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Thank you, operator, and good afternoon, everyone. Thank you for joining us on Cricut's second quarter 2022 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. Joining me on the call today are Ashish Arora, Chief Executive Officer, and Kimball Shill, 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. This call also contains time-sensitive information that is accurate only as of the date of this broadcast, August 9, 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.

Revenue in the second quarter was $183.8 million, below our internal expectations.

We have 3 business segments – connected machines, accessories and materials and subscriptions. Let me first discuss subscriptions. Given the huge growth in new users, we had a deep focus on converting users to subscribers coming into 2022. This is the area where we have made significant progress and also have a sound strategy going forward. We had feared that the number of subscribers could decline sequentially in Q2 due to the decline in connected machine sales this year. All our subscriptions-related initiatives resulted in us adding nearly 60,000 subscribers in Q2. We have a strong roadmap and strategy that we are executing on. However, we think it is prudent to stay conservative on our subscriptions outlook in the short term.

Our accessories and materials business is being impacted by lower engagement, increased competition and higher channel inventory. Our engagement initiatives, which I will talk about later, will bear fruit in the medium to long term. We believe that the channel inventory will continue to correct itself in the next few months. We are focusing on improving the value proposition and affordability of our materials and undertaking steps to communicate more effectively our compatibility and why consumers should choose Cricut.

Let's talk about connected machines. We leveraged the opportunity in 2020 and 2021 to significantly grow our user base. In 2022, we face a very different environment where channel inventory is still high, consumers are more cautious and prioritizing their spend on "need" items and on categories they were unable to spend on during Covid. Channel inventory will work itself out in the next few months. We strongly believe that we have millions of new users to acquire and connected machines to sell. We saw evidence of this during Prime Day sales and when we promoted Cricut Joy at $99 during the quarter. Our strategy is to be patient and not impact the long-term health of the category by discounting new machines too much. In the meantime, the steps we are taking to invest in the platform, improve engagement, execute on our subscriptions strategy and become more competitive in materials will help assure that we fully exploit the opportunity in connected machines in the future.

Despite these challenges, we continue to operate a sound business model that positions us well to come out of this tough environment in a position of strength. We delivered our 14th consecutive quarter of profitability, with a history of generating cash, which allows us to continue to invest through the downcycle. We also benefit from significant opportunity to increase monetization from 7.2 million users already on the platform, a robust subscription revenue stream, and a strong balance sheet. As I think about the second half of the year and the continued uncertain environment, these pillars of strength are the things that will sustain our business in the short term and just as importantly, position us for long-term growth.

We have many levers within our control – the primary being that Cricut is a PLATFORM. This is an important distinction that separates us from many other companies. Because we are a platform, we are able to interact with our users throughout their entire crafting journey, from initial onboarding to various levels of engagement and monetization. We are able to rapidly innovate, bring new content and features to our entire user base, communicate directly with our users through various touchpoints, and leverage consumer behavior and data to drive further innovation.

I'm incredibly proud of the team and all they have accomplished over the past several quarters. Operating in this environment has been challenging, but it has also sharpened our focus on the initiatives that will be the most impactful to Cricut.

Last quarter, I outlined 4 key areas of investment:

- Improve user onboarding and drive engagement
- Focus on increased monetization through our subscription software service – Cricut Access – and Accessories and Materials
- Continued investments in international markets – leveraging our low-cost word of mouth marketing playbook, and
- Innovate and expand the platform.

We believe this work will position us to exit current macroeconomic conditions exponentially stronger – with one-to-one user connections, deeper engagement on the platform and increased user monetization.

Let me walk through each of these in more detail.

As a top priority, the team has been intently focused on improving our user onboarding experience. The faster a user gets up and running, the more they create, engage and share. To help drive this process, we will be piloting learning kits later this year that combine content, Cricut materials and software experiences that hand hold the user as they embark on their Cricut journey.

We're also focused on driving user engagement and creating habit forming experiences using Cricut. While our engagement metric only focuses on when a user sends a cut command to a machine, we think about engagement on the platform in a much broader way. This includes all touch points along the way – discovery and inspiration, bookmarks, user connections and other aspects of inspiration and sharing in the Design Space platform and community. That, in turn, will drive user stickiness and, ultimately, increased monetization through content, subscriptions and accessories and materials. We are working to make the design process even easier, offering more design tools and expanding our content library. We believe these efforts will be able to drive higher levels of engagement over time.

In Q2, we added several new features in Design Space such as community-driven notifications, project sharing, enhancements to text capabilities, localized inspiration experiences and other design capabilities to the platform. We are excited about the progress we've made so far.

Just as important to our business is turning engagement into increased user monetization. We do this through our subscription business and accessories and materials.

We've made significant improvements to our subscription product and our efforts are already paying off. Our subscription business is as strong as it has ever been, including at the height of the pandemic. We had nearly 2.4 million paid Cricut Access subscribers at the end of Q2, an increase of more than 34% versus Q2 of last year. Also at the end of Q2, we had more trial subscribers than Q2 of last year, despite slower connected machine sales, as we saw more existing users begin trial subscriptions for the first time. We'll continue to invest in this area to improve the experience and bring new and innovative ways to convert trial subscribers to paying subscribers. In addition to increasing our content library, we are adding new premium design tools available only to Cricut Access subscribers. Positive results from our previously launched Monogram Maker and Automatic Background Removal give us confidence in our strategy for Cricut Access. In addition, we are expanding user touchpoints within Cricut Design Space to improve our merchandising, marketing and promotional efforts. We have a strong roadmap and are in the early days of executing on that roadmap.

Additional monetization opportunities exist within our Accessories and Materials business where we continue to innovate in ways that uniquely leverage our platform. In recent months, we have broadened our successful

Smart Materials portfolio to cover new use cases, introduced a new card making ecosystem, and expanded into new sublimation blanks. The platform compatibility benefit derived from the integration of our Accessories and Materials with our Machines, Design Space software and digital content resonates very well with our members. Additionally, we are seeing significant competition, especially online, as well as more placement of competitive materials in our retail channels. While our members realize that Cricut materials work seamlessly with our machines and our software, they are more price sensitive than they have ever been. And we are focusing on making our products more affordable for our consumers via cost reductions and promotions.

International remains a key priority for us. The key trends that have driven our business since 2014 also hold true internationally. International continues to become a larger percentage of our overall business, for relatively small initial investment levels.

While our more established international markets like the UK and Australia are experiencing similar headwinds to our North American business, emerging countries are growing quickly, giving us diversity in revenue growth, especially over the long-term.

As we enter new markets, we employ the same Cricut playbook, with a focus on key influential voices, fostering community, partnering with key retailers, and continuing to build out our robust platform to support our worldwide community of users.

Investments in international markets continue to deliver success, including significant progress on Design Space localization, as well as new country launches in Thailand and Turkey, with India, Japan, South Korea, and Taiwan coming soon. We'll continue to build the platform, localize products and expand awareness by leveraging our proven go-to-market model and network effects.

All these investments ultimately expand our platform – whether it's adding new software features, content, or personalized experiences – it all enriches the community experience around the world.

For example, our Contributing Artists Program, which we launched in Q1, expands our platform, drives engagement and creates opportunities for increased user monetization. All the images from Contributing Artists are available for purchase as stand-alone images within Design Space and for subscribers, are included in our Cricut Access subscription service. We are in the early days of this program and are excited by initial results.

We have also been working on a very important enhancement to our software and images architecture. Today, when an image contains text, that text is treated graphically. It is not an easy task if a user wants to customize the text, as we don't retain the font in the initial graphical image. We are working on a new architecture along with a new class of images called editable images. Editable images will allow the user to easily modify the text in the image and customize it in a variety of ways. This new class of editable images along with the software features will be available later this year to Cricut Access members as part of their subscription. We have a solid roadmap of feature enhancements for editable images.

Our focus on the platform has never been higher than it is today. We are improving every aspect of the platform including design tools, community features, engagement related features, data capabilities, search, mobile specific initiatives, Cricut Access features and so much more.

I could not be more excited about the opportunities ahead. Underscoring our confidence are four key trends that demonstrate resilience in the market and that have driven our business forward since 2014:

- First, the desire for personalization.
- Second, the digitization of tools that makes personalization easy and seamless.
- Third, technology has opened the door to a new generation of entrepreneurs.
- And fourth, the proliferation of social media drives community – a significant barrier to entry for others looking to enter the market.

Although there is still a lot of uncertainty in the current macro-environment, we are as confident as ever about our medium and long-term opportunity for growth. I am very optimistic about the foundation that we have laid over the last 10 years and excited about how laser focused the team is on the most important things we need to accomplish in the short term and long term, optimizing the tradeoff between current profitability and investments in our long-term growth opportunities. Notwithstanding the current environment, our foot is squarely on the accelerator pedal toward sustainable long-term growth. Many of our investments are showing signs of success, building confidence that what we're doing today will have lasting impacts for long-term growth.

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

KIMBALL SHILL, CHIEF FINANCIAL OFFICER

Thank you, Ashish and good afternoon, everyone. Q2 was a challenging quarter for us. We believe the macro trends we have been navigating will more than likely continue into the back half of the year. However, we are tightly managing what is within our control.

In the second quarter, we generated revenue of $183.8 million, a 45% decline compared to prior year Q2 and generated $13.8 million in net income.

Breaking revenue down further, revenue from connected machines was $35.4 million, down 76% year over year, against significantly difficult comps given the unusually high sell-in we had in Q2 2021. Just to remind everyone, sales of connected machines in Q2 last year were unusually high as retailers replenished inventory and stocked up on newly launched machines. Q2 was impacted by macroeconomic pressures, softer consumer demand beginning in March, and higher-than-normal channel inventory positions that some of our retailers held as we entered the quarter. We anticipate retailers will continue to work down their inventory levels through the end of Q3. As Ashish mentioned, consumers are also prioritizing their spend on essential needs and other categories that they missed out on during Covid. For context, one way we have thought about the impact of channel inventory versus consumer behavior is to compare new user adds for the quarter, which was down almost 34% year over year. New user adds is correlated with machine sell through.

Revenue from subscriptions was $67.6 million, up 33% over last year and 4% sequentially, a remarkable accomplishment given the pressure we saw in Connected Machines revenue and a demonstration of the durability of our business model. For several quarters now, we have invested in Cricut Access and the success we saw in Q2 validates our strategy.

Revenue from Accessories and Materials was $80.7 million, down 41% over last year and reflected similar pressure from increased channel inventory levels, macro-economic trends, and competition.

In terms of geographic breakdown, international markets grew as a percentage of total business, representing 13.2% of total revenue, compared to 8.5% in Q2 of the prior year. Revenues from international on a year-over-year basis decreased by about 14%, with softness in our most mature markets like the UK, although somewhat offset by growth in newer geographies. On a two-year basis, international revenues have grown 140% compared to Q2 2020.

During the second quarter, we continued to fuel our monetization flywheel for long-term growth. We ended the quarter with nearly 7.2 million total users, which is up 1.8 million users YOY.

The number of users engaged on our platform for the 90-day period ending June 30 was 3.7 million, up 17% year over year.

As a percentage of total users, user engagement was 51% in the second quarter, down from 59% in the prior year. There are multiple factors influencing engagement including seasonality, post-pandemic opening, and macro-economic factors. Historically, summer is the lowest period for engagement. We believe that when trends normalize and consumers want to create, there is no real alternative to the Cricut Platform. In the meantime, we continue making it easier and faster to engage with us.

We also continued to see strong momentum with Cricut Access. The number of paid subscribers grew by more than 600 thousand on a year-over-year basis, ending the quarter with nearly 2.4 million paid subscribers. Attach rates continued to be strong, ending the quarter at 33%. As a reminder, this is a significant increase from pre-pandemic periods, when our attach rates were in the mid-20s.

We measure user monetization through Average Revenue Per User in both Subscriptions and Accessories and Materials by dividing revenue for the period in those segments by our entire user base. ARPU for Subscriptions in the second quarter was $9.59, down from $9.83 in Q2 2021.

Accessories and Materials ARPU closely relates to user engagement. ARPU from Accessories and Materials in the second quarter was $11.45. This compares to Q2 2021 ARPU of $26.67, which was higher due to unusually high engagement trends during COVID and also reflects retailers reducing purchases in 2022, as they right-size inventory levels.

Moving to gross margin. Total gross margin in the second quarter was 46.5%, an improvement of 7.5 percentage points compared to Q2 2022, which highlights the benefit of our diverse revenue streams.

Breaking gross margin down further:

Gross margin from connected machines in the quarter was 1.6%. On a year-over-year basis, connected machine margin is down compared to an unusually high 20.6% in Q2 2021, which benefited from pandemic tail winds, with elevated machine sales and less promotional activity. Connected machine margin in the quarter was also impacted by end-of-life machines, which carry lower gross margins. We expect end-of-life machines to affect gross margin through mid-2023, as we sell through remaining inventory. Our strategy is to preserve pricing, being careful not to discount newer machines too much, while working through end-of-life inventory.

In addition, Q2 2022 included elevated freight, warehousing, and handling costs. As we move through 2022, we anticipate increased commodities and labor costs.

Gross margin from Subscriptions increased slightly in the quarter to 90.9% reflecting leverage in our subscription business.

Gross margin from Accessories and Materials in the second quarter was 29.1%, down from 39.9% in the prior year primarily driven by higher freight and handling, excess inventory reserves, and higher sales incentives.

In Q2, we rolled out price increases with our retail and distribution partners across connected machines, accessories, and materials to help mitigate the impact of the recent cost escalations. We expect to materially benefit from these actions later in the year, once retailer inventory levels are right-sized and they begin placing larger replenishment orders.

Total operating expenses in the second quarter were $65.4 million and included $10.3 million in stock-based compensation. This was a decrease from $66.1 million in Q2 2021.

Let me provide some context. We began to slow hiring significantly in late Q3 last year and entered 2022 with a cautious outlook on op ex.

In Q1, we reprioritized investments to focus primarily on products that will launch in the next 12-24 months. These products will expand our existing cutting machine category, as well as new categories that create new subscription services and materials. We have also prioritized other investments that we believe are critical to driving growth in the medium to long term, including investments in International and in the platform, including data, software and Cricut Access. Some of these investments are showing very promising early results like the increase in trial subscriptions for Cricut Access despite lower machine sales and the adoption of the contributing artists program.

We intend to keep these investment plans in place given the focused nature and disciplined approach. The fundamentals of our business remain sound and we believe we have the resources to navigate the current macro environment and invest – without sacrificing long term operating margins, profitability or cash flow.

Should the macro environment significantly deteriorate, greatly bringing our internal forecasts down, we would look to reprioritize investments, predominantly through variable cost reductions and other trade-offs among biggest impacts, time horizons and growth opportunities.

Operating income for the second quarter was $20.0 million, or 10.9% of revenue, compared to $64.2 million, or 19.2% of revenue in Q2 2021, and driven by lower revenues in the quarter and increased investments.

As we continue to navigate headwinds in the short term, we remain focused on managing our resources and continuing to deliver healthy operating margins, even though in the short term they will likely be below the long-term target range of 15%-19% by a few points.

Our business remains durable, with a healthy profitability profile. We delivered our 14th consecutive quarter of positive net income. Net income in the second quarter was $13.8 million, down from $49.1 million in Q2 of the prior year and up 56% from Q2 2019, pre-pandemic. Diluted earnings per share was $0.06 compared to $0.11 sequentially and $0.22 in Q2 2021.

Turning now to the balance sheet and cash flow.

Our balance sheet is strong and enables us to navigate through these challenging macro-economic times. We ended the quarter with $231.3 million in cash, cash equivalents, and marketable securities and our new $300 million credit line remains untapped.

We continue to generate healthy cash flows. Cash generated from operations year-to-date was $13.0 million. Cash generated is the primary source of funding toward our annual inventory needs and additional investments for long-term growth. This fosters a balanced and disciplined approach to capital allocation.

As part of this balanced approach, Cricut's board has authorized the repurchase of up to $50 million dollars of its Class A Common Stock. This program allows us to put cash to good use without sacrificing flexibility to invest in attractive organic and inorganic opportunities.

Let me spend a few minutes talking about what we see as we look ahead to the rest of the year. We continue to see soft consumer demand and expect that most likely for the rest of the year. We anticipate a moderate lift in sales toward the end of Q3, and a more weighted lift in Q4, as retailers fill new orders for holiday. As you recall in our Q4 comments, we highlighted that the second half of the year typically represents 60% of annual revenue. Given the current macro environment, we expect second half revenue to be slightly softer than this 60% historical pattern.

We remain committed to our annual operating margin targets of 15-19% over the long term. We anticipate operating margins in Q4 to start to improve; however, we will likely be below our long-term targets by a few percentage points for the full year.

Looking at the long term, we believe the trends that have driven our business over the last eight years remain intact. We are confident in the unique value proposition that Cricut brings to millions of users and to the millions more around the world that we have an opportunity to bring to the Cricut platform. The significant growth in our user base over the last two years also provides opportunity to further drive engagement and monetization. We are focused on managing our profitability, while investing in areas with the highest impact, including improving onboarding, fostering higher levels of engagement, and innovating on our platform to drive growth in Cricut Access and our accessories and materials business.

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