

**CuriosityStream**  
**Q2 2023 Prepared Remarks**

**Denise Garcia, Investor Relations**

Welcome to CuriosityStream's discussion of its second 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 June 30, 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](https://investors.curiositystream.com).

Now I'll turn the call over to Clint.

**Clint Stinchcomb, CEO**

Thank you, Denise. Hello everyone. I appreciate you all joining us today especially as I know we are not your first earnings call of August. Also with me on this call are our COO and General Counsel, Tia Cudahy, and our CFO, Peter Westley.

This was a good quarter for us as we move toward profitability. We improved our Adjusted Free Cash Flow for a third straight quarter and grew sequential revenue by 14%. We introduced our higher pricing to new direct customers and to a small segment of our existing subscribers. We entered into meaningful and thoughtful licensing agreements with several new partners in the Middle East, the UK, and Europe. We believe this ongoing expansion of our licensing partners both by territory and platform will benefit us in the quarters to come. In addition, in order to expand the top of our marketing and promotional funnel – and further monetize our content – we will be rolling out certain titles and packages into broadcast network syndication for the first time and also with top AVOD partners beginning in Q4. Further, we opportunistically locked in performance based marketing initiatives with exceptional content creators and influencers that we believe should increase awareness and subscriber acquisition while at the same time minimizing risk.

As I know we have some new people listening today, let me quickly review what we do and how we make money. Our overarching mission is constant and has never changed. Simply put, our mission is to help

satisfy people's curiosity through enlightening premium factual films and programs and also through entertaining instructional talks from subject matter experts. Our efforts to be the go-to content service for anyone who wants to know more about the world are anchored by our flagship subscription service, Curiosity Stream. Today, anyone in more than 175 countries with a sufficient internet connection can subscribe to standalone Curiosity Stream for \$4.99 per month or \$39.99 per year, or to our premium tier Smart Bundle, which contains over 30,000 titles from six different services, for \$9.99 per month or \$69.99 per year. As it is important not to overly rely on a single direct subscription revenue line, we also monetize our content through third party distribution relationships for our products and services in 11 different languages, through third party content licensing of distinct titles and packages; and increasingly through advertising and brand partnerships.

While Peter will discuss our financials in greater detail later in the call, I couldn't be more enthusiastic about our path to positive Adjusted Free Cash Flow, a milestone that we believe we are closing in on. On the expense side, we reduced G&A expense by approximately 25% year over year in Q2 and will continue to work to bring this spending down further. We've spoken previously to our spending reductions associated with programming and marketing. Our marketing spend for the second quarter of 2023 was down 63% year over year while direct revenues were roughly comparable, down less than 3%. The only increasing cost projected for the second half of 2023 as compared to the first half is marketing which is 100% in our control and where increased spend is a function of meeting internal growth performance metrics.

On the revenue side, our new pricing will take until late 2024 to fully roll through our P&L. To be clear it doesn't happen in one fell swoop. While all new customers are seeing our increased pricing and while we are rolling it out now to most monthly cohorts, our subscribers on annual plans won't see new pricing until their plans come up for renewal over the course of the year. Further, most of our channel store and app store partners, while they have it on the near-term roadmap, have not yet commercially launched our new pricing. This is why I said at the beginning of my remarks that new pricing has been launched to only a small segment of our direct subscriber base. So, we expect steady direct growth as a result of increased pricing associated with our core service and also from our premium tier Smart Bundle, a higher margin service offering that is growing in part as a result of its closer pricing proximity with Curiosity Stream as a standalone service. While I have not talked much about One Day University, ODU subscribers are indeed growing and ODU is also proving to be a helpful lever and offering for certain existing cohorts contemplating renewal. We believe the third-party demand to license and distribute our content and services is strong and growing. In addition to traditional legacy licensing partners, non-traditional licensing partners may be emerging. As one example, we believe we are in the infant stage of a mini broadcast digital channel renaissance catalyzed by ATSC 3.0., which increases station groups' need for content and services for their existing services and for new ones they want to create. Historically this has not been an internal functional expertise for them. The top North American AVOD players have plenty of overall volume but are still light in some key categories where we believe we can help. Outside the US, AVOD is more nascent so while the overall AVOD licensing opportunity is less than the US, we believe the demand for content is greater. As I've been asked if the current disruption to new content creation is helpful to us, I would say that we believe it provided no identifiable incremental benefit to us in the second quarter of 2023 or the first half of Q3. We also anticipate steady, sustainable long-term advertising and sponsorship revenue growth and increased consumer awareness as we place certain content into AVOD, FAST and broadcast syndication.

Moving to content, while our critical-mass library of more than 15 thousand programs has enabled us to reduce our year-over-year cash content spend by 63%, we added hundreds of new titles in some

underserved factual genres like money and finance, and more in tried-and-true genres like modern history, tech and biographies, all within our planned content budget.

On the screen now: We kicked off the quarter with the premier of ***“Lift the Ice,”*** a global 6-part series that filmed 20 expeditions across 12 countries and five continents showcasing the harshest spots on Earth and revealing surprising secrets from our planet’s melting cryosphere — from ancient viruses to new clues about the location of alien life. In May, we premiered our series ***“GIANTS,”*** where world renowned naturalist, Dan O’Neill, tracks down the planet’s biggest creatures – the ones that can eat you - and compares them, with the help of CGI, to the nastiest beasts that have ever roamed our planet.

On the science and tech front, we continued to produce timely deep dives into trending stories of the day, with specials like ***“Attack of the Zombie Fungus,”*** a wild look at the true story and science behind the HBO hit series “The Last of Us.” Our popular Breakthrough franchise premiered ***“Jupiter’s Moons and the Search for Life,”*** which probes new missions that may answer astronomy’s biggest question. And our new special round-up, ***“2023: A Space Odyssey,”*** a comprehensive look at some of the year’s biggest space stories.

We also continued in our quest to share compelling untold tales from the past. Our series ***“War Gamers”*** is the story of a small group of British women who came up with the winning tactics to defeat deadly Nazi U-Boats in the Battle of the Atlantic. ***“Unearthed: Ancient Murder Mysteries”*** is a series that places legendary homicide detective Rod Demery back in time to solve some of history’s most notorious cold cases. Among other new premiers, we capped off the quarter with one of our most ambitious original productions to date — the 4-part series ***“The Real Wild West”*** — which tells the beautiful broad story of the emergence of the American West and at the same time tells the stories of the heroes and influencers you’ve probably never heard of: Black and Hispanic cowboys and leaders like Bass Reeves, Nat Love and Pio Pico; female homesteaders; and Chinese immigrants and Native Americans like Crazy Horse and Sacagawea. This series is presented by the Grammy-award winning artist Dom Flemons, and based on consumer consumption and press coverage from *Entertainment Weekly* to *Cowboys and Indians* to *Rolling Stone*, ***“The Real Wild West”*** series itself seems to be emerging into the cultural zeitgeist.

Let me close by sharing what we have said in the past. In a transitioning media and tech environment filled with choppy water, where many companies have overspent and some are trying belatedly to course correct, we like our hand. We believe we move closer every day to turning the corner and generating optimized and sustainable levels of cash. Further, at a time when content creation has slowed and large media companies scramble to rationalize product portfolios and costs, many of their secondary and tertiary services are struggling, as are many undercapitalized independents. We believe that consumers and an expanding roster of third party buyers will place an even higher value on existing premium factual content and brand-safe relationships. In sum, we believe that our direct subscriber base and direct platform, our broad and deep content library, our multi-year partner agreements, our strong cash position, our public currency and our lack of debt are uniquely favorable attributes that provide us with a firm foundation and exceptional flexibility.

I’d like to now pass the baton to my friend and colleague, our CFO, Peter Westley.

**Peter Westley, CFO**

Thanks, Clint.

During the second quarter, we believe we continued to make good progress on our path to positive Adjusted Free Cash Flow while delivering on our near-term financial commitments. We introduced our increased pricing for new direct subscribers and tested to find the most effective ways to increase the prices paid by our existing subscribers. Those increases for existing subscribers are beginning to be put into effect this quarter. On the cost side, we remained disciplined in our spending. As a result of our focused execution, second quarter revenue and Adjusted Free Cash Flow were in line with our guidance ranges.

Turning to our second quarter results, revenue was \$14.1 million, compared to \$22.3 million in the prior year quarter. The year-over-year change was primarily driven by decreases in content licensing, bundled distribution, and enterprise revenues.

Our largest revenue category this quarter was our Direct business. Direct revenue came in at \$8.3 million, a 3% decrease compared with the second quarter of 2022. As Clint mentioned, this slight decrease came despite a 63% year-over-year reduction in marketing expenses during the quarter. We expect Direct revenues to grow sequentially in the third quarter as the impact of the price increases to new and existing subscribers begins to flow into the financial results. However, it will take a full year or more for the impact of these price increases to completely flow through our financial statements, given the fact that the significant majority of our direct subscribers are currently on annual subscription plans. We expect this positive impact to begin to materialize in the third quarter of 2023.

Turning to Content Licensing, which was our second-largest revenue category this quarter, we generated \$3.6 million of revenue, compared with \$6.7 million in the prior year quarter. The profitability of those revenues was much higher this year, however, as more than 80% of our content licensing revenues in the second quarter of 2022 were zero-margin pre-sales deals, and more than 80% of our content licensing revenues in the second quarter of 2023 were attractive-margin library licensing deals.

Our next largest category was Bundled Distribution, which generated \$1.5 million of revenue in the quarter. If we deduct \$2.6 million of revenue from the second quarter of 2022 related to a contract that we did not renew in the middle of last year, Bundled Distribution revenue would have grown 13% year over year.

Second quarter gross margin of 29.5% decreased from 41.9% in the prior year quarter, driven by lower year-over-year revenue, but improved from 27.3% in the first quarter. The sequential improvement in gross margin was primarily driven by growth in library-based content licensing deals during the second quarter.

Our second quarter advertising and marketing expense of \$4.2 million was down \$7.0 million year over year, as we remain intent on maintaining tight discipline around our marketing spend.

G&A expense during the second quarter of 2023 of \$8.0 million was down \$2.6 million, or 25%, year over year. We will continue to focus on looking for ways to bring this spending down going forward.

Moving to profitability, Adjusted EBITDA loss of \$6.5 million was 39% less than our \$10.6 million loss in the prior year period.

Second quarter cash spend on content was \$3.3 million, down \$5.6 million or 63% compared with the prior year quarter, as we continue to benefit from the critical mass library of content that we have built.

Adjusted Free Cash Flow use of \$4.3 million improved \$1.7 million year over year and \$2.0 million sequentially. This represents our third consecutive quarter of sequentially improving Adjusted Free Cash Flow and underscores our continued momentum toward positive Adjusted Free Cash Flow. We think that this metric is a particularly useful guide for investors as to the underlying economic realities of our business, which is why it's one of the financial figures we use in our forward-looking guidance.

At the end of the second quarter, cash, cash equivalents and restricted cash totaled \$44.8 million. We had no outstanding debt at the end of the quarter, and we believe our overall balance sheet remained in great shape with \$133 million of assets and \$30 million of liabilities, translating into book value of \$103 million, or approximately \$1.94 per share.

One other item worth noting is that we conducted an impairment analysis that is reflected in this quarter's financial statements. That analysis determined that the fair value of our investment in the German TV joint venture exceeded the carrying value as of June 30th, and as a result, we recorded a \$2.0 million non-cash impairment related to that investment during the quarter.

Before I turn to our guidance, I thought it would be worth taking a moment to revisit our prior comment that the first quarter of 2023 would be a trough for us, as we look to build from there. If you look at our second quarter results, you will see that sequentially we increased our revenues by 14%, our gross margin by more than 200 basis points, and our Adjusted Free Cash Flow by \$2.0 million. We like the trajectory of the business.

Moving to our third quarter guidance, we expect revenue in the range of \$13.5 to \$15.5 million and Adjusted Free Cash Flow in the range of \$(5.5) to \$(3.5) million.

I'd also like to revisit the guideposts that we laid out previously related to certain expense items for the year. We continue to expect that our cash spend on content for the year will be in the \$10 to \$15 million range, but we are lowering our expected expenses for the two other categories that we discussed previously. We now expect content amortization for the year to be \$22 to \$27 million, which is down from our \$25 to \$30 million prior estimate, and we expect advertising and marketing expense to be \$17 to \$22 million, down from our \$20 to \$25 million prior estimate, as we look to increase our marketing spending in the second half of the year, while continuing to maintain discipline around this effort.

Before turning the call over to the operator for questions, I wanted to highlight one final housekeeping item related to our options and restricted stock units. As you will see in Note 14 to our financial statements in the 10-Q that we filed with the SEC this afternoon, in July, following approval by the Company's Board of Directors and shareholders, we exchanged approximately 4.6 million employee stock options for 1.6 million Restricted Stock Units of an equivalent fair value, a net reduction of 3.0 million fully diluted shares for the Company.

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