

STACIE CLEMENTS, INVESTOR RELATIONS, THE BLUESHIRT GROUP

Thank you, operator, and good afternoon everyone. Thank you for joining us on Cricut's second quarter 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, prepared remarks and accompanying slides used on today's call will also be 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 Marty Petersen, 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.

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, August 12, 2021. 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. We had a solid second quarter, with revenues increasing across all three categories – connected machines, subscriptions and accessories and materials.

Total revenue for the second quarter was \$334.5 million, an increase of 42% over an exceptionally strong Q2 last year. Strong revenue, coupled with our profitable business model, led to \$68.5 million in EBITDA, a 39% increase over the second quarter last year.

We also continued to see growth in our user base and healthy engagement and monetization. We added over 430 thousand users in the quarter, bringing our total user count to nearly 5.4 million.

We saw continued healthy engagement levels at 59% in the second quarter, down modestly from the stay-at-home engagement levels of the prior four quarters. As a result of healthy user growth and engagement, 3.2 million users were engaged on the platform in Q2. This is 1.1 million more users engaged in Q2 compared to Q2 of the previous year. The large influx of users from 2020 and the first half of 2021 provide a powerful flywheel effect to our business with ongoing monetization opportunities, as well as fuel momentum through word-of-mouth referrals.

I continue to be amazed by all the projects and creativity from our users. As expected, we're seeing many projects centered around events such as weddings, parties, family reunions, and vacations just to name a few. As users create, they inspire other users to create. The more they create, the more Cricut benefits from network effects that drive new user acquisition and inspire additional engagement.

One of the many ways we are able to monetize engagement is through our subscription service, Cricut Access. We ended the quarter with nearly 1.8 million subscribers to Cricut Access, up from 1.6 million at the end of Q1.

We continue to focus heavily on increasing the value proposition of our subscription. We now have over 175,000 images in Cricut Access, an increase of over 40% from Q2 2020. In the coming quarters, we'll continue to aggressively add content, as well as additional software features that will be available exclusively to Cricut Access members.

Another important pillar of our growth strategy is international expansion. Revenue from international markets grew 179% year over year in the second quarter and continues to grow into a greater proportion of total revenue. Our top markets include Australia, France, Germany and the U.K. The international markets are especially promising given our observations that the motivations and behaviors that are driving growth internationally are very similar to those that have driven growth domestically since 2014.

We recently introduced our new direct-to-consumer ecommerce site in the UK, giving our users a complete Cricut-branded shopping experience. We anticipate that more direct-to-consumer sites will be launched in additional geographies in coming quarters as we see significant synergies with our omnichannel strategy.

We also welcomed our first Sales team members in Italy and Mexico in Q2 and continued to expand our retailer footprint in markets such as Germany, France, Spain, South Africa, and Southeast Asia.

As we think about future investments in international markets, you will see us continue to increase our sales and marketing efforts including adding key influencer relationships across the globe to help raise awareness and drive conversion. We'll also continue to diversify our content offerings, invest heavily in language and currency localization, as well as foster and support international markets with Cricut team members in those geographies. We plan to grow international markets using the proven Cricut playbook: invest in delivering great experiences to users that they will show and tell to others.

We had some very exciting new product launches during the second quarter. From the onset, we have focused on building an innovative and expandable platform for our community of users to drive long-term growth.

In June, we launched the new Cricut Explore 3 and Cricut Maker 3 machines, significant undertakings which included new physical hardware as well as new software features, content, and a line of innovative materials. I am very pleased with the new products and the improved user experience that they provide. Designed to cut up to twice as fast, users can also cut longer runs of materials. This is especially useful when creating things like wall décor, large signs or banners, or multiple copies of the same project.

In connection with these machine launches, we also launched a line of Smart Materials, designed to increase creative use cases and improve ease of use. Smart Materials are specially engineered to keep materials perfectly aligned and on track from start to finish without the need for a cutting mat and for cuts up to 12 feet in length. These Smart Materials create a frictionless experience for users whether they are cutting a small single image or very long or repeated cuts. We'll continue to innovate in this area, where quality and seamless integration helps build a moat around our accessories and materials business.

Our cloud-based software enables us to update features and functionality of existing physical and digital products. This kind of platform extensibility is a clear differentiator in the market, while also enabling us to rapidly innovate and add features to improve the user experience. For example, during Q2 we added the long-requested kerning feature in Design Space, a feature that enhances font usage and encourages engagement by saving time and effort.

Additionally, users can now "like" projects inside Design Space and more easily organize their personal library with our newly redesigned bookmark feature. We also continued our ongoing search optimization efforts among many other things.

We take great pride in listening to feedback from our community, constantly enhancing the platform and the user experience. You will see us continue to invest heavily in these areas.

As noted earlier, I love the passion of our users. Many of our users share a love of our brand, products, and mission. They are the heart and soul of Cricut. Approximately 43% of new customers first hear about Cricut through word of mouth – providing a powerful, viral and cost-effective marketing engine for new user acquisition. We now have over 5.2 million social media followers and 2.4 billion views on #Cricut on TikTok which are almost entirely organic. We'll continue to foster these communities, amplify their voices and share their amazing work.

I'm pleased with the quarter and our progress to date. The products we've launched and the lives we impact create a tremendous opportunity for us to continue scaling our user base. We estimate our serviceable addressable market in the U.S. and Canada is roughly 85 million individuals. Including our SAM internationally, we believe our opportunity is roughly 130 million individuals when adding just Australia, France, Germany and the U.K markets. With a user base of nearly 5.4 million we have penetrated just over 4% of our SAM.

As we continue to expand our offerings, drive continued user engagement, and fuel our viral marketing engine, we believe there is even greater opportunity for creatives everywhere to join the Cricut platform.

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

MARTY PETERSEN, CHIEF FINANCIAL OFFICER:

Thank you, Ashish and good afternoon, everyone.

Our second quarter's performance was fueled by strong fundamentals in the business and our powerful community of engaged users. Additionally, Q2 benefited from the new product launches that Ashish mentioned earlier.

For those of you that are newer to our story, let me quickly touch on the financial drivers of our model.

Dating back to 2014, Cricut has a proven track record of strong revenue growth and profitability. Our sales are diversified across categories and give us revenue streams that are largely predictable. The user journey generally starts with the purchase of a Connected Machine. The gross profit from that purchase mostly covers our customer acquisition cost. The purchase then triggers a flywheel of engagement which in turn drives ongoing revenue from subscriptions and accessories and materials.

With that as a backdrop, I'll now walk through the financial highlights.

We continued to see organic adoption. Word-of-mouth marketing drove strong connected machine sales and increased user acquisition. Our new and existing users continued to be highly engaged which drove ongoing monetization through subscriptions and accessories & materials.

Revenue in the quarter was \$334.5 million, an increase of 42% over Q2 last year, representing strong growth relative to the tough comp of 149% year-over-year growth in Q2 of 2020 at the onset of the pandemic. Strength in the quarter came from across our business, including our ability to replenish lower-than-normal retail inventory levels and the success from our new product launches.

Breaking down revenue in the quarter even further:

Revenue from Connected Machines grew 29% over Q2 last year even while comping extremely strong sales in Q2 2020 at the beginning of the pandemic. Connected Machines revenue was driven in part by the launch of our new Maker 3 and Explore 3 machines during the quarter. Strong machine sales and new-user acquisition, as well as healthy engagement of our growing base of existing users for the past 5 quarters, helped drive 111% revenue growth in Subscriptions in the quarter and 40% growth in Accessories and Materials.

In terms of geographic breakdown, international revenue growth continued to outpace growth in North America, increasing 179% in the second quarter over the same quarter in 2020. As a percentage of total revenue,

International represented 8.5% in the second quarter, up from 4.3% in Q2 2020 and 7.4% in all of 2020. We anticipate the investments we made in 2020, and ongoing future investments, will continue to expand consumer reach and brand awareness internationally.

The Cricut community of users drives healthy engagement on our platform and is an important variable in building our long-term business with sustainable growth and compelling margins.

In the second quarter, the number of users engaged on our platform for the prior 90 days increased by 1.1 million versus the same quarter last year, further demonstrating consistent, healthy engagement on the platform. As a percentage of total users, this translates to 59% engagement, which is a slight sequential decline on a percentage basis given that Q2 is typically a seasonally softer quarter. As we move deeper into the summer months, we have also seen pandemic reopenings amplifying some of our normal summer seasonality. As a result, we could see slight pressure on engagement in Q3.

We continued to rapidly grow our user base in Q2, ending the quarter with nearly 5.4 million total users, or 64% year-over-year growth, despite the tough comp from the spike in user growth at the beginning of the pandemic.

Ending paid subscribers grew to nearly 1.8 million, up 77% over second quarter 2020. 33% of all users were subscribed at the end of Q2, which is equal to Q1 and up from 30% in Q2 2020. We continue to invest heavily in our subscription business including strengthening and expanding the value proposition and leveraging user data in our targeted marketing efforts.

User monetization from subscriptions and accessories and materials remained healthy in Q2. We measure that monetization through ARPU in each of those segments.

We calculate average revenue per user for subscriptions by dividing total subscription revenue by our entire average user base within that period. ARPU for subscriptions in the second quarter was \$9.83, up from \$7.91 in Q2 2020.

We calculate ARPU from accessories and materials by dividing that portion of revenue by our average user base for the period. ARPU from accessories and materials in Q2 was \$26.67, compared to \$32.23 at the beginning of the pandemic in Q2 2020 when we saw a surge in accessories and materials sales. We anticipate the new Smart Materials launched in the quarter will support accessories and materials monetization over time.

Moving onto gross margin. Total gross margin in the second quarter was 39%, up from 31% in the second quarter of 2020 as we primarily benefited from lower tariffs associated with moving the bulk of our connected machine production from China to Malaysia and a slightly more favorable product mix in the quarter.

Additionally, starting in Q2, we effected a small prospective accounting change, where we reclassified approximately \$4.8M of cost of revenue to sales and marketing. In Q2, the impact to gross margin from this change was an increase of approximately 1 percentage point to gross margin with a corresponding increase in operating expense.

Looking to the second half of the year, and as we noted last quarter, we may choose to be more promotional in order to optimize user acquisition and product mix as demand and supply normalize, particularly on connected machines.

Before I move farther down the P&L, I want to talk for a moment about inventory and supply chain. We, and our retail channels, are now in a healthy inventory position due to our manufacturing strategies put in place over the last few years, and we feel good about where we stand today.

We continue to aggressively manage what is within our control. We do however see some risks to the supply chain similar to what many other companies are experiencing. For example, we are subject to chip shortages and have been securing chip inventory well into the future to help mitigate these risks. We have also seen upward pressure on the costs of commodities such as resin and sheet metal and shipping related costs. There could also be possible shipping delays due to local port challenges and shortages of containers and ships. As a precautionary measure, we have a long-standing strategy of holding generous levels of onshore inventory in our Accessories & Materials SKUs. In order to further mitigate supply chain risk, we are in the process of building inventories above our customary levels on accessories and materials and particularly on connected machines. And we intend to carry higher inventory levels into the future until we are comfortable the supply chain risks have improved. These dynamics, along with any increased level of promotions in the second half, could put some pressure on margins.

Moving on to operating expenses, we continue to take a strategic approach to spending in order to gain efficient business growth long into our future.

Total operating expenses in the second quarter were \$66.1 million, an increase over Q2 2020 of \$38.6 million. Of the increase, \$8.1 million was related to stock-based compensation expense in the quarter, and \$4.8 million, which I previously mentioned, from the reclass of cost of revenue to sales and marketing expense and relates to the accounting treatment for payment processing fees and certain point-of-purchase displays.

Our total operating expenses as a percentage of revenue was 19.8%, higher than the prior year as we have leaned into investments in Sales and Marketing and R&D to help build out the platform and drive future growth.

We have always focused on building a long-term, durable business model that delivers solid profitability while allowing us to grow the top line and invest for our future. Q2 represents the 10th consecutive quarter of positive net income. Net income in the second quarter was \$49.1 million, up 41% from the same period last year, and

diluted earnings per share was \$0.22 cents. Note that Cricut did not have a comparable EPS history prior to the reorganization at the time of the IPO.

Turning to EBITDA, which includes \$8.1 million of stock-based compensation expense, we delivered EBITDA of \$68.5 million or 20.5% EBITDA margin in the second quarter, compared to \$49.2 million or 20.9% margin in the second quarter 2020. As a reminder, we have been EBITDA profitable since 2014.

Turning now to the balance sheet and cash flow.

We ended the quarter with \$314 million in cash and cash equivalents. Our credit line of \$150 million remains untapped. Cash used in operations for the second quarter was \$54 million, reflecting payments for replenishing our inventory position and building additional inventory reserves to help mitigate the supply chain risks mentioned earlier.

Although we are not providing quantitative guidance at this time, I'd like to provide some color.

Q2 outperformed our internal expectations, benefiting from two primary factors that I mentioned earlier: the replenishment of retail channel inventories to more healthy levels and the initial channel fill as we launched two new machines and a new portfolio of Smart Materials. As a result, product sell-in during Q2 materially exceeded sell-through. These tailwinds will not continue in the second half.

At the same time, we also began moving into our typically softer summer seasonality. As we emerge from the pandemic, this seasonality has been amplified as people spend less time at home. And we believe this dynamic could extend into Q4.

Looking at the year in total, we still expect to add at least 1.8 million new users in full year 2021, equivalent to the number of new users added in the full year 2020. We have made tremendous progress with a little over 1

million users already added in the first half of this year. Nonetheless, in light of the uncertainties, we are not ready to update this target further at this time.

This foundation of new users fuels future growth and profitability. Our platform provides for increased user monetization through higher margin subscriptions and accessories and materials revenue. This larger user base will also drive our viral marketing engine resulting in new user acquisition and engagement.

We will continue to run our business for the long-term. Our singular priority will always be to deliver a superior experience to our users throughout their crafting journey. Due to both uncertainty and logistical difficulty caused by the pandemic in 2020, our spending levels were restrained despite our growth. Therefore, we entered 2021 trying to catch up to our user growth in many operational areas and expect our increased spending levels to reflect these efforts. With this large base of users coming onto the platform, we plan to increase operating investments for the full year and into next year to drive continued growth in new users and healthy engagement as we lean into opportunities in channel expansion, product development and international growth. Nonetheless, we still expect to operate within our long-term EBITDA target range for the full year as disclosed previously.

In conclusion, we have aggressively and consistently grown the business for many years. With only 4% of our SAM penetrated, we have a large runway for growth, an extensible platform for continued innovation and a compelling financial model that drives growth and profitability.

With that we'll turn it back to the operator for questions.