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Paramount Global (PARA)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Nadia, and I'll be the conference operator today. At this time, I would like to welcome everyone to the Paramount Global's Q4 2022 Earnings Conference Call. At this time, all lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] In order to get as many questions as possible, we ask that you please limit yourself to one question.

At this time, I would like to turn the call over to Anthony DiClemente, Paramount Global's EVP, Investor Relations. You may now begin your conference call.

Anthony DiClemente

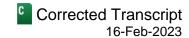
Executive Vice President-Investor Relations, Paramount Global

Good morning, everyone. Thank you for taking the time to join us for our fourth quarter 2022 earnings call. Joining me for today's discussion are Bob Bakish, our President and CEO; and Naveen Chopra, our CFO.

Please note that in addition to our earnings release, we have trending schedules containing supplemental information available on our website.

Before we start this morning, I want to remind you that certain statements made on this call are forward-looking statements that involve risks and uncertainties. These risks and uncertainties are discussed in more detail in our filings with the SEC.

Q4 2022 Earnings Call



Some of today's financial remarks will focus on adjusted results. Reconciliations of these non-GAAP financial measures can be found in our earnings release or in our trending schedules which contain supplemental information and in each case can be found in the Investor Relations section of our website.

And now, I will turn the call over to Bob.

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

Good morning, everyone, and thank you for joining us. Today I'm excited to provide our perspective on Paramount's performance as we closed out 2022, and I'll give you a preview of where we're driving in 2023 and beyond.

Let me begin by noting that almost one year ago, we announced that ViacomCBS would become Paramount, reflecting our determination to streamline operations and become a single integrated company. We've increasingly worked together as One Paramount with one vision to make popular content, to make that content popular, and to drive long-term value for our shareholders. And our One Paramount has had one approach, a multiplatform strategy that leverages our existing business, our distinct content strategy, and our expansive relationships to evolve successfully through an industry-wide transformation. That approach is delivering, and as we'll describe, made 2022 a milestone year for Paramount with incredible momentum across our content and platforms.

As planned, 2022 was also an investment year in our streaming business. Those investments, coupled with a challenging economic environment including softness in the ad market, impacted earnings and cash flow. But it only sharpened our focus on delivering bottom line growth once we pass peak streaming investment this year.

I'm incredibly proud of our progress, hitting and in most cases exceeding the key streaming metrics we set out to achieve. The differentiated strategy we committed to is working, and we're going to continue to execute on our plan.

As we move into 2023, we see a year of continued content and platform momentum ahead of us, a year of further scaling streaming as we hit the peak investment point, a year where we further harness the power of One Paramount, including importantly with our Paramount+ Showtime integration, and a year where we look to the ad market to turn as we get to the back half.

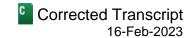
Importantly, the execution of our 2023 plan will set the stage for a return to significant earnings growth in 2024 and a return to positive free cash flow.

Let me get into this a bit more, first looking back at 2022 and then looking ahead to 2023.

In 2022, our content engine definitively proved itself at the highest level. Think the year's biggest domestic film, Top Gun: Maverick, and five other number-ones in the theaters; the number one show on television, Yellowstone, and its expanding universe; mass market broadcast hits like FBI, NCIS, and Fire Country; and popular Paramount+ originals like Tulsa King, 1923, and Criminal Minds: Evolution.

We know our audiences, which enables us to efficiently manage content spend across platforms. To that end, we focused on developing, expanding, and exploiting the premium content franchises fans love, an approach we'll lean into more and more.

Q4 2022 Earnings Call



The results are powerful. Our world-class content engine has driven the biggest subscriber additions in paid streaming since launch, including an industry-leading 9.9 million new Paramount+ subscribers in Q4. It led to continued leadership in free ad-supported streaming television, with 6.5 million new monthly active users of Pluto TV in Q4 as Pluto TV grew not just in the US, but globally.

In 2022 our content engine also drove huge success at the US box office with six Paramount Pictures films opening at number one, and the strongest performance in broadcast, fueling CBS's 14-year streak as the number one network. When you combine that with our cable performance, it's why Paramount regained the crown as the most watched media family on linear TV in Q4.

And important to note that our content engine combined with our disciplined execution and tight expense management also enabled continued stability of TV media earnings in Q4, despite ongoing ad revenue headwinds.

2022 was also an important year of expansion where we gained important streaming footholds in international markets including launches in the UK, Ireland, Italy, France, Germany, the Nordics, Canada, and South Korea. And where we created new and expanded partnerships with the likes of Walmart, Delta, Sky, Canal+, Corus, Amazon, Roku, and others to rapidly become a streaming partner of choice in the transforming media landscape globally.

Looking back at 2022, our differentiated strategy is clearly working and our execution is strong. So let's talk about 2023.

2023 will be another year of content momentum. Our 2023 film slate is strong and driven by some of our most popular franchises, including Scream, Mission Impossible, Transformers, and Paw Patrol. And CBS's momentum is only getting stronger. The network is on the verge of achieving number one status for the 15th straight broadcast year, and we see great stability in the schedule with very few slots to fill and thus limited and very focused pilot activity which is also good for our economics.

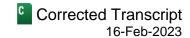
On Paramount+, you will see all this plus more great Paramount+ Originals. Sure, Criminal Minds, Tulsa King, 1923, and all your other favorites will return. Add to that great new series like Fatal Attraction with Lizzy Caplan and Joshua Jackson: Rabbit Hole with Kiefer Sutherland; and Lioness with Nicole Kidman and Morgan Freeman.

2023 will also be an important year with respect to advertising where we are looking forward to an improvement in the market in the back half of the year. The ad market, as we know, has been cyclically tough, and like our peers, we felt its impact in 2022. But our portfolio puts us in an excellent position to build on the early stabilization we're seeing and we are seeing early signs of stabilization in advertising.

The sports marketplace continues to be active across the NFL, PGA, and NCAA. We like what we're seeing in travel and pharma, and recent activity in auto is encouraging. More importantly, because we bring together broadcast, free and pay ad-supported streaming on a turnkey basis, Paramount is positioned to strongly benefit as the market improves.

2023 will also be an important year in the multiyear evolution of streaming as a business. We are now at the point where we are getting to scale with streaming generating over \$5.5 billion in annual revenue on a run rate basis as we exit Q4.

Q4 2022 Earnings Call



Since day one, we have executed against the plan to build a profitable streaming business, one that achieves TV media-like margins. To get there necessitates an investment phase, and now in 2023 entering the third year of Paramount+ in the marketplace, we are at peak investment, and I'd note again that the recent macro headwinds have only sharpened our execution and the discipline with which we are managing this investment.

As in 2022, the combination of streaming investment and the current state of the ad market will impact earnings and cash flow in 2023, but we have the scale and flexibility to support it. And importantly, we see losses narrowing significantly in 2024 resulting in meaningful total company earnings growth and a return to positive free cash flow.

As you think about our streaming path to profitability, it's important to understand three distinct drivers: D2C revenue growth, content spending, and operational efficiency. Let me tackle each in turn.

First, we'll continue to drive D2C revenue growth. Subscriptions are important, and the numbers of subscribers will continue to grow in 2023, but the real focus is revenue. Revenue at scale is critical to building a profitable streaming business. Across the globe, we will pursue this first and foremost by leveraging our compelling content.

We'll also drive revenue growth with price increases. We all know streaming represents incredible value for consumers, and the Paramount+ offering is far from the industry price leader. We are on the value end of the pricing spectrum. And so, in 2023, we will raise price, both for Paramount+ Premium and Essential, both in the US and select international markets. Naveen will get into this a bit more.

Growth in advertising will also benefit D2C ARPU. And finally, we see partnerships as another lever for revenue growth, including new relationships with Delta, Three, and Orange, among others.

Second, we will drive towards profitability by continuing to efficiently manage our content spend. By far, our biggest lever to manage spending is to focus on franchises. The higher levels of consumer awareness and built-in fan bases associated with this IP drives strong subscriber acquisition volume, lower acquisition costs, lower churn, and extend LTVs. Put simply, franchises give the people what they want.

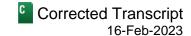
We see this with Paramount Films, with CBS series with the Taylor Sheridan universe, with Nick's Kids product, and more. And while we will of course continue to take selective swings on new IP, there's no question that franchises are a powerful advantage.

We'll also manage spending by continuing to lean into our multiplatform advantage. This increases the size of our total addressable market, gives us access to broader revenue streams, and maximizes our return on content investment. You see us doing this with Paramount Films crossing theatrical and streaming, which are among the most efficient on a cost per start basis. You see us doing this with the CBS slate where we expose product to a wider audience, including importantly a streaming audience that is nearly 20 years younger than our broadcast audience.

As an aside, I'd point out that CBS Original cross-platform content is performing at a level comparable to Netflix. In Q4, US viewers spent 370 billion minutes consuming CBS content alone on both linear and digital. That's virtually the same amount of time as viewers spent with Netflix's substantially larger entire slate of originals.

You're also seeing us doing this more broadly across our multiplatform ecosystem as we have done with the Taylor Sheridan universe. To give you a sense of the power of this approach at the consumer level, in just a

Q4 2022 Earnings Call



three-month span from early November to late January, more than 58 million Taylor Sheridan fans around the world watched over 32 billion minutes on the Taylor-verse on both streaming and linear on our platforms.

The third way we drive to profitability is through a continued focus on operational efficiencies and portfolio optimization. As I've mentioned, our transformation as One Paramount is ongoing with recent initiatives on studios, global operations, and ad sales.

In the journey to become One Paramount, our next step is to integrate Paramount+ with Showtime. As you know, later this year both our premium streaming tier on Paramount+ and the Showtime linear network will become Paramount+ with Showtime in the United States. This move makes Paramount+ the definitive multi-platform service in the streaming space where Showtime will contribute its distinctive content with more from the franchises you love.

As Naveen will discuss in more detail, economically the benefits include both revenue and cost. On the revenue side, the integrated products will be more engaging for consumers, supporting price increases and associated ARPU gains. We also expect that the integrated product will lower churn, something we've already seen with our bundles.

On the cost side, there are multiple benefits which include tech, organization, marketing, and of course, content. Put it all together and it is accretive to the streaming path to profitability and it also helps ensure a stable transition of our TV media business which remains a big revenue and earnings driver.

Stepping back from the particulars, let me just say how incredibly proud I am of what our team has worked together to accomplish in 2022, and I'm even more excited about what's to come in 2023.

With that, let me turn it to Naveen to break down the financials in more detail. Naveen?

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

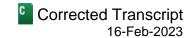
Thank you, Bob, and good morning, everyone. Q4 demonstrated earnings resiliency in our traditional business along with robust revenue growth in our D2C business, the combination of which puts us on a path toward meaningful earnings and free cash flow growth in 2024 as we transition out of peak streaming investment in 2023.

Today, I'm going to cover three things. First, I'll provide additional color on a few elements of our Q4 results. Second, I'm going to address specifics of our Showtime Paramount+ integration plan, including its contribution to future expense savings so you can better understand how it affects our financial model in 2023 and beyond. And, third, I will explain how continued execution of our strategy delivers meaningful bottom line growth in 2024.

In Q4, Paramount delivered total company revenue and adjusted OIBDA growth despite increased investment in streaming and a difficult macroeconomic backdrop. Today's earnings press release includes a comprehensive review of key financial and operational results for the quarter. I'm going to focus my comments here on three items which deserve specific attention: affiliate and subscription revenue, advertising trends, and free cash flow.

Affiliate and subscription revenue was a highlight in the quarter growing 8% year-on-year, continued evidence that the ecosystem shift from paid TV to streaming yields net growth for our business. We benefited from record Paramount+ subscriber additions combined with ARPU growth, continued robust engagement, and improvements in churn, resulting in 85% growth in Paramount+ subscription revenue and 48% growth in total D2C subscription revenue.

Q4 2022 Earnings Call



In Q1, we expect similar levels of D2C subscription revenue growth reflecting ongoing net subscriber additions and improvement in ARPU. At TV media, we also expect the year-over-year trend in affiliate and subscription revenue to improve relative to Q4.

Now let's turn to advertising trends. The ad market continued to experience weakness in Q4 resulting in a 5% decline in Paramount's quarterly advertising revenue. The majority of the decline came from international markets and FX impacts, while domestic advertising declined 2%.

D2C advertising grew 4% despite the soft demand environment as a result of robust consumption growth on both Paramount+ and Pluto TV. As the marketplace improves, we expect this growth to accelerate. We're encouraged by the engagement trends in D2C and early signs of broader ad market stabilization. As a whole, we look to market recovery in the back half of the year. Shorter term, we expect Q1 to yield improved growth rates in the domestic national advertising business. The underlying local ad business is also improving, but lower political spend will be a headwind in Q1 relative to Q4.

International ad markets remain relatively weak and we expect a slower recovery there.

One final note related to advertising. We've now reached the point where our digital go-to-market strategy combines Pluto and Paramount+ in a fully integrated advertising product. As such, going forward we plan to simplify our reporting to focus on total D2C advertising growth. This metric provides the best indication of progress against one of our key growth initiatives, and so starting in Q1 of 2023, we will no longer report standalone Pluto revenue.

Moving on to cash flow, free cash flow was a use of \$500 million for the full year, reflecting streaming investment and weakness in the advertising market. This figure also includes \$289 million in payments for restructuring, merger-related costs, and transformation initiatives.

Consistent with our plans for peak streaming investment in 2023, we expect cash flow to continue to be impacted in advance of meaningful year-over-year improvement in 2024 when we return to positive cash flow.

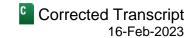
We will continue to manage our balance sheet with an eye to navigating this short-term cash flow dynamic. Importantly, our focus on working capital optimization meant the year-over-year change in free cash flow in 2022 was better than the year-over-year change in OIBDA, a trend we expect will continue in 2023 as the gap between cash content spend and P&L content expense continues to narrow.

I'd also like to share some information to help you better model earnings in 2023. In terms of the quarterly cadence of earnings, we expect Q1 adjusted OIBDA to be similar to Q4 of 2022 and we expect the year-over-year growth rate to improve in the back half of the year, reflecting the timing of several drivers Bob and I have discussed today.

In terms of some below-the-line items, our equity in investee companies line which primarily represents our investments in SkyShowtime will result in a Q1 loss similar to what we experienced in Q4. Additionally, we're forecasting an adjusted tax rate of approximately 25% on a full year basis.

Now let's discuss the integration of Showtime and Paramount+. We're highly enthusiastic about this combination because it provides a better experience for consumers while simultaneously unlocking material financial benefits for both our TV media and D2C businesses.

Q4 2022 Earnings Call



The most sizable of these benefits will be realized as a reduction in content expense and related marketing. Simply put, a single service requires less content to acquire and retain customers than two independent services.

Additionally, our analysis revealed that an overwhelming majority of Showtime engagement is driven by key franchises which comprise less than half of the service's content amortization expense. By extending and evolving these powerful Showtime franchises and supplementing them with the breadth of content on Paramount+, we're able to deliver a powerful consumer proposition in both linear and streaming formats thereby preserving revenue while meaningfully reducing total content expense.

This strategic shift will give rise to an impairment charge in Q1 of 2023 as we realign the content portfolio. We estimate this charge will be in the range of \$1.3 billion to \$1.5 billion.

When we launch the integrated service in Q3, subscribers to the premium tier of Paramount+ will enjoy a greatly expanded selection of content, reflecting the full suite of Showtime and Paramount+ Originals library content, movies, live sports, and events. At that time, pricing for Paramount+ will also evolve, with our Premium tier, which will then include Showtime, moving from \$9.99 to \$11.99, and our Essential tier, which will not include Showtime content, moving from \$4.99 to \$5.99. These price changes will apply to new and existing customers upon launch of the integrated service.

A couple other important notes on this integration. Our current Showtime OTT base includes subscribers who use the Paramount+ Showtime OTT bundle or subscribe to both services independently. This means there will be some reduction in total subscribers when the service is combined. Importantly, we don't expect the subscriber dynamic to negatively impact our D2C revenue expectations. On average, subscribers to the Premium tier of Paramount+ have higher ARPU and lower churn than Showtime OTT customers. And our planned price increase for Paramount+ will further magnify the benefit of migrating customers to a single service.

Also, with the consolidation of Showtime and Paramount+ taking place later this year, we plan to remove total D2C subscribers from our external reporting starting in Q1 of 2023 as this metric will no longer be meaningful in tracking our subscriber growth trajectory. We will continue to provide subscriber and revenue metrics for Paramount+, which will comprise the vast majority of our D2C subscriptions and revenue.

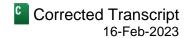
The Showtime Paramount+ combination also represents an opportunity to reduce operating expenses in marketing, technology, and operations. Over time, and in combination with reductions in content expense, we expect to realize approximately \$700 million of future annual expense savings.

As Bob noted, the net financial result of the combination of Paramount+ and Showtime is a key component of our plan to return the company to earnings growth in 2024. Let me address that plan more holistically.

While D2C losses will increase this year relative to 2022, we're approaching an important inflection point where the revenue scale, multiplatform content strategy, and distribution footprint we've established together with the integration of Showtime and Paramount+ allow us to turn the corner towards streaming profitability. In combination with continued cost optimization in our traditional business and recovery in the advertising marketplace, we're poised to deliver meaningful total company earnings and free cash flow growth in 2024.

As Bob outlined, on the streaming side of our business, there are three key levers for earnings improvement: continued robust revenue growth, slowing growth in content expense, and other operating efficiencies. I'll touch briefly on each of these.

Q4 2022 Earnings Call



As you now know, in 2023, we will implement a price increase at Paramount+, which we expect to be a key driver of revenue growth, with 2024 incorporating a full year of this benefit. In addition to the domestic price changes, this year we will also start to evolve pricing in core international markets from a single tier to a multi-tier offering resulting in higher blended ARPU for P+ international.

Our international distribution strategy will also contribute where hard bundle launches have successfully catalyzed direct channel higher ARPU growth. And we expect growth in advertising ARPU at Pluto and Paramount+ as engagement trends drive inventory growth and expanded monetization opportunities. And of course, we expect continued improvement in churn as our content slate expands and user behavior evolves.

Beyond 2023, our D2C P&L also benefits from improved leverage on content expense. You heard Bob speak about the benefits of a content strategy that is inherently multiplatform and franchise-oriented. It means we can generate more revenue for each dollar of incremental content and marketing expense.

By 2024, the benefits of these strategies will become apparent in the P&L as our expected D2C revenue growth rate exceeds a slowing growth rate in the content amortization expense.

2024 should also see operating leverage in other components of the D2C business. At that time, our plan includes reductions in the growth rate of head count, product, and technology expenses as we capture the full year benefits of integrating Showtime and Paramount+ and we lap a full year of costs associated with international expansion.

On the traditional side of the business, we continue to expect rate increases to partially offset ecosystem declines. We're also intensely focused on operating more efficiently through execution of previously announced transformation initiatives like the reorganization of our ad sales team, the realignment of our international operations, and improved marketing efficiency.

I'll close by reiterating that the combination of what we built in 2022 and the financial impact of what we have planned for 2023 gives us confidence we can continue to deliver compelling content to consumers and distributors, grow earnings and free cash flow in 2024, and create long-term value for shareholders.

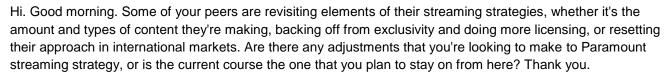
With that, operator, can we open the line for questions?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question today goes to Bryan Kraft of Deutsche Bank. Bryan, please go ahead. Your line is open.

Bryan Kraft

Analyst, Deutsche Bank Securities, Inc.



Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

Yeah, sure, Bryan. So, look, I'd say two main things here. First, I'd note that our streaming investment and differentiated approach is clearly producing returns at the consumer level. I mean, Paramount+ has gone at the top end of the industry. It's clearly taking share. Our content on Paramount+ is on the rankers. People are talking about it. And really in less than two years, Paramount+ has become a service to be reckoned with. And that's because it's a compelling product for the whole household across the country and really around the world.

And remember, we've always approached this space with a plan that was based on building a profitable streaming business, one with TV-like media – TV media-like margins over time. And that gets me to my second point. Because we didn't have unlimited resources, we went at this differently. And in doing so, I'd note that many of these things, things we've been doing all along, are now being embraced by others.

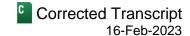
So what does that include? Multiplatform. The power of films crossing theatrical and streaming, of shows being what I call dual illuminated on networks and streaming, a clear advantage. Franchises. The power of IP that people know, and IP that you can grow on a multiyear basis. That gets you superior content ROI, including in streaming. Advertising. Both fast, i.e., Pluto, and lower-priced ad-supported tier, i.e., Paramount+ Essential. It unquestionably grows the TAM and you've seen other people start to move in that direction.

Partnership. We believe in the power of partnership. It's a powerful element in leveraging their consumer connection. You see that in the performance of our hard bundles, channel stores. And then add in D2C, it's a powerful combination. International discipline. We never believed in a one-size-fits-all model. We believe [ph] in country-specific (00:31:24) execution, including at the limit joint ventures as we're doing with SkyShowtime.

And finally, content licensing. We never took all our content and put it in a walled garden. We continue to strategically monetize content outside our owned and operated ecosystem, and that drives incremental return and frankly drives incremental awareness.

Those elements are all important because they drive a mix of cost and revenue advantages that we've long pursued on the path to profitability because those advantages translate into lower aggregate investment levels and superior long-term streaming margins.

Q4 2022 Earnings Call



So we continue to execute. We're very happy with our momentum to date. We see the light at the end of the tunnel. I'm sure, others are seeing some of the things we saw early, but we're continuing to execute because we are going to be a profitable scaled player in the streaming game and it's exactly what's beginning to happen.

Anthony DiClemente

Executive Vice President-Investor Relations, Paramount Global

Thanks, Bryan. Operator, we'll take our next question, please.

Operator: Thank you. The next question goes to Michael Morris of Guggenheim. Michael, please go ahead. Your line is open.

Michael Morris

Analyst, Guggenheim Securities LLC

Thank you, guys. Good morning. I wanted to follow up a little bit on the subscriber component on this path to profitability. You guys are at about 56 million Paramount+ subscribers as of year-end. You had a number of market launches in 2022. How many subscribers does the Paramount+ product need to get to scale, and how does the growth trajectory for Paramount+ compare to the prior outlook you had for 100 million plus combined subscribers by the end of 2024?

And if I could also just on free cash flow, as you think about 2023 and the investment year, can you give a little more color around how much cash investment you would expect in 2023 before you inflect into 2024 and whether that has any impact on how you think about your dividend payout? Thank you, guys.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

Hey, Mike. It's Naveen. There's a lot in there, so I'll try to take those in order, starting with the questions on subscriber growth.

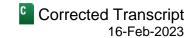
So as you pointed out, 2022 was a very, very successful year for Paramount+ in terms of subscriber growth, and we're enthusiastic about what's coming in 2023 as well. I would point out that the dynamics around subscriber growth in 2023 will be a little bit different. On the P+ side, that growth is going to come from two main buckets. First is organic sub growth both in the domestic markets and internationally. The domestic piece will be driven by a lot of the same drivers that we saw in 2022, content, partnerships, churn improvement. Internationally, this year, we're going to focus on growing within the flagship markets that we launched in 2022.

And then the second big bucket of growth for Paramount+ will be the migration of Showtime subs later this year. As I mentioned in prepared remarks, that's not a one-for-one. There's a little bit of overlap there. We can take you through the details of that in the future.

So there are definitely a lot of moving pieces on the sub front in terms of where we see that going long-term. We're increasingly focused on D2C revenue, and so when you look at the goals that we've outlined there in the past, we – our goal was to hit \$9 billion of D2C revenue by the end of 2024. There's some puts and takes there. The advertising marketplace has obviously been a little soft, but on the other hand, when we look at the trajectory on Paramount+ growth, we're extremely happy with that, and I think have exceeded our expectations on that front.



Q4 2022 Earnings Call



So that's kind of the story on subs. I think the second part of your question was around free cash flow in 2023, and there's some important things to note there. Most importantly, we expect a year-over-year change in free cash flow to be less than the year-over-year change in OIBDA. And there's kind of a strategic explanation for that and a financial explanation.

The strategic explanation is really that it reflects the evolution of our streaming content investment. We obviously ramped it up quite a bit over the last couple years. Now it's starting to stabilize as we build scale and you start to see our multiplatform franchise focus rolling in as well as the savings that we're unlocking by integrating Showtime and Paramount+.

Now, the financial answer to that is really that it reflects a reduction in content working capital, meaning that over the last couple of years, cash content spend increased quite a bit faster than content expense because of the nature of amortization. But as we're reaching more stable levels of content investment, that dynamic flips. So for the next couple years, you will see content expense on the P&L will grow faster than cash content spend. In fact, as we move from 2023 to 2024, this is important, we expect to see growth in free cash flow that is measurably larger than the growth in OIBDA.

And then I think the last part of your question related to the dividend, and what I'd say there is that our capital allocation strategy is well-aligned with our operating plan. Yes, cash flow will be negative in 2023. That's sort of the nature of some of the context we're operating in, including the fact that we're going to be at peak losses for D2C in 2023, and there are some ad headwinds. But both of those things are short-term in nature. We're going to start to grow D2C earnings next year, and we do expect the ad market to recover starting in the back half of 2023, which means that we are going to see significant improvement in OIBDA and free cash flow in 2024.

And in the interim, we've got a very strong balance sheet that includes over \$3 billion of cash on the balance sheet that's prior to incorporating any future asset sales. We finished last year with net leverage around four times. We don't have any near-term debt maturities, and we have a \$3.5 billion revolver that remains undrawn. So we feel good about that plan both from a growth perspective and from a financial perspective.

Anthony DiClemente

Executive Vice President-Investor Relations, Paramount Global

Great. Thank, Mike. Operator, we'll take our next question.

Operator: Thank you. The next question will go to Ben Swinburne of Morgan Stanley. Ben, please go ahead. Your line is open.

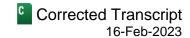
Benjamin Swinburne

Analyst, Morgan Stanley & Co. LLC

Thanks. Good morning. Maybe two. Bob, can you talk a little bit about the outlook on film with Paramount? You have a big slate for 2023, and obviously you had a lot of success last year. Just talk a little bit about the film strategy at Paramount and how you see that feeding Paramount+ growth over time.

And then, Naveen, maybe just to try to finish the sort of 2023 conversation, you guys gave us some helpful guidance for Q1 OIBDA. Any help for the year on overall OIBDA versus 2022 just so we can think about the right free cash flow comparison as well? Thank you, both.

Q4 2022 Earnings Call



Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

Yeah, sure, Ben. So the first part of your question, obviously 2022 extremely successful year for Paramount Pictures. Six number ones at the box office in the US on an eight picture slate, which gave us really a better hit

Pictures. Six number ones at the box office in the US on an eight picture slate, which gave us really a better hit rate certainly than the industry average. No question our film investment is paying real dividends. As you know, we both monetize it in the theater and on Paramount+, and so we were early to that strategy, and others are sort of moving in that direction.

And you look at Paramount+, movies are a top performer on the service, extremely efficient particularly on a cost per start basis. So we feel great about that as we look forward to 2023 and 2024. We're very excited about what's going on at Paramount Pictures. If you look at the slate, it's increasingly franchise-oriented. We believe in franchises, as you know. Talk about titles; Scream, which is coming this month. It's New York-located. A lot of buzz on that. We've got our first Dungeons & Dragons movie. We're excited about that. Next Transformer movie, when we released the trailer, that blew up the internet. The next Mission Impossible movie, which is totally out of control and a thrill ride. Probably will be the biggest Mission Impossible yet. The next Turtles movie, and the next Paw Patrol movie, which I don't know if you hang out with any preschoolers, but they love Paw Patrol.

And then there's more to come. So we're very, very excited about what's going on at Paramount Pictures. And again, leveraging it both in the theatrical side and on the streaming side to great effect.

Naveen, the second part?

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

Yeah. So, Ben, with respect to 2023 OIBDA, we're not providing any sort of specific numerical guidance today, but I can give you a few additional notes to help you model the year.

If you think first about the D2C segment, as we've made clear, this is the year of peak losses, so you should think about it as really reflecting the full year impact of investments that we made in 2022, most of those related to content and market expansion.

On the TV media side of the business, we are looking to ad recovery in the back half of the year. I think TV media will also reflect the impact of a number of the cost savings initiatives that we started talking about on our last call as well as some of the benefits that we'll unlock from Showtime and Paramount+ in the back part of the year.

And then on the Filmed Entertainment segment, we do expect slightly lower OIBDA on a year-over-year basis there just given the timing of our film slate which is a little more back-end loaded in 2023 relative to 2022. And then, of course, we're comping against 2022 which included Top Gun, which was obviously a very large contributor.

Anthony DiClemente

Executive Vice President-Investor Relations, Paramount Global

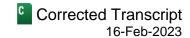
Great. Thanks, Ben. Operator, we'll take our next question.

Operator: Thank you. Our next question goes to Rich Greenfield of Lightshed Partners. Rich, please go ahead. Your line is open.

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Q4 2022 Earnings Call



Rich Greenfield

Analyst, Lightshed Ventures

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Hey, thanks for taking the question. I've got a couple of sort of big-picture questions for Bob, and then a quick financial one. So I've heard that there was credible multibillion dollar offers for Showtime. Curious sort of how you thought about the value accretion of collapsing it into Paramount+ versus just selling it for cash. Disney then, I think Iger, if you listened to him on their earnings call and certainly on CNBC, he's backing pretty far away from general entertainment content. Hulu is clearly for sale. Wondering, one, do you have interest in buying Hulu? Could that be an interesting asset for Paramount? And related to that, how do you react to sort of the, what I guess he called undifferentiated general entertainment programming not being a great place to be?

And then the financial housekeeping is just on the free cash flow. Are you committing to positive free cash flow in 2024, or just an improvement in losses in 2024? I wasn't sure how to take what you said. Thanks. I know that's a lot.

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global



Sure, Rich. A three-parter. So on Showtime, look, we think there's enormous value to unlock with the integration of Showtime and Paramount+. Both Naveen and I talked about that some today.

So relative to that, if we were to divest the asset, it would have to create more value than our own operating plan. And as stewards to shareholder value, we will always listen. But frankly, that bar is pretty high. So beyond that, I don't think anything to say.

Moving to Mr. Iger and undifferentiated, et cetera, look, differentiation matters, and the general entertainment space may not make sense for everyone. But general entertainment clearly makes sense for us when you look at our asset composition and the really the nuances of our content engine.

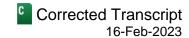
And when we went to market with Paramount+, well, actually before we went to market, we thought a lot about this question because we knew we needed to be differentiated because we weren't first to market. For us news, sports, and a mountain of entertainment was a clear route to differentiated position and one that we knew or at least strongly believed would resonate with consumers and appeal to the whole household. And that's across this country and really around the world.

And when you look at Paramount+'s consumer traction, including having the most ads of any SVOD service in the US since launch and the most ads in Q4 combined with 81% revenue growth, look, that positioning is clearly working. You look under the covers at what's driving it, it's the combination of Paramount Films, CBS hits, Nickelodeon franchises, and our P+ Originals, things like 1923 and Tulsa King, Criminal Minds, Wolf Pack, Star Trek: Strange New Worlds, I could go on, plus sports and news. So there's no question that our content engine is delivering against our positioning.

And with respect to the cost of general entertainment, which you didn't specifically ask, but certainly was built into that conversation that you're referring to, look, our multiplatform strategy and franchise focus ensure we can build a differentiated content slate and simultaneously create a compelling content ROI.

So again, general entertainment, it totally works for us in general and streaming and maybe we're different because of our asset composition and strategy, but we're leaning into it.

Q4 2022 Earnings Call



Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

And, Rich, with respect to your financial question, thank you for giving us a chance to clarify that. Our plan is to deliver positive cash flow in 2024.

Anthony DiClemente

Executive Vice President-Investor Relations, Paramount Global

Thanks, Rich. Operator, next question, please.

Operator: Thank you. The next question goes to Jessica Reif Ehrlich of Bank of America. Jessica, please go ahead. Your line is open.

Jessica Reif Ehrlich

Analyst, BofA Securities, Inc.

Thank you. I just wanted maybe clarification on some of the things you said about pricing. Can you give some color on the economics of the partnerships and how you would account for Delta in your sub numbers? But more specifically on the pricing, like, how much — what's the amount that you're thinking of raising prices and the timing? And on the impairment charge, what's included in that \$1.3 billion-plus?

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

Yeah, sure, Jessica. I'll take the first piece of that. Look, we're super excited about the Delta partnership we did. It was a competitive process, and obviously we won. It provides Sky members – SkyMile members access to Paramount+ in the air and for a limited period on the ground. So you can think of it as promotional in nature. Importantly, the subscriber numbers will not be in our sub count. So they will only – what they do is they put in their frequent flyer mile and that gives them temporary access. But it's only if they actually become a real subscriber that it will start to go to our sub count and drive revenue and all that.

But we think it's an awesome promotional platform, and I know the Delta folks are really excited about it to date because it really showcases what they've done in broadband and their planes in the air. And we think it's going to be a nice plus for Paramount+.

Naveen Chopra

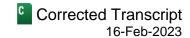
Executive Vice President & Chief Financial Officer, Paramount Global

And I'll jump in on the questions related to how we're thinking about pricing. We – this is something obviously we have put a lot of thought into since the launch of Paramount+ that includes conducting a variety of conjoined analyses and also really studying some of the historical price increases that you've seen in the industry more broadly.

What we learned from that was that Paramount+ remains an incredible value proposition for consumers, particularly given the upward trajectory that you're seeing with pricing across the industry. And of course that value proposition will get even stronger with the addition of Showtime content into the Premium tier of Paramount+.

We also learned that the headwind from price increases tends to fall more on new subscriber acquisition and less so on churn. And that's something that has certainly guided our thinking around the price increases.

Q4 2022 Earnings Call



So just as a reminder, the price on the Premium tier of Paramount+ which will now include Showtime will go up by \$2. So from \$9.99 to \$11.99. We'll have a \$1 increase on the Essential tier from \$4.99 to \$5.99, and we think that makes sense because effectively what we're doing is tying a bigger price increase on the Premium tier to a significant expansion of content while keeping an easily accessible entry point on the Essential tier.

And we'll continue to take advantage of promotional pricing, annual plans, and bundles as a way of both maintaining the funnel for new customer acquisition while optimizing churn and growing ARPU.

So we're excited about the contribution from pricing. And from a timing perspective, that will kick in when the new service launches in early Q3.

And then I think the last part of the question was on impairment, the impairment charge, which will come in Q1 is really all about content, and it's driven by the fact, as I said, that when we combine Showtime and Paramount+, we don't need the kind of content that you would need if they were operating on an independent basis. So that will provide a benefit in terms of reduced amort on a go-forward basis.

Anthony DiClemente

Executive Vice President-Investor Relations, Paramount Global

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Thanks a lot, Jessica. Operator, next question, please.

Operator: Thank you. The next question goes to Doug Mitchelson of Credit Suisse. Doug, please go ahead. Your line is open.

Douglas Mitchelson

Analyst, Credit Suisse Securities (USA) LLC



Thanks so much. Just a few cleanup questions. One on the price increases. How does that function with the partnerships? I'm just trying to figure out kind of what percentage of subscribers I apply that price increase to or how I think about the magnitude of the benefit to ARPU.

The second piece is on that impairment charge, can you share how that impacts 2023 EBITDA or how that kind of feathers in over time in terms of improving the content amortization?

And I guess these are all for Naveen. Sorry, Bob. I think, the last sort of big one is can you help us understand when does the cash content spend and the content amortization equalize? So I understand it's going to improve in 2024 in particular. But can we look out, pick a number, three years, and say, okay, we don't have a working capital burn related to content cash cost versus amortization? Thank you very much.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global



Thanks, Mike. And I say that on behalf of Bob, since you let him off easy.

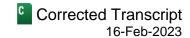
Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global



Doug.

Q4 2022 Earnings Call



Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

Doug. Excuse me. Doug. But thanks for letting Bob off easy. I'll take those in order.

With respect to how the price increases apply to partnerships, a couple things. The price increases will take effect across both our direct channels and all of our third-party platforms. So that includes channel partners like Amazon, Roku, Apple, et cetera.

With respect to the bundles that we have with commercial partners, the timing of price increases in those relationships will be determined on a case-by-case basis and obviously we're not going to comment publicly on each of those deals.

Your question on the impairment charge and its impact in 2023, I think the way you should think about that is that in general content on our streaming services has an amortization period of roughly four years, plus or minus. It depends a little bit on the type of content. And so you're going to get the benefit over that period of time. It's going to be a little greater in 2023 and then start to decrease a bit because there's more amort to roll off in the first year than in subsequent years.

And then I think your last question was about when we start to see sort of neutralization of the working capital drag on between cash and OIBDA. I think the answer there is we're going to move for the next couple years into this mode where the growth rate in cash content spend is going to be much lower than the growth rate that you'll see on the P&L. And then beyond that point in time, you'll start to see them move much more in line with each other.

Anthony DiClemente

Executive Vice President-Investor Relations, Paramount Global

Thanks, Doug. Operator, next question, please.

Operator: Thank you. The next question goes to Phil Cusick of JPMorgan. Phil, please go ahead. Your line is open.

Philip A. Cusick

Analyst, JPMorgan Securities LLC

Hi. Thank you for squeezing me in. Bob, first, can you expand on your comment about stabilization in advertising? How should we think about indications for the current quarter, and how you're thinking about deeper in the year comping versus the fourth quarter?

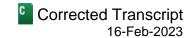
And then second, can you expand on the contribution from international for Pluto? Thanks very much.

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

Yeah. Sure, Phil. So in terms of the ad market, when you look at Q1 which is probably the most – most [ph] time we've been on (00:55:27) the market, and as we said, we believe our domestic national ad sales growth will improve in Q1 relative to Q4. You look at what's going on, the categories, there are some bright spots for sure. Categories that are really working at the moment are food and beverage, pharma, travel, and increasingly auto. So we like that.

Q4 2022 Earnings Call



The strength really is much more so on the direct side of the business, and that's a place where Paramount has a real advantage. And in fact, we've recently reorganized our ad sales force around specific teams aligned with holding companies to kind of streamline access for them, make it more turnkey, and that's been very well received. So direct side of the business is a place where it advantaged.

The indirect, really the programmatic side, is still soft, and we're looking for that to turn as the market improves. I'd also say in Q1, related to at the local underlying local ad business is improving as well. It's not just a national thing. Although when you look at local, obviously you don't have the same political in Q1 that you had in Q4, so that's a bit of a headwind.

But net-net, we – relative to Q4 we like what we're seeing kind of right at the moment in Q1. And that does make us optimistic on this second half recovery. And by the way, the second half recovery when we say that it's all about the growth rate, we – because we believe there will be improvement in growth rate as the year goes on. And it is worth noting that the comps ease a bit moving forward. And so mathematically that helps. But it's really the underlying tone that we think has stabilized, and we think – we know that's the first step before you get the real improvement, which again, we're looking to back half of the year for.

Anthony DiClemente

Executive Vice President-Investor Relations, Paramount Global

There was a question about Pluto international?

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

Yeah, I can take that, if you like. Pluto in the international markets is certainly at an earlier stage of development and monetization than where we are in the United States, but it's grown at a nice rate, so we're enthusiastic about that. We saw a decent chunk of the MAU growth in Q4 was international including in Canada where we launched an exciting partnership with Corus. And from a monetization perspective, as I said, it's still relatively small scale internationally, but very compelling growth rate. So we're looking forward to it being a bigger contributor over time.

Anthony DiClemente

Executive Vice President-Investor Relations, Paramount Global

Okay. Thanks a lot, Phil. Operator, we have time for one last question. Thanks.

Operator: Thank you. The final question goes to Kutgun Maral of RBC Capital Markets. Kutgun, please go ahead. Your line is open.

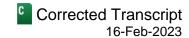
Kutgun Maral

Analyst, RBC Capital Markets LLC

Great. Good morning, and thanks for taking the question. I wanted to follow up on the international D2C outlook more broadly. Paramount has had a differentiated rollout strategy abroad whether we've gone at it alone, lean on third-party distributors, or have partnered with the likes of Comcast or Reliance in a fairly unique way. Some of your peers are exiting certain markets and others have talked about plans to take a harder look at where they operate as they re-assess the economics.

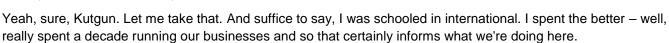
How do you see the opportunity abroad evolving, and are there any changes Paramount is looking to make in the strategy to best capitalize on the future of international streaming? Thank you.

Q4 2022 Earnings Call



Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global



Start with the fact that streaming is definitely a global opportunity and thus the international markets are an important piece of the equation. And just to level set, as we come out of 2022, we're obviously active in all Latin America, Western Europe, as well as Canada, South Korea, and Australia. And then we've got our Sky JV which is in Eastern Europe and the Nordics and the Netherlands, but not consolidated in our numbers. So we're pretty well penetrated. And we're going to really focus 2023 on deepening our participation in those markets.

But to your point, I believe in a global strategy but local market execution and you have to look at the nuances in the market as you go forward. I also believe in the power of partnership. That led us early on and really first to this hard bundle concept where we used existing relationships with what you could think of as MVPDs to kind of turbocharge our market entry. We did that in the UK. We did that in Germany. We did that in Italy. We've done that a bit in Latin America. And that's all about getting a large chunk of subscribers out of the gate at zero acquisition cost.

And then now as Naveen said, really also was intended and in fact has catalyzed demand for the channel stores and the more direct business, D2C O&O which we really like what we're seeing in the trendlines there and that will certainly continue to play out in 2023.

So we are very much looking at this market by market. And part of the peak operating losses by the way in 2023 is driven by the fact that we launched all of Western Europe in the back half of 2022. So that had some spillover effect to our financials, but as we get past that, that helps as well.

So really excited about the international market opportunity. We are going at it differently. And yes, you're right. I've talked to some folks who are thinking about scaling back their presence. But they basically launched a D2C O&O in all these independent markets around the world themselves, and arguably are sub scale too. So I'm not surprised they're unwinding it. But we didn't go into it like that. We were very thoughtful in how we went into it. Again, leveraging existing relationships and assets to both accelerate the growth of the business and really ensure it's an attractive longer-term business.

Robert M. Bakish

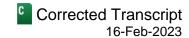
President, Chief Executive Officer & Director, Paramount Global

And with that, I just want to wrap the call and leave you with a few key points to keep in mind. We believe in our differentiated strategy, our unique portfolio of assets, and our ability to make popular content efficiently. And I think you saw all that in 2022. And you will see it in 2023.

We are focused on the turn towards streaming profitability. Our plan always contemplated that and we are very much executing against that.

We look at our approach as already creating value for shareholders given the strong Paramount+ revenue and subscriber growth. Yes, you've got to break it out separately and look at the sum of the parts, but there's no question we've already created a very material asset and it's got a long attractive runway ahead of it.

Q4 2022 Earnings Call



And as we continue to execute our 2023 plan it really sets the stage as Naveen said for a return to significant earnings growth and a return to positive free cash flow, thanks, Rich, in 2024.

So thank you, everyone, for your support, and be well.

Operator: Thank you. This now concludes today's call. Thank you so much for joining. You may now disconnect your lines.

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