but it is still a small portion of our portfolio. We have additional innovation, products, and cost reductions coming in the quarters ahead.

We also launched ecommerce-specific configurations of our main line of materials, which are performing well. Consistent with prior comments, we will continue our promotional cadence in this category to remain price competitive for consumers with a focus on winning share.

We continue to explore opportunities to increase Cricut's market share within our omnichannel retail partners. Also, we believe our more diversified manufacturing footprint gives us an advantage relative to competitors as tariffs are rolled out, giving us an opportunity to potentially capture more open-to-buy dollars from our retail partners.

For some accessories, we recently focused on being more price competitive. This may create some near-term margin pressure for these products, but as our accelerated hardware strategy bears fruit, we should see an increase in their profitability over time.

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 the shelf and for actual use of our ecosystem. 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 to 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, Chief Financial Officer

Thank you, Ashish, and welcome everyone. In the first quarter, we delivered revenue of \$162.6 million, a 3% decline compared to the prior year. We generated \$23.9 million in net income or 14.7% of total sales in Q1.

Breaking revenue down further, Q1 2025 revenue from Platform was \$80.0 million, up 2% YoY. We ended Q1 with just over 2.97 million paid subscribers, which is up 177,000 or 6% YoY and up 15,000 or 1% from Q4. Platform revenues were up less than paid subscribers due to more promotions, mix shift more toward annual vs monthly subscriptions, and geographic mix shift more international, all of which are targeted efforts. ARPU increased 2% to \$53.10 from \$52.26 a year ago.

Q1 Revenue from Products was \$82.6 million, down 7% YoY. Connected machines revenue increased 4%, driven primarily by more units sold combined with fewer legacy machine sales. Sell-in units to retailers and sell-out units to end consumers were both up for the quarter. Accessories and materials decreased 15% and included about 5 percentage points of help from one-time items.

In terms of geographic breakdown, international revenue for the quarter was \$35.1 million, an increase of 8%, compared to Q1 2024, and included about 2% of foreign exchange headwind. As a percentage of total revenue, international was 22% in Q1 2025, compared with 19% of total revenue in Q1 2024. We saw strength in our UK, Germany, META and Latin America markets. We are experiencing continued softness in Australia. We are increasing sales and marketing resources to further fuel momentum in international markets.

We ended the quarter with just over 2.97 million paid subscribers, up over 6% from Q1 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 counts in Q2 and Q3.

Moving to gross margin. Total gross margin in Q1 was 60.5%, an increase from 54.7% in Q1 2024. The improvement reflects a higher amount of subscription revenue as a percentage of total revenue and higher product gross margins.

Breaking gross margin down further, gross margin from Platform in Q1 was 89.2% compared to 88.8% a year ago. The increase in Platform gross margin for the quarter was primarily related to lower amortization of software development costs.

Gross margin from Products was 32.7%, compared to 24.8% in Q1 a year ago. The increase in gross margin for the quarter was primarily due to selling previously reserved inventory and a more favorable product mix as we launched new products. The uplift from these items more than offset our increased promotional activities.

Total operating expenses for the quarter were \$69.0 million and included \$10.2 million in stock-based compensation. Total operating expenses increased 4% from \$66.4 million in Q1 2024. Recall, we increased our marketing efforts during 2024 by \$20 million and continued at a similar rate through Q1. As Ashish mentioned, we will be data-driven in our future marketing spend as we navigate the uncertainty from tariffs and potential

impact on consumer spending. We will continue to lean into our physical products and platform investments to drive future growth as we continue to manage our business through a long-term lens.

Operating income for the quarter was \$29.3 million, or 18.0% of revenue, compared to \$25.2 million, or 15.1% of revenue in Q1 last year and was benefited from the one-time items by almost 4 percentage points.

The tax rate in Q1 2025 of 26.7% was lower than the 30.6% in Q1 2024 primarily due to fully vested RSAs in 2024, which increased the prior year tax rate, combined with higher R&D credits in 2025.

For the quarter, net income was \$23.9 million, or \$0.11 per diluted share, compared to \$19.6 million, or \$0.09 per diluted share in Q1 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 Q1, we generated \$61.2 million in cash from operations, compared to \$56.7 million a year ago. We ended Q1 with cash and cash equivalents of \$357 million. We remain debt free.

During Q1, we paid approximately \$21 million for the declared \$0.10 per share, semiannual dividend on January 21, 2025. We used \$12 million of cash to repurchase 2.1 million shares of our stock. As a result, \$10.9 million remained in our previously approved \$50 million stock repurchase program as of the end of March.

As Ashish mentioned, given the confidence in the sustainability of our profitable operations and rightsizing our balance sheet post COVID, the board of directors approved three capital allocation items. First, a special dividend of \$0.75 per share, which is primarily driven by the inventory reductions which we do not expect to continue. Second, approval of our recurring semi-annual dividend of \$0.10 per share, which is primarily driven by our profitable operations. Both the special dividend and the recurring semi-annual dividend will be payable on July 21, 2025, to shareholders of record on July 7, 2025. Third, the replenishing of our stock repurchase program up to \$50 million, which incorporates the unused portion from the prior approvals.

Outlook

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

We are focused on controlling what we can control, and we are managing our business through a long-term lens. As Ashish mentioned, we are keenly aware of the uncertainty created by changing tariffs, and we are proactively assessing and adjusting as needed. We are focused on bringing excitement to our category and are continuing to increase our platform and hardware investment to drive future growth. We may take a more measured approach for marketing investments based on potential consumer spending changes in reaction to tariff policies, and will be data-driven in our decisions to rebalance both investments and consumer pricing.

We continue to expect total company sales to decline YoY in the first half of 2025, compared to the first half of 2024 due to continued pressure in accessories and materials. We also continue to expect that the rate of sales decline should be less than the rates we posted in the first half of 2024. While we are working with tremendous urgency to get to an inflection point this year, we are aware that the dynamics surrounding tariffs and associated consumer discretionary income impact may put that at risk.

We continue to expect Platform sales to increase YoY on paid subscriber growth. However, lower new user growth rates will put pressure on our subscriber growth rates. This could result in a seasonal pattern of QoQ paid subscriber growth in Q1 and Q4 but flat to declining QoQ subscriber counts in Q2 and Q3.

Given the uncertainty surrounding tariffs, our prior guidance for operating margins can no longer be relied upon and we are no longer providing any color on our operating margin expectations for the year.

We expect to be profitable each quarter and generate significant positive cash flow during 2025.

While tariffs are the reality of today's world, our teams continue 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.