Corrected Transcript

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# Paramount Global (VIAC)

## Q1 2022 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning. My name is Charlie, and I'll be the conference operator today. At this time, I would like to welcome everyone to Paramount Global Q1 2022 Earnings Conference Call. All lines have been muted to prevent any background noise. After the speaker's remarks, there will be a Q&A 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 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 first 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.

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

### Robert M. Bakish
*President, Chief Executive Officer & Director, Paramount Global*

Good morning, everyone. I'm excited to update you on our results for the first time since we unveiled the new Paramount brand and the Paramount vision in February. As we said then, the Paramount brand represents the best media and entertainment, and we pride ourselves on delivering superior content across platforms to fans all around the world.

Today's results show we're already executing on that vision. We have strong momentum across our business from our fast-growing streaming services and top box-office films to our highly weighted television programming, and we're on track to deliver against the long-term goals we laid out at our recent investor event.

I think you will see this, as Naveen walks you through the details of our segment financials shortly. But first, I want to talk to you about the key to our success, our differentiated playbook, a playbook anchored in the broad positioning only Paramount holds in the market, a playbook comprised of four self-reinforcing elements.

First, our broad collection of exciting engaging content; second, our diversified streaming business model, offering free ad-supported and paid subscription options; third, our wide-ranging set of platforms, combining streaming with broadcast, cable and theatrical; and fourth, our truly global operating footprint. This differentiated playbook is what makes Paramount unique and it is a playbook, which was designed from the start to leverage our specific asset base to create an advantaged streaming model, one with a superior financial outlook relative to pure-play legacy streamers.

As you'll hear today, we drew on these strengths to drive consumption and monetization across our business in Q1. Total content consumption has grown to 14 billion hours on our owned and operated platforms. We're also seeing continued total company revenue growth excluding the impact of the Super Bowl. And streaming momentum is clearly evident where Paramount+ led the way, adding 6.8 million subscribers globally, once again, making it one of the fastest-growing streaming subscription services in the quarter and bringing our total D2C sub base to more than 62 million.

We also continue to dominate the free ad-supported streaming TV space, with Pluto TV growing to 67.5 million monthly active users globally.

With that, let me break down how our four key differentiators: broad content, diversified streaming business model, wide range of platforms and global operating footprint go growth in Q1 and will continue to drive performance through the rest of the year and beyond.

First, as always, is content. Paramount's diversity and quality of content sets us apart from the competition. We've got movies, scripted and unscripted originals, kids and family, news, sports and events; we've got animation and live action; and we serve audiences of all ages, all over the country and all around the world. And you can see this breadth in our success this quarter.

In the US, Paramount is the only film studio to have four films opened number one at the box office this year with Scream, Jackass Forever, The Lost City and Sonic The Hedgehog 2.

And next-up, we have the hotly anticipated Top Gun Maverick for Memorial Day weekend. In television, CBS is once again the most watched network. For the 14th consecutive season, this despite not having the Super Bowl or the Olympics.

Our international broadcasters are also strong as Telefe and Chilevisión continue to be number one in their markets, and share for Channel 5 in UK is up 10%. And Pluto remains the number one free ad-supported streaming TV service in the US by a significant margin. And you now see the incredible Paramount content engine definitively driving streaming, particularly at Paramount+.

This quarter, we saw engagement go up in all content verticals year-over-year and movies and specials, scripted original series and kids and family each more than doubled. Here are just a few of the top performance from Paramount+ in the quarter, starting with movies.

Paramount movies are a powerful driver for Paramount+. Films were the number two content vertical in driving new subscribers, and we saw triple-digit lift in number of households viewing and our stream year-over-year. Our approach to Paramount film releases directly following their theatrical window, brought Scream and Jackass Forever to the service in March, where our 45-day fast follow model continued to deliver strong metrics, including strong ROI.

And I'm excited to see Lost City and Sonic 2 coming to the service in the next few weeks. Worth noting Sonic 2 is outperforming Sonic 1, and Paramount and Sega are also developing a third Sonic theatrical film, and a first ever original Sonic Series for Paramount+ next year. All of this content will make Paramount+ the home for this incredibly popular franchise.

Live sports also continued to perform for Paramount+. The NFL playoffs grew strongly year-on-year. And in April, the Masters became the most streamed golf event ever on Paramount+. And for fans of the beautiful game, we are now in UEFA season, which will include Paramount+ and CBS Sports showcasing the highly anticipated UEFA Champions League Final featuring the top soccer clubs in Europe at the end of this month.

The first quarter was also huge for Paramount+ scripted originals. The compelling and incredibly popular Yellowstone origin story 1883 from Creator Producer, Taylor Sheridan was once again a juggernaut. It holds the top spot for acquisition and is the number one streaming original ever for the service in terms of new domestic subscribers and engagement.

Our latest Star Trek installment, Star Trek Picard also thrilled fans in the quarter. And building on the strong performance of Picard and Star Trek: Discovery, we're excited to bring the debut of Star Trek: Strange New Worlds to audiences this week. The quarter also saw our best-performing Spanish language scripted series yet. In fact, The Envoys had the strongest acquisition and streaming performance across all original international titles to debut on Paramount+ US to-date.

Filmed in Mexico, the show is a shining example of the power of our global production capabilities. And then there is Halo. This epic adaptation bringing to life the action and adventure of the immensely popular Halo game series is a huge global hit. In fact, it became the most streamed original series premiere in its first weekend of release on Paramount+. And rest assured, there's more coming, including Taylor Sheridan's Tulsa King starring Sylvester Stallone and the next season of Mayor of Kingstown, another season of SEAL Team. A Beavis and Butt-Head movie and series and a lot more kids and family programming, including season 2 of our SpongeBob Spinoff Kamp Koral. That plus a packed reality slate with hits like Season 3 of The Challenge: All Stars.

Our second differentiator is our broad streaming business model. While many legacy streamers are rethinking their paid-only models, our mix of free ad-supported and paid subscription streaming options has been a hallmark of our strategy from the start, offering viewers the freedom to choose the plan that's right for them. And giving us access to the largest global total addressable market, while providing the benefit of dual revenue streams, with another strong quarter, Pluto TV continues to be a global leader in free ad-supported TV. This service continues to grow in users, engagement and revenue.

Pluto launched more than 102 new channels internationally in the quarter, for a total of now more than 1,000 global channels of great entertainment on the platform. Global TV viewing hours have grown by double-digits year-over-year. It's worth noting that, one of the things that makes Pluto TV so special, is that rather as seeing it as strictly an alternative to other services, many of viewers see it as complementary to linear and paid streaming. In fact, 80% of Pluto's customers also subscribe to paid streaming services.

Now, we all know people consume content on a variety of platforms. Some shows are worth the subscription, so you can watch them the moment they drop. Some movies are meant to be seen on the big screen. And for big games, you just have to watch it live on broadcast TV or Paramount+. That's why our broad set of platforms is a powerful third differentiator. Our deep expertise and expansive reach across theatrical, broadcast, cable and streaming gives us multiple advantages the legacy streamers don't have.

Strong promotional platforms to market and launch content and multiple revenue streams to generate return on every dollar of content investment. And remember, they created a massive libraries we have that are now generating significant incremental consumption at incredibly low cost. We see the power of the multi-platform advantage in the performance of our films.

Our four number ones, for example, opened in theaters backed by promotion across the entire company, and we were able to springboard off the theatrical marketing to drive performance as titles launch on Paramount+.

You saw this approach with Scream and Jackass and you will see it in the coming weeks with Lost City and Sonic 2. In addition, as I mentioned with Sonic, we will also launch Spinoffs for Paramount+ to further strengthen franchises and deepen fan bases. And based off the success of Jackass Forever, we're working with the creators to continue the partnership with a new series, bringing even more ridiculous antics straight to Paramount+.

We also see the power of the multi-platform advantage in the performance of our top linear TV programs, in addition to being the most watched network in America, CBS continues to be a strong driver of Paramount streaming services. Many of the cornerstones of our CBS lineup, fan favorites like Ghosts, NCIS and FBI are also amongst the strongest performers in streaming. To-date, this season, CBS has been the source of 17 of the top 30 titles on Paramount+ and on Pluto TV, CBS content accounts for 10 of the top 30 series in the quarter.

This multi-platform advantage also benefits our advertising partners. When advertisers see the massive scale of our linear and streaming offerings, including services like our Paramount+, essential tier and our industry leading Pluto TV FAST service, they instantly recognize that we provide access to a highly valuable, diverse audience in a manner and scale that's hard to match.

Through IQ, our integrated suite of streaming and creative ad solutions, we give advertisers turnkey access to 80 million full episode monthly unique viewers. This is a powerful offering in the marketplace and no one can deliver an audience from across a range of platforms in quite the same way, particularly when we package that with linear TV.

The fourth and last major differentiator that sets us apart is our international operating scale. We don't just license out the outside the United States like some companies, Paramount is a truly global operating company, with teams on the ground in more than 30 markets and a dozen studios creating original content around the world. This international presence is unquestionably a powerful advantage, when it comes to streaming, and we have moved quickly to benefit from it in a number of meaningful ways.

Through our international operations, we have strong relationships which we have quickly deployed to drive streaming distribution and we have an innovative distribution strategy, which comprises a mix of direct consumer and hard bundles with distribution industry leaders like Sky and Canal+ in Europe. These hard bundle relationships have compelling characteristics, quickly unlocking material volumes of subscribers at zero acquisition cost and very low churn, and they help maximize reach by complementing our hierarchy, direct channels and subscribers we acquire through other streaming platforms.

At the same time, our local broadcasters provide a powerful channel for promotion and content synergies which is also additive to penetrating the huge and growing total addressable market outside, United States. All of this is feeding streaming market expansion. This month, we are launching a new version of Pluto in the Nordics in a commercial partnership with NENT, we bring a global platform and global content. With NENT, a market leading Nordics broadcaster adding local content and local ad monetization capabilities, we believe this will be a compelling growth model. And we see more like this to come as we work with local broadcasters in markets where we don't have a broadcast presence.

That said, our global growth is led of course by Paramount+. In 2021 we launched Paramount+ in 25 markets across Latin America, Canada and Australia. In 2022 we're continuing to expand to more of the biggest markets in the world.

Next up is the launch of Paramount+ in the UK and South Korea in June and we will be in more major European markets including Italy, Germany, France, Switzerland and Austria in the second half of the year.

We will also begin to rollout SkyShowtime, our exciting capital efficient joint venture with Comcast. SkyShowtime will bring a rich offering of IP from Paramount and NBCUniversal to territories encompassing 90 million homes, primarily in Eastern Europe.

By the end of the year, our combined SVOD premium services including Paramount+ and SkyShowtime will be available in more than 60 markets with more than 60 partners. In addition, we're announcing today that Paramount+ will be distributed in India via our joint venture Viacom18's platforms in 2023.

Note that Viacom18, just entered into an agreement related to a significant third-party capital infusion and is poised to become an even more significant streaming player in the market. Imposing by going broad on content, on streaming models, on platforms and on global reach, we have written and are executing on a differentiated playbook to grow a diversified entertainment company and build a financially attractive business with healthy long-term margins.

With that, I'll hand it off to Naveen to talk about the results we're seeing this quarter and the path toward continued growth and even greater heights. Naveen?

## Naveen Chopra

*Executive Vice President & Chief Financial Officer, Paramount Global*

Thank you, Bob, and good morning, everyone. Our first quarter results reflect how our four strategic differentiators can drive performance at Paramount. Our balanced portfolio of media assets yields not only strategic benefits, but financial ones as well.

The strong OIBDA generation of our traditional businesses together with our fast-growing D2C business, make for a powerful combination. Today, I'd like to highlight some of the key financial and operational results in each of our new reporting segments.

Starting with Direct-To-Consumer. Our dual revenue stream model delivered strong year-over-year growth of 82%, with total D2C revenue reaching nearly $1.1 billion. This growth consisted of an increase in subscription revenue of 95%, aided by the addition of 6.3 million global subscribers in the quarter and 59% advertising revenue growth. Total global streaming subscribers were 62.4 million at quarter end, resulting in $742 million of D2C subscription revenue. Q1 D2C advertising revenue was $347 million, reflecting user growth, increased engagement and monetization across our ad platforms.

Paramount+ added 6.8 million global streaming subscribers in Q1, bringing our worldwide base to nearly $40 million. The net additions reflect a balance of domestic and international growth, with international benefiting from both direct subscribers and hard bundled offerings, another example of how our differentiated playbook is driving growth.

Paramount+ saw continued improvement in engagement in Q1 as the breadth of our content portfolio expanded. This is evident in our domestic monthly active rate, which improved quarter-over-quarter and year-over-year. Additionally, we saw double-digit sequential growth rates in hours per active and unique title streamed per active.

Our multi-platform programming expertise helps our customers spend more time with Paramount+ and explore more of our broad content offering. And importantly, this behavior helped drive improvements in average domestic monthly churn in Q1, which declined quarter-over-quarter and year-over-year to reach its lowest level in two years.

Strong engagement also helped drive robust advertising growth, which contributed to total Paramount+ revenue growth of nearly 150% to $585 million, with domestic and international ARPU both higher quarter-over-quarter and year-over-year.

Net subscribers on our other streaming services declined in Q1 primarily due to the timing of new programming. Pluto TV added 3.1 million users in Q1, bringing our global footprint to 67.5 million MAUs.

Revenue grew 51% to $253 million, which translated to strong year-on-year ARPU growth of more than 20% domestically and 7% on a global basis. In line with our previously shared expectations, D2C OIBDA was a loss of $456 million in the quarter, reflecting the investments we are making in content, marketing, and our international expansion plans.

Turning to our TV Media segment, Q1 revenue declined 6% year-over-year, including an 8 percentage point impact from CBS' broadcast of Super Bowl 55 in the prior year period. TV Media advertising declined 13% versus the year ago quarter, which included a 17 percentage point impact from the Super Bowl. Adjusting for the Super Bowl, total TV Media revenue grew 2% and TV Media advertising revenue grew 4%. TV Media affiliate revenue grew 1% in the quarter, driven by incremental distribution and contractual rate increases, which were somewhat offset by ecosystem declines, and TV Media licensing revenue was roughly flat in the quarter.

TV Media OIBDA declined 13% in the quarter to $1.5 billion. The year-over-year decline is largely driven by the comparison to the Super Bowl in the prior year and a return to a more normalized programming schedule in 2022 relative to 2021.

In Filmed Entertainment, we generated revenue of $624 million, which includes a resurgence in theatrical revenue generated from the release of three number one movies in Q1 compared to no theatrical releases in the year ago period. These films are great examples of our broad platforms in action.

For instance, Scream, which was released in January, outperformed our original box-office expectations and then moved to Paramount+ after 45 days where it became a top-five starts driver and where its contribution to subscription – subscriber acquisition and retention is enhancing overall ROI.

Licensing revenue at Filmed Entertainment declined in the quarter due to the comparison against sizable transactions in Q1 of 2021, including Coming

2 America and Without Remorse.

Filmed Entertainment had an OIBDA loss of $37 million, which reflects marketing expense associated with in-quarter and future theatrical releases.

Total company Q1 revenue finished down 1%, including a 6 percentage point impact from the Super Bowl. Excluding the impact of the Super Bowl, total company revenue grew 5%. Total company adjusted OIBDA of $913 million is down year-over-year, which reflects increased investment in D2C, the return to theatrical releases and the comparison to the Super Bowl in the prior year period.

Regarding the year-on-year trend, Q1 results are consistent with our prior commentary in which we noted that we expect the first half of this year to show a year-over-year decline in consolidated OIBDA, which will then flip to growth in the back half of the year.

Turning to the balance sheet. We finished the quarter with $5.3 billion of cash on hand and total debt of $16.8 billion. This reflects early repayment of nearly $2 billion of debt as well as the issuance of $1 billion in junior subordinated debt, which took place during the quarter. In April, we used proceeds from the junior subordinated debt offering to redeem approximately $1 billion of additional senior notes.

We continue to maintain significant financial flexibility, which will increase with the addition of proceeds from the sale of Simon & Schuster. We also maintained a committed $3.5 billion credit facility that remains undrawn.

Turning to our outlook. We continue to expect healthy D2C subscriber and revenue growth and our full year OIBDA expectations remain largely unchanged with the exception of the impact from Russia's invasion of Ukraine. As previously announced, we have taken steps to suspend our operations in Russia. This decision will negatively affect full year OIBDA by $70 million to $80 million, the largest component of which will fall to the TV Media segment.

We're also in the process of reviewing existing hard-bundle relationships in Russia. And starting in Q2, we expect these subscribers will be removed from reported D2C subscribers. This change will reduce Q2 D2C subscriber growth by approximately 3 million subs, roughly two-thirds of which are subscribers to a non-Paramount+ service specific to the Russian market.

Except for the removal of subscribers to our services in Russia, our full year D2C sub growth expectations are unchanged. Given the nature of the affected services, the financial contribution is immaterial and is included in the OIBDA impact I just mentioned.

And importantly, we remain highly focused on using our differentiated playbook to build our streaming business in a way that can deliver sustainable long-term economics.

As we said previously, our model targets long-term D2C margins that approach TV Media. We are bullish about our long-term goal of reaching over 100 million global D2C subscribers and generating at least $9 billion in D2C revenue by 2024. We continue to forecast D2C OIBDA losses will be greatest in 2023 and then improve in 2024.

We have significant growth ahead, our broad content offering has proven appeal, our dual revenue stream model is enhancing ARPU and attracting subscribers, our content investments are capturing returns across both traditional and streaming platforms, and our global footprint is delivering strategic and financial benefits.

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

# QUESTION AND ANSWER SECTION

**Operator**: [Operator instructions] Our first question comes from Brett Feldman of Goldman Sachs. Brett, your line is now open.

**Brett Feldman**
*Analyst, Goldman Sachs & Co. LLC*

Q

Yeah. Thanks for taking the question. I'll just sort of jump into the big debate. Investors are increasingly concerned that the streaming market is becoming saturated. And as you think about your own business and as you're looking to sustain the momentum we've seen in Paramount+ over the last couple of quarters, what are the key things you need to execute against this year to meet the subscriber targets that you've outlined?

And I'm curious whether you've been making any adjustments behind the scenes to your go-to-market strategy or your content strategy based on any shifts you've seen unfold in the market or maybe just the macro backdrop? Thank you.

**Robert M. Bakish**
*President, Chief Executive Officer & Director, Paramount Global*

A

Yeah, sure, Brett. Let me dive in there. So look, definitely a lot of conversation about the space. But I'd make three points in response to your question. The first one is we continue to believe that the TAM today in streaming is huge and that it will continue to grow.

And related to that, we believe the TAMs that we target is even larger than most people think because, as you know, we believe in both pay and free offerings, including lower-cost advertising supported options. And that means we appeal to the broadest potential number of consumers. So while there's no question that market sentiment has moved around a little bit, we continue to think that consumers are only moving in one direction, and we're very excited about the potential there.

Second, as a company, we're early in penetrating the market. So there is tremendous runway ahead of us. And if you look at the momentum that we are seeing, including in the last couple of quarters, we feel very good about getting there.

And third, in terms of how we're going after the market, as we said, we're running a differentiated playbook, taking our broad content, this broad streaming business model, spanning free and pay with dual revenue streams, ad and subscription, multiple platforms, broadcast, cable, theatrical plus streaming and this global operating footprint.

And we're putting all that together in a unique model which really drives streaming momentum and builds us to a more attractive financial model where we're able to produce similar margins, we believe, to legacy streamers at a lower scale. So, despite all that conversation, nothing has changed in the context of our thinking. Again, we see tremendous momentum here, and we're very excited about the road ahead.

**Robert M. Bakish**
*President, Chief Executive Officer & Director, Paramount Global*

A

Thanks a lot, Brett. Next question, please.

**Operator**: Perfect. Our next question comes from Michael Morris of Guggenheim. Michael, your line is now open.

**Michael Morris**
*Analyst, Guggenheim Securities LLC*

Q

Thank you. Good morning, guys. Maybe I'll follow-up on that question. Bob, you just kind of touched on margins. I'm hoping maybe you could expand on that a little bit. If you look at the legacy media business, there's a pretty broad range of margin profiles between theatrical broadcast, cable network, et cetera. This Netflix earnings call, I think, really brought up the topic of running into some margin expansion pressure on the streaming side. So I'd just love to hear maybe a little more about your response to that last question on what you think of the margin profile over time.

And then also, if I could just sneak one more in because you brought up the India expansion, which was new. I'm hoping maybe you could share a little bit more detail on the opportunity that you see there and remind us the assets you have in place to give you a foundation for success there? Thanks, guys.

**Robert M. Bakish**
*President, Chief Executive Officer & Director, Paramount Global*

A

Yes, sure. Why don't we do it in reverse order? I'll take India and then I'll flip the margin question to Naveen. So on India, look, that's a fundamentally attractive market. It's a market that's already at scale and has a tremendous future ahead of it in the context of Media. As I think you know, since its inception, Viacom18 has been a significant player in the market. And the recent agreement with Bodhi Tree, we look at that as a compelling way to really drive the next level of growth and obviously, they're going to make a significant capital infusion into the business.

When we look at India and we think about our current situation, I would really just highlight three things. The first thing is, we really like Viacom18. It's the model we like, it has broad reach television networks, including the market-leading Colors brand, combined with a film business, Hindi film business, it's both national and regional, and of course, has streaming assets as well, all underpinned by a strong local content engine. So, that's the model we like in general.

Second thing is our core partner there is Reliance. That's arguably the strongest and most powerful company in India, and they also own the telecom market leader, Jio. So we think that's great. And as I said, now Viacom18 is set up to be even a bigger player in the market, including in streaming. So we look at that as a great opportunity for Paramount+.

As we said, as I said in my remarks, we're going to enter in 2023 and we're going to do so in a very capital-efficient hard-bundle way. And so we think that's a great route into that market. And I would also note that India will be incremental to our $100 million sub guidance. It's early days so we're still at the point of deciding what we want to put out there, but it's definitely incremental to our guide. Naveen, on the margins?

**Naveen Chopra**
*Executive Vice President & Chief Financial Officer, Paramount Global*

A

Yeah. So, with respect to the question about margins in streaming, I think it's very important to understand that as a diversified media company we have the ability to fundamentally change the economics of streaming. I think we're the only player that is truly scaled across broadcast, cable and both pay streaming and free streaming services. And that has real economic benefit for us. And I'll give you a couple of examples.

First, with respect to content. You see a lot of pure-play streamers that have to spend billions of dollars a year renting library content. We have that in-house. And library content is responsible for a large share of viewing on streaming services, and it's absolutely critical to subscriber retention. And so for us, we're able to not only avoid billions of dollars in rental expense, we've actually now learned that we can use our own library for retention, while also getting paid by third parties for non-exclusive [ph] rate (34:57). So that's a significant benefit to our streaming P&L, if you will.

Another example in the marketing area, as many people know, launching new shows is expensive, not uncommon to see a big scripted original need tens of millions of dollars of marketing support to build an audience. But our model helps avoid those costs really in two ways. We have a lot of existing IP, well-known IP, large franchises that have built-in audiences that we can bring to streaming. Think of PAW Patrol or an 1883, coming off of Yellowstone, a franchise like Sonic and even big CBS shows like FBI, NCIS, et cetera. We've been able to bring those to streaming with very limited incremental marketing expenses.

And then second, on the marketing front, we have access to a lot of very valuable, very powerful promotional inventory across the broadcast, cable, digital and social channels that we run. You saw us utilize this during the AFC Championship game where we were promoting Halo with some great integrated experiences. And that's a broadcast that reached over 30 million viewers. That will be very expensive to leverage if you were a pure-play streamer and you didn't own that promotional inventory. So you take those kinds of benefits, which, again, are unique to our position as a diversified media company, and you can see how that really adds up to a significant difference in overall streaming economics.

**Robert M. Bakish**
*President, Chief Executive Officer & Director, Paramount Global*

A

Great. Thanks, Mike. Next question.

**Operator**: Our next question comes from Bryan Kraft of Deutsche Bank. Bryan, your line is now open.

**Bryan Kraft**
*Analyst, Deutsche Bank Securities, Inc.*

Q

Hi, good morning. Naveen, I wanted to ask you a question on content spend. It looks like total cash content spend last year was about $2.5 billion higher than total programming and production expense. It looks like that difference will probably be about the same this year, and that represents about a 60 percentage point drag on free cash flow conversion in both years. So I guess I wanted to ask you first, I guess, do you agree with that observation on that. And if so could you just maybe help us think through and we might start to see meaningful decreases in the drag on free cash flow conversion from that content investment or put another way, when do you see that ratio of cash content spend to P&L expense decrease materially? Thanks.

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**Naveen Chopra**
*Executive Vice President & Chief Financial Officer, Paramount Global*

A

Yes, thanks, Bryan. Yes, there is a gap between cash content spend and content expense or amort. But we do expect that to improve and therefore, overall free cash flow, I should say, we expect it to narrow. And therefore, overall free cash flow conversion to improve. The gap you're seeing today between cash and amort is primarily related to two dynamics. Number one, the return of our production to more normalized levels post COVID. And then number two, continued growth in investment around streaming content. And I think on the COVID piece, we expect to see that easing through the remainder of 2022. Streaming investment will obviously continue to ramp through 2024, though the growth rate does slow over time. And as that growth rate slows the gap between cash and expense will start to narrow.

And then in parallel, we also – as I've spoken about before, continue to drive a number of different working capital improvements that should help overall free cash flow conversion. But hopefully, that gives you some sense of what to expect on the trends there.

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**Robert M. Bakish**
*President, Chief Executive Officer & Director, Paramount Global*

A

Thanks, Bryan. Next question.

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**Operator**: Our next question comes from Rich Greenfield of Lightshed Partners. Rich, your line is now open.

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**Rich Greenfield**
*Analyst, Lightshed Ventures*

Q

Hi, thanks. I'm going to ask a couple of questions. I don't get to ask many questions on conference calls. So Bob, I think you made a pretty active decision last year to move Halo from Showtime over to Paramount+, which I think has done pretty well the way you've talked about Halo.

It does seem though when you look at sort of Showtime losing subscribers this quarter, I presume, it sort of just raises the question of like, why is it important for Paramount to own Showtime? It seems like it's a pretty obvious asset either to be incorporated into Paramount+ but it also has real, obviously, strategic value like you could spin it off, you could probably merge it with someone like Starz, like – it just seems like there is a – it's confusing in terms of you have to figure out where to put content internally. So if you could just help us think through the strategic logic of keeping Showtime as a separate brand inside of Paramount, that would be great?

And then two, more of just a housekeeping point. The ARPU of Paramount+ globally is like $5.39 that includes ads and subscription. And when you look at the strength of the connected TV ad market overall over the last year, just curious like where are you in terms of ad ARPUs or anything you could sort of highlight? And what is dragging down that overall ARPU, which looks like it's down a few percent year-over-year? What's weighing on that? Is that international? Is that distribution deals like [indiscernible] (40:30) like – just help us understand why the ARPU isn't a lot higher than $5.39, would be great?

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**Robert M. Bakish**
*President, Chief Executive Officer & Director, Paramount Global*

A

Yeah. Sure, Rich. I'll take the first one, and then I'll – then Naveen will take the ARPU question. So on a total company basis, we – as you know, we saw added 6.3 million subs, Paramount+ added 6.8 million. So de facto, the other category, which is what we report, we report Paramount+ and total. So by definition, other declined about 500,000. That other category includes Showtime also includes BET+ and Noggin and some other smaller international streaming services.

If you look at that category of other, yes, it declined 500,000 in the quarter, but it added 5 million subs last year. So it's not inconsequential to the success and momentum of our streaming business. And it's not just Showtime. If you look at Q1, a couple of those services were impacted by timing of programming availability. So that was a factor.

But big picture, we view a combination of a broad service, in this case, Paramount+ plus specific services, which target specific consumer segments, things like Noggin, things like Showtime, as additive to going after the largest TAM. And again, our streaming history has proven that they are additive ex Q1. So we continue to believe that's a good strategy. We do make decisions of where to put programming. As you pointed out, last year, we moved Halo from Showtime to Paramount+ because we viewed Paramount+ as the broader platform, and that was a better place for that show. We moved The Man Who Fell to Earth, the other direction. We thought that was a better place for that show. So we think about these things, but we really look at the constellation of services.

The other point I'd make is we are on a path to integrate these much more. Sure, we do a commercial bundle today with Paramount+ and Showtime. But as we've said in the summer, you're going to be able to get Showtime within Paramount+ as an additional option, and that will set us up, because we have the opportunity to do that with other brands as well.

So again, serving super fans with a super broad offering, but still offering some à la carte options, we think, is the right strategy. So that's how we're thinking about it, Rich.

On the ARPU point, Naveen?

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**Naveen Chopra**
*Executive Vice President & Chief Financial Officer, Paramount Global*

A

Yeah. So, a couple of things on ARPU. In terms of the year-on-year trends that you were asking about, Rich, that really is a function of the mix between international and domestic. We've obviously grown, I should say, we've launched in a number of international markets and grown our subscriber base there over the course of the last year.

And so that mix is skewing a little more international than it was a year ago. And given that it's the mix that is driving that number, I think it's more helpful to look at the individual components, which is to say look at what happened with domestic ARPU and international ARPU separately.

And when you look at it that way, both of those numbers, domestic and international ARPU improved both quarter-over-quarter and year-over-year in Q1. Drivers of each are a little bit different. On the domestic side, that ARPU benefited from the fact we had a lot of folks in free trial state in Q4. And as we said back then, we expected they would convert and become paid subscribers in Q1, which did happen.

And on the international side, ARPU continues to benefit from the fact that the subs we're adding are coming from markets where ARPU tends to be higher than sort of our installed base where we started in some smaller Latin American markets. So that's, sort of, the trend for Q1.

In terms of where we see that going in the future and how big could it get relative to other industry peers, we do think there is upside potential. It's a combination of both growth in ad ARPU as well as continued strength on the subscription piece of it. I would remind you that as we said last quarter, domestic paid ARPU, is around $9 and that actually grew in Q1 relative to Q4 as well. So that gives you some sense of sort of the long-term potential when you look at it separately between domestic and international.

**Anthony DiClemente**
*Executive Vice President-Investor Relations, Paramount Global*

A

Thanks, Rich. We will take the next question.

**Operator**: Our next question comes from Benjamin Swinburne of Morgan Stanley. Benjamin, your line is now open.

**Benjamin Swinburne**
*Analyst, Morgan Stanley & Co. LLC*

Q

Thanks. Good morning. Two questions. One on the ad market and then one on D2C through the rest of this year. Obviously, a lot of concern around the macro backdrop. Can you guys talk a little bit about what you're seeing in advertising, both as you head into the upfront? And also curious on the fast Pluto front, if there's been any slowdown or anything you're picking up on the advertising side and how we might want to think about that for Q2?

And then you have a lot going on this year in D2C. You got a lot of new market launches, some hard bundle launches, particularly with Sky. Could you just help us think about the rest of the year in terms of cadence, which quarters do you think might be bigger than others based on what you know today around your partnerships and anything on the content slate we should be thinking about? Thank you.

**Robert M. Bakish**
*President, Chief Executive Officer & Director, Paramount Global*

A

Sure, Ben. A lot in there. Let me try to take it quickly. So on the ad side, look, on an apples-to-apples basis, i.e., if you take – if you adjust for the Super Bowl comp, Q1 was a solid growth quarter for us. We were up 4% in TV Media. That was based on strength in local and international sports too. If you add the D2C business in, again, ex-Super Bowl business grew about 8%. So that's solid.

In terms of under the covers, it was a bit mixed. We had strength in a bunch of categories like travel, like movies, like retail. We also saw some weakness categories like wireless, auto, pharma. And those were driven – that weakness was really driven by a mix of, kind of, supply chain and what I'd call general ramp out of COVID headwinds.

I would point out that as we look at the market, we see political as a very significant plus in the second half of the market. So that's how we're looking at it. You did mention the upfront. I will say we are super excited about the upfront. As you know, we're coming back to Carnegie Hall in real life, live and in-person; on May 18, we'll showcase the power of Paramount.

We'll show our full range of demographics, the combination of our linear and digital platforms, including, of course, IQ, which gets you 80 million [indiscernible] (47:46) viewers. We'll show you advanced advertising solutions, including the use of three alternate measurement currencies to get some optionality in the marketplace.

Obviously, we'll bring our best-in-class ad creative and integration. And it's going to be built off – it is built off just a truly incredible content lineup, entertainment, sports, tent poles, you name it. So we're very excited going into this upfront. Naveen, you want to touch on Pluto and then I'll come back to the international point.

**Naveen Chopra**
*Executive Vice President & Chief Financial Officer, Paramount Global*

A

Yeah, sure. Look, in terms of Pluto, there was a little bit of softness in Q1, but similar to Bob's comments, I think that was driven entirely by market dynamics and categories that are impacted by supply chain or in some cases, comping against categories that had a real COVID bump in the prior year period. And I wouldn't lose sight of the fact that Pluto revenue still grew more than 50% off a $1 billion base, which, by the way, is despite some changes that we made to reduce ad load in order to continue to improve and evolve our user experience which I think will benefit long-term engagement and monetization. That all translated to compelling ARPU trends in the quarter. I mentioned domestic ARPU being up more than 20%, international ARPU growing at an even faster clip than that.

And so looking forward, we think the strong user engagement – strong user growth and engagement trends probably will continue to drive monetization. There will be some impact from the overall ad market based on some of the dynamics that Bob described there. But big picture, Pluto was a business where the combination of structural growth and our significant leadership position allow us to offset some of those cyclical headwinds by a very, very significant margin.

**Robert M. Bakish**
*President, Chief Executive Officer & Director, Paramount Global*

A

Yeah. And then real quick, yes, the back half of the year is busy in D2C. Obviously, we've got a great content slate coming, very excited about that. The real volume of activity arguably in a change versus prior year basis is international launches. UK and South Korea in June, then we rolled to Italy, Germany, Austria, Switzerland, France through the remainder of the year.

All of that enabled by obviously our streaming platform and content lineup, but very importantly, our local teams on the ground building on relationships we have, including hard bundle relationships. So tremendous amount of activity as we scale Paramount+ very quickly. It's going to be an exciting year.

**Anthony DiClemente**
*Executive Vice President-Investor Relations, Paramount Global*

A

Great. We'll take our next question.

**Operator**: Our next question comes from Phil Cusick of JPMorgan. Phil, your line is now open.

**Philip A. Cusick**
*Analyst, JPMorgan Securities LLC*

Q

Thank you. Good morning. One follow-up on streaming and one on theatrical. First, AVOD and ad Light model seem to becoming the norm rather than the exception. Does that change your view on your differentiation around Paramount+ and Pluto? And then second, can you comment on the state of the box office. You've had two or three strong releases recently. Where do you see appetite for theater going today in the US and globally versus 2019? And do you think [ph] temporal (51:16) movies can do a large percentage of the 2019 potential at this point? Thanks guys.

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**Robert M. Bakish**
*President, Chief Executive Officer & Director, Paramount Global*

A

Yeah, sure. So I guess in reverse order because the first one is quicker. So box office, we feel very good about it. We just got some research that on the domestic side, consumer comfort is at 87%. That is the highest level since the pandemic began. And we've released a number of films, all of which are number one to-date.

The third one, Lost City was a real canary in the coal mine in a good way because that was an older female audience that came to the theater. The first two were younger male audiences, which we were less worried about showing up. And of course, Sonic, our fourth one did very well, that's a broader family audience. So we like what we're seeing. Our sense now is box office for 2022 will probably be down about 20% versus 2019, which we think is pretty good.

So, we feel good about it and we're super excited going into Memorial Day weekend with Top Gun Maverick. We're actually going to the San Diego premiere on Wednesday night. We think that's going to be awesome. We showed it at CinemaCon in Vegas to the theater owners and literally I've never read tweets like that. People were just incredibly gushing about it. The perfect tent pole was one of the comments I saw. So, we're feeling good about theatrical, we're very happy to be in the business. We think it's good standalone business and clearly drives streaming.

To your first question on streaming and advertising, look, we were early in that game. We led it because we believed in it when other people didn't and we still believe and we are a leader and we are differentiated. This is not an easy business to replicate. It starts with an integrated strategy that spans free and paid streaming and leadership in free for sure, and growing on the pay side, including obviously, Paramount+ Essentials. It also extends to multiplatform, advertising goes across broadcast, cable and streaming. And we have leadership positions in broadcast and cable, too.

And it's nontrivial to stitch all that together. Add to that content, which is both libraries, primarily libraries on the free side with Pluto and Originals, you heard some of the stats – Paramount global libraries power our streaming platforms and again, very difficult to replicate. And then on the platform side, Pluto is a pretty advanced connected TV platform, and we continue to add features, including ad tech features to it, like dynamic ad management, ad load management. So that's differentiated marketing. Naveen talked about it, the power of our cross platform management, marketing and the cost effectiveness of that.

And then lastly, international, as we're rolling it out, whether it's the hard bundle model, which we talked about or what we're doing this month with NENT, where we're rolling out this local model, where we bring platform and big libraries and they bring local content and local ad monetization. So, yeah, we view all the discussion on advertising as a validation of our strategy. But we are the leader and we have real assets here and we will continue to push ahead and lead this market.

**Anthony DiClemente**
*Executive Vice President-Investor Relations, Paramount Global*

A

Great. Next question, please.

**Operator**: Thank you. Our next question comes from Jessica Reif Ehrlich of BofA Securities. Jessica, your line is now open.

**Jessica Reif Ehrlich**
*Analyst, BofA Securities, Inc.*

Q

Thanks. I have two questions. First, going back to India, which was news today, there's been tons of press coverage on Reliance bidding for IPL. I think that comes up next month, would that be part of Paramount+? It's critical content, but obviously it would be super expensive?

And then the second question is, you talked about the multiplatform advantage which clearly benefits advertising, but I'm wondering if you could just talk a little bit about how that impacts your conversations with distributors as you move content between platforms and given the kind of, I don't know, step up and sub losses this past quarter. So, if you could just talk about that impact that would be great? Thank you.

**Robert M. Bakish**
*President, Chief Executive Officer & Director, Paramount Global*

A

Sure. Jessica. So on the India side, the point you make is why we said what we're doing in India is so capital efficient. So you're right. There's – cricket is going to trade in the marketplace and beyond that, I'm not going to say. But no, our intent is not to put cricket on Paramount+, but remember what I said, it's a hard bundle strategy, which means Paramount+ will travel with other assets.

And therefore, we believe there's a real opportunity to benefit from cricket without having to pay for it on Paramount+. So that assumes, of course, that the asset ends up in a certain place. But that's the answer on India. Again, we're tremendously excited about that market, about our partner Reliance, about Bodhi Tree coming in and about benefiting from a leadership position therein.

To your second question, on cross platform and content, I'd just say a couple of things. One is, we think about our TV Media business every day. We're a leader. Again, CBS, number one network, despite the fact that one of our competitors had the Olympics and the Super Bowl, that speaks to the power and strength of our programming slate therein.

Likewise, on the cable side, as of Q1, we continue to lead on virtually every demographic on share, so. and the reason is, is because we put a lot of great programming on those platforms, a lot of exclusive first on those platforms, which we're happy to do, because we partner with distributors who are providing those services to consumers.

So again, our strategy is for sure to continue to reinforce value there as we simultaneously build our streaming business. And by the way, our distributors are active with us on the streaming side, too. Every MVPD, vMVPD deal we've done, certainly in the past year, but really longer than that, I'm pretty sure, includes a streaming component, might include a Pluto component, might include a Paramount+ component, might include both. But it's really working with distributors to both ensure stability, and predictability in the linear side, while simultaneously helping them transform their business to the broadband video side.

**Anthony DiClemente**
*Executive Vice President-Investor Relations, Paramount Global*

A

Thanks, Jessica. We have time for one last question.

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**Operator**: Perfect. Our final question comes from Robert Fishman of MoffettNathanson. Robert, your line is now open.

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**Robert Fishman**
*Analyst, MoffettNathanson LLC*

Q

Good morning. Thank you. Bob, maybe just following-up on Jessica's question. Can you expand on how you plan to specifically use sports as a differentiator across the company's portfolio of linear and DTC?

And whether your legacy linear sports contracts might make it harder to renew rights going forward with the proper ROI if cord cutting does accelerate? And just lastly, if you could touch on Amazon and Apple increasing its investments in sports and how that might affect future negotiations? Thank you.

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**Robert M. Bakish**
*President, Chief Executive Officer & Director, Paramount Global*

A

Sure. So look, we like sports as a component of our programming strategy across platforms, CBS Sports clear market leader in it, a great portfolio of sports assets, including NFL, including NCAA, including golf, including by extension on Paramount – mostly on Paramount+, but also [ph] bid on CBS/UEFA (59:24) that's all obviously US.

And we have been selectively adding sports properties outside the US. We do all this in a very disciplined way, looking at ROIs. Sure, there's some stuff that's traded that we haven't done because we didn't think it was worth the price point. But we very much like it as a component of our strategy.

It's performing very well in the broadcast market, both on a viewership and an advertiser perspective. And it's clearly, as we – as I said in my remarks, driving streaming as well. The first quarter benefited once again from sports on Paramount+. So we like it.

In terms of negotiations, all negotiations have their challenges, but we were just with an international league last week, talking to them about the power of Paramount in the context of our platforms, our production expertise, our monetization capabilities and really showcasing the value of sports to us. And I think it is a compelling package we offer. And I'm very happy playing that plan. So it's part of our strategy. It's clearly not our whole strategy, but it's additive.

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## Robert M. Bakish
*President, Chief Executive Officer & Director, Paramount Global*

With that, I just want to close by thanking everyone for joining for our Q1 call, and thank you for your continued support. As I hope you've seen, Paramount's high-growth streaming business underpinned by real strength in film, broadcast and cable is a powerful combination, and it has clear momentum. So our differentiated strategy, as we said, is creating advantage. We're excited about the road ahead. Until the next time we speak, everyone, stay well.

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**Operator**: Ladies and gentlemen, this concludes today's call. You may disconnect your lines.