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Paramount Global (PARA)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Felicia, and I'll be the conference operator today. At this time, I would like to welcome everyone to Paramount Global's Q2 2024 Earnings Conference Call. At this time, all lines have been muted to prevent any background noise. After the speakers' remarks, there will be a Q&A session. [Operator Instructions]

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

Jaime Morris

Executive Vice President-Investor Relations, Paramount Global

Good afternoon, everyone. Thank you for taking the time to join us for our second quarter 2024 earnings call. Joining me for today's discussion are Paramount's Co-CEOs, Brian Robbins, Chris McCarthy and George Cheeks; and our CFO, Naveen Chopra.

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

Before we start this afternoon, 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 contains 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 Brian.

Brian Robbins

Paramount Global Office of the CEO and President & Chief Executive Officer-Paramount Pictures and Nickelodeon, Paramount Global

Good afternoon, everyone. Thank you for joining our second quarter earnings call. I'm Brian Robbins, and I'm here with my fellow CEOs, Chris McCarthy and George Cheeks. Today, we look forward to updating you on the results of the quarter and the progress we have made on our strategic plan. That includes streamlining the organization, transforming D2C and optimizing our asset mix.

We have been aggressively advancing this plan since we laid it out at our Annual Meeting of Stockholders in early June. But before we jump in, we'd like to spend a few moments on the transaction with Skydance Media.

As you know, on July 7, Paramount Global announced the signing of a definitive merger agreement with Skydance, which includes a 45-day go-shop period. We expect the deal to close in the first half of next year. In the meantime, the Skydance and RedBird teams support our strategic plan and we are continuing to operate business as usual.

With that, let's get into our second quarter results and share more details of our progress. Then Naveen will take us through the financials in depth.

In the quarter, we saw strong results both in terms of our financials and our content. A few highlights include: 43% growth in total company adjusted OIBDA, largely driven by improvement in D2C. Paramount+ increased revenue 46% year-over-year.

Our content continues to show strength across TV, streaming and theatrical. And we renewed and expanded our long-standing partnership with one of our largest affiliates, Charter. As we said before, we've been very focused on modernizing our relationships with distributors, and this innovative multiyear partnership with Charter is a prime example of how we're doing that. The renewal includes the continued carriage of our portfolio of linear cable networks and CBS-owned and operated broadcast stations.

Also around Labor Day, our Paramount+ essential ad-supported tier will be available to Charter's linear customers.

Together, we're enhancing the value we're delivering for our consumers, providing them even more ways to watch our big broad hits across linear and streaming. And for us, it has the potential to expand reach and engagement, lower our customer acquisition costs, and yield much lower churn. And we view this as one potential partnership road map for future distributor renewals.

In addition to Charter, just last week, we announced a multiyear agreement with Nexstar to renew CBS television network affiliations in 40 markets across the country. So we continue to have good momentum with our partners.

Now, I'd like to turn the call over to Chris to take you through the upfront and the highlights of our plan.

Christopher D. McCarthy

Paramount Global Office of the CEO and President & Chief Executive Officer-SHOWTIME & MTV Entertainment Studios, Paramount Global

Thank you, Brian, and good afternoon, everyone. We are pleased with our upfront results, particularly in the context of the evolution of the ad market and the scale of new entrants. Linear volume trends were in line with last year and CPMs were up on a blended basis, driven by sports and broadcast, which were relatively strong.

The digital marketplace was also healthy. we secured commitments in excess of \$1 billion across our streaming portfolio, reflecting both the quality and the scale of our assets. With our mix of pay and free, we offer the most efficient reach across premium video.

Now, let's walk through the progress we're making against our strategic plan. Starting with streamlining the organization. We announced in June that we've identified \$500 million in annual run rate cost savings across the company. This \$500 million is included in the \$2 billion of cost efficiencies identified by Skydance.

To realize these savings, we are reducing our US-based workforce by approximately 15%. And we are primarily focused on two areas. First, redundant functions within marketing and communications. Second, streamlining our corporate structure, reducing our head count in finance, legal, technology and other support functions. These actions will take place in the coming weeks and will largely be completed by the end of the year.

As you can imagine, these are difficult decisions to make. We have incredibly talented people at Paramount, and these actions are not a reflection of their contributions. Rather, they are necessary to transform our organization for the future.

Next, transforming streaming. We are pleased with the progress that we've made and the performance of our Direct-to-Consumer segment. In Q2, year-over-year profit growth was \$450 million and totaled nearly \$900 million for the past four quarters. For the fourth year in a row, Paramount+ is leading the industry in sign-ups, driven by our big, broad hit TV series and blockbuster films.

And Pluto continues to be the most widely distributed global FAST service, delivering 3.7 billion hours for the first half of 2024. That's up 8% year-over-year, and that marks our highest consumption ever. Now looking ahead, we remain confident that Paramount+ will reach domestic profitability in 2025.

In addition, to further accelerate profitability and to increase our scale and engagement, we are exploring potential strategic partnerships with multiple parties and are in active discussions.

Finally, optimizing our asset mix. We are aggressively evaluating our portfolio with the goal of improving our balance sheet. The set of assets that make up Paramount Global today were built up through the rise of linear. And while we have strong brands and businesses, we must reshape our portfolio to best compete in the future.

The assets under consideration are undeniably strong with exciting futures ahead, but will be better served on their own or as a centerpiece of another business. We look forward to updating you on our progress against our strategic plan over the coming quarters.

And now, I'll turn the call over to George to highlight our key content wins in the quarter and talk about what's coming next.

George Cheeks

Paramount Global Office of the CEO and President & Chief Executive Officer-CBS, Paramount Global

Thanks, Chris. Our core mission centers on what we do best, creating big, broad hits. This is our first priority as well as our competitive advantage.

Now in Q2, we had a number of key wins. CBS finished the 2023-2024 season as the number one broadcast network in total viewers for the 16th consecutive year, with eight of the top 10 shows and the three most watched new broadcast series with Tracker, Elsbeth and NCIS: Sydney. On Paramount+, our strong slate drove excellent results, including the return of Mayor of Kingstown, Criminal Minds, Evil, RuPaul's Drag Race and The Chi.

We also launched new shows like the South Park special, The End of Obesity, the Sonic the Hedgehog spin-off series Knuckles, and A Gentleman in Moscow from Showtime. Q2 brought Bob Marley: One Love and the UEFA Champions League final to P+ as well.

On Comedy Central, The Daily Show with Jon Stewart is posting significant performance gains [ph] while engagement (00:09:30) on Paramount+ is outperforming last season by over 7 times. Over at Paramount Pictures, John Krasinski's IF delivered another number one domestic box office launch, and A Quiet Place: Day One saw franchise best performance, beating industry expectations and grossing over \$250 million in worldwide box office to date.

Now to keep this momentum going, we plan the most ambitious slate yet for Paramount+. This includes new seasons of Taylor Sheridan's hit series Tulsa King in September, Lioness in October, and the new series Landman in November, as well as the series finales of Evil and SEAL Team.

The Showtime slate kicks off with a new series, *The Agency*, from George Clooney. And in December, Showtime's biggest franchise ever returns with *Dexter: Original Sin*.

Also heading to Paramount+, our recent box office hits, the new CBS primetime slate, the new NFL season and our first full season of Big Ten College Football.

The next season's primetime schedule on CBS is one of the strongest I've seen. In addition to 16 returning series, the new shows will include a spin-off of *Young Sheldon*, the number one comedy on TV, a contemporary reimagining of the classic series *Matlock* and a new addition to the *NCIS* universe.

And coming soon to movie theaters, we're releasing the first animated *Transformers* film in nearly 40 years, starring voice cast Chris Hemsworth and Scarlett Johansson. That's followed by *Smile 2*, the sequel to one of the most profitable films in the studio's history. In November, Sir Ridley Scott returns to the arena with the highly anticipated *Gladiator II*, which just saw its first trailer become one of the most viewed ever for Paramount. Then we'll finish the year with *Sonic the Hedgehog 3*.

Look, we really want to underscore our commitment to operating the business with best-in-class content at the center. We'll continue to deliver for millions of fans around the world. We've got the best creatives in the business, and we're incredibly grateful for their contributions.

Thanks so much for joining us today. And with that, I'll turn it over to Naveen.

Naveen K. Chopra

Chief Financial Officer & Executive Vice President, Paramount Global

Thank you, George, and good afternoon, everyone. Our Q2 results demonstrate strong execution, continued evolution of our distribution and monetization strategies, and the ongoing power of our creative engines. Financially speaking, this translated to 43% growth in adjusted OIBDA, reflecting significant improvement in our D2C business, which is delivering healthy top line growth and improved operating margin.

Additionally, balance sheet leverage improved by one-third of a turn since the end of Q1. As always, you'll find a comprehensive review of Q2 results in our press release. So today, I'm going to focus on a few areas of note.

First, advertising. In Q2, Direct-to-Consumer advertising grew 16%, benefiting from increased viewing hours across Paramount+ and Pluto TV, along with higher CPMs.

In TV Media, overall domestic advertising trends were negatively impacted by the fact that sports comprised a smaller share of inventory than it has in recent quarters. This dynamic somewhat masked the fact that year-over-year growth in non-sports domestic advertising improved relative to Q1. On a total company basis, advertising declined 6% in the quarter.

Looking ahead, we expect D2C advertising growth in Q3 to be similar to Q2. And in linear, we expect advertising trends in the second half of 2024 to improve with the return of live sports, new fall programming and contribution from political spend.

Next, let me turn to affiliate and subscription revenue, which grew 1% in Q2. As a reminder, last year's second quarter included a Showtime pay-per-view event that did not take place this year due to our exit from Showtime Sports at the end of 2023. This comparison reduced the Q2 growth rate by 250 basis points.

D2C subscription revenue grew 12% in the quarter, with Paramount+ subscription revenue up 50% year-over-year. Paramount+ finished the quarter with 68.4 million subscribers, which is 2.8 million lower than the end of Q1.

Now two factors impacted subscriber growth this quarter, both of which were built into our expectations for the full year. The biggest factor by far was the planned exit of our hard bundle partnership with TVing in South Korea, which contributed a sizable number of subs, but limited revenue and OIBDA. Second, domestic sub growth, though still positive, was hindered by elevated churn from the cohort of subscribers that joined for the Super Bowl in Q1.

We expect Paramount+ to return to net subscriber growth in the second half of the year as we benefit from a more consistent cadence of original content now that we're beyond the impacts of the strike. We also expect normalized international subscriber growth for the remainder of the year.

Paramount+ global ARPU expanded 26% in the quarter, reflecting the impact of the price increase that took effect in Q3 of 2023, as well as a shift in the mix of our international subscriber base to higher ARPU markets.

And as we announced in June, a subsequent domestic price increase will take effect later this month. Monthly pricing for new Paramount+ customers on our ad-supported tier will move to \$7.99. Existing customers will be grandfathered at the current \$5.99 price. Monthly pricing on our Paramount+ with Showtime tier will increase by \$1 to \$12.99 for both new and existing customers. We don't expect a meaningful financial impact from the new price increase until Q4 given the time required to implement the price changes across our distribution channels and because the pricing increase on the ad-supported tier only applies to new customers.

In the TV Media segment, affiliate revenue declined 5% year-over-year, largely reflecting ecosystem trends. Recognizing ongoing changes in the pay TV ecosystem, in Q2, we announced an important multiyear distribution agreement with Charter, which seeks to modernize our long-standing relationship.

Starting in Q3, Charter will be the first US MVPD to make the ad-supported tier of Paramount+ available to basic cable subscribers with no incremental cost to the consumer. Accordingly, users who activate a Paramount+ essential subscription through an MVPD bundle will be counted as Paramount+ subscribers, and the revenue from Charter and future MVPD distribution deals that bundle Paramount+ will be shared between our TV Media and D2C segments.

We believe this type of bundle is an efficient way to grow Paramount+ and can yield many of the same benefits we've experienced in the international markets where we've adopted a similar approach. These bundles ensure that Paramount and our distributors are full participants in the transition of viewing from linear to streaming.

Looking ahead to Q3, we expect TV Media affiliate revenue growth to decelerate modestly relative to Q2, reflecting the dynamics I just mentioned and the impact of exiting Showtime Sports.

Next, I'll touch on licensing. Our licensing and other revenue declined 35%. As I've noted previously, licensing revenue growth tends to be bumpy due to the timing of deliveries. And that continued to be the case in Q2 as there were fewer deliveries in the period relative to Q2 of 2023. For example, Q2 of last year included delivery of the final season of Jack Ryan.

The quarter was also impacted by a lower volume of licensing in the secondary market. We expect licensing revenue to return to growth in the second half of the year, particularly with the return of a new fall slate on CBS in Q4, although we do expect a modest decline in licensing revenue for the full year.

In parallel with our efforts to maximize revenue, we're also highly focused on unlocking incremental cost savings. And as you've heard Chris, George and Brian described, we've identified opportunities to streamline the organization that are expected to yield \$500 million of annualized cost reductions.

Importantly, this \$500 million is included in the \$2 billion of cost efficiencies identified by Skydance, and we're aligned in moving quickly to realize them. We expect to execute these actions in the coming weeks, such that we can reach the full \$500 million run rate expense reduction as we enter 2025. And in connection with these actions, we expect to incur a restructuring charge of approximately \$300 million to \$400 million in Q3, the cash impact of which will occur over the next several quarters.

The last part of our Q2 results I want to address is the goodwill impairment charge recorded in the quarter. During Q2, we assessed the relevant factors that could impact the fair value of our reporting units, including the estimated total company market value indicated by the Skydance transactions and recent indicators in the linear affiliate marketplace. As a result, we recorded a \$6 billion noncash goodwill impairment charge for our cable network supporting unit at TV Media.

Now before moving on to questions, I'd like to share some additional information regarding our expectations for the remainder of the year. Our D2C segment was profitable this quarter, our first profitable quarter since Paramount+ launched 3.5 years ago. And although the segment will generate losses in Q3 and Q4 due to the timing of content expenses, we're on course to achieve Paramount+ domestic profitability in 2025.

And for the full year 2024, the progress in D2C profitability means we continue to expect significant growth in total company OIBDA. And free cash flow will grow relative to 2023.

We continue to operate in a dynamic environment, but it's clear that our focus on execution is producing results. We're not standing still during this interim period before the transaction closes. We remain focused on achieving our goals for 2024, which means investing in key content assets, finding expense efficiencies, improving profitability, deepening partnerships, and deleveraging our balance sheet. We believe this approach will create value for shareholders over the long term.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. The first question comes from Michael Morris from Guggenheim. Your line is open. Please go ahead.

Michael Morris

Analyst, Guggenheim Securities LLC

Q

Thank you. Good afternoon. I wanted to follow up first on Brian's comments about operating the business during the period between now and when the Skydance transaction will close. How are you ensuring that these steps that you're taking on things like strategic partnerships that you referenced, how are you making sure that those are aligned with the long-term goals after that transaction is completed? Is Skydance involved in these things during the interim period?

And then also, how do you keep the teams motivated when there's some uncertainty about what the future may hold for the business? So that's my first question.

And then maybe for Naveen, on the goodwill charge, you noted the recent indicators in the linear affiliate marketplace were part of what triggered that. Could you expand on that at all? What were the recent indicators? Did it have to do with the Charter agreement? And given that cord cutting has been going on for quite a while, why was now the time that, that was triggered, beyond just the transaction as you mentioned? Thank you.

Brian Robbins

Paramount Global Office of the CEO and President & Chief Executive Officer-Paramount Pictures and Nickelodeon, Paramount Global

A

Sure, Mike. This is Brian. I'll jump in first. As I said in the prepared remarks, Skydance is very supportive of our strategic plan. It's business as usual for us, and we continue to greenlight projects in the normal course of business.

Now in terms of Skydance involvement, it is what you would expect in any M&A transaction. There are very specific limited things that we will consult with them on.

But to the second part of your question, we are just aggressively advancing our strategic plan with our teams. We've talked during the prepared remarks about our actions to streamline the organization, our focus on exploring partnerships as we transform Paramount+ for the future, and the ongoing discussions to optimize our asset mix. And we believe our plan will create value for shareholders over the long term.

Naveen K. Chopra

Chief Financial Officer & Executive Vice President, Paramount Global

A

Thanks, Brian. And so Mike, let me respond to your question on the goodwill impairment charge. There's really a couple of things going on there. So first, obviously, linear declines are part of the analysis here. But the other part of this is that really drives the magnitude of the goodwill impairment charge is the value that's implied by the Skydance transaction. Because the way the accounting works on this is we need to reconcile the value of our individual reporting units with the enterprise value for the entire company that's implied by the transaction. So it's really the combination of those things.

And what that results in is the basically \$6 billion noncash goodwill impairment charge that is specific to our cable network reporting unit.

Jaime Morris

Executive Vice President-Investor Relations, Paramount Global

A

Thanks, Mike. Operator, next question, please.

Operator: The next question comes from Robert Fishman from MoffettNathanson. Please go ahead. Your line is open.

Robert Fishman

Analyst, MoffettNathanson LLC

Q

Hi. Good afternoon, everyone. Anything more that you all can share on how you're approaching exploring the licensing of Paramount+ content, maybe just originals or just broadly speaking? Or are you evaluating that licensing in the context of the other JV structures that you were talking to?

And then on a separate note, just trying to understand any updated thoughts or how you guys are thinking about using premium sports as part of Paramount+? And whether or not the Charter deal or future distribution agreements that include Paramount+ influence those strategies given the importance that NFL and other content is to the exclusive – within the pay-TV ecosystem? Thank you.

Christopher D. McCarthy

Paramount Global Office of the CEO and President & Chief Executive Officer-SHOWTIME & MTV Entertainment Studios, Paramount Global

A

Hey, Robert, it's Chris. I'll take the first half of that, and then I'll pass to George to talk about the sports piece. First, let me start by saying we're very pleased with the success that we've had to date with Paramount+, we've amassed 68 million global subscribers. And the power of our content, both our originals and our library, is doing the hard work here. It's driving a lot of that – those subscribers and driving our business.

Now as we look forward in 2025, we're on path to hit domestic profitability. But we think there's an opportunity to accelerate that both just in domestic and globally. And so we're looking at a series of opportunities, whether they come in the form of strategic partnerships or joint ventures. And really the benefit here is to get greater scale, better improve our content offering, reduce our costs and drive long-term value and increase profits both in the short term and the long term.

And we're exploring all these opportunities and we're going to be very opportunistic about that. So that includes a series of partnerships that could potentially involve some licensing. But we'll also be licensing content in addition to that. So let me pass it over to George to talk about sports.

George Cheeks

Paramount Global Office of the CEO and President & Chief Executive Officer-CBS, Paramount Global

A

Thanks, Chris. So on the sports point, so basically, our strategy here and our focus is that broadcast and streaming together drive an unduplicated audience and really resolve linear and streaming growth. So when we look at our sort of sports portfolio, we're looking at it through both angles. Because the beauty of this is that we're seeing growth on both sides.

For example, last NFL season, NFL on CBS was up 5% year-over-year, and the streaming audience on Paramount+ is up more than 50%. So we're seeing growth for our affiliates, and we're seeing growth in streaming.

Jaime Morris

Executive Vice President-Investor Relations, Paramount Global

Thanks. Operator, next question, please.

A

Operator: Next question comes from Ben Swinburne from Morgan Stanley. Please go ahead. Your line is open.

Benjamin Swinburne

Analyst, Morgan Stanley & Co. LLC

Thank you. Good afternoon, everybody. Naveen, could you tell us a little bit about how you're thinking about free cash flow second half of the year and kind of where you think leverage might end at year-end, to the extent you can share that with us?

Q

And then I think one of the areas that you guys have talked about kind of re-evaluating or evaluating are your international streaming plans. And I know you mentioned the changes in South Korea. But what's the update there? Do you guys see an opportunity to kind of optimize this business outside the United States and maybe improve the profitability or reduce the losses there? Just would be interested in an update on that front as well. Thank you.

Naveen K. Chopra

Chief Financial Officer & Executive Vice President, Paramount Global

Yeah. So Ben, I'll take the first part of your question on cash flow, and then I'll turn it over to Chris to comment on our thoughts on international streaming. I think the casual answer is actually pretty straightforward. We said at the beginning of the year that our plan was to deliver growth in free cash flow in 2024, alongside significant growth in OIBDA – adjusted OIBDA. And I continue to see the year playing out that well – excuse me, playing out that way. So no real change to our expectations. Chris?

A

Christopher D. McCarthy

Paramount Global Office of the CEO and President & Chief Executive Officer-SHOWTIME & MTV Entertainment Studios, Paramount Global

Thanks, Naveen. Hey, Ben. Listen, today, we have a global footprint with Paramount+ and Pluto. And moving forward, we continue – we expect to have – or we'll plan to have, excuse me, a global footprint. Now how that footprint looks may change. We're going to be very opportunistic about exploring all of our options here.

A

The overwhelming majority of the economics are going to be driven out of the US market as they are today in the content space. And so we want to be – take a thoughtful approach about how we look at each market internationally. Now that can come in the form of strategic partnerships with maybe platforms who already have a great, tremendous amount of reach and a platform, in which case, we'll be reducing our cost by not having to have our own platform. Or they could come in the form of a joint venture with one or more SVOD players, in which case, we could get greater scale and increase long-term value and drive greater profits.

So we have lots of interest from many different partners in this area, and we're exploring all of that. And we look forward to updating you as we progress.

Jaime Morris

Executive Vice President-Investor Relations, Paramount Global

Thanks, Ben. Operator, next question, please.

A

Operator: The next question comes from Rich Greenfield from LightShed Partners. Please go ahead.

Rich Greenfield

Analyst, Lightshed Ventures

Q

Hi. Thanks for taking the questions. I got a couple. First, just from a very high level, I think you've all talked about the \$500 million being inclusive of the \$2 billion from Skydance. Skydance is a pretty small company in the scheme of the media world. Could you help us understand what of the \$2 billion couldn't you accomplish without Skydance, meaning, could the \$500 million be more like \$1.5 billion on your own? Just trying to understand the difference between those two cost-cutting numbers.

And then on the Charter agreement that you referenced, you're going to obviously now be giving Paramount+ to, I think, about 9 million to 10 million Charter's video subscribers. Do you actually shift the allocation, meaning if I think about how you account for this between your various divisions, is there now a reduction in how much affiliate revenue is going to the linear networks with a commensurate allocation of dollars to Paramount+? I'm just trying to understand, as you turn this on to those subscribers.

And then just a housekeeping point, I think you mentioned, is it only Charter subs that activate that you get – that are counted? Or does every subscriber get Paramount+ and is treated as a subscriber on Paramount's books? Thanks so much for taking the questions.

Naveen K. Chopra

Chief Financial Officer & Executive Vice President, Paramount Global

A

Yeah. Hi, Rich, it's Naveen. I'll try to touch on all of those. So starting with your question on cost savings, as you pointed out, we're moving forward on \$500 million of cost savings. But I think it's important to understand that that's sort of step one. We are also working on a variety of other cost reduction plans that are part of our long-term plan. Those are significant. They're material. They won't all happen necessarily at the same point in time.

And they go beyond head count. We've made – most of the \$500 million savings that you'll see in the near term is head count related, but we do think that there are opportunities to significantly reduce costs in other areas as well. And those plans, I think, have helped inform a number of the ideas that comprise the \$2 billion that Skydance has referenced.

With respect to your question on the Charter deal, sort of in reverse order, the way that this works is, yes, subscribers who activate that benefit, if you will, meaning they associate their Charter account with a set of P+ credentials, those are subs that we will count as Paramount+ subscribers. And if someone does not activate them, they don't count as a sub. And when they do activate, then we start to allocate a certain amount of the fees that we receive from Charter to P+.

What you'll see in our externally reported financials as a result of that is that the revenue from deals like Charter, where we're providing Paramount+ credentials in a bundle, will be split or be shared between the TV Media segment and the D2C segment.

Jaime Morris

Executive Vice President-Investor Relations, Paramount Global

A

Thanks, Rich. Operator, next question.

Operator: The next question comes from John Hodulik from UBS. Please go ahead. Your line is open.

John C. Hodulik

Analyst, UBS Securities LLC



Great. Thanks. Just a follow-up to Richard's question. Just anything you could tell us about – and maybe it doesn't matter anymore because it's all blended together, but just the linear pricing you got on the Charter side, on the Charter deal?

And then I guess from a D2C standpoint, the subscribers have to activate for you guys to get paid. But number one, are you guys going to sort of market the service? Or what can you do to sort of drive penetration within those Charter sub base? And then do they – is there an engagement or sort of consumption issue as well? Once they activate once, then you sort of get paid going forward. Just any color, I'm just trying to get a sense of really what the overall economics of that deal are? Thanks.

Naveen K. Chopra

Chief Financial Officer & Executive Vice President, Paramount Global



Yeah, sure, John. It's Naveen again. Let me try to clarify that a little bit. I think it may be helpful to remember that the way that we structure our deals with distributors, and I'm not going to get into any specific deal, is with a focus on total company economics. That used to be largely about cable and broadcast and premium linear networks. Now it includes all of those things plus, obviously, Paramount+.

And so independent of how those things may be delineated for contractual purposes, for our financial reporting, we allocate those fees between, as I said earlier, our TV Media segment and our D2C segment. So the revenue that we receive is not contingent on whether somebody activates or not; it's all part of the overall economics of our arrangement with the distributor.

Jaime Morris

Executive Vice President-Investor Relations, Paramount Global



Thanks, John. Operator, next question.

Operator: The next question comes from Steven Cahall from Wells Fargo. Please go ahead.

Steven Cahall

Analyst, Wells Fargo Securities LLC



Thanks. So Naveen, just a few more on Paramount+ profitability. Can you talk about the value of content that you expect on Paramount+ this year from an amortization perspective, especially as you move into the back half of the year when it's a little heavier? And with the guidance you have for next year, how much do you think that content value is going to grow in 2025?

And just a housekeeping one on it. You said you'll be profitable for Paramount+ in 2025. Is that different from [ph] 4.25 (00:35:35) as in a positive number for the full year?

And then also, George, CBS affiliates, some out there have been indicating that reverse comp fees should really start to moderate or even decline because of the shift to streaming with things like Paramount+. How do you think about those station affiliate relationships and what their fair cost is of CBS national programming?

I think a lot of TV station margins are a lot higher than the CBS Networks margin. So I'm just wondering about what you think is a fair way to share those economics, especially as the company is entering into this cost cutting and more cash-generative mode that you all talked about? Thank you.

Naveen K. Chopra

Chief Financial Officer & Executive Vice President, Paramount Global

A

Yeah. Hey, Steve, it's Naveen. I'll start on the first part and then hand it to George to address the second part. So in terms of content expense on Paramount+, a few things to keep in mind. So number one, obviously, 2024 is going to look sort of different on a year-over-year basis relative to 2023 just given that it was a highly strike impacted year in 2023, we're going to have more content in the back half of 2024 than we did last year.

Also remember that there is seasonality in our content expense. So one of the reasons that Paramount+ was profitable – excuse me, the D2C segment was profitable in Q2 was because it was a lighter quarter in terms of content, in particular, we don't have as much sports expense in the quarter as we do in the back half of the year.

And that, frankly, is one of the reasons why the main goal we're focused on, and this relates to the other part of your question, is driving domestic profitability for Paramount+ in 2025, which is intended to be a full year goal. And I think that is obviously the more important measure of profitability, is making sure that the business is profitable, not just in a particular quarter, but on a full year basis. George?

George Cheeks

Paramount Global Office of the CEO and President & Chief Executive Officer-CBS, Paramount Global

A

Sure. So Steve, we're keenly aware of the changing industry dynamics and the challenges that our affiliates are facing. Now our role as a network in this partnership is to provide best-in-class content with maximum reach. And this means we've got to continue to invest in producing hit shows, our news programming, and investing in sports rights.

Now in terms of the fair value, the fair value is really determined by the strength of our content offering. And the good news here is that CBS is delivering on all fronts. I mean we're number one in prime, number one in daytime, number one in late night. We have an incredible sports portfolio led by the NFL, but including college football, NCAA and golf.

So again, our job is to make sure that we're providing best-in-class content for our affiliates to justify the content fees that we charge them.

Jaime Morris

Executive Vice President-Investor Relations, Paramount Global

A

Thanks, Steve. Operator, we have time for one last question.

Operator: Of course, the last question comes from Bryan Kraft from Deutsche Bank. Please go ahead.

Bryan Kraft

Analyst, Deutsche Bank Securities, Inc.

Q

Oh, thank you. I had two, if I could. Just first, how is the company approaching licensing Paramount's content to third parties relative to the prior regime? And related, I know Naveen talked about the outlook for the rest of this year for licensing, and I realize there are a lot of moving pieces with the strikes. But the question is whether you think after 2024, licensing will still be a growth driver for the company?

And then the second one is just I was wondering if – you talked a bit about the importance of sports. Would you be interested in – or will you pursue additional sports rights that might be coming up for renewal over the next couple of years that you don't currently have in this interim period before the merger closes? Or is that something that would be revisited kind of post-merger? Thank you.

Brian Robbins

Paramount Global Office of the CEO and President & Chief Executive Officer-Paramount Pictures and Nickelodeon, Paramount Global

A

Sure, Bryan. This is Brian. I'll take the first part of the question. For us, licensing is not either/or. It's actually more. It's about driving more revenue, more reach and more relevance for our content. But first and foremost, I think we're focused on maximizing the first-run value of our content on our owned and operated platforms and channels, whether that's through advertising, affiliate or subscription revenues.

And then, of course, windowing is key, and it always has been key. And we will still continue to license our content to third-party platforms. And fortunately for us, our content is in demand. It's in demand from consumers and it's in demand from other platforms. And we believe that not only do we drive more revenue by licensing to third-party platforms, but it also increases the demand of that content on our own platforms by opening it up to new eyeballs on other people's platforms and then driving back to our own.

So we will continue to license. We're very focused on creating the greatest opportunity while continuing to control our IP. And there's always going to be timing dynamics that are reflected in performance, but given the power of our content and IP, long term, licensing is a compelling business for us.

George Cheeks

Paramount Global Office of the CEO and President & Chief Executive Officer-CBS, Paramount Global

A

And this is George then on your sports question, Bryan. So first of all, I would say we feel really, really good about our current sports portfolio. We've got our core marquee franchises. But that being said, we'll always be opportunistic. In fact, we recently closed two soccer deals with EFL and Serie A. So we will always be open in the market, but we're going to always take this disciplined approach and make sure that our goal is to ensure that we're giving the right sports portfolio for both broadcast and for streaming.

Christopher D. McCarthy

Paramount Global Office of the CEO and President & Chief Executive Officer-SHOWTIME & MTV Entertainment Studios, Paramount Global

Thanks, George. And this is Chris. I'm going to close it out. And on behalf of my fellow co-CEOs, we'd like to thank you for joining us for our call today.

As you can see from our results, we're off to a very strong start in the first half of the year, executing well against our strategic plan. We continue to deliver some of the biggest, broadest hit TV series and blockbuster films with a high hit ratio. And our performance this quarter reflects the power of that content and the actions that we've taken to strengthen the company.

Now looking ahead, we're clear-eyed about the additional work that needs to happen, and we are confident we will deliver. We look forward to updating on our progress. Thank you, everyone, for joining us, and have a good evening.

Operator: Thank you, everyone. This concludes today's call. You may now disconnect your lines.

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