Chris Belfiore - Cricut, Inc. – Director of Investor Relations

Thank you, operator, and good afternoon, everyone. Thank you for joining us on Cricut's second quarter 2026 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 a 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 4, 2026. 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 - Cricut, Inc. - CEO

Thank you, Chris.

In Q2, we continued to see benefits from our platform-first strategy aimed at creating a simpler, more compelling user experience. As highlighted last quarter, broadening awareness and relevance among new consumers is a critical driver of new user acquisition. This is the foundation of our new brand anthem, **"Think it. Make it. Cricut."** We saw double-digit cutting machine sell-out growth in the quarter, positive trends in User Engagement and Subscriptions were just over 3.1 million.

During Q2, we continued to see strong profitability, driven by continued strength in our platform business and some unique items like IEEPA tariff refunds. Platform revenue grew just over 5% in the quarter to $85.0 million. Overall, company sales declined approximately 9% in the quarter.

Recall, it was against a difficult year-over-year comp where we benefited from the pull forward in Q2 2025, related to potential tariff impacts.

The foundational work to create a more compelling mass-market experience is in place, and we are focused on translating that investment into stronger execution. We remain committed to increasing the pace of innovation by accelerating our development cycles, expanding awareness of our platform, and strengthening our competitive position. As we execute these priorities, we expect to deliver a more compelling experience for our customers while positioning the business for stronger long-term growth. We are increasingly positioned to deliver the right message to the right consumer about the right product at the right price.

Today, I will share the progress we've made to strengthen the business, encouraging signs from the first half of 2026, and how this reinforces our confidence in building on this momentum through the second half. Kimball will then cover the financial details and our outlook for the remainder of 2026.

We remain focused on acquiring new users and increasing engagement across our platform, which together, drive our monetization flywheel of subscriptions and accessories and materials.

We believe the investments we are making today position Cricut for a return to sustainable, profitable growth. Let me talk about our priorities.

New User Acquisition

In Q2, we launched our global marketing campaign, "Think it. Make it. Cricut." The message is simple: Cricut is for anyone who wants to create. The campaign highlights how our platform, powered by Design Space, helps people easily turn ideas into meaningful, personalized projects. Our aim is to expand our base beyond identified "crafters".

Early results show a meaningful increase in traffic to Cricut.com compared with prior campaigns, as more consumers engage with the brand and learn about our platform. The campaign will continue rolling out globally and is being integrated across key marketing touchpoints, including our website, user-generated content, and influencer partnerships.

Connected machines unit sales were strong in the first half, boosted by the success of the new Joy 2 and Explore 5 bundles, with year-to-date connected machines sales in units up double digits. Connected machines sellout performance was also strong, up double-digits, benefiting from an earlier prime day. Sales out is a key measure of consumer demand and our marketing success. Joy 2 and Explore 5 bundles were key drivers of this growth, giving us confidence that our bundle only strategy is appealing for consumers.

We also made important progress on innovation in the first half. Since launch in Q1, our next-generation cutting machines, Cricut Joy 2 and Cricut Explore 5 have performed well. Our Directto-Film or DTF service is still in its infancy but reinforces the opportunity to expand Cricut beyond hardware into value-added services, deepening engagement with our most loyal users. Given that most orders come from existing subscribers, we believe the service is enhancing the value of our ecosystem. While still in its early stages, we are excited about the long-term opportunity and will continue experimenting and investing to expand the platform's capabilities and support the growth of a services business.

User Engagement

We continue to make meaningful progress in stabilizing engagement across our platform. Active Users grew 1% year over year, and remained flat sequentially, marking the first time this KPI has stabilized in a second quarter since 2022. Recall, we have a seasonal business and engagement tends to be softer in summer months. 90 Day Engaged Users were also stable year over year, another important milestone that reflects the progress we are making. We believe these results are driven in part by the cumulative impact of our efforts to simplify the user experience, improve onboarding, and strengthen new user acquisition.

Improving onboarding remains one of our highest priorities. We know the earliest experiences on our platform have an outsized impact on long-term engagement. We are also making Design Space faster, simpler, and more intuitive for our returning users, reducing friction throughout the creative process so users can spend more time making and less time navigating the platform.

AI continues to be an important differentiator for Cricut. During the quarter, we introduced new agentic AI features, purpose-built for creating with Cricut. By understanding our machines, materials, and project workflows, our AI helps users create designs that are more likely to translate successfully into physical projects.

As we enter the second half of 2026, we are encouraged by the stabilization and improving trajectory across our engagement metrics. While there is still work to do, we believe our continued investments in simplifying the user experience, strengthening onboarding, and embedding AI throughout our platform are building a stronger foundation for sustainable engagement and long-term growth.

Subscriptions

Our platform business continued to perform well in the second quarter. Paid subscribers increased by 93K, or more than 3% year-over-year, to just over 3.10 million, contributing to just over 5% growth in Platform revenue to $85.0 million. Sequentially, we added 25K paid subscribers during the quarter as we continued to enhance the value of our subscriptions offering through new AI-powered capabilities, clearer communication of subscriber benefits, and targeted promotional offers.

We also made meaningful progress expanding our premium subscriptions tier. Following successful initial testing, we saw strong adoption of our Premium plan, which starts from $14.99 per month among new subscribers. The offering is now available across both our desktop and mobile applications, and we will continue expanding availability across our purchase channels throughout the year. We also continue to test new plan formats and pricing tiers on an ongoing basis.

Enhancing the value of Cricut subscriptions remains a strategic priority. During the quarter, we introduced several AI-powered Cricut Creative Labs experiences that enable subscribers to transform personal photos into personalized projects, including coloring pages and photo art. Early engagement with these new experiences is encouraging and reinforces the opportunity to deliver value across a wider range of creative interests.

Looking ahead, we see significant opportunity to further differentiate our subscriptions offering by combining AI innovation with our growing library of curated content.

Accessories & Materials

Our Accessories and Materials business remains a challenge. We continue to work our plan to strengthen our product portfolio and improve our competitive position. While the category remains highly competitive, we continue to gain share in some major categories, including Printables and Cricut accessories. During the first half of the year, we introduced new SKUs in conjunction with major retailer resets, significantly expanding our assortment with a focus on innovation, value and better meeting the needs of both new and existing Cricut users.

We are particularly encouraged by the early consumer response to these new products. Printables are our fastest growing materials category as consumers increasingly personalize stickers, labels, photos and gifts.

We also refreshed our hand tools portfolio with new configurations and differentiated designs, with additional innovation planned for the second half of the year. These launches and our bundle only strategy on new machines, where users start with our high-quality tools, accessories and materials, reinforce our confidence that product innovation remains a key driver of user engagement.

In July, we launched the next generation of our large-format heat press, Autopress, engineered to address a large market with a compelling price point. We will continue to innovate in this market.

While the performance of our Products business disappointed in Q2, I am encouraged by the broader progress we are making. We are expanding awareness of the Cricut brand, making our platform easier and more intuitive to use, and continuing to build a stronger foundation for long-term growth. While there is still work ahead, the improvements we are seeing in new user acquisition, engagement, subscriptions, and underlying consumer demand reinforce our confidence that our strategy is gaining traction. We believe this strategy positions Cricut to deliver sustainable, profitable growth and create long-term value for our shareholders.

With that, I will turn the call over to Kimball.

Kimball Shill - Cricut, Inc. - CFO

Thank you, Ashish, and welcome everyone. In the second quarter, we delivered revenue of $156.3 million, down approximately 9% compared to the prior year. Year-on-year comparisons reflect the impact of the prior-year pull forward, which we highlighted a year ago. We generated $39.1 million in net income or 25.0% of total sales in Q2.

Breaking revenue down further, Q2 2026 revenue from Platform was $85.0 million, up just over 5% year over year. ARPU increased 5% to $56.37 from $53.84 a year ago. Platform revenue was up primarily due to the year-over-year increase in paid subscribers and FX.

Q2 Revenue from Products was $71.3 million, down 22% year over year. Product revenue was down primarily due to lower volumes and promotional pricing. Recall, that during Q2 2025, we benefited from revenue pull forward amid tariff-related supply chain uncertainty. As Ashish mentioned, global machine sell-out units grew at double digit rates, with Joy 2 and Explore 5 bundles as key drivers of this growth and also benefitting from an earlier Prime Day. As a reminder, we don’t have perfect coverage for sell-out data in all channels, so treat this as directional.

International sales were $35.9 million, down 1% year-over-year compared to Q2 2025. In Europe, a distribution change in one channel created a temporary sales timing impact as we worked through inventory and represented a headwind in the quarter. That transition is largely complete.

International revenue represented 23% of total revenue in Q2 2026, up from 21% in the prior year. Foreign exchange provided a 2.6% benefit to international sales during the quarter. We are beginning to see encouraging results from our focused investments in key emerging markets, with significant year-over-year connected machines sell-out growth in Asia, META, and LATAM. While these markets remain a relatively small portion of our total business, they are contributing positively across several key operating metrics and continue to represent attractive long-term growth opportunities.

Looking ahead, we plan to continue investing in international markets, with a focus on increasing brand awareness, expanding our reach, and driving member acquisition throughout 2026.

As Ashish mentioned, we ended the quarter with just over 3.10 million paid subscribers. Recall, normal seasonality could still see Q3 flat to declining QoQ subscriber growth rates. We remain focused on driving growth for the full year, supported by new product introductions, improved onboarding, ongoing investments in engagement, and promotional support.

Moving to gross margin. Total gross margin in Q2 was 74.5%, which was up over 14% year on year due to some unique items. During the quarter we settled an outstanding legal claim related to a royalties dispute that allowed us to release accrued reserves of $6.4 million across Platform and Products. In addition, there was a $17.9 million benefit to gross margin due to IEEPA tariff refunds.

Breaking gross margin down further, gross margin from Platform in Q2 was 93.0%, an increase compared to 89.1% a year ago. This increase was driven by the non-recurring royalty settlement. As we've mentioned previously, we are excited about our AI investments, and there may be some gross margin pressure as we continue to ramp AI features.

Gross margin from Products was 52.4%, compared to 32.4% in Q2 a year ago. The increase in gross margin for Q2 was primarily driven by non-recurring IEEPA tariff refunds and the royalty settlement.

Total operating expenses for the quarter were $69.0 million and included $5.5 million in stock-based compensation. Total operating expenses decreased by about 3% from $71.4 million in Q2 2025. As Ashish mentioned, we are focused on increasing our speed of execution and are accelerating investments across our business that will help drive future revenue growth.

Operating income for the quarter was $47.4 million, or 30.3% of revenue, compared to $30.1 million, or 17.5% of revenue in Q2 last year. This increase reflects the non-recurring items we just talked about.

The effective tax rate was 22.4% for Q2 2026 compared to 27.6% in 2025. The tax rate declined this year, primarily due to higher R&D tax credits from increased investments and an increase to foreign-derived, deduction-eligible income.

For the quarter, net income was $39.1 million, or $0.19 per diluted share, compared to $24.5 million, or $0.11 per diluted share in Q2 2025.

Turning now to balance sheet and cash flow. We continue to generate healthy cash flow on an annual basis, which funds our inventory needs and investments for long-term growth. In Q2 2026, we generated $50.4 million in cash from operations, compared to $36.2 million in Q2 2025. We ended Q2 2026 with cash and cash equivalents of $286 million. We remain debt free. Inventory decreased by $19 million year-over-year to $106 million, reflecting improved inventory management and normalization as we exited end-of-life machines.

During Q2, we used $7.5 million of cash to repurchase 1.7 million shares of our stock. As a result, $21.6 million remain in our approved $50 million stock repurchase program. After the quarter, we paid our recurring semi-annual dividend of $0.10 per share, on July 21, 2026, to shareholders of record as of July 7.

Outlook

Recall we do not give detailed quarterly or annual guidance, but we do want to offer some color on our outlook for the remainder of 2026.

We are focused on bringing excitement to our category. We are doing this by accelerating our investments in R&D, new product launches, and marketing, including international markets, and continuing our promotional strategy to drive affordability. Through our new brand anthem, "**Think it. Make it. Cricut.**" we are investing to broaden awareness and relevance among new consumers to drive new user acquisition.

We remain optimistic about the year overall, despite a disappointing first half, with improving engagement metrics reinforcing our optimism. We expect platform revenue to grow each quarter, while subscriber trends follow their typical seasonal pattern, with softness in Q3. With a strong roadmap ahead, we project growth in the second half on Products and Platform. We have received IEEPA tariff refunds. However, existing tariffs remain a headwind and given ongoing uncertainty, we are not providing any guidance on margin impact.

We expect to be profitable each quarter and generate cash flow from operations for full year 2026. Subject to stock price, we also expect to be active with our authorized $50 million stock repurchase program.

While tariff uncertainty remains a reality, we are also navigating broader cost pressures, including input costs, supply chain dynamics, and a more cautious consumer environment in certain markets. Our team continues to operate proactively and with discipline, adjusting where needed while maintaining our focus on strategic investments to position the company for growth.

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