

04-Aug-2022

Paramount Global (PARA)

Q2 2022 Earnings Call

CORPORATE PARTICIPANTS

Anthony DiClemente

Executive Vice President-Investor Relations, Paramount Global

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

OTHER PARTICIPANTS

Michael Morris

Analyst, Guggenheim Securities LLC

Bryan Kraft

Analyst, Deutsche Bank Securities, Inc.

Steven Cahall

Analyst, Wells Fargo Securities LLC

Benjamin Swinburne

Analyst, Morgan Stanley & Co. LLC

Rich Greenfield

Analyst, LightShed Partners

Kutgun Maral

Analyst, RBC Capital Markets LLC

Jessica Reif Ehrlich

Analyst, BofA Securities, Inc.

Brett Feldman

Analyst, Goldman Sachs & Co. LLC

Philip A. Cusick

Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Elliott, and I'll be the conference operator today. At this time, I would like to welcome everyone to Paramount Global's Q2 2022 Earnings Conference Call. All lines have been muted to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

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

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.

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.

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. I'll start this morning by talking about Q2 highlights and preview what's next. Then, I'll turn it over to Naveen to take you through financial and operating details, and we'll wrap-up with a Q&A as usual.

Big picture, while we're clearly navigating some near-term headwinds in the macroeconomic environment, Q2 shows we have the assets, strategy, and ability to compete and win over the long term. Q2 shows the company is taking market share in streaming, in broadcast, in box office, and in upfront dollars. It also shows the company increasing its penetration of the most important growth market in media, streaming, as evidenced by our over 5 million D2C subs added in the quarter, and Q2 shows how we leverage investments across multiple platforms that unlock multiple revenue streams. This, combined with our fiscally disciplined approach, including with respect to cost management, provides a real advantage in these challenging times and beyond.

At the center, of course, is our hugely popular content, big, broad, and beloved. Just think of the biggest movie in the world, Top Gun: Maverick; the most popular TV show in the country, Yellowstone; perennial global hits like the CBS crime procedurals NCIS and FBI; or the world's most popular preschool franchise, Nickelodeon's PAW Patrol. Our content consistently attracts and retains mass audiences.

When I say audiences, I don't just mean kids or adults. I mean the whole household. Not just the coast but the entire country. Not just the US, but the entire world. Not just the streaming audience, but the TV, theatrical, and streaming audience.

Part of the reason is that we don't just make popular content. We also make content popular by leveraging our powerful platforms. After all, to drive best-in-class marketing and distribution, you've got to have best-in-class assets, like the number one broadcast network in America, the largest broadcast footprint globally, the number one free ad-supported streaming TV service in the US, and one of the fastest growing premium SVOD services.

The combination of our content, platforms, and strategies ensures we can reach the largest total addressable market, generate strong returns on content investment, and create devoted fan followings taking full advantage of our deep and growing library of valuable IP. All of these advantages came to life in Q2, so let me show you how, starting with film.

Nowhere is our popularity more evident than at the box office. Look no further than Top Gun: Maverick, which is already the biggest film of 2022 and our fifth number one title this year. In fact, Top Gun: Maverick just cleared \$1.3 billion at the global box office and became one of the top 10 domestic movies of all time.

Here, we leveraged our portfolio of brands including CBS and MTV to execute a major cross-company consumer campaign that resonated with audiences everywhere, a strategy that has been proven to be highly effective when deployed against our major assets. Success like this, five number one films at the box office, Top Gun, Scream, Jackass Forever, The Lost City, and Sonic the Hedgehog 2, which by the way also made history as the biggest video game opening of all time. Success like this isn't a given. It requires the right strategy and strong execution.

In the early stages of the pandemic, we were very selective with our releases, holding certain films until market conditions improved. While we could have released *Top Gun: Maverick* and *The Lost City* earlier, we held off because we knew these phenomenal stories would bring audiences back to theaters. That proved to be the right call.

Paramount continues to shine at the box office with numbers that outperformed even our own expectations, and we're excited about the future. We'll end this spectacular year with Damien Chazelle's *Babylon* starring Brad Pitt and Margot Robbie, which begins its theatrical rollout in December, and our 2023 slate is anchored by fresh commercial takes on some of our most popular and new franchises from *Transformers* and *Teenage Mutant Ninja Turtles* to *Dungeons & Dragons* and *PAW Patrol*, to name just a few.

But our amazing content isn't limited to the silver screen. Viewers hungry for incredible storytelling are also turning up in ever greater numbers to our flagship streaming service, Paramount+. This quarter, Paramount+ added 4.9 million global subscribers, and revenue grew 120%, further cementing Paramount+ as one of the fastest growing premium streaming services.

Based on third-party data, Paramount+ is the number one premium service in the US in sign-ups and net subscriber additions, both this quarter and year-to-date. And based on other third-party data, Paramount+ is also the most popular premium streaming service in the US to add among switchers. That means people who dropped a service in the last 12 months were more likely to add Paramount+ than any other service; yet again evidence we are taking market share.

The success of our streaming platforms speaks to the power of our content strategy. From movies and sports to shows and news to events and more, the diversity and quality of our content is unrivaled, especially on Paramount+.

Box office hits like *Lost City* and *Sonic the Hedgehog 2* came to Paramount+ in May, generating terrific engagement across all demographics. Their success demonstrates that our strategy of a big theatrical release with a fast follow to streaming is by far the most effective way to maximize the return on our investments in movies.

Meanwhile, hit CBS originals like *NCIS*, which consistently dominates ratings in linear, have drawn significant viewership to Paramount+ and driven engagement there, as have must-see sporting events like the UEFA Champions League final in May which aired on CBS and Paramount+. Additionally, the power and strength of our franchises, existing and new, was on full display this quarter thanks to strong performances from *Star Trek: Strange New Worlds*, *1883* of the *Yellowstone* universe, and our latest *South Park* special, *South Park The Streaming Wars*, as well as *Halo*, which has become a top driver globally for subscriber acquisition and engagement.

And we're just getting started. We've got more captivating content on the way, and our multi-platform approach will drive even more viewers to streaming.

Later this year, the biggest show on television, *Yellowstone*, returns for its fifth season to the Paramount network in the US. Importantly, *Yellowstone*'s linear premiere will support the streaming launch of Taylor Sheridan's latest original for Paramount+, *Tulsa King*, which debuts November 13 and stars the one and only Sylvester Stallone. Paramount+ will also debut a *Criminal Minds* revival, building on what is already a fan favorite. In September, another season of the NFL and SEC college football also returns to CBS and Paramount+ in the US.

The momentum of Paramount+ is not just a product of its strong and diverse portfolio of content. It's also the product of a smart distribution strategy which is bringing our flagship streaming services to more audiences than ever before. For instance, Paramount+ continues to expand internationally, leveraging our rich heritage as a truly global operating company. With the help of partners Sky and CJ Entertainment, we just launched Paramount+ in the UK, Ireland, and South Korea. Hard bundle deals like these allow us to quickly unlock a healthy volume of subscribers at zero acquisition costs and with very low churn.

In September, we're using that same strategy to launch Paramount+ as a hard bundle in Italy with Sky Italia. Later in the year, we'll do the same with Sky in Germany, Austria, and Switzerland and with CANAL+ in France. Meanwhile, in markets like India and Eastern Europe, we're focused on balancing long-term market growth with a smart allocation of capital, as exemplified by our deals with Viacom18 and Reliance, with whom we're partnering to bring Paramount+ to India, and with our SkyShowtime partnership with Comcast which will launch later this year. By the end of the year, inclusive of Paramount+ and SkyShowtime, we expect to have our subscription video-on-demand services in 60 total markets.

Moving forward, we'll continue to harness this strategy of ubiquitous distribution, which includes direct-to-consumer as well as channel partners like Roku, Amazon, and Apple, in addition to the aforementioned hard bundles so that Paramount+ can reach as large an audience as possible.

We're also seeing power of partnership bring Pluto TV to greater heights. Pluto TV is already the number one free ad-supported streaming television service in the US, and this quarter, monthly active users grew to nearly 70 million globally. And through partnerships with Viaplay Group and Corus, we are now expanding Pluto TV's international footprint in the Nordics and Canada, respectively.

With Pluto, we provide a global platform and global libraries, and our partners provide compelling local content and local ad sales capabilities. It's a powerful and efficient global model.

Now, because our assets continue to perform impressively across TV and streaming, advertisers are taking note even amid broader market uncertainty. We've long known what makes us the ideal advertising partner: our ability to deliver both scale and efficiency, all wrapped around premium content.

On scale, our multi-platform strategy is a clear advantage. Our audience reach across broadcast, cable, ad-supported SVOD at Paramount+, and free ad-supported streaming TV in Pluto TV represents a connected viewing ecosystem that produces over 1 trillion ad impressions per year in high-engagement premium environments that are proven to drive outcomes for clients.

But in a competitive market, scale isn't enough. To attract the best partners and build the best business, you've also got to make it easy and efficient for advertisers to reach their audiences of choice. And at this scale, we offer advertisers access to a wide variety of audiences across every demographic at competitive pricing. That makes Paramount a must-buy for marketers who need to efficiently aggregate awareness around their products.

We see our partners responding enthusiastically, as evidenced, and it's worth noting that we recently had our strongest multi-platform unified upfront yet. We had broadcast and cable pricing increase at the same high-single digit-rate, and we grew digital volume in the range of 30%. Most importantly, it's pretty clear that we grew share.

Premium content with cross-platform scale and efficiency; it's this robust combination that differentiates Paramount in the ad marketplace and makes us a must-have partner for advertisers.

So, in closing, we're continuing to create value across our business from theatrical to streaming to advertising. Millions of new customers are signing up for our streaming services. Fans are headed back to the theaters to watch our films. Viewers keep turning to our networks for their favorite content. And advertising partners are eager to get a share of it all. We couldn't be prouder.

With an iconic Hollywood film studio that owns more than a century of IP, with the number one broadcast network in the US, with some of the most popular cable brands and content in the world, with the fastest growing premium streaming service in Paramount+, and with the leading free ad-supported streaming TV service in Pluto TV, it's a powerful combination which we will continue to lean into for the rest of the year and well into the future. And in a world where people are more and more focused on the financial envelope, particularly around streaming, the benefits of our multi-platform strategy, powerful content engine, and IP ownership will become clearer and clearer.

We have always executed with financial discipline, and we continue to be laser-focused on it.

Now, I'd like to turn it over to Naveen to jump into our financial results for the quarter and walk you through our expectations for the second-half of the year. Naveen?

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

Thank you, Bob, and good morning, everyone.

Second quarter results demonstrate the value of our diversified media business and expansive monetization platforms. We delivered 19% total company revenue growth through continued strong B2C momentum and record performance at the box office. Affiliate and subscription revenue grew 12% in the quarter. Advertising was down 2% year-over-year or flat on a constant-currency basis due to macroeconomic headwinds, and licensing revenue grew 27%.

Today, I will highlight some of the key financial and operational drivers behind our second quarter results and share some insight on expectations for the second half of the year.

Starting with direct-to-consumer, we added 5.2 million global D2C subscribers in Q2. Paramount+ added 4.9 million global subs, while our other streaming services grew modestly. As of June 30, we had a base of 63.7 million global D2C subscribers including 43.3 million Paramount+ subscribers. Our quarter-end totals reflect the removal of 3.9 million D2C subs in Russia, of which 1.2 million were from Paramount+, consistent with our plan to remove these subscribers from our reporting.

Q2 subscriber growth benefited from the launch of Paramount+ in the UK, Ireland, and South Korea as well as continued domestic growth as we added new hit content to the service. Paramount+ saw continued engagement improvement as our content offering expanded even further. [ph] P+ (00:18:32) customers are watching a greater number of unique titles today than ever before, as evidenced by sequential and year-over-year growth in titles viewed per active domestic sub. We also saw sequential growth in hours per [audio gap] (00:18:48). And most importantly, deeper engagement resulted in sizable improvement in domestic churn.

The combination of subscriber growth and engagement drove Paramount+ revenue growth of 120%, including subscription revenue growth of 126% and advertising growth of 92%. Paramount+ ARPU improved on a sequential basis in Q2 with both domestic and international ARPU higher versus Q1.

Pluto TV added 2.1 million global MAUs in Q2, bringing our global reach to 69.6 million MAUs. Revenue grew 10% year-on-year. Although Pluto TV revenue growth was impacted by the macro environment, the service continues to demonstrate strong engagement with the year-over-year growth rate in total viewing hours accelerating from Q1 to Q2. Continued improvements in engagement and our compelling advertiser proposition mean that Pluto is well-positioned to both gain share and benefit from organic growth.

Our dual revenue stream model delivered 56% year-over-year D2C revenue growth with total D2C revenue now reaching \$1.2 billion in the quarter. This growth consisted of a 74% increase in subscription revenue and a 25% increase in advertising revenue. D2C OIBDA was a loss of \$445 million in the quarter, reflecting investments we are making in content, marketing, and international expansion in support of what we believe is a compelling growth opportunity for Paramount.

The combination of continued investment and ad market softness means that D2C losses should remain roughly the same in the second half of 2022 as the first half of the year. As we said last quarter, except for the removal of subscribers to our services in Russia, our full year D2C subscriber growth expectations are unchanged. And longer term, we remain focused on our goal of reaching over 100 million global D2C subscribers and generating at least \$9 billion in D2C revenue by 2024. And we continue to forecast D2C OIBDA losses will be greatest in 2023 and then improve in 2024.

Turning to our TV Media segment, revenue grew 1% in Q2 as strong growth in content licensing was mostly offset by declines in advertising and affiliate revenue. TV Media advertising declined 6% in the quarter as pricing growth only partially offset the impact of lower linear impressions and a 2% headwind from FX. TV Media affiliate revenue declined 3% in the quarter.

Importantly, the vast majority of the year-over-year decline occurred in international markets where we proactively restructured key affiliate deals resulting in a shift of revenue from our pay TV to D2C services. Over the term of these deals, the reduction in TV Media affiliate revenue is expected to be more than offset by revenue generated from our Paramount+ hard bundle relationships, resulting in net growth to the company. Domestic affiliate revenue was flat in Q2 excluding a 50-basis-point headwind from a year-over-year decrease in pay-per-view revenue.

TV Media licensing grew 27% in the quarter driven by the delivery of new seasons of existing series, including Jack Ryan, to third parties as well as higher international licensing. TV Media OIBDA declined 8% in the quarter to \$1.4 billion, reflecting flow-through of lower advertising and affiliate revenue. And while macroeconomic conditions are likely to continue to affect advertising demand and impact TV media financials, political advertising as well as price increases negotiated in this year's upfront in combination with continued expense discipline should help mitigate market-driven headwinds, particularly in Q4.

As such, in the second half of the year we expect TV Media OIBDA to return to modest growth on a year-over-year basis.

In Filmed Entertainment, Q2 revenue was \$1.4 billion, more than double the year-ago period. Theatrical revenue increased \$630 million driven by the success of Top Gun: Maverick and Sonic the Hedgehog 2. Licensing revenue at Filmed Entertainment increased 27% largely due to the monetization of recent theatrical releases. Filmed Entertainment OIBDA was \$181 million, benefiting from the strong performance of our current year theatrical slate. For the full year, our outlook for stable year-on-year OIBDA at Filmed Entertainment remains unchanged.

Turning to the balance sheet, we finished the quarter with \$4 billion of cash on hand and total debt of \$15.8 billion. We continue to maintain significant financial flexibility which will increase with the addition of proceeds from the sale of Simon & Shuster. We also maintain a committed \$3.5 billion credit facility that remains undrawn.

In closing, we are enthusiastic about the long-term opportunity for Paramount, unlocked by powerful content and a massive and growing market for streaming. Despite short-term headwinds related to the macro environment, the value of our diversified business and particularly our ability to monetize content across platforms and audiences is becoming more clear than ever.

With that, operator, can you please open the line for questions?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question today comes from Michael Morris from Guggenheim Partners. Your line is open. Please go ahead.

Michael Morris

Analyst, Guggenheim Securities LLC

Q

Thank you. Good morning, guys. Bob, maybe you could share your thoughts on your expectation for changes to the competitive landscape for streaming advertising as we move into the back half of the year. I'm particularly interested how you're thinking about the launches of some of these ad-supported services from Netflix and Disney+, how they could impact the CTV ad market in Paramount+, Pluto in particular.

And then if I could, Naveen, I apologize because I know it's early to discuss 2023, but I'd be curious if you could provide any frame of reference for how much greater those peak D2C losses could be in 2023 relative to the 2022 outlook. And any thoughts on growth or swing factors and investment drivers top line that would be incremental there?

Thank you, guys.

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

A

Yeah. Sure, Michael. Let me start. Look. We've been big believers in the dual revenue stream model in streaming, i.e. advertising, from the start. And the fact that others are following our lead is really validation of a thesis we've had for years. So, yes. There will be incremental options in the market, but really competition is nothing new.

And importantly, our competitive position in the ad market is very strong. Advertisers are focused on being associated with premium content, and we have a really diverse collection here across entertainment, sports, and news. And it's highly coveted by advertisers. I'd also point out that our content has been created and formatted with advertising in mind, and that's important.

Second, look, we've been a multi-platform ad business for years, and that gives us very high quality reach and a scale of over 1 trillion ad impressions per year across all demographics. And then you add to that industry-leading integrated advertising and advanced advertising capabilities and really a long track recordship (sic) [record] (00:27:50) of partnership and customer services with agencies and their clients, and we know how to transact in

upfront. We know how to transact in scatter. We know how to do programmatic. So we have a lot of elements of strength here.

And I'd point out that all that's not just conceptual. It translates into performance. You look at our Q2 growth rate, particularly in digital, and I think you'll find that at the top of the industry. And it's quite clear to me that we took share in this most recent upfront. There we had digital volume up on the order of 30%.

So, yes, there will be some new entrants, but we feel very good about our position. And we look forward to continuing to benefit from it.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

A

And, Mike, with respect to your question on the outlook for 2023, I'd really say two things. One, as you saw in Q2, we continue to see tremendous momentum in the Direct-to-Consumer business, whether you look at the growth on Paramount+ subs, what we're seeing in terms of churn, nice MAU growth and engagement growth at Pluto, and most importantly, D2C revenue growth at very, very strong levels, 50% on a combined basis, well over 100% revenue growth at Paramount+.

So what we're really navigating from an OIBDA perspective is the weakness in the macro advertising marketplace. And as you said, it's really too early to know exactly what the market will look like in 2023, but we're still focused on managing the business to peak losses in 2023 and then starting to see improvements in earnings both through the D2C segment and the consolidated business as a whole beyond that as we move toward our long-term D2C revenue and subscriber goals.

Anthony DiClemente

Executive Vice President-Investor Relations, Paramount Global

A

Great. Thanks a lot, Mike. Operator, we'll take our next question, please.

Operator: Our next question comes from Bryan Kraft from Deutsche Bank. Your line is open.

Bryan Kraft

Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Thanks. Good morning. Was wondering if you could talk in some more detail about the impacts of the macroeconomic environment that you're seeing in the business and particularly what you're seeing in terms of advertising demand across your own platforms. And maybe along with that if you could talk about what you're seeing as far as specific advertiser category strength or weakness? And any additional color on the outlook for Pluto in the back half of the year given what you saw in 2Q? Thanks.

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

A

Sure, Brian. Well, look. We see both headwinds and tailwinds in advertising. It's true that there are some challenges in the scatter market and digital, and that really is, as you would guess, driven by the state of the macroeconomic environment. That's showing up in certain categories. Things like auto continues to be impacted by the supply chain. Packaged goods is managing through inflation issues, which is really impacting their ad spending as they look to protect margins. But these aren't long-term issues. They're short-term challenges we've got to just work through.

On the positive side, TV clearly remains resilient on a relative basis, and that's a function of a very tight supply. And so we benefit at Paramount from having a balance across linear and digital clearly. And I'd note that we are seeing some areas of category strength, including in Q2, and today that's travel, that's technology.

Also worth noting that we're taking advantage of the current situation to increase our level of promotion for in-house assets, particularly with respect to Paramount+. That gives us incremental product visibility to consumer, and it also benefits us in terms of third-party expense reduction.

As we look ahead in this ad market, there's two things I'd note. First, we're really pleased with how the upfront played out and particularly the volume dynamic in it which was up nicely. Second, there are two important category tailwinds that we'll see probably late Q3 and certainly Q4.

The first is pharmaceutical. That came back big in the upfront. That's super important to us because it's a big category for us given our demographics and specifically the demos of CBS. And the second is political. We're expecting advertising related to the mid-terms to be very strong given what's going on there. And I'd note that historically that's really a stations business, and for sure it'll be a stations business this year. But also with targeting we see EyeQ and Pluto playing there and therefore benefiting as well.

So that's really the ad market. I don't know if you want to comment on...

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

A

Yeah. I mean, in terms of our expectations for Pluto in the back part of the year, I'd say a couple things. We don't obviously guide to Pluto specifically. It is part of our broader D2C business, as you well know, and we continue to see very healthy levels of growth there, 56% D2C revenue growth in the quarter. And I think we'll probably finish the year with very healthy revenue growth across the segment.

Anthony DiClemente

Executive Vice President-Investor Relations, Paramount Global

A

Thanks a lot, Brian. Next question, please.

Operator: We now turn to Steven Cahall from Wells Fargo. Your line is open please go ahead.

Steven Cahall

Analyst, Wells Fargo Securities LLC

Q

Thanks. I just wanted to pick up on some of the Pluto line of questioning. It seems like the MAU growth is strong. I assume the engagement is pretty strong as well. And so with some of the slowdown in revenue, is the right way to think about this business that it is just a price taker in the programmatic market and that price pressure can kind of arrive unannounced? And if that's the case, I was just wondering if you could talk about some of the pricing changes that you saw late in Q2 and how those have trended as you've gotten into Q3, any improvement or degradation?

And then at TV Media, I think investors have been a little bit skeptical about the stable guide in OIBDA, so thanks for that color on the second half growth. Could you maybe just think about what the drivers for stable guidance might be for next year, especially since you're comping political? Thanks.

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

A

Yeah, Steve. Let me take the Pluto piece, and then Naveen will go from there. So I'd start by saying Pluto is the leader in [indiscernible] (00:34:27) in the US, and as you know it's rapidly growing internationally as well. I'd note that the supply side of Pluto continues to track very strongly. We look at impression delivery, and it's in line with our expectations for the beginning of the year. MAUs are now at basically 70 million because we're getting great consumer traction and engagement and time spent, et cetera, on Pluto continues to grow. In fact, we saw an acceleration of that from Q1 to Q2. So very good supply side equation.

Revenue side has certainly been impacted by the macroeconomic situation. It's really a marketplace dynamic that unfortunately we're not immune to, but even with that, some very compelling facts to focus on.

Related to the streaming ad size, Paramount+ grew advertising over 90% in the quarter, and you look at our total D2C ad business in the quarter, including Pluto TV, that grew 25%. That's partially because we are gaining share. We have a very strong proposition in the marketplace, and another indicator of that strength is really the 30% digital ad volume growth that we saw in the upfront.

So, to your question of it being a price taker, sure. We play in the programmatic market. That matters. It's an important part of the equation. But again, we're not just selling Pluto. We're selling a full range of streaming product and multi-platform product and having great traction with advertisers, and we think that is a tremendous positive for the company and will be even more so as the macro situation improves.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

A

And in terms of the question around the stability of TV Media earnings, as we said, we do expect in the near term there will be some impact because of the macro advertising environment. But longer term, we do still remain confident that once that advertising market recovers, we can deliver stable TV Media OIBDA, and that's enabled by combination of a few things.

Number one, rate increases in both the affiliate and advertising sides of the business, and there's been evidence of that over the last few quarters. We've done – have very successful track record of putting in place new affiliate deals that either have built-in rate escalators or fixed fee components on the station side of the business. And then obviously on the advertising side, we're very happy with what we've seen in the upfront both in terms of price increases and what we've been able to do from a volume perspective. So rate is an important part of the equation.

We also expect to see continued meaningful contributions from the licensing side of that business, which is enabled by a combination of both an incredible catalog and unique production capabilities.

And of course we will continue to have a lot of innovation and discipline on the cost side of the equation, and that's true across programming. It's true across marketing, and it's true across our broader operations. So the combination of all those things will be key to delivering stable TV Media OIBDA.

Anthony DiClemente

Executive Vice President-Investor Relations, Paramount Global

A

Thanks, Steve. Next question.

Operator: We now turn to Ben Swinburne from Morgan Stanley. Your line is open.

Benjamin Swinburne

Analyst, Morgan Stanley & Co. LLC



Thanks. Good morning. I just had a couple questions on one topic, which is sort of the international opportunity with Paramount+. Bob, could you talk a little bit about how the launch went in the UK and South Korea in the quarter, sort of the strategy to drive that business? And did you see the whole benefit of the initial launch in Q2, or is some of that going to bleed into Q3?

And as part of that, can you talk a little bit about your international programming strategy? I believe you guys have some local productions, foreign language productions in the works. Just could you just give us a sense of your appetite to build that out as a part of the offering as you grow the business outside the US?

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global



Yeah. Sure, Ben. So a couple things to say. One, we're very pleased. Well, to start with we definitely are viewing streaming as a global opportunity, and you're seeing us move against the international opportunity, particularly Western Europe here in 2022.

Two is, with respect to Western Europe, we obviously launched the UK and Ireland in June. By the way, we also launched South Korea the week before. Those launches are performing above our expectations. Both of those have hard bundle elements to them. Obviously we're in business with Sky in the UK and Ireland, and they are very pleased with what we brought to market. And by the way, the response to the launch more broadly has been very strong, including what we showed in London related to the launch event.

Same thing is true with South Korea. There we're working with TVING which is a local streamer. CJ has a minority stake in it. And there we're really the global part, the global tier to their local offering. And again, they're very happy with what we brought to market and how it's performing, and so we're off to a very good start.

To your question of, is this a Q2-only boost to subs, or does it extend past that? It definitely extends past that. Recall that our international distribution strategy is focused on achieving ubiquity. It really has three fundamental components, hard bundle plus channel stores like Roku and Amazon and Apple and direct D2C on an O&O basis. So we'll be deploying all that in those markets.

And therefore, we see sub growth not only coming from really engagement from the hard bundles where more and more people use it, but we also see those other two pillars of the distribution strategy beginning to kick in. And in fact, they already have.

Third point I'd make is this is a big year for Western Europe for us. We have Italy in September. That's another launch with Sky on a hard bundle basis. That's tracking very well. And then we have Germany and Austria and Switzerland with Sky in December, I believe, as well as France with CANAL+. All those have hard bundle elements but, again, have broader distribution elements to penetrate the TAM.

The last point, your local content, all those markets do have local content dimensions. We really have – we do see a dual benefit there. On the one hand, it's with local content, and we know local content from a long time from operating networks. Things like using a local format of the Shores and making it for a market works very well. We also have – in the UK we have Channel 5, so it has relationships that are triggering stories there.

So, yeah. Local content is one thing, but the second element of it is a lot of that we're going to use globally because on a dubbed basis the streaming world has proven that works. So local is very much part of our strategy in the mix. It's not an overwhelming part, but it is part of it.

Naveen?

Anthony DiClemente

Executive Vice President-Investor Relations, Paramount Global

I think you covered the...

A

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

Oh I got it? All right.

A

Anthony DiClemente

Executive Vice President-Investor Relations, Paramount Global

I think you got it. Thanks, Ben. Next question.

A

Operator: We'll now turn to Rich Greenfield from LightShed Partners. Your line is open. Please go ahead.

Rich Greenfield

Analyst, LightShed Partners

Hi. Thanks for taking the question. So when Netflix published its Q2, it showed this chart that had minutes viewed, and I think CBS was actually number two behind Netflix. It didn't have Paramount+ or Pluto, but I would assume that would close the gap between Netflix and sort of the broader Paramount company.

Q

But I think the question that sort of every investor on this call is thinking about is, as the business shifts from linear to digital, meaning CBS sort of shrinks in share and Paramount+ and Pluto grow in their share, can Paramount maintain sort of aggregate time spent? And what will the margin profile of that business look like? Because I think if you think about everyone in streaming today, you're talking about \$1.8 billion of losses for the calendar year. Sort of everyone but Netflix is losing billions a year on streaming.

And maybe just a way to think about this is, on a revenue basis, your linear TV business this quarter had \$2 billion of advertising plus, and Paramount+ was sort of in the \$90 million range and Pluto at \$265 million or so. So I guess the point is just as this business shifts, can you capture enough time spent to have the similar profit look that your business has in legacy as you move to streaming, if that makes sense?

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

Yeah. Sure, Rich. So a couple points there. I don't know exactly what chart you're looking at, but if you look at Q2, Paramount's combined US linear delivery was bigger than Netflix. And that's even more of the case if you combine linear and streaming, but that's really neither here nor there.

A

The question on margins is really the core of what you're asking. And as we look at – as streaming becomes bigger for us, as we gain scale, we see operating margins from streaming approaching that of TV Media.

Remember, Rich, we've only been in the streaming business for a short time. Others have been there for years. We need to give this a bit of time to play out, but there are real reasons that we see this path to superior margins.

And at the core of it is our differentiated, as we say, playbook. You look at where we are in content, we're clearly advantaged. We've got a broad offering. Many, many globally renowned franchises backed up by a deep library. I mean, the economic value of going and trying to replace that library, I don't even know what it would be. And we've got tremendous engagement, i.e., time spent, off the library, so that's one important economic advantage.

Two, we have a platform advantage. The combination of streaming and traditional is significant, helps our content economics. It helps our marketing economics. And it shouldn't be discounted.

Third, we're in the free streaming space and the pay streaming space. So what does that do? It gets us a bigger TAM, and we regularly see the value of serving consumers that don't pay for streaming as well as the ones that do. And obviously the associated ad access.

And fourth, we have this global operating footprint. We deployed it in the UK. The reason we got the CJ deal done in South Korea is we've have been there for years – there as a joint venture. But nonetheless, we have experience. We have assets. We have relationships. And those provide real leverage including in streaming.

So you put all that together, and we do see a superior financial envelope at comparable level of scale to someone else. And we do see this tracking to TV Media-like markets, which is at the core of your question. We just have to let it play out a bit. And, yes, we've got to manage through some near term macroeconomic headwinds, but we will. So we're very excited about this transformation journey that we're on.

Anthony DiClemente

Executive Vice President-Investor Relations, Paramount Global

A

Thanks a lot, Rich. Next question. Operator, we'll take our next question, please.

Operator: Our next question is from Kutgun Maral from RBC Capital Markets. Your line is open. Please go ahead.

Kutgun Maral

Analyst, RBC Capital Markets LLC

Q

Good morning and thanks for taking the questions. One on content spend and one on Filmed Entertainment, if I could. So on content spend, some of your peers have clearly revisited their content spend budgets for the next few years as there is perhaps a greater focus on getting to profitable growth. I know you're in a unique position of being able to leverage your content investments across a more diverse set of linear and digital platforms, but on the other hand it sounds like OIBDA losses for D2C this year are shaping up to be closer to \$1.8 billion versus expectations for \$1.5 billion before. So I was curious if you had an updated view on what the appropriate level of content spend is evolving into for Paramount whether that's for the total company or just for DTC.

And just briefly on Filmed Entertainment, Top Gun's success has been pretty remarkable, and it seems like you have a very solid slate for the balance of this year and then of course more to come in 2023 and 2024. I know it might take some time before we get to the more profitable windows for these films to really flow through the financials, so maybe not for this year, but are we approaching a period where you could see more meaningful step function improvements in Filmed Entertainment's profitability? Thanks.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

A

Yeah, it's Naveen. I'll take both of those. First, on content spend, the most important thing to remember is that when we think about our content investment, we're always looking at it in the context of the growth and the return that it unlocks. And so of course when you think about it through that lens, you have to focus on the fact that we added 5 million Paramount+ subs in the quarter. Paramount+ revenue growth was 120%, and we continue to be very bullish about growth going forward.

So our content investment is definitely working. It's producing very real results and the momentum that you've seen. And at the same time, we're very committed to our long-term growth objectives around the D2C business, and we intend to continue to invest to support that growth opportunity, continuing as we have to make those decisions prudently with a real eye toward the ROI of the investments. What we don't want to do is sacrifice a long-term opportunity by overreacting to some of the short-term headwinds that obviously exist, particularly in the advertising marketplace today.

So we're continuing to move forward. We're continuing to fund the growth. We think it's an incredible opportunity. And as you pointed out, our content dollars are used differently than many of our peers. We leverage those assets across many platforms, and it's one of the reasons that we can grow faster while spending less than others.

In terms of your question on the Filmed Entertainment business, obviously we have not provided any specific long-term guidance there, but I would encourage you to think about that business more broadly, which is to say increasingly the value of our movies is not just about what they generate in the box office. Those windows are now expanding in terms of it's not just about box office and home entertainment and then going to third parties, we can generate a lot of value out of those assets on our streaming services. We continue to monetize them from a catalog perspective.

So for us it's really about continuing to build the asset value, and we do that by having a great slate that will continue to be heavy on franchises. And we're looking forward to what that does both for the box office business and also our other channels.

Anthony DiClemente

Executive Vice President-Investor Relations, Paramount Global

A

Thanks. Next question, please?

Operator: We now turn to Jessica Reif Ehrlich from Bank of America Securities. Your line is open. Please go ahead.

Jessica Reif Ehrlich

Analyst, BofA Securities, Inc.

Q

Thank you. I was wondering if you could give us color on IPL, what the dollar commitment – your commitment is and what your goals are there? And then just to go back to the content spend, could you at least talk about like step-function in increase in content spend 2023 versus 2022 and 2024 as well?

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

A

Sure, Jessica. So IPL, i.e. India cricket, I assume, that's a deal that was done by our joint venture in India, Viacom18, which recently had a transaction where they brought in Bodhi Tree as an investor and capital infusion. Their intent, and I'd really leave it to the joint venture, which by the way our other partner is Reliance, to speak to that. And they haven't spoken to it much, but what they have said is we obviously have the streaming rights there. It's going to be part of a streaming offering for the Indian market that Viacom18 is going to launch in 2023.

We've also said that Paramount+ is going to launch with it essentially as another form of hard bundle, a tier, and therefore we're really excited about it because we get the very material benefit of cricket and cricket is the top of the food chain in India, and so it'll be a real engine for streaming. And then Paramount+ will benefit by being part of that. Even though we're not directly investing on an O&O basis, we're obviously part of the joint venture. So that's the IPL answer.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

A

And Jessica, with respect to the question on content spend in future years, I'd point you back to what we shared during our Investor Day back in February. As you know, our goal is to drive the growth on the D2C business to over \$9 billion of revenue by the end of 2024. We said at that time that that would involve D2C content expense of around \$6 billion, and we're still operating with that in mind. We haven't provided any kind of specific cadence of exactly what that looks like from year to year, but we're continuing to invest and manage the business with those goals.

Anthony DiClemente

Executive Vice President-Investor Relations, Paramount Global

A

Thanks, Jessica. Next question?

Operator: Our next question comes from Brett Feldman from Goldman Sachs. Your line is open.

Brett Feldman

Analyst, Goldman Sachs & Co. LLC

Q

Thanks. And just sort of two related questions. The first is, to what extent are you seeing inflationary cost pressures in the business? I'm particularly interested in whether that's creeping into content production costs. And then more broadly, one of the questions we get from investors as they think through the impact of inflation is pricing power. We've seen some price increases at different streaming services. I was wondering if you could give us your latest thoughts on when or whether you believe you'll be in a position to potentially start raising price on your streaming services, most notably Paramount+. Thanks.

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

A

Yeah. Sure, Brett. So on your first question, inflation, in our business we actually saw inflation a while ago, really more in the production side of the house related to talent and competition therein. So we've been managing with that for a while. And thankfully we are viewed as a good place to work, if you will, and we have many partnerships with important people in front of and behind the screen working with us to make shows.

So the current inflation driving things like higher fuel prices and all is not really that much of a factor for us incremental. We're watching it, but I wouldn't think of that as a step-function change for us like it is, for example, for a packaged goods company that's buying raw materials and seeing those prices increase. Very different dynamic.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

A

And in terms of pricing on streaming services, specifically Paramount+, I think you really have to look at that in the context of ARPU more broadly because, remember, we have a dual revenue stream model which means that we're not entirely dependent on price increases for growth.

And despite some of the short-term headwinds, we continue to be very bullish about the potential for continued ad ARPU growth on our streaming services. In fact, we've seen healthy double-digit growth in ad ARPU on the essentials tier of Paramount+ despite some of the macro headwinds. That's of course driven by meaningful growth in engagement and continued innovation around the ad products that we make available.

Pricing will be a part of the equation, and though we don't have many imminent price changes, they will happen in the future. And we'll do it while also taking into account the evolution of our content offering, looking at what sort of bundles and other promotional opportunities are available to our customers, and of course thinking about our value proposition relative to competing services, where I'd point out I think we offer a very strong value position today.

So we'll continue to look at pricing. We continue to optimize the tiering along with that, but it's part of a broader overall ARPU story.

Anthony DiClemente

Executive Vice President-Investor Relations, Paramount Global

A

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

Operator: Our last question comes from Phil Cusick from JPMorgan. Your line is open. Please go ahead.

Philip A. Cusick

Analyst, JPMorgan Securities LLC

Q

Hi, guys. Thank you for squeezing me in. I'll try not to abuse it. A couple of clarifications and a question if I can, thank you. It sounds like you're no longer targeting 60%-plus growth in DTC revenue this year. Is that right? And is there a better level we should look at? And how has the composition of ad-supported versus premium Paramount+ subs and gross ad trends sort of changed since the release in June? What does that ad load look like in revenue from here? And does that grow over time in terms of ad load? Thanks very much.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

A

Yeah. I'll take those. It's Naveen. So first, in terms of D2C revenue growth for the year, we continue to expect very healthy levels of D2C growth, but obviously given the macro advertising headwinds and the fact that there's a little bit less visibility in the back half of the year, it's possible we may not get all the way to that 60%. But I think it'll probably be relatively close, and either way it's a very healthy number.

With respect to composition of subscribers at Paramount+, it's still very balanced between the premium tier and the ad-supported essentials tier. That can bounce around a little bit from quarter to quarter based on promotions and bundles and things we may be doing with partners, but it continues to be evidenced they are both very compelling products and they both serve unique and large markets. So we like that strategy.

And in terms of the ad load specifically, it's more a function of continuing to build out the ad products on Paramount+. We've launched advertising very recently within that service. And so, for instance, there are certain parts of the product where advertising is not yet enabled, and that'll continue to evolve over time.

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

Yeah. Let me just jump in here. I really want to thank everyone for their time today.

In closing, I hope you heard how we're deploying a very unique asset portfolio with a differentiated strategy to not only successfully compete in this challenging macroeconomic environment but importantly take share and continue to have real momentum, particularly in the streaming space. So we're very excited about the future. We're going to continue to manage through it, and we look forward to keeping you updated as we do.

And in the interim, thanks again for your time, and be well, everyone. Bye-bye.

Operator: Today's call is now concluded. I'd like to thank you for your participation. You may now disconnect your lines.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2022 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.