Angel Studios, Inc.

Third Quarter 2026 Earnings Call

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CORPORATE PARTICIPANTS

Luk Janssens, *Head of Investor Relations*

Neal Harmon, *Chief Executive Officer and Co-Founder*

Scott Klossner, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Jason Helfstein, *Oppenheimer*

Eric Wold, *Texas Capital*

Eric Handler, *ROTH Capital*

Thomas Forte, *Maxim Group*

Ryan Meyers, *Lake Street Capital Markets*

PRESENTATION

Operator

Good morning. At this time, I'd like to welcome everyone to Angel's Q3 2026 earnings call. All lines have been placed on mute to prevent any background noise.

I will now turn the call over to Luk Janssens, Head of Investor Relations. You may begin your conference.

Luk Janssens

Hello, everyone. Welcome to Angel's third quarter 2026 earnings call. Joining me are Angel's co-founder and CEO, Neal Harmon, and Angel's CFO, Scott Klossner.

Before we begin, I would like to remind everyone that certain statements made on today's call, including statements regarding future financial performance, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and assumptions and involve risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Information regarding these risks and uncertainties is included in our filings with the Securities and Exchange Commission, including our most recent Annual Report on Form 10-K and subsequent quarterly reports on Form 10-Q. These forward-looking statements represent our outlook only as of the date of this call, and we undertake no obligation to update any forward-looking statements except as required by applicable law.

During this call, we may refer to certain non-GAAP financial measures. If applicable, reconciliations of these measures to the most directly comparable GAAP measures are available in our earnings press release. These cautionary statements apply to all forward-looking statements wherever they appear in this call, including in the question-and-answer session.

Our earnings press release is available on our Investor Relations website at angx.com, where we also encourage you to sign up for our email alerts. Neal and Scott will take approximately 20 minutes for their opening remarks before we turn the call over to questions.

Thank you all for joining us, and now I'll pass the call over to Neal.

Neal Harmon

Thank you, Luk, and good morning, everyone. I'm glad you've taken the time to join us this morning, bright and early.

We decided to do the call before the market opens at your request, and we are at an inflection point here at Angel. We've proved to ourselves and our investors that we can deliver strong Guild growth and do so with a much more efficient sales and marketing budget.

Angel more than doubled revenue year over year to $159 million in the third quarter. For the year, we generated $29.1 million in positive operating cash flow. This is a key contributor to our growth model philosophy.

Guild revenue reached $115.6 million, nearly double the prior-year quarter. Paying Guild membership grew 86% year over year to 2.94 million.

These results provide further evidence that our model is working. We're delivering across the different parts of the business and seeing the power of those parts working together.

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Let me walk through the progress.

First, technology and marketing execution. We built Ad Factory in-house and began testing in March and really started hitting our stride in Q3. Our lean marketing team now uses it for theatrical releases, Guild acquisition, giveaways, brand awareness, and merchandise, including preparation for Black Friday. We pair that increased output with disciplined investment. More creative gives us more opportunities to find what resonates, and our return criteria determine where we put additional spending.

Second, stories. We set a goal of adding 750 releases during 2026. By the end of September, we were already approximately 91% of the way there, putting us ahead of our planned pace. Today, we're pleased to announce that we surpassed this goal already by 46 releases. That growth comes from partnerships with film and intellectual property owners, our own theatrical titles, and television series curated by members of the Angel Guild specifically for our audience.

Third-party studio films like *Paddington* and *The Pursuit of Happyness*, also approved by the Guild, are recognizable stories that broaden what we can offer alongside the original films and series members already associated with Angel. This is what excites us about growing the library: more opportunities for members to find the story they love, discover something unexpected, and share a great experience with their families. That's the experience we're building with the Guild.

I'm grateful for the care our members bring to voting, for showing up to support our theatrical releases, and for monthly and annual memberships that make it possible to pay the storytellers and bring more stories to our audience.

Third, theatrical distribution. We released 8 films in theaters last year, and this year we will release 10, with 7 scheduled in the second half alone, our fastest release pace to date. In fact, this month, we have two films releasing in November. We've never done that before.

Young Washington led the third quarter, delivering $47 million at the domestic box office, being a great launching pad for the founder cinematic universe we are building. Last weekend, *Drummer Boy*, the musical, surpassed *The Greatest Showman's* opening weekend domestic box office, and the *Drummer Boy* album rocketed to number one on iTunes. If you haven't seen it, it's very worth the trip.

Theatrical releases also introduce new viewers to Angel, deepen our filmmaker relationships, and add new films and series to the library, supporting Guild acquisition and retention. Our fourth quarter slate includes *Angel and the Badman*, *Drummer Boy, Hershey*, and *Zero A.D.,* from a western to a musical to the roots of an iconic company, concluding the season with the story of the birth of Christ. It's a slate built for the holiday season, when families come together and go to the movies. We're excited about the experiences these films can create for our audience, and how they can carry momentum into the growth of the Guild.

Now, let me address the pace of Guild growth. We added approximately 335,000 net new paying members in Q3, compared with approximately 269,000 in Q3 2025, and while achieving positive operating cash flow. We ended September with 2.94 million paying members. That's an increase of 1.36 million net new members year over year.

It's worth taking a moment to put our strong Q3 performance into a wider industry context. While the premium streaming video on demand market contracted in calendar Q3 2026, we actually delivered positive growth. You can see from this chart provided by Antenna, U.S. SVOD cumulatively lost 1.7 million subscribers. Angel bucked that trend by adding roughly 335,000 net new paying members. Importantly, we managed to deliver this strong performance in a seasonally weak quarter, while reducing Guild sales and marketing intensity by 27% and improving our Adjusted EBITDA losses by 90.2% year over year. That says a lot about the strength of the Guild, and about the foundation we're building for future growth.

Last call, we said that the back-to-school season is softer for streaming engagement and acquisition throughout the market. This year, we took a more disciplined approach to investing throughout that period,

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aligning marketing spend with the returns available, maximizing return-on-ad spend. That discipline gives us a stronger foundation to pursue end-of-the-year holiday growth.

Looking ahead, we believe the market opportunity is over 40x domestically, and growing over 18% annually internationally. There's a large audience seeking high-quality, values-driven entertainment, and at 2.94 million paying Guild members, we're still early, very early in reaching it.

This quarter strengthens our confidence in what we're building. The model's working, our execution is improving, and we're seeing substantial opportunity ahead.

Let me share with you an experience we had around *Drummer Boy*, which highlights the power of our community and of the Angel Guild.

Drummer Boy opened in the top three this past weekend, with $9.3 million in the box office. It tracked well internally with the Guild, with a score of 91, and its Rotten Tomatoes audience score is currently at 94. My family has especially enjoyed rewatching it repeatedly and engaging with the music. It is so, so fun. But right before we shipped the files to all the theaters, we had an idea how we could improve the film. We quickly cut together a new version of the film, and we tested a version A with a version B, with two separate samples of the Angel Guild. We had those results the following week, and found that our idea yielded an 8-point higher Angel Guild score and a double-digit increase in view-through rate. This change has never been possible by any company that releases films to theaters previously. That's the power of the Angel Guild, and it's going to change the entire outcome of *Drummer Boy*, and also the future of how that title will help us grow this community. What we're building here at Angel is very exciting, and it's never been done before.

Scott, please walk us through the financial results.

Scott Klossner

Thanks, Neal, and welcome.

Last quarter, I talked about how our finance team and our sales and marketing teams work hand-in-glove, and how we coordinate in real time on Guild acquisition, measuring spend, directing it to where it earns the best return. Today, I'll walk through how this process performed exceptionally well during Q3.

When we met in January, we told you our intention was to live within our balance sheet means and produce the best Guild growth we can. We delivered on that. This leadership team sets out its ambitions, explains its actions, and then delivers.

I want to take a minute, though, to discuss how the quarter unfolded, because it's the best example of that discipline. The first half of Q3 looked a lot like the end of Q2, with the beginning of the America 250 campaign, and members joining the Angel Guild at an accelerated pace. Then, in the last two weeks of September and into October, market dynamics shifted, and that's a seasonal pattern tied to back-to-school and the broader slowdown in viewing that comes with it. Our paid media partners have also validated this seasonal pattern and its effect on the broader streaming industry. We've seen it in prior years, and we planned for it when we built our 2026 guidance. We stayed on course, we kept marketing to the ROI parameters that we set, and as expected, acquisition slowed some.

Last year, we spent heavily through this same period relative to our revenue, and our Adjusted EBITDA loss was $32.6 million. This year, it was $3.2 million. Revenue more than doubled, while marketing expenses only grew 42%. We stayed disciplined, and you can see that in our Adjusted EBITDA improvement, and also in $10.3 million of positive operating cash flow.

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Now, we're heading into a seasonally stronger fourth quarter with four theatrical releases and a library that's growing at a record pace, as Neal mentioned, and we expect fourth quarter growth to meet our expectations, which are built into our full year guidance.

Let's talk specifically about the Q3 results. Total revenue for the quarter was $159 million, up 108% year over year, and up 42% from Q2. Recurring revenue from our Guild business was at $115.6 million, and is up 95% year over year, and 27% up over Q2.

The Angel Guild grew to 2.94 million paying members, and we're very ambitious about where we can take it, especially given how efficiently we're driving that growth.

Guild marketing as a percent of Guild revenue continues to improve. We've reduced the cost of driving Guild growth from 75% in Q3 2025 to 55% in Q3 2026, and that does three things: First, it helps produce positive operating cash flow of $10.3 million in the quarter. Second, our Adjusted EBITDA loss for the nine months ended September 30 of this year was only $10.9 million, compared to a loss last year of $78.8 million. And third, I can confidently reiterate our full year guidance in 2026 of an Adjusted EBITDA loss of less than $25 million. This management team started the year setting an ambitious $113 million reduction in Adjusted EBITDA loss year over year, and it's been a focus of our teams internally. With an ambitious Q4 ahead of us growing our Guild, we reiterate that guidance.

Other operating metrics in the core Guild business are also performing well. Trailing 12-month average revenue per member was at $13.73, up $0.10 from last quarter. Average revenue per member moves with the mix between tiers, promotional activity, and members choosing an annual membership. Remember, annual memberships come at a discount to the member, but they also bring in cash up front, and those customers retain better than monthly membership members. That puts our annual recurring revenue at approximately $484 million. We get there by multiplying that 2.94 million Guild members paying an average of $13.73 a month by 12 months.

Now, gross margin in the quarter was 63% compared to 55% in Q3 of 2025 and 54% in Q2 of 2026. A greater mix of theatrical revenue generates a higher gross margin percentage.

Net loss in Q3 was $5.2 million, or $0.03 per share, compared to a net loss of $38.5 million, or $0.25 per share in the prior-year period. Q3 revenue grew 108% year over year, and marketing expenses only grew 42%. All of our other operating expenses combined grew at only 18%.

Operating cash flow for the year to date is at a positive $29.1 million, compared to a negative $52.5 million in the same period last year. That $81.6 million swing reflects the plan we set out to deliver for shareholders in 2026. This positive operating cash flow lets us keep investing in Guild growth while operating within our means.
We had cash and cash equivalents of $45.6 million as of the end of the quarter, up $1.5 million from $44.1 million at the start of the year. And notes payable stand at $75.5 million, down from $97.2 million at the start of the year.

Now put those pieces together, and you can see how Angel has performed. Disciplined investing in member growth strengthens our financial position: losses shrink, and operating cash flow stays positive. That stronger balance sheet sets the table for continued member growth and investment. It's the plan we laid out at the start of 2026, and the execution of that plan has produced three strong quarters to date.

With that, I'll turn it over to the operator for questions.

Operator

Thank you. We'll now be conducting a question-and-answer session. If you'd like to be placed in the question queue and you're dialed in over the phone, please press star, one on your telephone keypad. If you'd like to ask a question over the webcast, please use the raise your hand function located at the bottom

of your screen. Once again, to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. One moment, please, while we poll for questions.

Our first question today is coming from Jason Helfstein from Oppenheimer. Your line is now live.

Jason Helfstein

Hey, thanks for taking the questions. Clearly we're seeing nice improvement this year in contribution margin on the Guild. We can look at it either as a straight-up contribution margin or sales and marketing as a percent of revenue. That number has been bouncing around a little bit, so just how should we think about contribution margin or sales and marketing as a percent of Guild revenue as we're going to go into the fourth quarter, which you talked about is typically a seasonally strong quarter?

Then, given that you've now been positive free cash flow every quarter this year, are you considering guiding to positive EBITDA next year and you should have meaningfully positive free cash flow. Just how are you thinking about longer-term investment in maybe 2028 and beyond? Is the goal to keep growing that EBITDA, or is it prioritized growth and more focused on maintaining profitability, but prioritized growth? Thank you. And then one quick follow-up.

Neal Harmon

Thank you, Jason. I'll let Scott speak to the contribution margin in the first question. I'll speak to the second one.

Our priority—given the fact that there's almost 140 million households in the U.S. alone, 90% of which pay for a streaming service, and the market's growing 18% year over year internationally—our priority is growing into that amazing total addressable market with our model. Our message is resonating. We had unbelievable first three years of growth with the Angel Guild, and our intention is to continue to grow into that market within our own means. I don't see our posture changing next year, and we're very excited about how early we are in the growth of this market.

Scott Klossner

Jason, on the contribution margin question, basically the way I would look at it is like this: Guild revenue is a cumulative number for members that have been with us a year and six months and three months and maybe only a month. That number compared to the growth of the actual Angel Guild—the reason it bounces around a little bit is because we spend sales and marketing as it is very efficient or not efficient – we pull back. Meaning that in Q3, perhaps, we're still going to market into the results, meaning we have targeted metrics that we market into. If it's a slower period, then we won't market quite as heavily, and that revenue that's there from the base of the Guild membership versus how much we spend will move from quarter to quarter or month to month, actually, based on how well the metrics are performing in terms of acquisition.

When we go into a quarter that is a high acquisition month, or quarter rather, you'll tend to see contribution margin be off a little bit because we will spend more in sales and marketing vis-à-vis that base of revenue that sits in the Guild. So, it will bounce around a little bit, but it's somewhat—it's not massive swings, but you'll see some swing from quarter to quarter based on how well we're performing on the marketing side.

Then finally, on the fourth quarter, when we look at 2023, 2024, 2025, and prior, the trend is clear. Leading into the holidays, especially from Thanksgiving to Christmas, that's our big growth time. Then after Christmas, from Christmas to New Year's, is the highest streaming week of the entire year.

So, we're well positioned because we had so much discipline in Q3. We're well positioned to be able to take advantage of the growth in Q4, and that's what we intend to do.

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Jason Helfstein

Just as you're thinking about next year, you've obviously added a lot of library content. Do you think proportionately you need to add as much content next year relative to, let's say, what you've added this year or the prior year, given that a lot of this is exposing people to what is new—potential new members to what's already on the service—as opposed to the same rate of adding content? How are you thinking about that as we think about next year?

Neal Harmon

Great question. Just as a reminder to everyone on the call unfamiliar with the model, Angel doesn't have to pay up front for the titles that we bring on. We sign a revenue-sharing agreement. Whether we add 1 title or 10 titles, it's the same to Angel.

The key to us is delivering the best first title based on what we know about a user and the best second title. That's the key to retention for Angel. That's what we're testing into. That's what drives our technology decisions and our title decisions.

The pace at which we've added titles in 2026, actually, we would anticipate increasing with our growth in 2027.

Now, the pace at which we release in the theaters is a different equation. We don't foresee going to more than 12 titles in a year. We're doing 10 this year. That number we haven't given, and we'll give the slate in April of 2027. But the number of streaming releases, we anticipate that growing as the Guild size grows and then the number of theatrical releases tapering off.

Jason Helfstein

Thank you.

Operator

Thank you. Our next question today is coming from Eric Wold from Texas Capital. Your line is now live.

Eric Wold

Thank you. Good morning.

I just want to follow up on the last point on the slate for next year. I know you're not going to give the full slate until April for 2027. Maybe just remind us how many theatrical releases you've confirmed and announced to this point, and then maybe how that pipeline is shaping up given the strength you've seen in membership growth and success, what you've seen from inbounds on titles that would be more appropriate for the theater versus just going directly to streaming.

Neal Harmon

Great question. We've got some great titles that have already been announced for next year. There was a release out on *Rode to Ruin*, starring Michael Keaton and Morgan Freeman. Both top 50 in the world actors on one project together. That's really exciting.

We've also mentioned *New York Minute* with Neal McDonough and his team. I'm not going to be able to remember all the titles right here on the call because I don't have them in front of me. We've mentioned, I think, three or four titles so far this year, but we're saving the important announcements for CinemaCon.

Eric Wold

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Got it. Then just a follow-up question. Update us on the plans now that you're generating positive operating cash flow. Obviously, the hope is that continues. Can you update us on the plans to expand more broadly internationally. Where are you on those plans? What could we potentially see in 2027? How would you frame any kind of upfront capital or upfront spend commitment to launch more broadly into those markets?

Neal Harmon

Great question. Our intention is to grow within our means, and we have the balance to be able to grow consistent with consensus expectations from the analysts without further tapping our credit line. Our intention is to continue to grow within our means.

Now, the business, as you can tell—the free cash flow is really opening up opportunities for us. I would anticipate more activity around international, but this is very much a crawl/walk/run for us. We've already been doing testing here in the U.S. with Spanish. We release almost all titles in Spanish simultaneous to English. For *Drummer Boy*, because of that last-minute test that we did, the Spanish is coming out, I think, mid this month. We've been doing that, and that's in preparation to go into Mexico and Latin America. Then we've also been doing some tests in the U.K. and in Canada to make our systems multinational. We'll continue to crawl/walk/run, and you'll hear about it as we experience more and more success in that space.

But I wouldn't expect Angel to go and dump a bunch of money outside of the parameters that we've been operating with. We're not currently, and we don't have any plans to do that.

Eric Wold

Helpful. Thank you.

Operator

Thank you. Our next question is coming from Eric Handler from ROTH Capital. Your line is now live.

Eric Handler

Good morning. Thanks for the question.

Neal, I wonder if we could just sort of dissect membership growth a bit here.

I've seen, at least based on your online tracker, on the trailing last seven days, you've added about 65,000 members, which is the highest number since July, so it's good to see things moving in that direction again. I noticed middle to late last week, I received my first email promotion in quite some time. It also coincided with the opening of *Drummer Boy*. I'm curious, is it movies in theaters that drive more growth? Is it the promotions? Is there a way to dissect that? Or is it just when you have both going at the same time, you get twice the bang for your buck?

Neal Harmon

We've been building awareness around Angel over the last three years, and those awareness metrics continue to increase for aided and unaided awareness around Angel. Promotions, when they're delivered at a time when people are expecting a promotion and they're in a buying state—the holiday period is a great time for that. We've got Black Friday, we have Christmas, and then we have the New Year's run for streaming. All of those are opportunities for buying activity. We are very careful in positioning our promotions so that they're when consumers would expect them and that we have a good balance as we grow.

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The majority of our members by far are coming through non-promotional efforts and through the Ad Factory and through our theatrical titles and the way that they grow into new genres and actors. But then these promotions are also helpful for spurts of growth when people are expecting it.

Scott?

Scott Klossner

I think one thing that's really key here, Eric, I think you've touched on it, which is because we market into success or market into the metrics, what will occur is that we're capturing demand more than creating demand. Our whole theatrical slate is about creating awareness and whatnot. But we market heavily to circumstances that increase conversion and thus allow us to hit our metrics. What that means essentially is that when there's demand, we will market heavy into it, whether it's a seasonal demand or a title-driven demand or a theatrical opportunity that we have, those things will correlate and you will see our spending, really adjust and go forward when the demand is there.

Neal likes to use the term when the tide is coming in is when we will market heavily and try to acquire customers. When that tide's going out, we'll hold and wait until the opportunity arrives. That's why you see some dips and some rising in terms of both marketing spend, as I was saying in an earlier question, and secondarily in terms of customer acquisition.

So, yes, it's sort of that combination of things that creates opportunity, and we make sure that we spend it at that opportunity.

Neal Harmon

But to your point—and I'm glad you picked up on this, Eric—is that we did have a breakthrough this year where we were able to figure out—because previously the theatrical releases, we would do a release that would create a marketing splash, but it was all about selling tickets. This year we have discovered some approaches, and in our testing we've discovered ways to sell Guild memberships at the same time that we create that splash. What that does is it just allows us to make a bigger splash, because it's funded by the Guild growth marketing engine and by the theatrical marketing engine. You will see on a successful release like *Drummer Boy,* that actually becomes wind at our back with the Guild membership numbers as well. But then we'll experience more of that as soon as *Drummer Boy* gets released for Guild members to view.

Good question.

Eric Handler

That's helpful.

Then just as a follow-up, as you add more content to the streaming platform, I'm curious—and that platform diversifies across a wide range of genres—are there any patterns or takeaways you have from what people are most interested in, or is it just anything you put on there as long as people like it is going to get consumed?

Neal Harmon

Eric, that's a great question. We have noticed that as we're becoming broader that there are different audiences within the Angel Guild, and serving each of them, learning about each of them, is a very, very high priority for us.

If somebody—this is kind of a stereotype, but if somebody likes Hallmark movies, and there's some Hallmark-style movies that are on Angel, then Angel needs to show them those types of movies. But if somebody's turned off by Hallmark movies, then Angel should show them the titles that are more

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mainstream, perhaps more gritty or secular. Determining who the Guild member is and delivering them the titles they want, or if a particular Guild member loves documentaries, then the experience should adjust to them and documentaries should be their primary experience.

We're learning to do that, and we've re-engineered our platform to make that more possible. We have a lot of work to do there, but that's the insight that we're having, is as we grow to 3 million and then to 10 million Guild members, that problem is going to be more and more important for us to get right.

Eric Handler

Thanks, Neal.

Operator

Thank you. As a reminder, that's star, one to be placed into question queue.

Our next question is coming from Thomas Forte from Maxim Group. Your line is now live.

Thomas Forte

Great, thanks. Neal, Scott, congratulations on the quarter. I have two questions on AI.

Neal, you've been very thoughtful in the past with your comments on AI and how that's going to change content creation, so I'd appreciate your updated thoughts on that.

Then for my second question, on that internally created ad tech, how is your team leveraging AI to market more efficiently, including on social networks, legacy media, etc.?

Neal Harmon

Great question. Our thinking on AI is that AI is going to drop the cost of production and increase the quantity of titles coming to the market. You had slop before AI, and there'll be slop moving forward at a greater volume. But then you also have diamonds in the rough before AI, and you're going to have it during the AI era. Determining where those are and getting behind those titles is what Angel's really good at because of the Angel Guild. That's where titles are heading.

The second thing that we're actually doing is because we purchased some of our shows—*David, and Young David, Tuttle Twins, The Wingfeather Saga*—now that we're all under the same roof, we have enabled all of these partners to use AI tools, to innovate on AI tools, to figure out content production, and we're using that to try to teach the rest of the filmmaker community how to do so. That's another approach that we have currently in the company.

Then finally, and I've mentioned this before, pretty much everyone here is an engineer. Everybody here has their own AI account that has access to company systems and data in a very secure manner so that the team can implement and innovate on their own processes and solve problems within the company that allow us to scale. We just had an internal report just last week where we recognized that we didn't have to hire nine new people because of an innovation that happened in AI. So that's been very, very important to us, that we just adopt it, that we understand it.

Now, we've predicted that there's going to be an AI film that gets released this year—by the end of this year or early next—that is a full-length feature film that people will love. We haven't seen that film yet, and we're still anticipating that's going to be coming as people figure out and understand these tools.

Now, I know there were two parts to your question. Will you help me with that?

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Scott Klossner

I'll go ahead on the second one, the Ad Factory.

Think about the Ad Factory in this sense: Because we're very dynamically driven in the sense that we actually are able to test and implement and innovate quickly. It's like the old adage, view, adapt, and implement. What we're doing is using the Ad Factory that can actually create many assets at a very swift pace to allow us to see which assets are working the best when we go out there and market, and when we get some that don't market as well, we can quickly adapt and adjust based on that. That sort of change or that ability to move quickly within our testing capability and with our marketing allows us to get the best producing content or ad content out to our potential customers quickly and cost-efficiently. That all sort of helps play into our ability to increase our Adjusted EBITDA over time with revenue.

Neal Harmon

And hyper-targeted. As you can see, we already surpassed the 750-release goal by 46 releases this year, and we were able to go and launch hyper-targeted campaigns around every title that's released, and then we surfaced the ones that justify greater TLC from our marketing team. But our marketing team is able to focus more heavily on our main titles, and then these long-tail library titles are getting addressed by our technology, and then also by a combination of the technology and the team.

That's how we're scaling. I'm glad you asked the question, and I hope that was helpful.

Thomas Forte

Great. Thanks, Neal. Thanks, Scott.

Operator

Thank you. Our next question today is coming from Ryan Meyers from Lake Street Capital. Your line is now live.

Ryan Meyers

Hey, guys. Thanks for taking my question.

First one for me: If we think about the operating cash flow during the quarter, Scott, maybe can you just talk about how much of that reflects the sort of sustainable underlying cash generation of the business versus just some working capital benefits from deferred revenue and accrued royalties?

Scott Klossner

Sure. If you look at cash flow quarter over quarter this year versus last year, it's not just in the deferred revenue side. The deferred revenue side provides working capital for us to grow. The secondary key is that it's a reduction of losses over time based on our marketing as a percent of revenue. You've seen our net income losses come down—or Adjusted EBITDA losses, however you're looking at it—come down over time and that's a function of the effectiveness of our marketing team and marketing into our growth, and that combined with the amount of members that we have as a base to provide us revenue over time.

It actually works the same in theatrical, that we use the really efficient means in the way that we market on our theatrical releases as well to make sure that we always stay on a cash flow—at a minimum of cash flow even basis on a release in theaters, and in many times profitably into the theater.

So the key is not just deferred revenue that comes from annual memberships that can provide cash immediately for a year's worth of watching, but also the fact that we've been able to adjust our marketing

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spend as a percent of total revenue, which brings down the losses. That combination of things, along with just continued efficiency on our G&A spend and our continued effectiveness in terms of our being able to grow the Guild membership and provide cash flow-positive means of doing so—vis-à-vis, again, remember we market into our numbers, and some of those include how many members come in on basic versus premium, annual versus monthly, and the whole combination of things to give us the result that we're looking for.

We set out the year to knock basically $100 million worth of losses off of our income statement from last year to this year—over $100 million—and we've been able to do that by continuing to efficiently spend and operate the business and bring in great films and stories that's resonating with our customers.

Neal Harmon

And bring in more Guild members than a year-ago quarter.

Scott Klossner

Yes. Yes, for sure.

Ryan Meyers

Okay. Then just lastly, can you maybe touch on what you're seeing across customer acquisition costs and what some of those payback periods are looking like, and maybe how that's trending relative to earlier this year or even last year?

Scott Klossner

When you consider content acquisition costs, remember because we use a—

Neal Harmon

I think he said customer acquisition.

Scott Klossner

Did you say content or customer?

Ryan Meyers

I said—yes, I'm referring to customer acquisition costs.

Scott Klossner

Okay, I see. If you look at just straight CPMs, it wasn't a real change in the CPM. We had the same seasonality pretty much that we anticipate from prior years. But the effectiveness of the customer acquisition, again, is benefited by a multitude of things. One are the assets that we're utilizing that are created with our Ad Factory. Being able to have great stories and films and series helps us support our customer base, make it more attractive to the customer, increasing their marginal utility of owning membership with the Angel being part of the membership.

As we continue to sort of improve on all fronts, you're seeing that benefit come in the form of operating cash flow and reduced losses year over year, and at the same time, while growing the Guild.

It's been a remarkable year in many ways in the sense that we've come a long way in the last 12 months, or even you could say 9 months if you're just looking at this year. It's not just any one thing. It's literally a

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collaborative effort across the teams, both on the theatrical side, on the Guild acquisition side, on the technology side—every part of the business has really had a strong year, and we're just looking to improve upon that every month and every day we come to work.

Ryan Meyers

It's good to hear. Thanks for taking my questions.

Scott Klossner

Thanks, Ryan. Thanks.

Operator

Thank you. We reached the end of our question-and-answer session. I'd like to turn the floor back over for any further closing comments.

Neal Harmon

Thank you.

Folks, as I reflect on the call today, I'm pleased with our team's progress. Guild growth in Q3 bucked the industry trend to deliver positive growth, and sales and marketing continued the trend all year that it's getting more efficient. Angel as a whole is growing and getting stronger while generating positive operating cash flow. Most importantly, our model remains differentiated and robust, making audiences happier. It's because of curation by the Guild, values-driven films and TV series for everyone, and generous revenue share with our storytelling partners.

I'm so optimistic about where we can take all of this. Thanks for joining us today, and see you next time.

Scott Klossner

Thank you.

Operator

Thank you. That does conclude today's webcast. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation today.

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