Corrected Transcript

04-Nov-2021

ViacomCBS, Inc. (VIAC)

Q3 2021 Earnings Call

CORPORATE PARTICIPANTS

Anthony DiClemente
Executive Vice President-Investor Relations, ViacomCBS, Inc.

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

Naveen Chopra
Chief Financial Officer & Executive Vice President, ViacomCBS, Inc.

OTHER PARTICIPANTS

Brett Feldman
Analyst, Goldman Sachs & Co. LLC

Michael Morris
Analyst, Guggenheim Securities LLC

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Richard Greenfield
Analyst, LightShed Partners

John C. Hodulik
Analyst, UBS Securities LLC

Jessica Reif Ehrlich
Analyst, BofA Securities, Inc.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Douglas Mitchelson
Analyst, Credit Suisse Securities (USA) LLC

Robert Fishman
Analyst, MoffettNathanson LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the ViacomCBS Conference Call. Today's call is being recorded.

At this time, I'd like to turn the call over to Executive Vice President of Investor Relations, Mr. Anthony DiClemente. Please go ahead, sir.

Anthony DiClemente
Executive Vice President-Investor Relations, ViacomCBS, Inc.

Good morning, everyone. Thank you for taking the time to join us for our third quarter 2021 earnings call. Joining us 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. We 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 Marc Bakish

President, Chief Executive Officer & Director, ViacomCBS, Inc.

Good morning, and thank you for joining us. On today's call, I'll cover two key topics: First, I'll briefly discuss ViacomCBS's third quarter results. Then I'll talk about streaming, where we're executing against a global strategy that leans into our distinct competitive advantages and where our strong momentum shows how we're uniquely positioned for success. Let me start with the company's third quarter results, where we achieved another quarter of strong performance as total company revenue grew 13% year-over-year, reflecting growth across all revenue streams.

In affiliate, revenue grew as we continued to benefit from the expanded distribution of ViacomCBS' renowned brands. We also struck a series of distribution renewals, including with Charter, Cox and just last month, Altice. And despite a tough comparison against political advertising in the prior year quarter, we grew advertising revenue in Q3, benefiting from an improved marketplace.

Turning to streaming. We had another fantastic quarter of growth. The strength and momentum of both Paramount+ and Pluto TV are clearly evident and demonstrate the power of the strategy we laid out at our investor event earlier this year. Overall, quarterly global streaming revenue surpassed $1 billion for the first time, driven by robust growth in both subscription and advertising, including the addition of 4.3 million global streaming subscribers. These strong streaming results reinforce our conviction that our strategy is working and that we're well positioned to capture the significant opportunity in the global streaming ecosystem.

To that end, I want to remind you of three key enablers driving the ViacomCBS strategy, all of which we're seeing in action: First, an incredible breadth and depth of compelling content, which is critical to attracting and retaining consumers globally; second, robust distribution and marketing, which ensures we can build the broadest reach and awareness; and third, a strong and flexible financial engine to enable streaming investment, drive ROI and maximize shareholder value.

First, content. ViacomCBS is uniquely positioned with a vast library and production capabilities across genres, demos and geographies, including world-class studios aligned with broadly recognized brands, which enables us to produce a diversity of compelling and engaging content on a global scale, content that's already fueling Paramount+'s growth. When we introduced Paramount+ 9 months ago, we told you it would be a differentiated product with broad appeal, composed of a full range of content including news, sports, movies, kids and family, unscripted and original dramas. Our consumer data tells us the diversity of content on Paramount+ is a huge attraction and it is served as a key tool for customer acquisition as well as for driving customer satisfaction, thus improving churn.

As evidenced, just look at the third quarter. Starting with kids and family content, which was the top genre on Paramount+ for both acquisition and engagement in the quarter. In fact, over half of our subscribers streamed kids and family content from our globally loved Nickelodeon brand. What's even more impressive is that content consumption was balanced across new originals, and library, both film and television, including enduring franchises like SpongeBob and PAW Patrol and young adult content, such as the new iCarly.

Movies are also proving to be a key attraction to the service. And as we continue to experiment with different lease strategies, we're seeing success across all of them. This quarter, A Quiet Place Part II and PAW Patrol: The Movie were the top 2 titles for acquisition and engagement on Paramount+. And the results were impressive, both in theatrical and on Paramount+. And following the global success of PAW Patrol: The Movie, we're thrilled to announce the sequel, which will debut in 2023.

In addition, a new PAW Patrol spin-off series for Nick and Paramount+ is in development. This is ViacomCBS franchise management ratcheting up to the next level. Next week, we have another family film day-and-date theatrical and Paramount+ Premier with Clifford the Big Red Dog, which is tracking very well. And finally, as we told you, we're also creating films exclusively for Paramount+. Just this past weekend, the latest Paranormal Activity: Next of Kin debuted, and we like how this model is working, too.

So clearly, movies are a hit for Paramount+, and they'll continue to be because Paramount+ is only one of a handful of streaming services in the world that can draw from an established and legendary movie studio like Paramount Pictures to provide it with a steady supply of world-class films.

And then there's live sports. This quarter, we welcomed back the highly anticipated return of the NFL and soccer, including UEFA, and the fans came back in droves. Look across it, and you'll find that 1/3 of all active domestic Paramount+ subscribers watch sports. And importantly, we're engaging with our sports fans after the game too, building out the content slates of those genres that we know sports fans love from our long history with broadcast and cable. This is critical to maximizing our ROI on sports. And our Paramount+ content line-up is only getting stronger.

The fourth quarter will see our biggest scripted original line-up yet. First up, from Yellowstone creator and hit maker, Taylor Sheridan, is Mayor of Kingstown starring Jeremy Renner. Next is the Yellowstone prequel 1883, staring Tim McGraw and Faith Hill. We'll launch both of these shows behind the most popular show on cable television, Yellowstone, introducing them to a weekly audience of over 7 million viewers to drive awareness and anticipation among the loyal fan base before they move exclusively to Paramount+. These are amazing series and will no doubt be fan favorites when released.

And on November 25, Kyle, Stan, Kenny and Cartman will make their highly anticipated debut on Paramount+ as we exclusively premiere the first of our South Park made for streaming movies titled South Park: Post COVID. And the second exclusive South Park made for streaming movie will stream in December.

Moving from content to the second key enabler of our streaming success, which is leveraging ViacomCBS's robust distribution and marketing capabilities to build the broadest reach and awareness. We are benefiting from our broadcast, cable and social reach, driving consumers to Paramount+, which is both an efficient and effective way to promote our new and existing series, movies and events in streaming. Of course, that includes running spots and leveraging the social followings of our franchises and talent, but it's much more than that. I already mentioned what we're doing with Taylor shows. We just moved SEAL Team exclusively to Paramount+ after 4 episodes ran on CBS. We moved EVIL earlier in the year, and we're doing similar things outside the US as well.

In terms of streaming distribution, you'll see us continue to scale both new and traditional platforms. For example, we just announced a broad distribution agreement with T-Mobile to bring Paramount+ Essential to the carrier's large customer base across the US. Suffice to say, we're thrilled to have T-Mobile welcome more fans to Paramount+'s diverse and compelling content slate.

But streaming is not just about the US. I really see our international footprint as a key accelerant for the company to unlock the very significant opportunity in streaming outside United States. Here, we're rapidly making great strides. Last week, we launched Pluto TV in Italy, continuing its international expansion. This week, we announced an agreement to acquire a majority stake in Fox TeleColombia and Estudios TeleMexico, which, when combined with our existing assets, including Chilevisión and Telefe, solidifies ViacomCBS as one of the largest Spanish language content creators in the world.

On our last call in August, we announced a strategic partnership with Sky to launch Paramount+ in key Western European countries next year, including the UK, Germany and Italy, putting us on track to achieve 45 markets by the end of 2022. We have since announced SkyShowtime, a joint venture with Comcast, which will include premium and original content from both companies. Launching in 2022, SkyShowtime will reach an additional 20 European territories covering 90 million homes.

The third enabler that positions us to win in streaming is our strong and flexible financial engine. Here, there are a number of elements to highlight. It starts with a streaming financial model based on multiple revenue streams, which enables us to monetize content, both through advertising and subscription. Multi-revenue stream businesses have attractive characteristics when it comes to size and diversification. Multiple revenue streams made the cable network business extremely attractive. They will do the same for streaming, and the total addressable market for streaming is even larger.

Let me put our streaming ad business in context for you. As the leading free ad-supported streaming TV service on the market, Pluto TV is winning in both scale and engagement, and it will be a $1 billion revenue business this year. Add to that global expansion and significant upside from our ad-supported version of Paramount+, and you have a long runway of streaming advertising growth ahead.

And then there's subscription. This is already a huge market. And while it's still early inning for us, our ViacomCBS business is well ahead of our long-term growth plan, and we like what we see ahead. Our financial strength and flexibility is also reinforced by our ability to leverage our streaming content investment across geographies and platforms. Global is obviously important for content ROI, and we are a global company, both as a content maker and as a network and streaming operator.

Lastly, the combination of the strong cash flow of our legacy business, our aggressive approach to noncore asset dispositions and our capital raise earlier in the year has allowed us to build a substantial incremental capital base to invest in streaming. As we said we would, we began deploying that capital in the third quarter to accelerate our streaming growth. These investments have attractive returns and result in more original series and movies for streaming. As I mentioned earlier, we have a great content pipeline for Q4 and anticipate it will have a positive effect on our subscriber growth, which will be larger than in Q3. This will also be the case for Pluto MAUs in Q4. And as a reminder, we're also deploying this capital to drive our international expansion.

Finally, I'm excited to tell you we will hold an investor event early next year to provide an update on our streaming business, including showcasing our content to come and providing more transparency around our plans and progress.

With that, I'll hand it over to Naveen to share additional financial and operational highlights.

Naveen Chopra

Chief Financial Officer & Executive Vice President, ViacomCBS, Inc.

Thank you, Bob, and good morning, everyone. Our third quarter results were highlighted by continued growth in streaming, where we had another solid quarter of subscriber additions. Streaming revenue grew 62% year-over-year with solid growth in both the subscription and advertising components of our streaming business. Q3 also benefited from growth in traditional advertising, affiliate revenue and content licensing.

Let me start by providing some additional granularity on our streaming results, beginning with our subscription business, and then moving to our ad-supported services. We added 4.3 million global streaming subscribers in the quarter, reaching nearly 47 million at quarter end. Paramount+ continues to drive the significant majority of new subscribers with a mix of both domestic and international customers. We also saw continued improvement in Paramount+ engagement.

The average monthly share of domestic pay subscribers active on the service, also known as our monthly active rate, grew in the quarter both sequentially and year-over-year. At the same time, average monthly hours per active domestic subscriber also improved quarter-over-quarter and year-over-year. And in terms of monetization, global streaming subscription ARPU increased 8% year-over-year. The combination of strong subscriber growth and increased engagement led to streaming subscription revenue growth of 79% to $548 million.

Moving to our ad-supported streaming businesses. Pluto TV ended Q3 with 54.4 billion global MAUs and revenue grew 99% year-over-year. Pluto's success continues to be driven by growth in users, engagement and sell-through, which translated to a 60% increase in Pluto TV domestic ARPU in the quarter. While Pluto accounts for the majority of our streaming advertising revenue growth, we also saw strong growth at Paramount+, where domestic advertising revenue more than doubled in the quarter. All in, streaming advertising revenue grew 48% year-over-year to $531 million.

Advertising revenue, which excludes streaming, grew 1% in Q3 to $1.9 billion as strong demand was somewhat offset by ratings pressure, political spend that benefited the prior year quarter, as well as the sale of CNET. Taken together, the impact of political and the sale of CNET resulted in nearly 500 basis points of headwind to advertising growth in Q3.

Looking to Q4, advertising revenue will benefit from the start of new fall programming and improved upfront pricing with the new broadcast season. While supply chain issues do somewhat limit visibility, we expect to see year-over-year advertising growth in Q4.

Affiliate revenue, which also excludes streaming, grew 2% year-over-year to $2.1 billion as incremental distribution, contractual rate increases and growth in reverse comp more than offset the decline in pay TV subscribers. We expect these drivers to continue into Q4, resulting in another quarter of low single-digit affiliate revenue growth.

Licensing and other revenue, which includes fees from the licensing of internally-produced television and film programming to third-party platforms as well as fees generated from home entertainment, consumer products and live events, increased 18% to $1.5 billion. Q3 2021 reflects a higher volume of licensing deliveries in the year ago period, which was impacted by COVID-19 production shutdowns. Total company revenue grew 13% year-over-year to $6.6 billion. Adjusted OIBDA fell 3% to $1 billion as we continue to ramp up programming and production spend coming out of COVID and increase our investment in streaming. Adjusted diluted EPS was $0.76.

Adjusted free cash flow was a use of $187 million in the quarter, reflecting a ramp in programming spend including our investment in streaming. Adjusted free cash flow in Q4 should reflect a continuation of this trend. And turning to the balance sheet. We finished the quarter with $4.8 billion of cash on hand and total debt of $17.7 billion. This translates to a 2.5 times net leverage ratio as of September 30. We continue to have significant financial flexibility, which will increase further with proceeds from asset sales, including BlackRock, which closed in October.

Looking ahead, we expect total pay subscriber additions in Q4 to be higher than Q3, driven by the content we have coming to Paramount+, including the premier of some of our biggest new originals, as Bob just described. We're excited about the launch of our T-Mobile partnership, which will have a modest benefit in Q4, but should be a more significant contributor in 2022. We also expect Q4 Pluto TV MAU additions to be greater than Q3, which, in combination with Paramount+ growth, will result in continued strong total streaming revenue growth rates in Q4. In fact, we expect streaming revenue to surpass a $5 billion annual run rate in the quarter. This places us ahead of the trajectory implied by the long-term streaming subscriber and revenue goals we provided earlier this year.

We're encouraged by this momentum and are continuing to execute against our previously described growth and investment plans. As we've said before, this translates to streaming content expense more than doubling for the full year 2021 versus 2020. And given the cadence of content hitting Paramount+ Q4 streaming expense, including content and marketing to support the new programming, is expected to increase on the order of $350 million relative to streaming costs incurred in the third quarter of 2021.

As Bob said, ViacomCBS is well positioned to be successful in streaming, given the breadth and depth of content we have on the service, our robust distribution and marketing capabilities and our strong and flexible financial engine.

As we scale, improving unit economics and continued TAM expansion will make streaming accretive to ViacomCBS earnings and cash flow over the long term. And as we invest against the streaming growth opportunity, we will evolve the way we manage and allocate resources in our business. With this in mind, we plan to change our segment reporting beginning with our first quarter 2022 results, which will help investors better understand ViacomCBS as the combination of three parts: A very profitable traditional media business, a world-class film studio and a portfolio of high-growth global direct-to-consumer streaming services.

Our direct-to-consumer segment will include Paramount+, Pluto TV, Showtime OTT and our other direct-to-consumer services. We will combine our TV entertainment and cable networks businesses into one TV media segment, and we will continue to have a filmed entertainment segment. Importantly, these changes reflect the increasing strategic focus we will be devoting to our direct-to-consumer business. Our new segment disclosure will provide additional information on the growth drivers and business performance of the services that comprise our B2C segment and give shareholders even greater visibility to our streaming progress. We look forward to discussing the changes to our segment disclosure in further detail, along with updates on our direct-to-consumer growth and investment plans at the investor event Bob noted and which we will host in the first quarter of 2022.

With that, let's open the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] . Our first question comes from the line of Brett Feldman with Goldman Sachs. Please proceed with your question.

Brett Feldman
Analyst, Goldman Sachs & Co. LLC

Q

Yes. Thanks for taking the question. It's actually a three-part question about the new T-Mobile deal, which looks pretty exciting. T-Mobile, they just reported earlier in the week, they had just under 27 million postpaid accounts, I just want to confirm that, that's sort of the addressable opportunity for you with T-Mobile? And then I'm curious why you're expecting the impact to be more early next year, even though it's going to start being offered in this quarter?

The second part of the question is, typically, these are wholesale deals where all of these customers would be paid and in your paid subscriber count, but maybe at a lower ARPU. And I'm just curious if that's the arrangement here?

And then the last one is a bigger one. This is now sort of your second big distribution deal following what you've done with Sky in Europe. I was hoping you can maybe give us some insights into what you think the opportunity is to continue adding more distribution partners, both domestically and in your international markets? Thanks.

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

Yes. Sure, Brett. Let me start and actually start in reverse order. So look, I believe in the power of partnership. It has been used effectively to create value, great value for this company in the past and will on a going-forward basis. Today, we talked about two partnerships T-Mobile and Sky. I think they are great examples of creating value.

And in all cases, when we think about partnership, what we're looking for is an ability to drive scale. We're looking for low subscriber acquisition costs. We're looking for deals which will drive subscriber stickiness. And we want to align with great brands. And again, those are examples of both.

So let's talk about T-Mobile a little bit since that was at the core of your question. We're thrilled with the deal we announced this morning. It's an efficient way for us to acquire Paramount+ subscribers. It's a partnership with a great consumer brand, and it will be additive to Paramount+'s momentum.

When I think about it, I'd highlight two things, big picture. The first one is that the most important thing for Paramount+ now is exposing more consumers to the offering, particularly as we're ramping content. So this deal obviously does that. And unlike most wireless promotions, this deal will be available to all TMO users.

The second thing I'd highlight is that the fit of Paramount+ and T-Mobile is excellent. Their un-carrier position speaks really to value and innovation. That aligns with Paramount+. And the essentials product that we're using is ideal. As you know, that product has content for the whole household. And it has an attractive price point of $4.99, which will really maximize downstream conversion after the promotional period, and the broader distribution of Paramount+ Essential fits well with driving our streaming ad business. So we think that all makes tremendous sense. And again, we're very happy with this deal. Naveen, maybe you'd comment a bit more on the economics.

Naveen Chopra
Chief Financial Officer & Executive Vice President, ViacomCBS, Inc.

A

Sure. Bob, happy to do that. We're definitely looking forward to showcasing all the new content we've got coming to Paramount+ in 2022 for all T-Mobile customers. So to your question about scope, yes, we're excited to make this available to all the postpaid T-Mobile customers.

We do think that the deal should accelerate sub growth for Paramount+, but it will build over time. Some of the reason behind that is that the really big broad awareness marketing campaign will mostly kick in, in 2022. And between now and then, we're going to be doing some things to evolve and optimize the consumer sign-up experience.

We like the economics of these deals. You asked about the impact on ARPU. As is typically the case for these kinds of third-party bundles, they do come with slightly lower ARPU than what we would see on a direct basis. But we really like the LTVs of the subs that we can acquire through these types of deals. Those subs have lower churn, and we get full access to all the relevant user data, which helps us further maximize lifetime value.

And at the same time, CAC is very low. So that ratio between lifetime value and acquisition cost is really compelling. And given what we're seeing with our trial-to-pay conversion rates, I think we can really make some hay out of giving T-Mobile customers 12 months to experience all the great content that we are producing for Paramount+ and then having them roll to paid customers after that point in time.

Anthony DiClemente
Executive Vice President-Investor Relations, ViacomCBS, Inc.

A

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

Operator: Thank you. Our next question comes from the line of Michael Morris with Guggenheim Partners. Please proceed with your question.

Michael Morris
Analyst, Guggenheim Securities LLC

Q

Thank you. Good morning, guys. I'll ask a couple quickly. First, kind of following up on the T-Mobile question, I'd ask the same thing about the Sky partnership for Paramount+, whether at this point we have any more insight into the timing of the Western European launch there? And how to think about sort of the immediate impact of the partnership or what the sort of steps are to kind of penetrate the addressable market there? What the timing might be?

And then second, if I could just ask maybe Naveen a little bit more on the composition of the 47 million global streaming subs. Could you help us at all at this point with how many of those are Paramount+ and maybe within Paramount+ the mix of Premium versus Essentials? As you look at the new reporting that you just announced, is that something that maybe we work towards getting regular disclosure on going forward? Thank you.

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

Yeah. Sure, Mike. So let me start and then I'll throw it to Naveen. On the Sky question, there's really two different kinds of partnerships with Sky that we've announced. The first one, you could think of as a bundle, and that's with Sky in the UK, in Germany and Italy. It's a commercial deal where Sky will distribute Paramount+ to all their Sky

Cinema subscribers. And we look at that as a compelling way to accelerate penetration but it's a commercial deal. So we preserve 100% ownership of the business.

Like Naveen talked about with TMO, we believe that has really attractive CAC and churn characteristics. And importantly, in that deal, we've preserved our right to go direct in those markets as well to pursue additional opportunity because obviously, O&O direct is an important part of the streaming business.

The second deal we announced with Sky is the SkyShowtime joint venture. That's really a deal with Comcast, obviously, as well. That's 50/50 JV on an equity basis. That's targeting 20 smaller, mostly Eastern European countries, which is additive to the 45 markets we've talked about for 2022 historically. We see that – and that will be a single app combining ViacomCBS and a Comcast product. And we look at that as a way for us to participate in these smaller markets while preserving investment capacity for the larger ones, which are more important strategically.

Now in terms of timing of both of those, the Sky bundle will launch in the UK in the first half of 2022, and that will be followed by Germany, Austria and Italy also in 2022. SkyShowtime, we've yet to announce dates on that, but it will be in 2022. So that's the story big picture. Naveen?

Naveen Chopra
Chief Financial Officer & Executive Vice President, ViacomCBS, Inc.

A

Yes. So, to your questions about composition of the streaming subscriber base. First to actually, I think, the last part of your question, we will be aiming to provide some incremental disclosure related to the breakdown of streaming subs as part of the changes in reporting for Q1 and beyond. So stay tuned for that.

In terms of where we stand today, I can give you a little bit of color around some of what we've seen in terms of sub additions. I think I mentioned that a significant majority of additions in the quarter came from Paramount+. I'd also note that Paramount+ domestic adds were higher in Q3 than they were in Q2. So even though that's the case. We do still have a nice contribution from international. And in terms of the split between Premium and Essentials, we don't break that out specifically, but they're both important contributors to the subs that we added in the quarter.

Anthony DiClemente
Executive Vice President-Investor Relations, ViacomCBS, Inc.

A

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

Operator: Thank you. Our next question comes from the line of Alexia Quadrani with JPMorgan. Please proceed with your question.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

Thank you. It sounds like movies are some of the biggest drivers to new subscribers based on your opening comments, Bob. I'm wondering if that changes the way that you think about windowing? Are you less inclined to stay with a 45-day window? And my second question is, just back to the investment in local language content, you've made several acquisitions to bolster that content. Now going forward, I think you see outsized investment in content outside the US versus domestic? Or is it kind of – how should we think about? Should it be kind of even? Which markets do you see as sort of more competitive and maybe need more spending?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

Yes, sure, Alexia. On the film windowing question, if you look at Paramount+ in the quarter – the third quarter, we actually deployed 3 different models. We deployed exclusive premiere. We deployed day-and-date. We deployed 45-day fast follow. And actually, we deployed the exclusive both in what was planned for a theatrical release and in a true made for. So, we're experimenting with a bunch of different models on the Paramount+ side, based on what we think is best for a specific film, obviously, keeping in mind all the constituents involved in that.

The reality is we see them all work. So it's not a question of moving away from one or the other. We're going to continue to optimize on a per film basis, and we're definitely not moving off the 45-day fast follow. If you look at A Quiet Place Part II, that was a film that used that model, and it was very effective both in theatrical from a box office perspective, even with some of the COVID issues, as well as a big sub-driver for Paramount+. And by the way, we've got plenty of consumption of A Quiet Place Part I as well, which really points to the value of having a library to go along with, call it, new release product on Paramount+. So we'll continue that.

As I said in my remarks, the next film up this weekend is Clifford. That will be another day-and-date, theatrical Paramount+ release. We think kids and family in this continued COVID time, those films are right for day-and-date. Again, PAW Patrol worked very well, and we're excited about Clifford.

Moving to the second part of your question, which is around 'local content'. People think of ViacomCBS as a massive English language content creator, and we obviously are. But for years, we've been creating content around the world to satisfy local consumers.

You look at our company and you got hit originals coming out of Telefe, things like 100 Days to Fall in Love, To Catch a Thief. These shows do like 40-plus shares in Latin America, certainly in Argentina. We also do a lot of format work all around the world, probably the best example of that, but not the only example, is our Shore's franchise, where we have many versions out there.

And actually, when you look at that, what you see is our scale is not just in English. And I mentioned it, but in addition to English, we're also one of the largest Spanish language producers in the world, and that's not something people typically talk about.

When you think of streaming, which is, I'm sure at the core of your question, that provides an opportunity for us to leverage our experience in this ex-US production as a real competitive advantage. And that's both to serve specific markets and have that strong local relevance, again, through characters and storylines, et cetera. But it also, in the streaming space, is to supply a larger aggregate global slate, where we also benefit from cost advantages.

We're already using locally produced content to great effect in places like Latin America for streaming. I mentioned Shores, Acapulco Shore is a massive hit on Paramount+. And really, our next step is to exploit that content, really the whole collection of content globally, where we integrate 'international productions' into our global slate. That will start next month, where the two Telefe shows I mentioned will become in a Paramount+. That will be the first of many.

And likewise, we're going to do some interesting things with formats, including cross-border for Paramount+. So local content is definitely core to our strategy, but it's about much more than the local market. It's about feeding the global Paramount+ pipeline as well. Thanks.

Anthony DiClemente
Executive Vice President-Investor Relations, ViacomCBS, Inc.
A

Thanks, Alexia. Operator, next question.

Operator: Thank you. Our next question comes from the line of Rich Greenfield with LightShed Partners. Please proceed with your question.

Richard Greenfield
Analyst, LightShed Partners
Q

Hi. Thanks for taking the question. Over the last several months, WarnerMedia moved away from Amazon channel. So you've seen essentially the biggest players in streaming: Disney, Netflix, Hulu, Apple TV, all sort of focus on D2C and a direct retail relationship with the consumer versus wholesaling through Amazon.

I think, if I look at ViacomCBS, I think you're the largest now of the remaining players on Amazon channels, or who are using Amazon channels. Bob, I'd love sort of your sort of high-level kind of view on the puts and takes of being on Amazon versus going and being in sort of a wholesale relationship with the consumer versus fully direct? And should we think about as you start to focus more and more on streaming, will you move away from Amazon and go fully direct? Or is this something you like and you think others are actually incorrect in not being on Amazon? And it would be great to – if there's any way to frame how big Amazon is or things like Amazon are part of that 47 million, that would be great to understand as well? Thanks.

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.
A

Yeah. Sure, Rich. Look, it's a great question. We continue to believe in broad and ubiquitous distribution really as a path to scale. And that includes wholesale relationships, including with the company you mentioned.

Now look, there's obviously trade-offs in terms of a wholesale versus a direct relationship. Those trade-offs tend to be around requests for certain types of exclusivity, data access, margin. So it's not a black-and-white question.

The real question is, do you have deals in place, which makes sense relative to those considerations. And we gave a lot of thought to that. And by the way, that means we passed on some deals and some deals take longer to get done than certain people would like because the deal has to be right.

But net-net, where we are in terms of balance, particularly as we're focused on scaling, we continue to believe in the benefit of these wholesale relationships in terms really of providing access to the largest total addressable market, which we strongly believe offsets some of the other considerations, again, assuming you have the appropriate deal structure.

So we like the balanced model. Of course, it's something we're going to continue to evaluate over time as we scale. But we see value to these distribution channels today.

Anthony DiClemente
Executive Vice President-Investor Relations, ViacomCBS, Inc.
A

Thanks, Rich. Next question, please.

Operator: Thank you. Our next question comes from the line of John Hodulik with UBS. Please proceed with your question.

John C. Hodulik
Analyst, UBS Securities LLC

Q

Great. Thanks, guys. Two things. First on the D2C content, Naveen, thanks for the color there, ramping to sounds like over $2 billion in 2021. Is the $5 billion in 2024 still the target? Any color on sort of how that ramps in 2022? And how much of that is incremental to the whole company?

And then secondly, the licensing revenues look strong again this quarter, and I know you guys benefited from easier comps. But Bob, you're talking about the business continuing to be a multi-revenue stream business. Just your view on sort of the future of that licensing business you have and how that fits into the broader D2C strategy? Thanks.

Naveen Chopra
Chief Financial Officer & Executive Vice President, ViacomCBS, Inc.

A

Yeah, sure. John, I'll jump in there, first, on the content spend. The $5 billion, as you said, is our sort of where we're tracking on a long-term basis. I think I would remind you that that is not entirely incremental to total company content spend. And so while we are expecting to see material increases in streaming content expense, I mentioned the doubling from 2020 to 2021 and then growing further to over $5 billion by 2024, not all of that is entirely incremental, because as the linear business continues to evolve, there will be remixing between linear and streaming.

I think you've heard me say before that there's a lot of content that does double duty for us on both linear and streaming platforms. And I think at the end of the day, we are very focused on the ROI of those content investments. We continue to see content investment as the single greatest way to continue to grow customer LTVs, both through increased engagement and lower churn. And we're already seeing evidence of that in our results since the launch of Paramount+. So it makes total sense for us to continue to invest behind it. And then I think the second question is on content licensing?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

I'll take the licensing side. We've obviously been in the licensing business for a long time. As a reminder, content licensing revenue for ViacomCBS has a bunch of different components in it. As Naveen mentioned in his remarks, it includes home entertainment, includes TV syndication, it includes consumer products, and of course, it includes licensing of content more broadly.

When you look at the – so I'd say two things. One is we're in the licensing business, but two is that business is, for sure, evolving. So when you look at the Q3 results, and yes, there was a whole bunch of growth there. The growth was heavily COVID related. We had many deliveries that were delayed due to production shutdowns. So there's definitely some catch-up in Q3.

And then the other thing that's going on is, if you looked at the prior year quarter, particularly internationally, particularly in the ad-supported network space, you had many people that had hunkered – many buyers that had hunkered down and we're preserving cash given the uncertainty of the revenue situation.

As the ad market has rebounded, those companies have moved to refresh their content line-ups so that they can satisfy their consumers with new product versus kind of running the sprockets off what they had at the time. And that's certainly a driver of the growth.

The third thing is there are a bunch of original series deliveries in there. What you need to understand about that is those are fulfillments of deals that were really predating the launch of Paramount+. So that might be a third season of a show we're doing for someone. It might be a first season of a show we're doing for someone that took two-plus years to create. So while our strategy has shifted to become much more focused on owned-and-operated streaming with our franchises, et cetera. There is a tail to the, call it, legacy deals we've done, and you do see that showing up in the third quarter.

Anthony DiClemente
Executive Vice President-Investor Relations, ViacomCBS, Inc.

A

Thanks, John. Operator, next question please?

Operator: Thank you. Our next question comes from the line of Jessica Reif Ehrlich with Bank of America Securities. Please proceed with your question.

Jessica Reif Ehrlich
Analyst, BofA Securities, Inc.

Q

Thanks. A content question, could you talk about your evolving strategy for Paramount in context of the whole company growth, so both film and direct-to-consumer? And then, I guess, two short follow-ups. For Paramount+, can you give us color on your ad-lite ARPU? So what's the ARPU with advertising versus subscription only? And then you talked a little bit about asset sales, but in Simon & Schuster, given the government's response, where do you go from here?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

Yes. So a bunch of stuff in there, Jessica. Let me start. On content and Paramount, presumably Paramount Pictures, we obviously made a management change there. I'm very excited to have Brian in the chair. Jim, obviously, got us to a better place financially and really stabilized the studio. But as we look at the next chapter, we need to lean in more into franchises. We need to lean more into a multifaceted model, including, of course, streaming. And I think Brian, as both a content creator and a collaborator is ideally suited to that, and is already moving quickly to prove that value.

In terms of the evolution of a slate, Brian is working on that. I think the good news is we have a very well stocked slate as we enter 2022, for sure; great pictures in the can, which hopefully the theatrical market will continue to improve. It has been improving, particularly at the younger end. And that slate will provide tremendous benefit theatrically. And we remain committed to theatrical, but also in downstream windows, including the fast follow strategy we're using for Paramount+ Pay1.

You did see us announce a PAW Patrol sequel, which speaks to franchises. But I'm very excited about where Paramount Pictures is going to go. It clearly is an important part of the company as a content engine. And it's clearly in early days, but clearly benefiting Paramount+ as well.

Let me take the last part of your question, too, which is the Simon & Schuster one, and then I'll throw it to Naveen. On Simon & Schuster, really, I just want to reiterate the statements that we and Penguin Random House made earlier in the week. We do believe the transaction will be beneficial for consumers, booksellers and authors. We think the DoJ's claims are without merit. I'm not going to get into any legal arguments here. But I will say, as we've disclosed under our sale agreement, Penguin Random House has agreed to take all necessary steps to attain the required regulatory approval, including defending through – defending any litigation. And so they and we will vigorously defend this lawsuit. Naveen?

Naveen Chopra
Chief Financial Officer & Executive Vice President, ViacomCBS, Inc.
A

Yeah. So to the question on ARPU as between the Essential and Premium tiers for Paramount+, a couple of important points. Number one, the ARPUs between those tiers are really not as different as you might think because of the advertising contribution in the Essential tier. I think you've heard us comment about the fact that we see a lot of momentum in the digital advertising component, which is one of the things we really like about that plan. And in fact, in Q3, the delta between ARPU on the Essential tier and the Premium tier continued to narrow.

And second major point is that ultimately, we're focused on making sure that our customers are in whichever tier is going to make them the most sticky, meaning we're less focused on the ARPU because in the long run, the bigger determinant of lifetime value is actually the expected life of the customer. So it's all about getting them in the tier where they're going to stick around the longest.

Anthony DiClemente
Executive Vice President-Investor Relations, ViacomCBS, Inc.
A

Great. Thanks, Jessica. Operator, next question.

Operator: Thank you. Our next question comes from the line of Ben Swinburne with Morgan Stanley. Please proceed with your question.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC
Q

Good morning. Bob, you talked a lot about different content verticals for streaming. I wanted to ask you about sports. How is the NFL and sort of your sports line-up performing? Are you looking to add sports rights? And are there international strategies around adding sports to your streaming portfolio over time?

And then, I'll just ask my follow-up now to Naveen. On the new segments next year – I realize it's a ways out – but I'm assuming that includes EBITDA, so we're going to be getting a direct-to-consumer segment EBITDA number. And to your point earlier about content traveling, I guess you'll be using some sort of allocation between segments on programming that lives in both places. Just was wondering if you could give us some more color there. It's obviously an interesting addition to the sort of disclosures. Thank you.

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.
A

Yeah, sure. So look, I think the best way to think about the sports question is to talk about how Paramount+ consumption has evolved since the transformation. So we obviously transformed it from CBS All Access nine months ago. And in doing so, made two really big moves, which is adding kids and family content and films, really, at scale. And that has dramatically changed the composition of subscriber acquisitions as well as engagement. Those categories were essentially zero in the CBS All Access days, and now they're very material. And they stand alongside, really, CBS, both entertainment and sports. So as you talk about sports, there's no question, it continues to be a really important category for us.

In my remarks, I mentioned the power of the NFL and UEFA. By the way, throw college football in their too. They have continued to perform for us. In fact, both the NFL and UEFA set in-house streaming records when they returned for Paramount+. So, super happy with that. Again, part of – versus being focused on deepening that collection of sports, what we're focusing on is getting really an ROI from that sports and taking advantage of what I'd call a conjoint analysis of what else does sports consumers watch. And by the way, the answer to that question tends to be, believe it or not, reality, adult animation and of course, scripted shows.

So we're working on ensuring customer satisfaction of those sports fans – and roughly a third of people on Paramount+ have watched sports – to go and make sure we're extending that lifetime value. So that's our principal focus today, certainly, in the US. Ex-US, we don't really have a significant sports component. We have some trials underway like in Australia with Australian football, but we don't really start with a cornerstone right. So we're evaluating where to go with that. Naveen?

Naveen Chopra
Chief Financial Officer & Executive Vice President, ViacomCBS, Inc.

A

Yeah. Ben, to your question on what to expect in terms of the new segment reporting, let me share a couple of thoughts. We're obviously making those changes because we are really evolving the way that we're managing the business, and we're increasingly thinking about it as the three parts that we outlined, that traditional media business that combines broadcast and cable networks, which is sort of a lower growth, but a very healthy margin business.

The movie studio, which, as you know, is a core source of content for both our theatrical and streaming platforms. And then that D2C segment, which is the portfolio of a bunch of high-growth businesses where we're still in investment mode, but very bullish about the future growth potential. So yes, we will have those as fully independent segments, meaning, the presentation will allow you to see the earnings power of our traditional businesses independent from the investment and contribution from streaming.

And I think that will reveal a couple of important things. Number one, it will give you a holistic view of the direct-to-consumer business all the way through the P&L, to your question.

And I think it will also demonstrate that earnings in our core business are relatively stable and materially higher than our consolidated OIBDA. So I think it will be helpful to investors to look at the business in that way and get a much more accurate picture of how the different parts are evolving.

Anthony DiClemente
Executive Vice President-Investor Relations, ViacomCBS, Inc.

A

Thanks, Ben, Operator, next question.

Operator: Thank you. Our next question comes from the line of Doug Mitchelson with Credit Suisse. Please proceed with your question.

Douglas Mitchelson
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks so much. I guess my question, my follow-up. Is the funnel from Pluto to Paramount+ sort of working as you hoped? And is there more to go there? And I think as part of that, you made the Paramount+ Showtime bundle permanent recently after sort of a trial period. Any early results from that and any long-term path to just merging those services?

And my follow-up for Naveen is could you give us a sense this year that over $2 billion for content spending, that's amortization, right? Can you give us a sense of the cash versus book difference for streaming content spend and how we should think about that going forward? Understanding that there might be linear content spending coming down, I would appreciate it. Thanks.

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

Yeah, Doug. So look, we have a differentiated strategy and one we believe is right for our company and right for the times. And that strategy spans both free and pay, which gives us access to the largest total addressable market opportunity.

As you know, there's, many types of consumers out there. Some people don't want to pay on one extreme. And on the other extreme, there are heavy users that are fine with paying very significant, call it, monthly bills for entertainment content.

Both of those segments or all the segments are a very material size. And the products we have in the space, in this case, Paramount+ on one hand and Pluto on the other, and I'll come to Showtime, are differentiated in their space because they're both broad products.

We definitely believe there are synergies across this. As you noted, Pluto as a free top-of-the-funnel service using our Paramount+ Pics channel, as an example, which showcases Paramount+ shows, likewise, exhibiting Showtime originals, first episodes, et cetera, both are good for subscriber acquisition.

And then, in the context of Paramount+ and Showtime in the US, those are two services with very, very low overlap in sub base. And so we believe a bundled strategy to the consumer could create some value. And as you know, we launched that product.

There are other synergies in this business, too, particularly on the ad side. When you look across Pluto and Paramount+, and you heard Naveen talk about the growth rates of both of those ad businesses, obviously, those ad businesses need to be fueled by impression growth, and both of those businesses are growing impression.

So we like that combination. We believe there is early evidence of synergy across that combination. And we'll continue to push that. In terms of Showtime and Paramount+ combined, as you know, we're doing that outside the United States. We think that will be really interesting to get some kind of real data on. But at the same time, they have very distinct brand positionings in the United States. Both are doing well, including Showtime OTT, that's really offsetting pressures in the linear business. And again, it has a very distinct positioning, has a great content slate whether it's shows like Billions or The L Word or The Chi, new hits like Your Honor. Dexter, I was at the red carpet premiere earlier in the week and the return of that. So Showtime continues to do very well, and we like this multifaceted configuration.

Naveen Chopra
Chief Financial Officer & Executive Vice President, ViacomCBS, Inc.

A

And real briefly to your question on the content expense. Yes, the $2 billion is expense, not cash. We have not provided any specific color in terms of the long-term cash profile there. I can tell you that in terms of Q4, I spoke in my prepared remarks about the trend on that expense between Q3 and Q4. And I would note that from a cash perspective, the increase in Q4 will probably be more modest than what we're seeing from an expense perspective.

Anthony DiClemente

Executive Vice President-Investor Relations, ViacomCBS, Inc.

A

Thank so much, Doug. Operator, we have time for one final question.

Operator: Thank you. Our final question this morning comes from the line of Robert Fishman with MoffettNathanson. Please proceed with your question.

Robert Fishman

Analyst, MoffettNathanson LLC

Q

Thank you and good morning. Yes, just one on the supply chain. So any impact that you can help share on auto or any other verticals on your portfolio, broadcast, cable networks, the local stations and even Pluto? And then more broadly, if you can discuss how the fourth quarter ad market is looking and any early cancellations you've seen for next quarter? Thank you.

Robert Marc Bakish

President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

Yes, sure. Happy to talk about it. Let me start by saying we were super happy with Q3 in our ad business. We delivered growth in our advertising line, which as a reminder, excludes streaming ad revenue, and really strong growth when you combine both the advertising line and the streaming advertising line, we're up about 9% versus prior year, and we are up versus 2019 as well.

But the media question is really what's going on today. So looking at the fourth quarter, we see a combination of headwinds and tailwinds in the quarter. On the headwind side, we do have some record political comps that we're up against. And yes, some supply chain-driven softness as we sit here today. You mentioned the auto category. There's definitely some softness there. There's some softness in sort of physical tech-related products. What I would say is that this softness translates into people wanting to shift spending out of it to better align with anticipated product availability, we're not seeing cancellations. So it's more of a shift to better meet when they think their product is going to be available to consumers.

At the same time, there are some tailwinds in the quarter, which we're happy about. Obviously, strong upfront pricing kicking in from the last upfront, benefit of new fall season, including live sports and live sports, a big scatter driver. When we look at the quarter, we do expect strong growth relative to prior year and 2019 on a combined advertising and streaming advertising basis. So despite some of these supply chain issues, we still see nice growth.

If we look a little bit further out, we don't really know at the end of the day how this supply chain issue, the timing of it reverting. But when it does come back, we do see the potential for upside as clients will now need to move product that's been stuck. We also have a great election cycle, I'm sure, coming in 2022, at least from an advertising perspective.

And big picture, we really like our proposition, which combines linear and our EyeQ digital as really being able to solve marketers' problems. And by the way, EyeQ is already 25% of our business. So we're tracking through it, but we're happy with our position in the ad market.

Robert Marc Bakish

President, Chief Executive Officer & Director, ViacomCBS, Inc.

Now with that, I just close by saying these are really exciting times for ViacomCBS. We are executing well. We do have tremendous momentum, including with Paramount+ and Pluto TV. Both of those products are really delivering for us. And when we look forward, we have what it takes to succeed in streaming. We have this incredible breadth and depth of compelling content. We have robust distribution and marketing capabilities, and we have a strong and flexible financial engine.

And that, in turn, represents a tremendous shareholder value creation opportunity. So we're really excited about the future. We look forward to telling you more about it, including at our investor event early next year. So thanks all for joining us and stay well.

Anthony DiClemente

Executive Vice President-Investor Relations, ViacomCBS, Inc.

Thanks, operator. That concludes our Q3 earnings call.