CuriosityStream
Q4 2022 Prepared Remarks

Denise Garcia, Investor Relations

Welcome to CuriosityStream's discussion of its fourth quarter and full year 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 Annual Report on Form 10-K for the fiscal year ended December 31, 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

Hello everyone. I appreciate you all joining us today. Also on the call are our COO and General Counsel, Tia Cudahy, our CFO, Peter Westley, and our Head of Content, Rob Burk.

We've been hard at work since our last call, and I'm delighted to update you on our progress. We made some strategic commercial decisions in our content licensing business in Q4 and more recently that, while sacrificing immediate revenue and ostensibly better quarterly performance, we believe have put us firmly on the path to achieving positive Adjusted Free Cash Flow in the near term and even firmer sustainability in the long term. We are focused on driving operational efficiencies and leveraging opportunities made possible by our strong cash position. We also continue to focus on improving the economics of all of our partnerships and vendor agreements. We believe these decisions and actions, and some others that Peter will address, expand our overall opportunity and maximize profitability and sustainability despite short-term revenue impacts.

As part of our continued focus on building long-term success, I'm happy to share that we exceeded our year-end target cash balance of $50 million by over $5 million, ending the year with over $55 million in cash and short-term investments and zero debt. We believe our strong balance sheet and path to positive cash flow are major competitive advantages in the current environment. While some industry players must raise capital, which is increasingly expensive and difficult to secure, we believe we have the cash resources to turn cash flow positive without the need for outside capital.

Consistent with our focus on long-term value creation over short-term revenue opportunities, we also remain highly disciplined in third party licensing and distribution negotiations. We know the value of our content and we won't enter into agreements that do not meet our valuation thresholds. We are in control of our own destiny, and our future is bright.

Specifically, our DTC SVOD revenues grew 12% in the fourth quarter and 25% for the full year on a year-over-year basis. Looking ahead, we are optimistic about our ability to drive accelerated subscription revenue growth and profitability as we implement our new pricing structure, as we migrate to more efficient performance-based marketing, and as we execute on product innovation that will produce measurable return.

On the pricing front, we recently completed an extensive three-month pricing test with over 3 million interactions. We expect the changes we made to our standard tier subscription pricing on March 27th will create a tailwind to revenue growth later this year and beyond. Specifically, we increased the cost of our standard service to $39.99 from $19.99 per year for new annual subscribers and to $4.99 from $2.99 per month for new monthly subscribers. We had long maintained our $20 annual standard service price point despite the significant investments we have made to expand our content library and improve the user experience. We established our NEW price points following a rigorous process of testing and analysis that helped us to estimate the subscriber acquisition and retention impact of various pricing combinations. Specifically, we analyzed over 3 million sessions during the course of many weeks, using 9 different combinations of pricing and messaging. After thoroughly reviewing the data, we confirmed a range of pricing flexibility and we believe we are striking the right balance between delivering value to our subscribers, optimizing lifetime value, and enhancing profitability. Even at a higher price point, we continue to believe our service represents an extraordinary value compared to other offerings in the market. We expect the financial benefit of the price increase to build sustainably and gradually as new subscribers join and as annual subscribers renew over time.

Our DTC subscriber retention remained industry-leading during the fourth quarter as our incredibly talented content and marketing teams continued to leverage our critical-mass content library of over 15,000 programs to deliver new and engaging experiences. A great example of this was our highly successful 100 Days of Curiosity campaign. The campaign kicked-off September 23rd, with our landmark original feature doc Pompeii: Disaster Street, and continued through the end of the year, with a different existing series or special re-featured on our service each day and highlighted across all social channels with gratifying success. Many of the titles re-featured in the "Hundred Days" campaign received more than 10 times the number of views they would normally receive on a typical day. Top performers included everything from Secrets of the Solar System, Ancient Engineering and Eternal Egypt to Planet Insect, Amazing Dinoworld and Radioactive Forest, each of which saw their daily viewership increase from 5x to 25x in a single day. And nearly a week after we re-featured each title, they continued to deliver viewership levels much higher than previously. During the 100 Days of Curiosity campaign, social engagement jumped more than 200% from the previous three months. This was powered in large part by our strong video content, which drove a nearly 275% jump in video views during the 100 Days campaign as compared to the previous quarter. And the social growth we saw during that campaign continued into the first quarter, with engagements up 1400% from January 1st to today.

Throughout the quarter, we also continued to premier more brand-defining original series like Oddly Satisfying Science, a second season of NYC Revealed, new episodes of our award-winning science and technology strand “Breakthrough” featuring Flying Cars, Reefs of Hope and Voyage into the Sun, our one-hour special, The Lucy Mission: Origins of the Solar System and our ever-popular year end wrap, Top Science Stories of 2022. Building on the success of 100 Days, Curiosity has already created several more special campaigns to enhance program discoverability throughout 2023 and beyond, including Ancient Egypt Week, Space Week and Dino Week.

Turning to product innovation, we have been encouraged by the continued embrace of our Smart Bundle subscription plan. In fact, December was an all-time record month for Smart Bundle subscriber additions, resulting in 32% year-over-year Smart Bundle subscriber growth. And while the Smart Bundle continues to increase as a percentage of our base, we believe there is excellent runway for growth considering that less than 10% of our DTC subscribers are on this plan. We believe our Smart Bundle subscribers, many of whom have upgraded from our standard subscription, appreciate the plan’s curated content and value. At $70 per year, our Smart Bundle represents an 83% savings compared to subscribing to each service individually. And, we have broad, global rights with the majority of our 6 content partners including Da Vinci Kids, which we added to the bundle during the fourth quarter. Da Vinci Kids significantly enhances our proposition for kids ages 5-12 and is available in over 16 languages. Controlling a broad scope of rights with the majority of our content providers enables us to provide the Smart Bundle globally and expand our market opportunity. Additionally, based on our recent testing we found, not surprisingly, that our increased standard tier pricing generated a higher rate of Smart Bundle conversions.

As I mentioned earlier, while we believe the macro environment, with rising interest rates and diminished access to capital, creates many challenges for most, it has significantly increased our volume of inquiries from potential strategic and commercial partners. Besides strategic combination considerations, we are engaged with more scale partners around the world who are seeking high-quality, cost-effective alternatives from services like ours as compared to increasingly pricey content from legacy media companies. In addition, we believe our strong cash position increases our flexibility with regard to how we can structure our partnership agreements, both commercially and strategically. We believe our strong cash position also enables us to lock up important tools and services at meaningful discounts as we can buy in bulk and over a longer term. Nearly everything is on sale today, from certain acquisition advertising inventory, to certain influencer marketing services, to technical products and services, to the non-core assets of other companies. We are aggressively taking advantage of these discounts, which may result in more cash out over a short period of time, but which we would trade for improvement in our longer-term performance.

Looking ahead, we are confident that we have the right assets and capabilities in place to execute on our innovation and growth strategies. Despite all of the macro noise we are currently in the midst of, more global opportunities are opening up as Curiosity and One Day University are rolling out with several new partners who will deliver millions of paying subscribers in Southeast Asia, Eastern Europe, Australia and even North America. While we have barely dipped our toe in the water in regard to third party FAST and AVOD opportunities, we have considerable upside here through aligning with the right partners around the world. We have thousands of titles that haven’t run on any AVOD or FAST platforms. And we recently hired a great leader and executor in industry vet Tom Pope to head up our Brand Partnership efforts.

While the turbulent macro environment has been a challenge in many respects, it has also presented new and compelling opportunities that didn’t exist even a year ago. With the decisive actions we have taken to rationalize our annualized cost base, the heavy lifting of critical mass content creation and languaging behind us, an increased DTC pricing structure and optimized scale partnerships, we see many ways to win in this environment and come out stronger on the other side.

Before turning the call over to Peter for a more detailed discussion of our financials, I would like to thank our colleagues across the Curiosity ecosystem – full-time employees, freelancers, sales agents, producers, editors and our deeply appreciated third party business partners – for focusing on the signal through the noise and for your tireless commitments and your quality work. Together, we will continue to help people around the world satisfy their curiosity through premium factual content and deliver durable, profitable growth for our shareholders.

Peter?

Peter Westley, CFO

Thanks, Clint.

As Clint mentioned, we made further progress towards our positive Adjusted Free Cash Flow objective during the quarter, and we remain intensely focused on expense discipline and operating efficiency. We believe our Q4 results demonstrate the excellent progress we have made over the past year to improve profitability and cash flow. Fourth quarter Adjusted EBITDA improved by $2.6 million compared with the prior year quarter, while Adjusted Free Cash Flow improved by $22.7 million year over year.

Before I get into more details about the quarter, I'd like to make a couple of comments. First, I'd like to note that the metrics that we will refer to most frequently in this and future calls are revenue, Adjusted EBITDA and Adjusted Free Cash Flow. We think that those figures will give you the best sense for the overall economics of our business. We are particularly focused on Adjusted Free Cash Flow, which, for the record, is simply cash flow from operations less capital expenditures and any adjustments that we think are appropriate, as disclosed in further detail in our earnings release. We have not taken any adjustments to Free Cash Flow for any of the historical periods discussed in this call or presented in this quarter's earnings release.

The other thing that I would like to point out is that we made some important revisions to our Spiegel TV joint venture during the first quarter of 2023. Those changes, which included allowing the JV to directly offer SVOD and FAST services, are intended to help drive the success of the business. These changes also resulted in a reduction to revenue of $2.2 million during the fourth quarter and the full year.

Fourth quarter revenue was $14.5 million, compared to $27.3 million in the prior year quarter. The year-over-year change was primarily driven by a $9.5 million reduction in content licensing revenues, a $2.2 million reduction in Bundled Distribution revenues, and a $2.1 million reduction in Other revenues, partially offset by continued revenue growth in our Direct and Enterprise categories.

Our largest revenue category this quarter was our Direct business, which includes our Direct-to-Consumer and Partner Direct revenue streams. Direct revenue came in at a combined $8.6 million, an increase of 10% compared with the fourth quarter of 2021. As Clint mentioned, we are implementing a price increase for our new standard plan subscribers and have transitioned to a performance-based customer-acquisition marketing model, as we entered 2023 with less than $1 million of marketing commitment for the year. We continue to be excited about our high-value Smart Bundle offering, where we achieved 32%

subscriber growth this year. With the increase in our standard pricing, we expect an even higher percentage of new subscribers to opt for the Smart Bundle in 2023.

Turning to content licensing, which was our second-largest category this quarter, we generated $3.0 million of revenue, compared to $12.5 million in the prior year quarter. Our fourth quarter revenue in this category was negatively impacted by the Spiegel TV-related charges discussed previously. Content licensing is an inherently lumpy business. While we expect this characteristic to continue, we are encouraged by the level of interest in our library.

Our next largest category this quarter was Bundled Distribution, which saw $1.5 million of revenue in the quarter. Q4 was the first quarter which included the full impact of the contract discussed last quarter that we did not renew. Excluding the $2.6 million of revenue we generated from this contract in the fourth quarter of 2021, Bundled Distribution revenue grew 29% year over year on an adjusted basis. We remain actively engaged in discussions with distributors around the world and are focused on signing new contracts to drive both top and bottom-line growth.

Our next largest category was Enterprise, which grew 18% year over year to $1.4 million in the fourth quarter.

Fourth quarter gross margin of 9.4% was negatively impacted by lower revenues and our elevated content amortization expense relative to our run-rate investment in new content additions. Content amortization in the fourth quarter was $9.8 million, nearly double our $5.2 million of cash content spend in the quarter. We expect content amortization expense, the largest component of our cost of revenues, to decrease going forward and ultimately converge with the lower level of new content investment that we require now that we have achieved critical mass in our content library.

As we discussed on our last earnings call, our Q4 advertising and marketing expense of $9.1 million continued to reflect sizable legacy advertising commitments. Moving forward, we expect significant improvement on the advertising and marketing line, as we entered 2023 with less than $1 million of marketing commitments for the year.

Turning to G&A, we continued to make progress in reducing our overhead costs, including a 29% workforce reduction between the end of 2021 and the end of 2022. G&A expenses were $7.6 million during the fourth quarter, down 15% year over year and 13% sequentially.

Moving to profitability, despite lower revenues and ongoing legacy content amortization and advertising expenses, Adjusted EBITDA loss of $13.6 million improved year over year from a loss of $16.3 million in the prior year. Moving forward, we expect Adjusted EBITDA to benefit from lower levels of content amortization and advertising and marketing spend.

We also reduced our fourth quarter cash spend on content by more than $2 million on a sequential basis and by greater than 75% compared to the prior year quarter. Adjusted Free Cash Flow improved year over year during the quarter by $22.7 million, from negative $31.5 million to negative $8.8 million.

At the end of the fourth quarter, cash, restricted cash, and available-for-sale investments totaled $55.5 million, ahead of our $50 million year-end target. Our overall balance sheet was in great shape at the end of the year with $154 million of assets and $36 million of liabilities translating into book value of $118 million, or approximately $2.23 per share.

Moving to our first quarter guidance, we expect revenue in the range of $11 to $13 million and Adjusted Free Cash Flow in the range of $(8) to $(6) million. Included in this amount is approximately $4 million of payments related to marketing activity in the fourth quarter. Our Adjusted Free Cash Flow guidance reflects our continuing focus on bringing down our cash burn, which is a top priority for us.

I'd also like to provide some further guideposts for 2023 that I hope will be helpful as you think about our business. First, we expect our content amortization, the largest component of our cost of revenue, to decline from approximately $39 million in 2022 to $25 to $30 million in 2023. Second, we expect our advertising and marketing expense to decline from approximately $41 million in 2022 to $20 to $25 million in 2023, as we move to a performance-based marketing model. Finally, turning to our cash flow statement, we expect our cash spend on content to decline from approximately $42 million in 2022 to $10 to $15 million in 2023. Along with our planned reduction in cash content spend, we expect our zero-margin "pre-sales" content licensing revenue, which amounted to approximately $19 million in 2022, to be in the low-to-mid-single digit million dollar range in 2023.

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

Clint Stinchcomb, CEO

Thanks, everyone, for your questions, and for your interest in CuriosityStream. While we have plenty of day-by-day work to do, with our shoulders to the wheel I'm really excited about the actions we've already taken and the direction we are headed in 2023. As Peter shared, we have taken the necessary and ongoing steps to significantly reduce our annualized expenses, focus on the essentials and move toward positive cash flow. This reset, in combination with our strong cash position, provides us with maximum control and maximum optionality.

We generated double-digit Direct sales growth in Q4, and recently implemented a price increase which we expect to drive significantly higher lifetime value while accelerating our path to positive Adjusted Free Cash Flow. Our critical mass content library of over 15,000 programs combined with additional content flowing in enables us to continually refresh our service while remaining highly efficient in our content spend. We are off to a great start this year in regard to global partner rollouts of our services. These alliances build our more predictable, long-term recurring subscription revenues at zero to minimal marketing costs and complement our lumpier areas of content monetization.

We have a strong balance sheet with zero debt, which we believe cements our excellent strategic position in the current market environment. I look forward to updating you on our progress this year as we execute on our plan.