CuriosityStream
Q2 2022 Prepared Remarks

Denise Garcia, Investor Relations

Welcome to CuriosityStream's discussion of its second quarter 2022 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 June 30, 2022, 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
Thank you, Denise. I would like to thank everyone for joining our second quarter earnings call. Also joining us today is our COO and General Counsel, Tia Cudahy, our Chief Strategy Officer, Devin Emery, and our new CFO, Peter Westley.

Peter joined us in May from Blum Capital Partners, where he spent the last 10 years as Partner and Managing Partner. Peter brings with him 30 years of experience in financial services working with media and technology companies. Recently, as Chairman of Avid Technologies, whose solutions empower media creators, Peter helped lead the company through a period where its market cap increased from $200 million to more than $1.3 billion. I've already seen Peter's insights into strategy and shareholder value creation start to positively impact the way that we are managing the business and charting our future direction. "A" players can make a real difference, particularly for companies of our size. Not only do they perform well in their roles but they tend to help elevate the performance of their peers and their teams and true As tend to hire more As which makes the overall organization stronger and better.

As a globally-focused organization with a multifaceted revenue stack, we made clear progress across the board during the second quarter. Due to better-than-expected financial performance in Q2, we exceeded our first half EBITDA guidance and delivered first half revenue at the high end of our guidance range. We reduced cash used in operating activities by 52% from Q1 to Q2, while revenue grew strongly on both a year-over-year and sequential basis. We ended the quarter with $78 million of cash and investments on our balance sheet.

We continued to grow the business in Q2, with revenue up 46% year over year. We ended the quarter with approximately 25 million paying subscribers, up from 24 million last quarter, and added hundreds of new titles to our critical-mass library of over 15,000 video and audio assets.

We also advanced a number of strategic objectives during the quarter as we focused on maximizing the performance of our global streaming service, our best-in-class content and our promotional outreach.

Under Devin Emery's leadership, our "Smartest Bundle in Streaming" premium SVOD package gained further traction in Q2, with a 215% increase in daily average upgrades since the rollout of our new upgrade path. As a reminder, smart bundle subscribers get 6 streaming services for $69.99/year, a 79% savings compared to subscribing to each service individually. This represents both an incredible value for our subscribers and a compelling financial proposition for CuriosityStream. With Smart Bundle, the average revenue per user is multiples greater than our standard service.

We recently announced that Da Vinci Kids, an educational streaming and interactive learning platform, will join the Smart Bundle as our 7th service later this summer. The expanded Smart Bundle, which offers thirty-five to forty thousand additional episodes, will have more value and smart entertainment options for families than ever before with the Curiosity Kids collection, plus family-friendly viewing across all the bundled services and now the extensive kids programming from Da Vinci Kids. We expect continued strong uptake of our Smart Bundle as Devin and his team execute on our content monetization strategy.

As we discussed last quarter, we are increasingly focused on building audience engagement in front of the paywall through integrated multi-platform brand partnerships, additional FAST channel launches, AVOD, audio and through our social channels. In Q2, we had our strongest advertising quarter to date, in part due to our FAST channel strategy. In light of the flexible rights we control across our thousands of hours of content, we can be swiftly responsive to the needs of subscription-resistant consumers through distribution partners.

Under Rob Burk's leadership, we continued to release groundbreaking original content across a wide array of factual genres and formats. During the quarter, we premiered the second season of Engineering the Future with award-winning actor David Oyelowo — a thrilling look at the new breed of visionaries creating the technology of tomorrow — from next-gen electric vehicles and hyper-loops, to the metaverse and beyond. Our in-depth analysis of contemporary history also allowed us to quickly create the special Putin and the Oligarchs, a timely deep dive into the secret world of Russia's super-rich, and the man who ultimately rules over them. And our ongoing collaboration with some of the world's best science filmmakers allowed us to reach even deeper into our past, premiering two new episodes of our ever-popular Ancient Earth strand, that brings the long-lost creatures of prehistoric Antarctica to life through ice-continent archaeology and state-of-the-art CGI. Looking ahead, we are in the finishing stages on a number of exciting new productions, including War Gamers, the story of an unlikely group of British women who developed tactics to defeat Nazi U-Boats, and Science for Evil Geniuses, a hilarious real-world test of super-villain science and engineering starring Game of Thrones actor Paul Kay.

We are also making significant progress in our strategy to monetize our substantial factual audio content library. With the thousands of audio titles we acquired from One Day University and Learn25 last year as the foundation, we were thrilled last month to launch the Curiosity Audio Network in partnership with iHeartMedia, the number 1 podcast publisher globally according to Podtrac. Our first foray into podcasting, the Curiosity Audio Network will feature original content as well as podcasts to complement programming from our library of documentary films, shows and series. Later this year, we will premiere our first original podcast co-produced with iHeartMedia, mixing pop culture, history and true crime, with an expanded look into the mystery surrounding the life and death of the "Cold War Cowboy" Dean Reed. It's a follow-on to the Curiosity Original feature documentary Red Elvis, available exclusively on CuriosityStream. Also upcoming is the Untold History of Sports in America, which dives deep into the role sports have played in shaping the American psyche. We couldn't be more excited to make our move into audio in partnership with the #1 podcast publisher in the world and look forward to delighting our subscribers with curiosity-catalyzing audio content this year and beyond.

Looking ahead, with our critical mass factual content library, tens of millions of global subscribers, a sizable cash position and an improving financial trajectory, I really like our hand. While the competitive battles rage on between the scripted content streamers, Curiosity stands alone as the reliable destination for on-demand premium factual content in history, science, nature, technology, human adventure, space, medicine and exploration. This is a good place to be. We look forward to continuing to fulfill our mission to provide the world with quality entertainment that informs, enchants and inspires.

Before turning the call over to Peter for a more detailed discussion of our financials, I would like to thank our dedicated employees, partners and shareholders for their continued support.

Peter?

Peter Westley, CFO

Thanks, Clint. It's great to be here on my first call as Curiosity's CFO, and I'd like to thank the entire team for the warm welcome I've received since joining the company in May.

Before getting into our results, I'd like to take a minute to provide my thoughts about the company and the opportunity ahead of us. Over the past several years, CuriosityStream has built an enduring, mission-driven global media brand. We have established ourselves as a global category leader in factual entertainment, with tens of millions of subscribers worldwide and a massive library of factual audio and video content. Our segment of the market is inherently attractive, with content that has an exceptionally long shelf life, global appeal, is far less costly to produce than most general scripted entertainment and sports content and is brand-safe for advertisers. We have also developed a diversified revenue stack to maximize our opportunities to monetize that content. Last, but not least, John and Clint have assembled a team of world-class leaders including our Chief Strategy Officer, Devin Emery, and Head of Original Content, Rob Burk, who continue to extend our category leadership through innovative content, service bundles and partnerships.

Turning to our second quarter results, I'm pleased to report Q2 revenue of $22.3 million, up 46% year over year. International growth was particularly strong, up 136% year over year. From a product perspective, our growth was broad-based, with each of our business lines seeing sequential growth over Q1. Our strength in advertising was particularly noteworthy during the quarter, as we started to gain traction in generating revenue in front of the paywall. We are excited to have another source of revenue for monetizing our content and think that our diversified revenue streams are an important element of the CuriosityStream story. For the first half of the year, revenue was at the high end of our previously-provided guidance range and EBITDA exceeded guidance.

Q2 gross margin of 41.9% increased more than 900 basis points relative to Q1 gross margin of 32.8% as we improved the margins in most of our business lines and saw particularly strong growth in some of our higher-margin business lines.

We also significantly reduced our cash burn in Q2, with net cash used in operating activities of $5.9 million, a 52% reduction compared with the first quarter. At the end of the second quarter, cash, restricted cash, and available-for-sale investments totaled $77.8 million. While we expect some lumpiness in our cash flow in the coming quarters, we will continue to take a hard look at all of our spending, from marketing, to content, to G&A, along with our commercial partnerships, as we look to reduce the cost base of the business and improve our overall economics.

Before turning to our outlook, I should mention that we took a $3.6 million non-cash charge in Q2 related to the impairment of goodwill and other intangible assets. We do not believe that this accounting charge has an impact on our business going forward.

Looking ahead to Q3, we expect revenue of $21 - $23 million and an EBITDA loss of $11 - $9 million, as we continue to focus on improving the Company's financial profile. Like many other companies in the media and technology sectors, we are looking to do what we can to reduce our cost base, improve cash flow and reduce long-term commitments to increase our flexibility and optionality going forward.

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