CuriosityStream
Q4 2021 Prepared Remarks

<u>Introduction</u>
Denise Garcia, Investor Relations
Welcome to CuriosityStream's discussion of its fourth quarter and full year 2021 financial results. Leading the discussion today are Clint Stinchcomb, CuriosityStream's Chief Executive Officer, and Jason Eustace, 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.

<u>Safe Harbor Statement</u>
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 Annual Report on Form 10-K for the fiscal year ended December 31, 2021, 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.

<u>Clint Stinchcomb, CEO</u>
Thank you, Denise. I would like to thank everyone for joining our fourth quarter and full year 2021 earnings call. I'm delighted to have with us today our COO and General Counsel, Tia Cudahy, our CFO, Jason Eustace, and our Chief Product Officer and EVP of Content Strategy, Devin Emery. After my comments I will turn the call over to Jason to review the financials. At the close of Jason's remarks, we will open up the call for questions.

First, I'm pleased to report another strong quarter, with year-over-year revenue growth of 140% and approximately 23 million global subscribers. International revenues grew at their highest rate on record, as our investments paid off with wider audience reach. Revenues also grew rapidly across every layer of our revenue stack, from streaming to licensing to sponsorship. In our core DTC streaming business, we continued to grow our subscriber base while maintaining an industry-leading low churn rate.

I am also thrilled to announce that we delivered $71.3 million of revenue for the full year, up 80% year over year and ahead of our $71 million target. To put our full year 2021 performance in perspective, our year-over-year revenue increase of $32 million exceeded our combined revenues for the first five years of our company's existence, an extraordinary team effort. I'm often asked by other industry participants and observers how we've been able to grow our business so successfully, and I'd point to three primary factors. First and foremost, we've assembled the leading factual content library in the industry, with compelling titles across the science, history, technology, nature, society, and lifestyle categories. No other streaming service offers the breadth and depth of factual content available on Curiosity Stream, including our wide array of kid-friendly titles. Second, we've grown as a result of innovative leadership and execution. For example, we were the first streaming service of consequence to eliminate free trials, and our recently introduced Smart Bundle has gained significant traction as we leverage bundle economics in an audience-first approach. Third, we have built a unique, multifaceted revenue stack with streaming at its core, which has served us well over the past several years, including in 2021.

And 2021 underscores what makes us unique. Curiosity is the entertainment brand for people who want to know more. Our flagship subscription video on demand service, available in more than 175 countries, is the premier factual streaming destination worldwide. We continue to bring additional value to our subscribers through award-winning content, and we are thrilled to be introducing more originals in 2022 than in any previous year.

Let me dive a bit deeper into the quarter. Revenue growth in the fourth quarter was broad-based, with each of our major revenue lines growing rapidly year over year.

We had another banner quarter in our licensing business, which is a testament to the global appeal of Curiosity Studios productions and the factual entertainment category more broadly. As a result, international revenues grew at a record pace during the fourth quarter.

In our direct to consumer streaming business, net subscriber additions accelerated year over year, with strong gross additions complemented by continued, low-single-digit churn. Fourth quarter ARPU benefited from the continued uptake of our Smart Bundle, which offers six streaming services for the incredibly low price of $69.99 per year. Subscriber retention remains a great story for us, and we continue to lead the streaming industry on this important metric. And in an effort to build on the best quarter we've had in sponsorship sales we announced last week the launch of our first FAST Channel, Curiosity Now, which will help enhance our advertising and brand partnership monetization and will also serve to promote to our DTC SVOD tiers.

While legacy linear TV channels and other streaming services chase the next big hit to retain their subscribers, we focus on delivering the unique content proposition and engaging user experience that make our subscribers never want to leave. With all of the noise in the market and the media about the streaming wars, we continue to believe our unique, factual streaming service is complementary to, not competitive with, general entertainment streaming services. To be clear, we are playing on a different field.

During this year’s planning process, we spent a great deal of time reviewing the current state of the streaming industry. While this review further increased our confidence in the uniqueness of our value proposition, it also underlined how significantly our pricing has diverged from the rest of the industry. As such we believe we are nearing the right time to better align the value we bring to our subscribers with the price of our subscription plans, including enhanced promotion of our six-service premium tier, which enables us to offer even more quality content on our platforms. Simply put, even if our most popular annual plan pricing were to increase to $30 per year, it would still represent tremendous value. While we have yet to finalize the exact magnitude or timing of our planned subscription pricing changes, we expect them to result in a substantial increase to pro forma revenue, EBITDA, and cash flow over time.

Turning to content, we continue to grow the number of titles under ownership and license on our platform. As a factual streaming service, we are able to commission and acquire the visually stunning, globally appealing and emotionally compelling series our subscribers love without the multi-billion dollar content spending of general entertainment streaming services. We are able to do this while delivering high quality productions, as evidenced by the 2022 slate of originals we announced last month. Our 2022 original slate is the largest in our history, and includes new, brand-defining titles showcasing compelling stories about everything from biomimicry, asteroids, true crime, and exotic wildlife rescue — to great escapes in history, accidental inventions, tycoons that shaped the world, and much more.

Our big year of originals kicked off in January, when we showcased an electric new talent in natural history filmmaking, biologist and adventurer Patrick Aryee. In the 6-part series EVOLVE, Aryee takes viewers on a high-octane global adventure to reveal the emerging world of biomimicry, and how the genius of evolution could hold the key to some of our biggest problems. We also premiered our 8-part landmark original series TITANS: THE RISE OF WALL STREET, a thrilling deep-dive into the power, opulence and rivalries of American finance that fueled the growth of entire industries, and shaped the course of global events.

Other groundbreaking premiers included the feature documentary, RED ELVIS: THE COLD WAR COWBOY, that probes the forgotten story of American pop icon Dean Reed, who defected from the U.S. and rose to super-stardom in the Soviet bloc, before his mysterious death in East Berlin. And the 6-part series INSIDE THE MIND OF A CON ARTIST, an unprecedented production that literally attempts to psychoanalyze six of the most successful con artists of all time, leaving you wondering who you can really trust.

We are also excited to be bringing several fan favorites back for second seasons this year, including: DOUG TO THE RESCUE, featuring drone pilot Doug Thron as he explores new ways to use next-gen drone technology not only for animal rescues after natural disasters, but also for conservation as he travels to Africa on a tracking mission; ENGINEERING THE FUTURE, narrated by award-winning actor David Oyelowo, which explores the cutting-edge technologies that could revolutionize life as we know it; and RESCUED CHIMPANZEES OF THE CONGO WITH JANE GOODALL, which takes viewers behind the scenes of a groundbreaking effort to attempt the most ambitious chimpanzee releases in history. And, returning for its fourth season, the acclaimed Curiosity original docu-series 4TH AND FOREVER, which returns to the heartland of high-school football, and the iconic birthplace of Friday Night Lights.

Most recently, we began premiering SECRETS OF THE UNIVERSE, a brand-new, 8-part series which serves as the ultimate guide to the universe, as told by the individuals behind the biggest missions in space exploration, including the James Webb Telescope and NASA's Artemis mega-rocket. Following Curiosity's Emmy-nominated hit, Secrets of The Solar System, this landmark original series tells powerful tales of discovery, illustrated with stunning space imagery and unseen archives, from the race to image a black hole for the first time, to searching for life on Mars. And the original series TYCOONS unpacks the stories of the world's richest entrepreneurs – names like Bezos, Gates, and, yes, Kardashian – who, in some ways, yield just as much power as any elected leader.

Shifting gears, I would like to provide an update on the exciting agreement we announced last year with Nebula, the world's largest creator-owned streaming and technology platform whose creators collectively reach more than 130 million YouTube subscribers. Since we announced the agreement, which included a significant minority equity investment in the company, the disruptive nature of the creator economy has been on center stage, technology giants like Facebook and TikTok compete to be the platform of choice for this highly prized segment. Nebula continues to add high-profile content creators and subscribers at a rapid clip and recently broke into the top 50 global streaming services by number of subscribers, currently over 450 thousand, reinforcing its position as the go-to platform for content creators in the edutainment space. Due to our shared values and the complementary nature of our streaming services, we were uniquely capable of making what we believe to have been an incredibly well-timed investment in Nebula last year. Further, we have built our relationship with Nebula into a marketing and retention engine powered by parasocial creator relationships that is unique in the streaming industry. We couldn't be more excited to build on our partnership with Nebula in the years ahead, and to offer our shareholders the opportunity to capitalize on the growth of the creator economy.

In summary, we delivered a strong quarter and exceeded our ambitious full year revenue target for the second year in a row. The content slate we are premiering this year, the biggest and the best in our history, advances our mission to satisfy the curiosity of those who want to know more. And We plan to evolve our pricing to better reflect the value we bring to our loyal subscribers. Over the past 18 months we have more than doubled the size of our content library through acquisitions, original content creation and tuck in M&A. We believe our content war chest today with well over 10,000 title choices that includes over 5000 premium video selections represents a robust "critical-mass" for our streaming service. With this heavy lifting in library content expenditures largely behind us, we now look forward to increasing our focus on the achievement of positive cash flow in the future. We plan to provide updates on this objective as our visibility into revenues for the second half of 2022 and beyond becomes clearer.

I want to personally thank each and every member of our incredibly talented team for keeping their shoulder to the wheel, for their dedication, their creativity, and for the focus they bring to work each and every day.

I'd now like to turn the presentation over to our CFO, Jason Eustace, for some financial highlights and 2022 guidance.

Jason Eustace, CFO

Thanks, Clint. I'm also excited to announce a strong close to the year with 140% year-over-year revenue growth during the fourth quarter. Full year revenue of $71.3 million exceeded the $71 million target we established before entering the public markets, which puts us in elite and rare company. Each of our major business lines grew rapidly during the fourth quarter, with content licensing revenue increasing more than five-fold year over year to $10 million. We expect content licensing revenue to moderate during the first quarter from this fourth quarter record level, which I will describe in more detail during the guidance portion of my remarks.

Now, let's review our fourth quarter financials.

CuriosityStream's fourth quarter revenues grew 140% year-over-year to $27.3 million from $11.4 million in the fourth quarter of 2020. Growth in direct revenues, which include DTC, Partner Direct, and Corporate & Associations, was driven by strong DTC subscriber growth, modestly higher DTC ARPU, and Corporate & Associations growth related to our Redbox partnership. Bundled Distribution revenue growth was driven largely by our Spiegel partnership. Content licensing revenue growth was primarily driven by higher pre-sales licensing revenue. And finally, sponsorship and advertising revenue grew rapidly year over year due to increased advertising with an affiliate on our platform.

Advertising and marketing expenses were $19.1 million, compared to $13.3 million in the fourth quarter of 2020. As we discussed last quarter, we reallocated approximately $3 million of advertising and marketing expenses from the third quarter to the fourth quarter of 2021. We continued to invest in advertising and marketing during the fourth quarter to drive direct to consumer subscriber growth.

Cost of revenue was $17.3 million, or 63% of revenue, compared to 41% of revenue in the fourth quarter of 2020. While lower on a year-over-year basis, gross margin exceeded our expectations due to favorable revenue mix.

Total operating expenses were $27.8 million, compared to $22.2 million in the fourth quarter of 2020. Fourth quarter EBITDA loss was $17.8 million, compared to an EBITDA loss of $15.5 million last year, due to lower gross margin as well as higher advertising and marketing investments, with G&A expenses roughly flat on a year-over-year basis due to disciplined expense management.

I will now provide first half 2022 guidance. To be clear, the following estimates do not include any potential pricing adjustments. As Clint noted, we want to remain as solid on guidance in the future as we were for 2020 and 2021 and to do so we will only give guidance looking forward for periods when we have good visibility into our expected revenue and expense levels, as these performance expectations are adapted to new business initiatives and strategies and the overall market for streaming services. For the first half, we expect revenue will range between $36 - $40 million, up 50% year over year at the midpoint. We expect EBITDA loss will range between $(36) - $(34) million. As a reminder, the fourth quarter has historically been our strongest revenue quarter of the year. We expect first quarter 2022 revenue to decline relative to the fourth quarter 2021, with approximately $6 - $7 million of the sequential decline due to lower pre-sales licensing revenue. This decline is expected to be partially offset by continued growth in our direct to consumer business. We expect revenue to increase modestly between the first and the second quarters of 2022.

Gross margin is expected to remain below historical levels during the first quarter, due in part to significantly higher content cost amortization. We expect first quarter operating expenses to decline roughly $2 million relative to the fourth quarter due to lower marketing expenses.

And now I'll turn it back over to Clint to open the line for questions.