

**Jim Suva, SVP Finance, Treasurer, and Investor Relations**

Thank you, operator, and good afternoon, everyone. Thank you for joining us on Cricut's fourth quarter 2024 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](http://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, 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, March 4, 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 have a strong conviction in our category and the overall market potential. While our opportunity is sizeable, even in the shorter term, we are disappointed with our inability to execute and capitalize on it. While we are pleased with our growth in operating income, we are working with tremendous urgency and focus to drive to an inflection point for growth. We can achieve this potential by driving a mass market experience, accelerating our development cycles, and competing better.

I would like to look back on 2024 on what went well, what we could do better and our priorities for 2025. Kimball will go through much of the quarterly details and how we look at 2025.

2024 was our eighth consecutive year of positive net income as we generated \$62.8 million of net income, which increased 17% or \$9.2 million compared to 2023 and translates to a \$0.05 increase in diluted EPS for the full year. We are pleased with our increase in profitability and the 7% increase in paid subscribers in 2024. However, we were disappointed with the 7% decline in total company sales and with engagement metrics that continue to show softness.

In 2025, we are relentlessly focused on increasing our speed of execution and are accelerating investments that will help drive future revenue growth. These accelerated investments are in hardware product development, materials and engagement. We also recently initiated additional litigation to appropriately protect our intellectual property. Finally, we are continuing increased marketing and promotional spending that we initiated

in 2024. Some of the hardware and engagement investments we are making will only benefit future years, and as a result, we expect operating income to decline YoY in 2025 and Kimball will go into these details.

We need to reignite 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 growth. We need to attract more new users to buy our connected machines as we focus on addressing affordability and increasing marketing and awareness. We need to reverse weakening engagement trends and re-inject enthusiasm among our users by simplifying the making process. We need to defend our share in accessories and materials.

This plan is woven into 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.

I am excited that last week we launched the next generation of our most popular cutting machines – Cricut Explore 4 and Cricut Maker 4. These new machines are up to 2x faster than previous models. They are available in two fresh and modern colors: Sage and Seashell, and we've added even greater value to each machine by including tools and materials to help makers get started right out of the box, with enough materials to make up to 10 projects. The Cricut Explore 4 and Cricut Maker 4 machine MSRPs are \$249 and \$399, respectively. For only an additional \$50, the user can upgrade to the Essential Bundle that adds more value and enough materials to make up to 100 projects.

While these machines were just launched last week, we are pleased with the initial feedback which is positive from both retailers and end users.

After several years of reductions in marketing spend, we started to carefully increase our marketing spend in 2024 to drive full-funnel excitement, augmenting marketing spend by \$20 million. We are seeing a positive uplift from these efforts. Our Market Mix Analysis shows that our investment in top-of-funnel marketing had a positive impact on machine sales. In 2025, we expect to continue spending at a similar level as we reaccelerate consumer excitement for the brand and category.

Given the positive uplift from our deeper promotions, which we started in 2024, we plan to be even more promotional in 2025.

### **User Engagement**

We ended Q4 2024 with 5.89 million Active Users, down 0.7% YoY. We had 3.81 million 90-Day Engaged Users who cut during the quarter, down 3.1% YoY.

Over the last 3 years, we added fewer new users than the COVID cohorts of 2020 and 2021, and the new users that we are attracting more recently tend to cut fewer projects than new users during the pandemic. Both of these dynamics combined, pressure our engagement metrics. Our focus remains to maximize the engagement of our user base.

As a reminder, Onboarders are a particular focus because the more they interact with our platform early, the more likely they are to engage with our platform over time, which we expect to lead to a more engaged user base. During Q4, we continued to make progress on our initiatives to drive engagement with our new members by streamlining their out-of-box experience.

In 2024, the vast majority of our platform efforts were focused on the experience when users came organically to Design Space. In 2025, this will continue to be a major focus, coupled with proactive efforts to bring users back to Design Space by sending them relevant personalized inspiration and other triggers. In Q4, we launched our first retention marketing campaigns using our new customer engagement platform. In 2025, we will scale this platform and activate lifecycle campaigns that will span across marketing channels, reaching our members outside our application through push notifications, email, SMS and social media.

In 2025, we continue to simplify Design Space, focusing on specific use cases and streamlining the entire customer journey for each of those use cases – both from a design and assembly perspective.

Despite the pressure on our engagement metrics in Q4 2024, we are confident in our efforts to simplify our design experience by assisting users based on their project intent. Design Space will meet users where they are and guide them from inspiration through creation.

### **Subscriptions**

In 2024, our paid subscribers increased 7% to 2.96 million.

Paid subscribers continue to be a big positive for us and increased 189,000 YoY and increased 121,000 sequentially in Q4. We are doing a more effective job at getting higher initial subscription rates from onboarders. We are also seeing positive trends on win-backs, where our promotional offers are driving increased sign-ups from prior subscribers. In the second half of the year, we focused promotional efforts on reducing cancellations and are seeing an incremental drop in our voluntary cancellation rate based on our promotional offers.

We have a rich roadmap to continually increase the value proposition for subscribers, including over 1 million high-quality makable images and a suite of premium design tools, along with the content strategies described above. Our goal is to make it incredibly compelling to sign up as a subscriber to leverage our content and software tools. As our engagement efforts bear fruit, we expect to see a further boost to subscriptions.

### **Accessories & Materials**

Accessories and Materials sales declined 20% for the full year. Affordability plays a key role in materials. We have lost significant share in retail to private label brands and we are now focused on being more cost competitive in retail and online. There is additional pressure because of lower engagement.

We continue in our relentless focus on driving costs out of this business along with having the right product configurations in the appropriate channels, so Cricut materials are the obvious choice when users want to make.

Recall in 1H 2024, we launched the Cricut Value line of materials with a limited number of SKUs, and given the success we saw, we launched additional SKUs in 2H. We are even more optimistic about this product now that we have some history in the market, but it's still early and only 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.

For some accessories, we recently focused on being more price competitive. This may create some margin pressure near term, but as our accelerated hardware strategy bears fruit, we should see an increase in profitability over time. As I mentioned previously, we recently initiated litigation to protect our intellectual property over accessories and materials.

We are intensely focused on the overall customer experience, and we are motivated to work with those retailers that help us create a great experience both on the shelf and for actual use of our ecosystem. It's our fundamental belief that when we give people more reasons and inspiration to make things that are appealing to them and we make it easier to make things affordably, we will see a lift to materials consumption. We are driven to continue to innovate while exhibiting both long-term focus and current discipline.

After serving as a member of our board of directors since 2013, Len Blackwell has made the decision to not stand for reelection at the upcoming annual shareholder meeting. We thank Len for his contribution during the past 12 years and wish him the best in his future endeavors. With that I will turn the call over to Kimball.

#### **Kimball Shill, Chief Financial Officer**

Thank you, Ashish, and welcome everyone. In the fourth quarter, we delivered revenue of \$209.3 million, a 9% decline compared to the prior year. Full year 2024 revenue was \$712.5 million, a 7% decline over 2023. We generated \$11.9 million in net income or 5.7% of total sales in Q4, and \$62.8 million or 8.8% of total sales for the year. This marks our 24th consecutive quarter and our eighth consecutive year of positive net income.

Breaking revenue down further, Q4 2024 revenue from Platform was \$79.4 million, up 2% YoY. We ended the year with 2.96 million paid subscribers which is up 189,000 or 7% YoY and up 121,000 or 4% from Q3. For the full year, Platform revenue was up slightly over 1% and ARPU increased 2% to \$53.12 from \$52.07 a year ago, as we were more promotional, mix shifted more toward annual vs monthly subscriptions, and geographic mix shifted more international. All of which are targeted efforts.

Q4 Revenue from Products was \$129.9 million, down 15% YoY. Connected machines revenue decreased 13%, driven primarily by fewer units sold combined with more promotional activity. Accessories and materials decreased 18%. For the full year, revenue from Products decreased 12%, driven mostly by the 20% decrease in accessories and materials as connected machines revenue decreased only 3%.

In terms of geographic breakdown, international revenue for the quarter was \$52.9 million, an increase of 3%, compared to Q4 2023. As a percentage of total revenue, international was 25% in Q4 2024, compared with 22% of total revenue in Q4 2023. For the full year, 2024 international sales increased 1% and represents 22% of total company revenues compared to 20% in 2023. Foreign exchange benefited international sales by less than 1% for both Q4 and full year 2024. We saw strength in France, META, and Latin America throughout the year and improvement in the UK in Q4. We are experiencing continued softness in Australia following more of the trend we see in the US. We continue to make strong progress in increasing brand awareness in international markets, which we expect to have a positive impact on member acquisition in 2025.

We ended the quarter with 2.96 million paid subscribers, up 7% from Q4 2023, 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 Q1 and Q4 but flat to declining QoQ subscriber growth rates in Q2 and Q3.

Moving to gross margin. Total gross margin in Q4 was 44.9%, an increase from 42.0% in Q4 2023. For the full year 2024, total gross margin was 49.5%, also an increase compared to 44.9% for 2023. 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 Q4 was 87.9% compared to 88.8% a year ago. For the full year of 2024, gross margin from Platform was 88.1%, which decreased from 89.4% in 2023. The decline in Platform gross margin for the quarter and full year was primarily related to higher software development costs and higher hosting fees compared to a year ago, which we expect to continue.

Gross margin from Products was 18.7%, compared to 18.2% in Q4 a year ago. For the full year, Products gross margin was 19.3% in 2024, which increased from 14.7% in 2023. The increase in gross margin for both the quarter and full year was primarily due to a reduction in inventory impairments and selling previously reserved inventory, offset partially by higher promotional activity.

Total operating expenses for the quarter were \$80.1 million and included \$11.3 million in stock-based compensation. Total operating expenses decreased less than 1% from \$80.5 million in Q4 2023. For the full year, total operating expenses in 2024 of \$276.7 million increased just over 1% from 2023. As Ashish mentioned, we increased our marketing efforts during 2024 by \$20 million.

Operating income for the quarter was \$13.9 million, or 6.6% of revenue, compared to \$16.5 million, or 7.1% of revenue in Q4 last year. For the full year 2024, operating income increased to \$76.1 million, up 9% compared to \$70.0 million in 2023. As a percentage of sales, full year operating income was 10.7% in 2024 compared to 9.1% in 2023.

Our tax rate in Q4 2024 was 28.3%, bringing the full year tax rate to 29.3%, in line with our expectations.

For the quarter, net income was \$11.9 million, or \$0.06 per diluted share, compared to \$11.3 million, or \$0.05 per diluted share in Q4 2023. For the full year, we generated \$62.8 million of net income and diluted EPS of \$0.29, up from \$53.6 million in net income and \$0.24 diluted EPS in 2023.

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 2024, we generated \$265 million in cash from operations, compared to \$288 million in 2023. We ended 2024 with cash and cash equivalents of \$337 million. We remain debt free. Recall, we generated higher levels of cash as we worked to bring inventory more in line with pre-pandemic norms. Accordingly, inventory decreased by \$129 million from a year ago to \$115 million at the end of the year.

During Q4, we used \$8 million of cash to repurchase 1.3 million shares of our stock. As a result, \$22.9 million remains in our approved \$50 million stock repurchase program. After the close of Q4, we paid approximately \$21 million for the declared \$0.10 per share, semiannual dividend on January 21, 2025.

Now on to our outlook for 2025. Recall we do not give detailed quarterly or annual guidance, but we do want to offer some color on our outlook for 2025.

As Ashish mentioned, we are focused on bringing excitement to our category. We are doing this by investing in our core markets through accelerating our investments in R&D, new product launches, increased focus on marketing and continuing our strategy of deeper promotions on our products to drive affordability. We launched two updated connected machines last week, which we are very excited about, but they have only been available for a few days.

We expect total company sales to decline YoY in the first half of 2025 compared to the first half of 2024 due to continued pressure in accessories and materials. However, we expect that the rate of sales decline should be less than the rates we posted in the first half of 2024. We have reason to be optimistic that we will reach an inflection point during the second half of the year.

We expect Platform sales to increase YoY on paid subscriber growth. However, lower new user growth rates will put pressure on our subscriber growth rates. This could result in a seasonal pattern of QoQ paid subscriber growth in Q1 and Q4 but flat to declining QoQ subscriber growth rates in Q2 and Q3.

Given that, we are continuing the efforts we began in 2024 to increase marketing and promotions. We expect to see benefits from this in 2025 and beyond. In addition, we are adding incremental investment in R&D to accelerate new products and platform enhancements that will benefit future, sustainable long-term growth. We are also aggressively prosecuting IP protection actions that will impact G&A this year. Therefore, we expect operating income dollars and operating income margin percentage to be lower in 2025 compared to 2024. This will result in lower operating margins in 2025 by approximately 2-3 percentage points as we increase operating expenses. We expect incremental improvement in operating margins in subsequent years.

We expect to be profitable each quarter and generate significant positive cash flow during 2025. We also expect to continue to be active with our authorized \$50 million stock repurchase program, which has \$22.9 million remaining.

Our long-term financial model remains unchanged, with operating margin targets of 15% to 19%. Our proven model has demonstrated that when we operate at scale, which we define as revenue above \$1 billion, and drive top line growth, these margins are achievable.

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