

CuriosityStream
Q3 2022 Prepared Remarks

Denise Garcia, Investor Relations

Welcome to CuriosityStream's discussion of its third 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 September 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 third quarter earnings call. Also joining us today is our COO and General Counsel, Tia Cudahy, our CFO, Peter Westley, and our Heads of Content, Strategy and Distribution Rob Burk, Devin Emery and Bakori Davis.

We delivered another strong quarter in Q3, with revenue and EBITDA exceeding the high end of our guidance ranges. We are making great progress toward becoming an enduring sustainably profitable company. Our CFO, my good friend and colleague, Peter Westley, is already making a significant impact in his first six months on the job, as evidenced by this quarter's especially strong bottom line performance. As Peter will discuss in his remarks, we beat EBITDA by nearly \$6 million relative to our guidance midpoint due to greater operating efficiencies, lower marketing costs and better gross margins relative to plan. And we are leaving no stone unturned as we continue to operate in a manner that drives quality, accountability, and cost efficiencies across the company.

Before digging further into the quarter's results, I would like to touch on a few key highlights which demonstrate the value of our evergreen factual content and the benefits of our multifaceted revenue stack.

We have deliberately positioned Curiosity to meet consumers virtually wherever they go—across the globe—in order to monetize our content and IP in ways that maximize audience and profitability.

During the quarter, we signed licensing agreements with a number of media companies, both at home and abroad. We also brought on new, blue-chip advertising partners in the automotive, technology, and financial services industries. And within our streaming subscriber base, we are particularly encouraged by the continued uptake of our Smart Bundle, demonstrating that many subscribers are willing to pay significantly more for the service.

Our subscriber retention remained best in class, with low-single-digit monthly subscriber churn. With more than 85% of our DTC subscribers on annual plans, we have the opportunity to leverage a broad range of data to deliver a customized service to our subscribers before they even have to consider whether to renew. And in spite of significantly lower marketing spend last quarter, we continued to grow Direct subscribers, both on a year over year and a sequential basis.

Turning to our third-party distribution business, we continued to sign up new partners in Q3, including the largest MVPD in the Netherlands. Bundled distribution generates multi-year recurring revenues and is an excellent source of opportunity for our Direct and Content Licensing categories. And with partnerships across the globe, it also provides us with significant geographical diversification. Bundled distribution remains a key pillar of our strategy and a source of competitive advantage.

As I mentioned in my opening remarks, we significantly exceeded our Q3 EBITDA guidance. We told you last quarter we would continue to take a hard look at all of our spending, from marketing to content to G&A, in order to reduce our cost base and improve our overall economics. These efforts drove a greater than \$7 million reduction in non-COR operating expenses between the second and third quarters. Consistent with this approach, we elected not to renew one existing bundled agreement in light of the overall value exchange. As a result, while we grew our direct subscriber tiers, our total subscriber count decreased to about 23 million. We have considerable optionality and, as such, are focused on partnerships and objectives that drive long-term profitability and success. While we expect some lumpiness on a quarterly basis, we are really pleased with the progress we made in rationalizing our cost base in Q3, and we remain laser focused on operating efficiency moving forward.

At the same time, we delivered an exceptional experience for viewers during the quarter, releasing one of the most ambitious slates of original programming in Curiosity's history. We kicked off in July with *Cracking the Code*, an 8-part original series about the high-stakes race to unravel some of the most complicated and consequential mysteries in history, from the cipher-breaking heroine who took on the Mob, to the code-breaking brilliance that changed the course of World War II, to the hunt for the Zodiac Killer and the massive effort to decode the human genome. Our ongoing collaboration with the world's top documentary filmmakers also allowed us to uniquely explore the natural world with *Planet Insect*, a landmark 3-part original series that employed proprietary, custom-built cameras to reveal new insights about the insect world, and the 6-part series, *Tracker's Diary: Bears of Katmai*, that joins renowned wildlife naturalist Casey Anderson on his daring quest to study one of the world's densest populations of grizzlies in the remote Alaskan wilderness.

Building on the success of our original series, *TITANS: The Rise of Wall Street*, we also premiered our new 6-part series, *TITANS: The Rise of Hollywood*, an inspiring look at the rough and tumble characters, entrepreneurs and rivalries that built the entertainment industry, from William "Fox," Universal's Carl

Lemley and the Warner Brothers, to Paramount's Adolph Zucker, MGM's Louis B Mayer and United Artists' Mary Pickford and Charlie Chaplain.

Other original premieres during the quarter included our 3-part ancient history series, Celts: The Untold Story, our 5-part espionage thriller, Traitor/Patriot and the 10-part second season of our highly successful history strand, Ancient Engineering.

We also continued to generate and distribute compelling new audio content during the quarter as we ramped our partnership with iHeartMedia, the #1 podcast publisher globally with more than two and a half times as many monthly downloads as their closest competitor. Our One Day University podcasts are now available on the service, and we recently debuted The Happiness Formula, a 12-part series with Barry Schwartz, the eminent psychologist, leadership guru, and best-selling author. We plan to bring even more great Curiosity content to iHeartMedia in the coming months, including a companion podcast for our original feature doc, Red Elvis, that further probes the life and mysterious death of legendary "Cold War Cowboy" Dean Reed and our powerful upcoming video series, CSI On Trial, that uncovers the surprising lack of science behind forensic investigations and the tragic true-life stories of those who've been wrongfully convicted by them. These audio initiatives are further and instructive examples of the range of monetization opportunities leverageable with quality factual IP.

Looking ahead, with our critical mass factual content library, tens of millions of global subscribers, sizable cash position, and improving financial trajectory, we really like our hand. While the competitive battles rage on between the scripted content streamers, Curiosity stands alone as the reliable destination for brand-safe, on-demand premium factual curated content in the categories of history, science, nature, technology, human adventure, space, medicine and exploration. This is an excellent 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. I'd also like to personally thank Devin Emery for his contributions and collegiality over the last three years. Devin joined us as a marketing executive and responded with aplomb to the increasingly complex objectives we challenged him to meet. While Devin will be moving on, I'm delighted that he will continue to work with us in an advisory capacity.

Peter?

Peter Westley, CFO

Thanks, Clint.

As Clint mentioned, we were very pleased with our Q3 performance, with both revenue and EBITDA above the high end of our guidance ranges, driven by a number of factors. Q3 revenue was \$23.6 million, up 26% year over year. Before I get into breaking that total down into our revenue categories, I do want to note that we have renamed two of those categories. First, what we previously called Program Sales we are now categorizing as Content Licensing, which we think is a more accurate reflection of that business activity, since many of these transactions involve the licensing of certain rights to our content rather than the outright sales of our programs. Secondly, we are renaming Corporate & Associations to Enterprise to be more consistent with industry norms.

Returning to our revenues, content licensing was our most significant category this quarter, generating \$10.8 million, an increase of 60% year over year. It is notable that this quarter saw both what we refer to as pre-sales and content library licensing transactions. Those library licensing deals tend to have particularly attractive margin characteristics.

Our second largest category this quarter was our Direct business, which includes our Direct-to-Consumer and Partner Direct categories. Direct revenue came in at a combined \$8.6 million, an increase of 16% compared with Q3 2021. It's worth pointing out that the significant majority of our subscribers in these combined categories are direct customers of ours, which is not the case for many other streaming services.

Our next largest category this quarter was Bundled Distribution, which saw \$2.6 million of revenue in the quarter. This category was down 27% year over year in Q3 as the result of our non-renewal of a single distribution partnership. While that partnership accounted for a meaningful amount of revenue, the overall economics for renewing the partnership were not compelling. As Clint mentioned earlier and I mentioned last quarter, we are extremely focused on improving the overall economics and bottom-line performance of CuriosityStream at this time and in the coming quarters, and as such will only enter into commercial relationships that meet our long-term revenue and subscriber expectations.

Our next largest category was Enterprise, which saw \$1.4 million of revenue in the quarter compared to less than \$50,000 of revenue in the prior year quarter. Finally, we had approximately \$200,000 of other revenue in the quarter, which was down from approximately \$900,000 in the prior year's third quarter.

Third quarter gross margin was 42.4%, up slightly from the second quarter.

One of the big stories of the quarter was clearly our reduction in marketing expense, which was 40% lower year over year and a major driver of our substantial EBITDA outperformance. We are also seeing meaningful progress in our efforts to reduce our G&A expense, which declined nearly \$2 million sequentially. We believe that we have the opportunity to further reduce these G&A expenses in the coming quarters.

EBITDA for the quarter was a loss of \$4.2 million, substantially better than our guidance range as a result of the factors I just described. This was the best EBITDA performance since the company went public in 2020. I would also point out that this figure includes approximately \$1.7 million of stock-based compensation. Going forward, we plan on discussing an Adjusted EBITDA figure during our quarterly reports, as do many of our peers in the media and technology sectors.

We also reduced our Q3 cash content spend by \$4 million on a sequential basis and by greater than 65% compared to the prior year quarter. This was enabled by the aggressive investments in content we made over the past couple of years. At the end of the third quarter, cash, restricted cash, and available-for-sale investments totaled \$64.3 million.

Part of my philosophy when it comes to guidance is that it is only truly useful to provide in cases where there is a meaningfully tight range of expected results to share with investors. As we head into the end of the year this year, though, we are seeing a wide range of potential outcomes for the quarter and we do not anticipate the kind of Q4 sequential revenue growth we have experienced in the past. As you know, parts of our business tend to involve lumpy, large transactions, particularly in the fourth quarter, that are

inherently somewhat unpredictable and this year that unpredictability is particularly notable. As a reminder, last year we generated over \$10 million in Q4 content licensing revenue. In addition, last year's Q4 revenue included \$2.6 million from the distribution agreement that we elected not to renew this quarter. Finally, we are pleased to reaffirm our expectation that we will end the year with at least \$50 million of cash, restricted cash, and available-for-sale investments.

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