

Jim Suva, SVP Finance, Treasurer, and Investor Relations

Thank you, operator, and good afternoon, everyone. Thank you for joining us on Cricut's second 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 ("SEC"). 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 5, 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.

We posted solid results in Q2. Sales grew 2%, operating income grew 14%, EPS grew 22%, and paid subscribers grew 7% to over 3 million. I am also pleased with the breadth of our sales growth as both reporting segments, Platform and Products, posted growth of 4% and 1%, respectively.

Last quarter, I mentioned that we have spent the last several years moving the majority of our finished goods spend outside of China across all our product categories but still have exposure to other Southeast Asia tariffs. Perhaps motivated by tariff risks, we saw some demand for accessories and materials in Q2 that we would have ordinarily expected later in the calendar year. This timing shift helped us post positive sales growth sooner in the year than we expected. Kimball will go into those details.

While we are proud of our Q2 results, we have more work to do, especially on Engagement, International sales and Accessories and Materials.

As I mentioned last quarter, 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 and their potential impact on consumer discretionary spending. These accelerated investments include hardware product development, materials, engagement, and marketing as we move to the back half of the year. Thus far in 2025, we have launched two new cutting machines, more Cricut Value materials, and improved engagement experiences.

We need to continue growing 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 sustainable growth. We are focused on attracting more new users to buy our connected machines by addressing affordability, ease of use, and increasing marketing and awareness. We must ultimately reverse weakening engagement trends and re-inject enthusiasm among our users by enhancing and simplifying the making process. We are committed to taking 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.

We are pleased with 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 in the later part of Q1 and have continued to drive excitement for the brand with users and retailers.

With bundles, we continue to focus on improving the overall user experience by providing additional materials out of the box so that users are ready to make projects as soon as they get their machine. This approach also reduces consumer confusion about what else they need to buy to be successful. These bundles include enough materials to complete up to 100 projects depending on the product. We are pleased to see an increase in purchases of bundles that include extra materials and tools as we see this value proposition resonate with our consumers. As I have highlighted before, we are intensely focused on the overall customer experience, and we are motivated to work with retailers that help us create a great experience both on shelf and for actual use of our ecosystem.

In Q2, we continued with increased marketing spend across our paid channels, exceeding 2x the number of views and engagements we had with our advertising vs prior year. Our annual Mother's Day promotion for machines outperformed versus the same promotion last year. We continued to refine our mid-funnel content strategy, creating new content to better address consumers' biggest purchase barriers. We also shifted a portion of our marketing budget to target these consumers to drive them further down the funnel.

User Engagement

While we continue to see engagement erosion, the decline appears to be moderating. In Q2, we ended with just over 5.9 million Active Users, about flat compared to Q2 2024.

90-Day Engaged Users who cut during the quarter, declined less than 2% compared to down 3% versus a year ago.

As mentioned in Q1, we continued our efforts to dramatically simplify the overall user experience by the end of 2025. In July, we launched in beta improved flows for two of our most popular use cases and are on track to meet our commitment for remaining use cases this year.

We continue to see improvement in new-user engagement levels as measured by average number of cuts during the first 30 days by new users on new machines joining our platform. This has been facilitated by significant improvements to the machine registration process and Day 1 support for users. Examples include a call to action to start new projects and additional educational tools like introduction videos, contextual help, assembly instructions, and AI assistance across the entire user journey. We believe the uptick in the purchase of machine bundles that include more materials also positively affects new users' propensity to make. We have more work to do to engage new users entering our ecosystem with a used machine.

We continued to make improvements to our Large Language AI Model-based search algorithm, making it easier for Cricut Access subscribers to find the right images and fonts for their projects. In addition, we focused on sourcing content that is specifically designed for the desired use case. We also launched a feature during image uploading that shows similar images in our library that may offer better quality than user-uploaded images.

We are continuing to see improvement from our efforts to reach users off-platform through our engagement marketing platform to bring them back and inspire them to make a project. Examples include: lifecycle campaigns, email, SMS, in-app notifications, and paid social ads.

In early Q3, we started a rolling beta launch of our new generative AI feature in Design Space that takes personalization to the next level and allows Cricut Access members to generate AI based images that are optimized for cutting with Cricut cutting machines. This feature complements our ever-growing content library and rapidly improving search capabilities.

Despite the continued pressure on our Engagement metrics, we are confident in our efforts to simplify our design experience by assisting users based on their project intent; continuing to grow the number of images, fonts and editable designs available to users, most notably for Cricut Access subscribers; and improving our capabilities to bring users back to our platform to start or resume a project.

Subscriptions

In Q2, the subscriptions business crossed 3 million paid subscribers. Over the last several years, we have significantly increased the value in our subscription product by expanding our content library to over 1 million high-quality makable images, launching subscriber-only design tools, and improving the content merchandising within design space. We continued to refine our sign-up offers and promotions through A/B testing and improved our ability to retain subscribers by launching updates to our payment management and our voluntary cancellations flows. All of these incremental improvements are continuing to deliver for our business and show in our continued Subscriber growth.

Specifically, in Q2, we grew our subscribers by 197,000 YoY, an increase of 7%, and 36,000 QoQ to just over 3 million paid subscribers. We launched several improvements in the quarter that helped deliver this growth. For example: We expanded our promotional sign-up offers to international markets and our mobile platforms.

We have a rich roadmap to continually increase the value proposition for subscribers. Our goal is to make it incredibly compelling to become and remain a subscriber to leverage our content and software tools.

Accessories & Materials

Accessories and Materials sales increased 12% in Q2. As I mentioned earlier, in Q2, earlier shipments of accessories and materials helped us post positive sales growth sooner in the year than we expected, accelerating revenues in Q2 that would have been spread into the second half.

Over the last several years, we have lost ground to competition in material types where there are low barriers to entry. We continue to see this competitive pressure increase, manifesting in white-label brands in retailers, as well as new entrants in online

marketplaces and in retail. We have embraced the challenge of providing refreshed and cost-competitive materials and accessories offerings. As these offerings continue to roll out over the coming months, we intend to reclaim market share and, by doing so, enhance the making experience of our users. We are focused on having the right product configurations in the appropriate channels, so Cricut materials are the obvious choice when users want to make.

We also continue in our relentless focus to drive costs out of this business, including optimizing country of origin by material type. While we have diversified most of our finished goods supply base largely outside of China over the last several years, we continue to manufacture in several countries in Southeast Asia. While tariffs introduced more uncertainty, we believe we have a competitive advantage in the diversity of our supply chain configuration relative to the competition. We remain nimble as we navigate unprecedented tariff uncertainty.

Recall in 1H 2024, we launched the Cricut Value line of materials. We continue to accelerate this business, launching additional SKUs and material types. We continue to be optimistic about this product line as we see it perform well, but it is still a small portion of our portfolio. We have additional innovation, products, and cost reductions coming in the quarters ahead.

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.

In Q2, we launched a national sales promotion on our heat presses that was fully supported with marketing efforts. This promotion was very successful and exceeded expectations.

We are intensely focused on the overall customer experience. 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 in 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 second quarter, we delivered revenue of \$172.1 million, a 2% increase compared to the prior year. We generated \$24.5 million in net income or 14.2% of total sales in Q2.

Breaking revenue down further, Q2 2025 revenue from Platform was \$80.7 million, up 4% YoY. We ended Q2 with over 3.0 million paid subscribers, which is up 197,000 or 7% YoY and up 36,000 or 1% from Q1. 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 \$53.84 from \$52.61 a year ago.

Q2 Revenue from Products was \$91.4 million, up 1% YoY. Connected machines revenue decreased 10%, due to selling fewer machine units. Machine sell-out units were down in Q2 but continue to be positive year to date. Breaking it down, North America was up in Q2, while International declined. Recall we don't have perfect coverage for sell-out data in all channels, so treat this as directional. Accessories and materials increased 12%. As Ashish mentioned earlier, in Q2, we had the opportunity to accelerate shipments of accessories and materials, which helped us post positive sales growth sooner in the year than we expected.

In terms of geographic breakdown, international revenue for the quarter was \$36.3 million, an increase of 8%, compared to Q2 2024, and included about 4% of FX benefit and Platform growth, while Products declined. As a percentage of total revenue, international revenue was 21% for Q2 2025, compared with 20% of total revenue in Q2 2024. We saw strength in our core European markets where we continue to invest both in sales and marketing headcount and additional marketing funds. We continue to experience softness in Australia. We are increasing sales and marketing resources to further fuel momentum in international markets.

We ended the quarter with over 3 million paid subscribers, up 7% from Q2 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 Q4 but flat to declining QoQ subscriber counts in Q3.

Moving to gross margin. Total gross margin in Q2 was 59.0%, an increase from 53.5% in Q2 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 Q2 was 89.1% compared to 88.6% 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 32.4%, compared to 23.3% in Q2 a year ago. The increase in gross margin for the quarter was primarily due to capitalized costs associated with higher inventory as we return to growth, the selling of previously reserved excess and obsolete products, and improved product margins.

Total operating expenses for the quarter were \$71.4 million and included \$9.4 million in stock-based compensation. Total operating expenses increased 12.7% from \$63.4 million in Q2 2024. Recall, we increased our marketing efforts during 2024 by \$20 million and continued at a similar rate through Q2. We will be data-driven in our future marketing spend and expect to lean in during the second half of the year, even 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 \$30.1 million, or 17.5% of revenue, compared to \$26.4 million, or 15.7% of revenue in Q2 last year and was benefited from the mix of higher sales from Platform and Accessories and Materials, which we previously mentioned.

The tax rate in Q2 2025 of 27.6% was lower than the 33.6% in Q2 2024 primarily due to the difference from a decrease in stock-based compensation attributable to a lower stock price upon vesting.

For the quarter, net income was \$24.5 million, or \$0.11 per diluted share, compared to \$19.8 million, or \$0.09 per diluted share in Q2 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 Q2, we generated \$36 million in cash from operations compared to \$35 million a year ago. We ended Q2 with cash and cash equivalents of \$377 million and we remain debt free.

During Q2, we used \$4.7 million of cash to repurchase 917,000 shares of our stock, resulting in \$49.3 million remaining on our \$50 million authorized stock repurchase program, which the board replenished during the quarter on May 6th. In July, we paid approximately \$181 million in dividends for the special dividend of \$0.75 per share, plus our recurring semi-annual dividend of \$0.10 per share.

These capital allocations are possible due to past profitability, rightsizing our inventory post COVID, which we completed last year, and our confidence in the sustainability of our future profitable operations. We want Cricut to always have ample liquidity to sustain and grow our business, but not to hold excess cash. We do not anticipate the need for any debt or utilization of our credit line in the near term.

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.

As mentioned earlier, we saw accelerated demand for accessories and materials in Q2 that we would have ordinarily expected later in the calendar year. This timing shift helped us post positive sales growth sooner in the year than we expected. We are assessing the sell-out of these products as well as the dynamics surrounding tariffs and the potential impact to consumer discretionary income in Q3 and beyond to understand how accelerating revenue into Q2 will impact the remainder of 2025.

We continue to expect Platform sales to increase YoY on paid subscriber growth.

Consistent with my comments from last quarter, given the uncertainty surrounding tariffs, we are no longer providing any color on our operating margin expectations for the year. However, regarding operating margins, recall we benefitted from the opportunity to accelerate shipments in accessories and materials in Q2, which we do not expect to recur.

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.