

CuriosityStream
Q1 2023 Prepared Remarks

Denise Garcia, Investor Relations

Welcome to CuriosityStream's discussion of its first quarter 2023 financial results. Leading the discussion today are Clint Stinchcomb, CuriosityStream's Chief Executive Officer, and Peter Westley, CuriosityStream's Chief Financial Officer. Following management's prepared remarks, we will be happy to take your questions. But first, I'll review the safe harbor statement.

Safe Harbor Statement

During this call, we may make statements related to our business that are forward-looking statements under the federal securities laws. These statements are not guarantees of future performance, but rather are subject to a variety of risks, uncertainties, and assumptions. Our actual results could differ materially from expectations reflected in any forward-looking statements. Please be aware that any forward-looking statements reflect management's current views only and the Company undertakes no obligation to revise or update these statements nor to make additional forward-looking statements in the future. For a discussion of the material risks and other important factors that could affect our actual results, please refer to our SEC filings available on the SEC website and on our Investor Relations website as well as the risks and other important factors discussed in today's press release. Additional information will also be set forth in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2023, when filed. In addition, reference will be made to non-GAAP financial measures. A reconciliation of these non-GAAP measures to comparable GAAP measures can be found on our website at investors.curiositystream.com.

Now I'll turn the call over to Clint.

Clint Stinchcomb, CEO

Hello everyone. I appreciate you all joining us today. Also on the call are our COO and General Counsel, Tia Cudahy, our CFO, Peter Westley, and our Head of Content, Rob Burk.

In the six weeks since our last earnings call, we have made good early progress in rolling out our new Direct subscriber pricing, added several million paying subscribers through new Bundled Distribution partnerships around the world, and enhanced our critical-mass library with unique and compelling new factual content.

We believe that our Direct subscriber base, content library, multi-year distribution agreements, strong cash position and lack of debt are favorable business and strategic attributes that provide us with exceptional flexibility. As such, we will continue to consider opportunities that we believe are in the best interests of our shareholders, including share repurchases, potential business combinations and scale partnerships. We finished the first quarter in a solid cash position, moved closer to profitability and are encouraged by the positive momentum we are seeing in the business.

Looking ahead, I am pleased to report that, not only do we expect better results in the second quarter, but we believe our first quarter results represented the trough for revenue. Despite lower revenue compared to the prior year quarter, we significantly increased Adjusted EBITDA and Adjusted Free Cash

Flow. Our improving financial trajectory reinforces my conviction that our decision to prioritize long-term profitability and cash flow over near-term revenue growth over the past couple of quarters was in the best interests of the company and our shareholders, despite the dampening effect it had on our top line results.

As Peter will discuss in greater detail, our positive financial outlook is based on favorable trends in our subscription revenue businesses, a growing pipeline of opportunities across our other lines of revenue and our continued commitment to prudent expense management. We remain laser focused on achieving positive Adjusted Free Cash Flow while making the investments necessary to generate efficient, sustainable top line growth moving forward.

We expect the current environment of rising interest rates and tighter financial conditions to result in a growing pipeline of potentially accretive opportunities as less diversified and less well-capitalized players face increasingly daunting challenges. While it's difficult to say exactly when or if we might pull the trigger on any particular opportunity, we won't enter into any transaction that doesn't adequately reflect what we believe to be the full value of what we bring to the table. We are in command of our business, and confident about our future.

Turning to the business, I'll briefly touch on a few key recent developments and highlight some of the exciting new additions we have made to our critical-mass content library before I turn it over to Peter for a more detailed discussion of our first quarter results and Q2 financial guidance.

We were pleased by the performance of our Direct subscription business in the quarter. Direct subscription revenues grew on a year-over-year basis and were relatively consistent with the prior quarter, even as we significantly reduced marketing investment during our extensive pricing tests. And while it's only been a few weeks since we rolled out our higher standard service price points for new monthly and annual subscribers, early results have been encouraging, and consistent with our expectations.

Turning to our global Bundled Distribution business, our content continues to resonate with scale partners around the world who are seeking high-quality, cost-effective alternatives to increasingly pricey content from legacy media companies. The sizable investments we have made in language and localizing our content are enabling us to expand quickly and aggressively with a variety of partners, and earlier this quarter we were pleased to announce key new partnerships which expand our footprint across Asia, Europe, Latin America, North America and Australia. These new relationships incorporate Curiosity subscription services and channels and will help deliver our premium non-fiction films and programs to several million new paying subscribers. Recent launch partners include: Amazon's Prime Video Channels in India; Fetch TV in Australia; The Netherlands' largest MVPD, Ziggo; the Dutch streamer, NLziet; Mexico's Izzi Telecom; and Central and Eastern European distributors MTS, Telekom Slovenia and Megafon, among others. We expect meaningful improvement in our revenues from distribution partners moving forward as our full product set – from localized channels to integrated app offerings to direct licensing – creates a range of monetization paths for both us and our partners as we connect with audiences across the globe.

In addition to growing both our Direct and partner subscription initiatives, we are thoughtfully and deliberately leveraging AVOD, FAST and Free To Air opportunities through both direct distribution AND content licensing. We have a lot of dry powder for these platforms and, as the comps available are now clear and increasingly predictable, we are working to ensure that we secure what we believe to be full

value for our content. These environments also provide us the ability to promote to our subscription tiers in an efficient and highly targeted manner.

On the content side, we continue to invest in what we believe is highly differentiated original content while leveraging our critical-mass content library of over 15,000 programs to deliver new and engaging experiences. In January, we kicked things off with “The Lucy Mission,” a behind-the-scenes look, two-and-a-half years in the making, at NASA’s boldest mission yet to unravel the origins of our solar system, and “Fusion: Harnessing the Power of Stars,” a timely deep dive from our hit series, “Breakthrough,” into the astounding energy source that could save our planet.

In February, we unraveled surprising new mysteries from our past in “Vikings: The Lost Kingdom,” and embarked on a thrilling voyage to separate fact from Hollywood fiction in “The True Story of Pirates.” We also continued our quest to uncover the most consequential untold tales in human history, with the six-part series, “Deadly Science,” an unflinching look at the innovators and explorers who have often paid the ultimate price in the pursuit of progress, the three-part series, “California,” a thrilling look at the pioneering engineers, artists and activists who put the Golden State on the edge of a changing world, and the 90-minute feature-doc, “Bessie Coleman: Queen of the Skies,” a moving portrait of the pioneering aviator who became the first African American woman to earn a pilot’s license.

Capping off the quarter, we also premiered our highly anticipated six-part original series, “CSI On Trial,” a look at the lack of science behind some of the most well-known forensic investigation tools and the tragic impact they’ve had on the lives of the wrongfully convicted. The series was augmented with a 6-part companion podcast, produced and distributed through our partnership with iHeartMedia, which delved further into the origins of flawed crime scene investigation disciplines and the personal nightmares they often inflict on the wrongfully accused.

These are just a few of the original series and specials slated for release on CuriosityStream and Curiosity Audio Network in 2023. Other notable titles include “GIANTS,” a landmark 5-part natural history series that unlocks the evolutionary secrets of the biggest beasts that walk our planet, and “The Real Wild West,” a beautiful 4-part history series shining a light on the native American tribes, women, African Americans and immigrants who shaped the American West.

Looking ahead, we are confident that we have the assets and capabilities in place to drive improving profitability and Adjusted Free Cash Flow. With the decisive actions we have taken to rationalize our cost base and the outsized content creation and languaging investments required to build a large-scale library behind us, we believe we have created the foundation for significant operating leverage as we prudently invest to drive growth moving forward. We see many ways to win in this environment as we execute on our organic initiatives while continuing to explore value creation opportunities with a variety of strategic and commercial partners.

In summary, our first quarter results demonstrate the significant progress we have made on the path to achieving positive Adjusted Free Cash Flow in the near term. From this baseline, we expect to drive profitable growth and pursue all of the avenues available to us to maximize shareholder value. Now I’ll turn the call over to Peter.

Peter?

Peter Westley, CFO

Thanks, Clint.

During the first quarter, we made further progress in our efforts to improve our overall financial results by tightly managing our expenses and content spend, focusing on partnerships with attractive overall economics and concentrating our marketing efforts on our most productive channels of customer acquisition. First quarter revenue and Adjusted Free Cash Flow came in toward the high end of our guidance ranges and, as Clint mentioned during his remarks, we expect to build from these levels in the second quarter and beyond.

To provide some context around the extent of our transformation, in the first quarter we reduced our advertising and marketing expenses by more than \$11 million, or 79%, and our cash spend on content by more than \$15 million, or 76%, compared with the comparable quarter in 2022. We were able to achieve these reductions while still growing our Direct business on a year-over-year basis.

Turning to our first quarter results, revenue was \$12.4 million, compared to \$17.6 million in the prior year quarter. The year-over-year change was primarily driven by a \$2.3 million reduction in Bundled Distribution revenues, a \$2.2 million reduction in content licensing revenues and a \$1.1 million reduction in Enterprise revenues, partially offset by revenue growth in our Direct and Other categories.

Our largest revenue category this quarter was our Direct business. Direct revenues came in at \$8.6 million, an increase of 3% compared with the first quarter of 2022. We believe the most important activity in this part of the business during the quarter was our extensive price testing, which concluded with the price increases for new subscribers that we introduced at the end of March, as we discussed on our last call.

Turning to Content Licensing, which was our second-largest revenue category this quarter, we generated \$2.0 million of revenue, compared to \$4.2 million in the prior year quarter. While content licensing revenues decreased year over year, the profitability of this revenue line actually increased due to an improved mix of revenue, with a lower percentage of zero-margin pre-sales deals in the first quarter of 2023.

Our next largest category was Bundled Distribution, which saw \$1.5 million of revenue in the quarter. If we deduct \$2.6 million of revenue from the first quarter of 2022 related to a contract that we did not renew mid-year last year, Bundled Distribution revenue would have grown 21% year over year. As Clint mentioned, we were pleased to enter into several new Bundled Distribution partnerships in the first quarter and we remain actively engaged with potential distribution partners worldwide.

First quarter gross margin of 27.3% decreased from 32.8% in the prior year quarter, driven by lower year-over-year revenue. Gross margin improved from 9.4% in the fourth quarter, primarily driven by lower content amortization expense.

As I mentioned earlier, our first quarter advertising and marketing expense of \$3.1 million was down more than \$11 million year over year. We intentionally kept our marketing spend at a reduced level during our first quarter pricing test. We expect our advertising and marketing expense to be at a higher level in the remaining quarters of the year.

G&A expense of \$8.1 million during the first quarter was down 23% year over year, driven by last year's workforce reduction and continued expense discipline.

Moving to profitability, Adjusted EBITDA loss of \$6.4 million improved 63% from a loss of \$17.5 million in the prior year period, and was 53% better than our \$13.6 million Adjusted EBITDA loss in the fourth quarter of 2022.

First quarter cash spend on content of \$4.9 million was down slightly on a sequential basis and was more than 75% below the prior year quarter. Adjusted Free Cash Flow use of \$6.3 million improved by \$6.0 million year over year and by \$2.5 million sequentially. This underscores the tremendous progress we believe we have made in improving cash flow, as well as our continued positive momentum.

At the end of the first quarter, cash, cash equivalents, and restricted cash totaled \$49.2 million. We had no outstanding debt at the end of the quarter, and we believe our overall balance sheet remained in great shape with \$143 million of assets and \$32 million of liabilities, translating into book value of \$111 million, or approximately \$2.10 per share.

Moving to our second quarter guidance, we expect revenue in the range of \$13 to \$15 million and Adjusted Free Cash Flow in the range of \$(6) - \$(4) million. Our Adjusted Free Cash Flow guidance reflects our continuing focus on bringing down our cash burn as this remains a top priority for us.

I'd also like to reaffirm the 2023 guideposts that I laid out in last quarter's call. As a reminder, in 2023 we expect content amortization expense of \$25 to \$30 million, advertising and marketing expense of \$20 to \$25 million and cash spend on content of \$10 to \$15 million.

With that, Operator, let's open the call to questions.