

**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 full year 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, 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](http://investor.cricut.com).*

*Joining me on the call today are Ashish Arora, Chief Executive Officer, Marty Petersen, Chief Financial Officer, and Kimball Skill, Executive Vice President of Operations and Incoming CFO.*

*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-K. 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, March 8th 2022. 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.

Before I get started with my comments, I want to take a moment to acknowledge the devastating events in Ukraine that are on our minds. As part of our virtual team, we have software partners that we work with in Ukraine. My team and I have been in contact with these team members and their leadership and have expressed our concern and support for them. We also know these events impact many people across our global teams, user communities, friends, and families. Our hearts and prayers are with all of them.

While these events are clearly top of mind for us all, let me now shift to talking about our latest updates at Cricut.

2021 was an exciting year for us, with strong momentum across our business. 2021 was also a complicated year as Cricut, our retailers, and our customers navigated the ups and downs of a global pandemic.

Total revenue for the year grew 36%, a remarkable performance on top of a very tough comp in 2020, driven by growth across connected machines, accessories and materials, and subscriptions. We delivered 16% EBITDA margin for the full year. Our profitable business model enabled us to fund significant investments towards our long-term growth strategy. In addition, we successfully navigated through some tough supply chain challenges and as a result, benefited from a strong inventory and cash position that continues as we enter 2022.

2021 represented the second year in a row that we accelerated our growth in two key areas. The first, was the expansion of our consumer base, adding nearly 2.1 million new users in 2021.

And the second, was the growing revenue contribution from our international efforts. In 2021, international revenue grew by nearly 110% compared to the prior year and represented 11% of total revenues. We added new use cases and entered into new markets, expanding our retail footprint, and fostering a growing global community that will continue to fuel our engagement flywheel.

Revenue in the fourth quarter was strong, as anticipated with the holiday season. Gross margin pressures resulted in much lower EBITDA margins in the fourth quarter than anticipated, which Marty will talk through in a few minutes.

In 2021, we added more than 2 million new users, an increase over the nearly 1.8 million users added in 2020. At the top of our engagement funnel, sits 6.4 million total users on our platform.

As anticipated, engagement as a percent of total users in the fourth quarter increased sequentially, consistent with typical holiday seasonality. As a percent of total users, engagement in the fourth quarter was 60%, up significantly from 56% we saw in Q3 at our trough. At the end of 2021, we had 1 million more users cutting in the last 90 days compared to the end of 2020.

As we've discussed before, the engagement metric on a percentage basis, will fluctuate as we expand our market opportunity and acquire new customers.

We are expanding beyond our traditional craft consumer by broadening our use cases and growing partnerships with various retail channels. Our goal is to drive engagement with these users by offering seamless connected experiences, relevant content, community, and value-added services. This increased engagement in turn drives monetization through subscriptions and materials. Our passionate and engaged users fuel our marketing flywheel where over 40% of new users come to know about Cricut from word of mouth.

This user acquisition, engagement and sharing cycle powers our business for machines, subscriptions, and accessories and materials. These businesses are symbiotic with each other as is the user experience. At the core of this user experience, we ensure compatibility between our connected machines, software, content, accessories, and materials. We then actively work with retail partners who are passionate about telling that compatibility story, showcasing the entire Cricut brand, and delivering a great experience for our consumers.

Our growth from our international expansion was one of the highlights for the year.

This past holiday season, we significantly expanded our retail footprint across a broad range of retail channels around the world beyond craft, including home office, home organization, and consumer electronics.

Since the end of 2020, we introduced Cricut products in 16 new markets, making Cricut products now available for purchase in over 45 countries. Our user acquisition approach is driven by our organic word-of-mouth. Based on our experience to date, these international investments will pay off over time and typically takes a few years to achieve critical mass in each country.

At the heart of Cricut is our passionate community of users. We curate our Facebook, TikTok, Instagram and Pinterest pages from projects that our users share across their social channels. Our goal is to amplify their great work and inspire others around the globe.

Our community provides a powerful competitive moat, while driving organic engagement and new user acquisition. More than 5.7 million social media followers actively engage with Cricut across relevant platforms. The hashtag Cricut alone has more than 3.1 million posts just on Instagram. On YouTube and Pinterest, video views of Cricut content more than tripled compared to 2020. We now have over 3.3 billion views on TikTok, up from 2 billion at the end of 2020.

Our international communities continue to grow as well, fueled by hundreds of active influencers outside of the US with a combined reach in the tens of millions.

In October, we launched Cricut Learn, showcasing a Beginner’s Guide with “live” Zoom workshops and short, searchable on-demand video instruction covering everything from popular materials to how to use Design Space. As of today, we’ve hosted over 80,000 members, with introductory courses making up 40% of content consumed. At the same time, we’ve hosted more than 40,000 new Members in our Live Workshops. We see member education as a significant opportunity to provide Members with tools and resources early in their Cricut journey, so they can create more often and with confidence.

We continue to drive engagement through Cricut Access, our subscription service.

We ended 2021 with over 2 million paid subscribers, a 56% increase over the prior year. This equates to about 32% of our total user base – a strong attach rate, that speaks to our continued investments on subscription services.

We’ll continue to add new features, functionality, and content as we continue to increase the value proposition of Cricut Access.

One of the things I want to highlight is our new Contributing Artist Program. Currently in beta, this new marketplace enhances our content library, enabling artists to upload their artwork to Cricut Design Space and get compensated as their artwork is used by Cricut members for their projects. For millions of our users, they

can access new, authentic, and diverse content from their favorite designers. This marketplace strategy lays a foundation for more to come as we look for ways to further engage with our community globally, and for the community to further engage with each other.

Our ability to extend the platform – as we introduce new machines, Smart Materials, tools, and accessories – expands use cases and categories which further drives user engagement.

Just yesterday, we introduced an exciting new lineup of heat presses. The Easy Press 3, is our newest model that includes Bluetooth technology, along with a new Cricut Heat app to monitor the perfect heat settings for any project via our connected platform. Our new Cricut Hat Press enables us enables our users to create personalized, high-quality hats. We also launched our flagship Heat press – the Cricut Auto Press. The Cricut Auto Press is designed for enthusiasts who love making t-shirts and other heat transfer projects as well as for prosumers who are using their Cricut machines for making heat transfer products to sell.

We also recently launched the Cricut Bright 360 floor lamp and desk lamp. These lamps are designed specifically for every Cricut user and every crafter. The lamps are designed to reveal rich, accurate colors and evenly lights up your entire workspace.

We are very excited about all of these launches.

Our platform enables us to constantly enrich the experience for the entire install base of users and machines, as we rollout software updates across desktop and mobile. These software updates allow users to benefit from new features and capabilities when coupled with new content, materials, and tools. This is very unique to our platform and allows us to drive engagement by giving users the ability to make new types of projects and expand on their creativity.

Over the holidays, we released the new Destination Pages on the desktop version of Cricut Design Space. These pages allow us to feature targeted content, projects, and images to support key themes and to engage users in a rich and inspiring way. We also plan to build on this and give our international markets to create their own flavor of destination pages for each of their respective markets.

The underlying key trends that drive our business, like personalization and digitization of tools are healthy and intact. As we further penetrate our SAM, we are excited to see a broadening of demographics among our user base. We see a growing number of beginner crafters joining the platform. We are seeing younger generations of crafters, including more Gen Z and millennials, as well as a greater percentage of men becoming Cricut users. One of our core mantras is – proud but hungry and we'll continue to innovate around the platform and create additional value for the user experience within the Cricut ecosystem.

Over the last two years, we acquired nearly 4 million new users and we significantly grew the business. As we head into 2022, we are focused on cultivating this larger user base and creating the best experience we can for

them. These investments will drive further monetization and profitability, ultimately fueling more investment and growth for the long term. Our key focus areas this year include:

First, we will continue to enter new markets and expand across retail channels.

Second, we want to simplify the onboarding process and drive engagement across our entire install base. This is fundamental to our user acquisition strategy and the marketing flywheel.

Third, we want to monetize our user base and this enhanced engagement. We plan to do this with the launch of new materials, accessories, content, and enhance the value our users get by subscribing to Cricut Access. Our focus on compatibility across the ecosystem is key to driving this.

Balanced with these shorter-term objectives, we continue to invest for the medium and long term. We are expanding our platform and investing in new types of connected machines that will serve us well for 2023 and beyond.

Before I conclude my remarks, I would like to thank the entire Cricut team for their amazing and tireless work.

I also want to thank Marty for his countless contributions and leadership that have helped build the company to over \$1 billion dollars in revenue. He's built a tremendous team, and I'm grateful for his dedication and passion to our company culture, our mission, and our users. He's been an incredible partner to me over these past 10 years, and I wish him all the best in his retirement later this year.

I'm also thrilled to introduce you to Kimball Shill, who is joining us today on the call for the first time. He's served as part of the executive team for the past three years, and his deep operational expertise and proven leadership at Cricut makes him the ideal person for the CFO role. Three years ago, Kimball was tasked with building a team that could reimagine our supply chain for greater scale and flexibility while also serving our growing international market. Kimball and Marty's roles were tightly integrated and we're lucky to have Kimball expand his leadership role within the company.

I'll now turn the call over to Marty..

**MARTY PETERSEN, CHIEF FINANCIAL OFFICER**

Thank you, Ashish and good afternoon, everyone.

I want to take a minute to thank the entire Cricut team. It has been a privilege to be part of this team for the past 10 years. I'm grateful for this amazing experience, and to have been able to help contribute. What we do, and what we build empowers so many lives around the world, and I'm honored to be just a small part in helping with someone's creative joy and inspiration.

For the call today, I'll quickly recap the financials on an annual basis but will spend most of my time this afternoon giving additional color on our fourth quarter performance. As a quick reminder, we have posted a supplemental data sheet, with historical numbers, on our investor relations website for easy reference.

We had a strong year, delivering \$1.3 billion in revenue, or growth of 36%, on top of last year's 97% growth.

Driving this growth is our diversified revenue stream, with all 3 segments in 2021 significantly growing year over year.

We increased total cost of revenue by 35% for the year, but held gross margin flat with last year at 35%. Higher cost of sales primarily came from increased levels of promotions compared to the prior year when our promotional activity was unusually low, and from higher freight costs. These costs were partially offset by the increase in revenue and revenue mix.

The strength of our business model enabled us to significantly invest in multiple growth initiatives, many of which Ashish just mentioned. Total operating expenses for the year were 20% of total revenues, compared to 14% in 2020. In absolute dollars, we doubled our operating expenses in 2021, up from suppressed levels in 2020 when we had paused spending given the uncertainties of the pandemic.

We have a durable business model and 2021 marked our 5th consecutive year of GAAP profitability. For the year, we delivered \$140.5 million in GAAP net income, compared to \$154.6 million in 2020. EBITDA margin for the year, which included \$38.1M of stock-based compensation, was 16.2%, just shy of our expectation going into the fourth quarter. This compares to 22.4% EBITDA margin in 2020, which benefitted from the lower promotional activity and paused spending I just mentioned as well as nominal stock-based compensation expense.

Overall, 2021 was a year of many accomplishments. We saw continued strong revenue growth, significantly invested in the business, grew inventory back to strong levels, successfully navigated the challenging supply chain environment, and continued to generate profits.

Now, onto the quarterly numbers. I am going to dive more deeply into certain business factors underlying Q4 financial results; you'll need this behind-the-scenes tour in order to evaluate Q4 performance and to frame the outlook for 2022.

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

Revenue in the fourth quarter was \$387.8 million, approximately a 5% increase year over year. On a two-year basis, revenue was up 123%. We saw typical holiday strength in Q4, as anticipated. Additionally, Q4 2021 revenue benefitted from a few of our retailers ordering more aggressively and building defensive stock in Q4

2021 as they also navigate concerns about supply chain disruption. We estimate that this buying inflated Q4 revenues by roughly \$20M across connected machines and accessories & materials. These revenues were likely pulled forward from the first half of 2022.

Revenue from Connected Machines was \$158.1 million, down 7% year over year. Keep in mind that on a year-over-year comparative basis, we are comparing to an exceptionally strong Q4 last year. Additionally, Q4 2021 revenue benefited from some unusual retailer behaviors that I just mentioned.

Revenue from Subscriptions was \$55.7 million, up 51% over last year, driven by continued strong machine sales and attach rates throughout the year.

Revenue from Accessories and Materials was \$174 million, up nearly 7% over last year, as we grew our engaged user base sufficiently to offset the year-over-year decline in engagement percentages, and these revenues also benefited from some higher retailer buying during the quarter.

In terms of geographic breakdown, international revenue growth continued to outpace growth in North America, increasing approximately 53% in the fourth quarter over the same quarter in 2020.

In the fourth quarter, we added 676 thousand new users, a record number for any single quarter, helping fuel our monetization flywheel for continued long-term growth. We ended 2021 with more than 6.4 million total users.

As anticipated, engagement in the fourth quarter increased on a sequential basis, as Q4 is typically our strongest quarter for engagement due to seasonal trends. Year over year, the number of users engaged on our platform for the 90-day period ending December was 3.8 million, an increase of over 1 million, or up 36%. Also, as of the end of 2021, 5.2 million of our total 6.4 million users had used their connected machines in the prior 365 days.

As a percentage of total users, user engagement was 60% in the fourth quarter, significantly up from the trough we experienced in Q3. Engagement was down from 65% in the prior year, which was unusually high. Keep in mind this calculation will fluctuate over time as we broaden our user base and expand into new verticals and use cases.

On a year-over-year basis, the number of paid subscribers grew by 735 thousand, or 56%, ending the year with just over 2 million paid subscribers. Attach rates held strongly at 32% as of the end of Q4 2021, an increase of 2 percentage points on a significantly higher total user base compared to Q4 last year.

We measure user monetization through Average Revenue Per User 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 fourth quarter was \$9.18, down slightly from \$9.23 in Q4 2020.

Accessories and Materials ARPU closely relates to engagement. ARPU from Accessories and Materials in the fourth quarter was \$28.66. This was up sequentially from \$18.79 in Q3 2021. This compares to Q4 2020 ARPU of \$40.76 which was an all-time peak, benefiting from higher-than-normal engagement levels related to the pandemic and some catch up on channel inventory in 2020. We have a strong focus on monetizing our growing user base through our subscriptions and accessories and materials. Keep in mind we grew our user base by 3.9 million, or 154% since 2019. This fuels our monetization flywheel as we move forward by adding more beginner and intermediate users which presents a significant opportunity for us to increase levels of engagement over time and drive these revenue streams to higher levels in the future.

Moving onto gross margin. As a reminder, historically, we see softer gross margin in the fourth quarter due to a higher revenue mix in connected machines and increased promotional activities around the holidays.

Total gross margin in the fourth quarter was 27%, down from 33.6% in Q4 last year largely driven by significantly lower margins in our connected machines and accessories and materials. Q4 2021 was also impacted by a few items that resulted in lower margins for the quarter.

Breaking this down further:

Gross margin from connected machines in the quarter was negative 1.5%, which was unusually low. Prior year Q4 connected machine gross margin was 14.4%, which was unusually high due to the lower level of promotional activity in the middle of the pandemic. For context, the pre-pandemic Q4 margin on connected machines typically ranged in the mid to high single digits. The decrease was primarily driven by some non-recurring items, as well as ongoing cost headwinds that will continue to impact our machine gross margins as we look into 2022.

First, our support for promotions to end consumers by our retail partners was much higher than expected. We benefit significantly from strong, competitive retail partners who look to us to maintain order in the channel. In Q4, we stumbled in managing the channel and the promotional activity tightly enough. To address this channel imbalance, we chose to align and support all of our retail partners appropriately with additional promotional dollars, which drove about 5 percentage points of the decrease in connected machine gross margin. Going forward, we have put in place structures and policies to ensure stronger management across our retail channels and will partner with retailers who strategically align with us to prevent these types of issues in the future.

Second, Q4 2021 also reflected a higher level of reserves related to our pricing plans for end-of-life on certain products. These reserves resulted in an additional 3 percentage points of connected machine gross margin impact.

Additionally, our connected machine gross margins continue to see inflationary impacts across all aspects of our supply chain. Our teams have been successful in navigating this environment to ensure we have sufficient inventory when and where we need it. As we move through 2022, we expect to continue to feel the impacts of elevated freight, warehousing, and handling costs, as well as increases to commodities.



Going forward, to mitigate some of the continued headwinds from inflationary pressures, we intend to implement price increases and adjust our promotional strategies across connected machines and accessories & materials.

Gross margin from Subscriptions in the quarter was 88.4%, down slightly year over year due to an increase in hosting costs to support increased functionality of our applications and to scale capacity for our future growth.

Gross margin from Accessories and Materials in the fourth quarter was 33.3%, down from 41.3% in the prior year due to higher unit costs, including increased freight expenses, as well as a change in the revenue mix of products.

Moving on to operating expenses, total operating expenses in the fourth quarter were \$79 million, and included \$10.1 million in stock-based compensation. This was a significant increase over Q4 2020 of \$45.2 million when we paused spending as we navigated the uncertainties of the pandemic. Additionally, Q4 2020 had much lower stock-based compensation expense.

Total operating expense as a percentage of revenue was 20% in Q4. This is higher than the prior year figure of 12%, reflecting increased investments in Sales and Marketing and R&D to extend our platform for future growth. The main drivers of the year-over-year increase were led by increased advertising and marketing spending, particularly related to our international expansion. Additionally, we increased headcount, particularly in R&D, and stock-based compensation, as a result of our IPO in March.

Operating income for the fourth quarter was \$25.8 million, or 6.7% of revenue compared to \$79.6 million, or 21.5% of revenue in Q4 2020 driven by lower gross margins, plus the increased investments and stock-based compensation expense I just mentioned. On a full-year basis, operating income in 2021 was \$192.4 million, or 14.7% of revenue compared to \$200.5 million, or 20.9% of revenue in 2020.

We delivered our 12th consecutive quarter of positive net income. Net income in the fourth quarter was \$11.9 million, down from \$61.4 million in Q4 of the prior year. In the fourth quarter 2021, we recorded a tax true-up of \$6 million dollars related to higher sales across more states with higher tax rates, as well as taxes related to higher stock-based compensation. This resulted in a significantly higher effective tax rate for the quarter. Going forward, we expect our ongoing effective tax rate to be about 25%. Diluted earnings per share was 5 cents. Note that Cricut did not have a comparable EPS history prior to the reorganization at the time of last year's IPO. EBITDA in the fourth quarter was \$31.8 million or 8.2% margin in the fourth quarter, which includes \$10.1 million of stock-based compensation expense. This compares to an unusually high \$83.5 million or 22.5% in the prior-year Q4. On a two-year basis our EBITDA grew 122% over 2019.

We generate healthy operating margins and starting in 2022, we will be able to provide year-over-year EPS comparisons. Going forward, management believes that operating income and earnings per share are the key metrics on which to measure profitability and manage the long-term business. Therefore, this will be the last

time that we highlight EBITDA as a key metric. Note that operating income is closely aligned to how we have calculated EBITDA, and of course, investors who are still interested in the EBITDA metric can easily calculate it from our financial statements.

To align to this framework, we will manage towards long-term operating margin targets of 15 – 19%. Our long-term target ranges for gross margin and operating expenses remain unchanged. For reference, our historical operating margins are included within the data sheet, and the long-term target ranges are included in the appendix of our earnings presentation, both are available on our investor relations website.

Turning now to the balance sheet and cash flow.

We ended the year with a strong balance sheet of \$241.6 million in cash and cash equivalents and healthy inventory levels. Our credit line of \$150 million remains untapped. Cash used in operations for the year was \$104.9 million, which was primarily used to rebuild depleted inventories. Consistent with what we have said over the last few quarters, we plan to continue carrying higher-than-normal inventory levels to mitigate supply chain risks. We are carefully monitoring known risks and plan to manage down inventory levels to match as risks unwind.

In summary, 2021 marks two consecutive years of hyper revenue growth. On a two-year basis, revenue grew over 165% and we added nearly 4 million new users to the platform. We grew operating income over 255% over the same two-year period. At the same time, we held gross margin flat while managing through a complex supply chain environment and have continued to significantly invest in the business.

I believe we are a stronger organization today than we were pre-pandemic, and we will continue to tightly manage what is within our control.

As we look to 2022, it is important to keep in mind the first half of last year was unseasonably high. If 2021 had followed our typical seasonality pattern similar to years prior to COVID, the quarterly revenue distribution would have looked significantly different. So, as we return to a more normal seasonality pattern, this makes first-half 2022 comps very difficult. Moreover, while we don't have full visibility into the channel, we are operating on the belief that retailer inventories entered 2022 about \$35 million above what retailers would consider normal levels. This figure includes the roughly \$20 million of defensive buying that occurred during Q4 by a few retailers. Combined, these factors create headwinds in the first half which we can already see early in 2022. As we move further into 2022, we expect to benefit from traditionally stronger seasonality and easier comps over second half 2021. However, we are mindful of uncertainty around some of the macro-economic pressures of inflation and consumer spending. We expect to end 2022 with at least 8 million total users. The significant growth in our user base over the last two years also provides opportunity to further drive engagement and monetization over a larger base of users.

We remain focused on driving profitable growth and committed to our annual operating margin targets of 15-19% over the long-term. Given the uncertainties of the current environment as we enter 2022, we do see pressure on operating margins that may put us below the range in the short term.

We believe the same trends that have fueled our growth from 2014 will continue for many years to come. We have a consistent track record of driving profitability, while managing our financial resources. This dynamic macro environment plays to the strength of our disciplined approach we have cultivated since 2014. The tremendous growth we've achieved lays the foundation for us to scale and grow even further.

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