

CuriosityStream

Q3 2023 Prepared Remarks

Denise Garcia, Investor Relations

Welcome to CuriosityStream's discussion of its third 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 September 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.

Now I'll turn the call over to Clint.

Clint Stinchcomb, CEO

Thank you, Denise. We believe this was another good quarter for us as we moved closer to sustained profitability. We grew sequential revenue by 11%. We improved our Adjusted Free Cash Flow for a fourth straight quarter as we cut our Adjusted Free Cash Flow use to \$3 million while increasing our advertising and marketing expense by approximately 21% from the second quarter. We introduced our new pricing plans to new Direct subscribers and to a cohort of our existing Direct subscribers. As most of our annual Direct subscribers have not come up for renewal, and as our channel store partners are just now beginning to adopt or announce our increased pricing, we anticipate it will take through the end of 2024 for the price increase to fully roll through our financial statements. We entered into thoughtful, long-term licensing agreements with several new partners in Europe and North America.

As a follow up to my second quarter remarks, in order to expand the top of our marketing and promotional funnel – and further monetize our content – we leaned into two of our advertising initiatives and launched broadcast syndication for the first time in September with two seasons of **4th and Forever**. Also in September, we began rolling out an AVOD package with the top US AVOD distributors, and we are delighted with the week-over-week growth to date. We believe we have a large, evergreen, globally-appealing library of content – thousands of hours – that we are now putting to work across new platforms that we believe will both increase and enhance the reliability, durability and predictability of our revenues going forward.

In regard to revenue, I'm delighted to report that our Direct revenue services – CuriosityStream, ODU and our Smart Bundle – grew in a quarter where real growth was a challenge for most streaming services. ARPU is up and our channel store partners are helping us grow more than we have in previous years. Traditional content licensing, an inherently lumpy area, increased significantly from the second quarter. As we work to add revenue that is less lumpy and more predictable, reliable, durable and substantial, we are more aggressively moving into advertising vehicles that we believe we are uniquely suited to leverage, and which require no additional cash investment. I mentioned AVOD and broadcast syndication. We also have prepared 12 channels for FAST and free-to-air distribution in the factual genres of science, history, nature, motors, kids and additional categories where we hold a leadership position. Also, we will be working with a terrific team to help grow our YouTube and audience first channels, a very small piece of our business today that we believe offers significant upside. The last advertising initiative I will mention is linear Pay TV advertising. We currently run spot advertising with two Pay TV distributors. We plan to light up several more in 2024. All of these initiatives are tied to simple metrics: impressions, ratings and CPMs. None require any significant additional cost and, cumulatively, we believe they will help ensure that we improve the overall durability and growth of our company. Lastly, our heightened presence across these platforms should play a key role in reducing our reliance on paid marketing in the longer run.

While Peter will discuss certain non-cash impairments and our broader third quarter financials in greater detail later in the call, I couldn't be more enthusiastic about our march towards positive Adjusted Free Cash Flow, an important milestone within our reach. Through additional cost reductions within our Cost of Revenue and G&A expense lines, we expect to reduce our costs to a level that will drive both flexibility and profitability. And while we have a strong, critical-mass library that has enabled us to significantly reduce our annual content spend, we believe we further fortified our content war chest by adding over 200 targeted genre titles in the third quarter through a variety of strategic, opportunistic and extremely cost-effective acquisition initiatives.

As to content, top highlights from the quarter include the premiere of our 8-part original series **History: The Interesting Bits**, a fast-paced journey into the weird, wild and salacious details behind history's biggest events; the 3-part series **Nature's Hidden Miracles**, a look at the surprising ways many different species secretly collaborate to survive, co-produced with our terrific partners at NHK; and the 3-part series **Queens of Ancient Egypt**, a brand-defining original that sheds new light on some of the most mysterious and powerful women in history.

In August, we also premiered a second season of **Rescued Chimpanzees of the Congo** with the iconic Jane Goodall, which captures the final steps in a decades-long effort to rehabilitate and release back into the wild an amazing cast of orphaned chimpanzees at Jane's Chimpoonga Sanctuary.

In addition to our collaborative commissioning work with great factual producers, Curiosity Studios released its own slate of originals, including the dramatic, little-known story of the **Hunt for the First Nazi Jet**, and new episodes of our cutting-edge science and technology strand, **Breakthrough**, covering everything from the latest advances in AI, to predictions of where and when the next big earthquake will strike, to the first U.S. mission to recover a sample from an asteroid.

Looking forward, we are all really excited about today's premiere of **Connections**, a modernized reboot of the historic series hosted by James Burke, who many consider the world's smartest man, and by our upcoming celebration of all things dinosaur in Dino Week, anchored by the premiere of **Amazing Dino World**.

Let me close by sharing what we have said in the past. In a transitioning media environment where many companies have overspent and some are trying belatedly to course correct, we like our position. In light of the production slowdowns that have adversely affected the 2024 film business, 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 continue to 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 equity 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 our CFO, Peter Westley. Over to you, Peter.

Peter Westley, CFO

Thanks, Clint.

We continued to make good progress on our path to positive Adjusted Free Cash Flow while delivering on our near-term financial commitments during the third quarter. As a result of our strong execution, third quarter revenue and Adjusted Free Cash Flow both came in above the high end of our guidance ranges. We continued to tightly control expenses while remaining disciplined in our customer acquisition investments.

Turning to our third quarter results, revenue was \$15.6 million, compared to \$23.6 million in the prior-year quarter. The year-over-year change was primarily driven by decreases in Content Licensing, Enterprise, and Bundled Distribution revenues. Despite this decline in revenue, we were able to improve our Adjusted Free Cash Flow from \$(12.6) million in the prior year quarter to \$(3.0) million in this year's third quarter, as a result of our intense focus on the bottom line. This was our fourth straight quarter of sequential improvement in our Adjusted Free Cash Flow.

Our largest revenue category this quarter was our Direct business. Direct revenue came in at \$8.6 million, up 3% sequentially, as we are starting to see the impact of our price increases put in place earlier this year. On a year-over-year basis, Direct revenue was relatively flat.

Turning to Content Licensing, which was our second-largest revenue category this quarter, we generated \$5.1 million of revenue, compared with \$10.8 million in the prior-year quarter. Content Licensing is an inherently lumpy part of the business, and we faced a tough comparison this quarter as the third quarter of 2022 was an exceptional quarter for us in this revenue category. One thing that should be pointed out about the third quarter of 2023 is that \$4.9 million of our Content Licensing revenue related to barter deals we entered into during the quarter. Content swaps like these, which are common in the media industry, allow us to bring fresh content to our services without spending cash and to raise awareness of CuriosityStream through additional, non-competitive distribution channels. In these transactions, we generally recognize revenue based on the value of the content delivered at the time we deliver our content to our partners, with a corresponding increase in content assets on our balance sheet related to the content that we receive from those partners.

Our next-largest revenue category in the third quarter was Bundled Distribution, which generated \$1.5 million of revenue. If we deduct \$1.2 million of revenue from the third quarter of 2022 related to a

contract that we did not renew during that quarter, Bundled Distribution revenue would have grown 7% year over year.

Third quarter gross margin of 45.7% increased from 42.4% in the prior-year quarter, driven by stronger Content Licensing margins.

Our third quarter advertising and marketing expense of \$5.1 million was down 9% year over year, and we continue to exercise discipline and analytical rigor in deploying our customer acquisition dollars.

General and administrative expense during the third quarter of 2023 of \$7.0 million was down \$1.8 million, or 21%, year over year.

Also included in our third quarter 2023 operating expenses was a \$19.0 million non-cash charge related to the impairment of our content assets, which I will discuss later in my comments. As a result of this charge, our upcoming amortization expense will be lower than would have otherwise been the case, which we expect to benefit Adjusted EBITDA and net income moving forward. Moving to profitability, Adjusted EBITDA loss was \$3.9 million, the calculation of which excludes the \$19.0 million non-cash impairment charge, compared to an Adjusted EBITDA loss of \$2.6 million in the prior-year quarter.

Third quarter 2023 cash spend on content was \$3.9 million, down \$3.5 million, or 47%, compared with the prior-year quarter, as we continue to benefit from the critical-mass library of content that we have built. Year to date, we have spent \$9.7 million of cash on content, which excludes all content added through barter transactions. That compares with \$36.4 million of cumulative cash spent on content in the first three quarters of 2022, a year-over-year reduction of \$26.8 million, or 73%.

Adjusted Free Cash Flow use of \$3.0 million improved \$9.6 million year over year. As I mentioned previously, this represents our fourth consecutive quarter of sequentially improving Adjusted Free Cash Flow and underscores our continued momentum toward positive Adjusted Free Cash Flow. In order to demonstrate our seriousness about achieving this objective, management has identified more than \$15 million of additional planned reductions in expenses and cash expenditures for 2024 relative to our expected spending levels for 2023. This plan has been approved by our Board of Directors, and we will begin implementing these changes this quarter.

Due to the decline in our share price during the third quarter of 2023, which resulted in a market capitalization that was less than our cash balance at quarter-end, we identified indicators of asset impairments. That led us to assess the value of our assets, in consultation with outside valuation experts and our accountants, including content assets and equity-method investments, under the respective accounting guidance for each asset. That analysis led to non-cash impairments of our content assets by \$19.0 million and of our equity-method investment in Nebula by \$2.3 million. The non-cash impairment of our investment in Nebula was primarily due to the official non-renewal of the marketing partnership between Nebula and CuriosityStream. The change in our business relationship does not impact Curiosity's ownership position in Nebula, which was 16.875% as of September 30, 2023.

After these adjustments to the balance sheet, we believe our overall balance sheet remained in great shape with \$106 million of assets, \$29 million of liabilities, and book value of \$77 million, or approximately \$1.45 of book value per share. We ended the quarter with total cash, cash equivalents and restricted cash of \$40.8 million and no outstanding debt.

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, and that we would look to build from there. We believe our second and third quarter results reflect solid execution as we delivered significant sequential improvements in both revenue and Adjusted Free Cash Flow.

Moving to our fourth quarter 2023 guidance, we expect revenue in the range of \$14.0 to \$16.0 million and Adjusted Free Cash Flow in the range of \$(5.5) to \$(3.5) million. Relative to the third quarter of 2023, we expect fourth quarter 2023 Adjusted Free Cash Flow to decrease slightly due primarily to seasonal factors.

I'd also like to revisit the guideposts that we laid out previously related to certain expense items for full-year 2023. We now expect that our cash spend on content for the year will be in the \$10.0 to \$12.0 million range, as compared to the \$10.0 to \$15.0 million range we had previously communicated. In addition, we expect content amortization for the year to be in the \$21.0 to \$23.0 million range, excluding the impairment to content assets that we recorded in the third quarter, as compared to the \$22.0 to \$27.0 million range we discussed last quarter. We expect full-year advertising and marketing expenses to be in the \$18.0 to \$20.0 million range, which represents a tightening of the \$17.0 to \$22.0 million range provided previously.

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