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PARA.OQ - Q2 2023 Paramount Global Earnings Call

EVENT DATE/TIME: AUGUST 07, 2023 / 8:30PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good afternoon. My name is Nadia, and I'll be the conference operator today. At this time, I would like to welcome everyone to Paramount Global's Second Quarter 2023 Earnings Conference Call. (Operator Instructions)

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

Kristin Southey - *Paramount Global - EVP of IR*

Good afternoon, everyone. Thank you for taking the time to join us for our second quarter 2023 earnings call. Joining me for today's discussion are Bob Bakish, our President and CEO; and Naveen Chopra, our CFO. Please note that in addition to our earnings release, we have trending schedules containing supplemental information available on our website.

Before we start this 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 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 - *Paramount Global - President, CEO & Director*

Good afternoon, everyone, and thank you for joining us. Naveen and I are looking forward to walking you through Paramount's results for the second quarter and our views on the business.

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Before we get started, I want to touch on some exciting breaking news. Today, we announced an important milestone with our agreement to sell Simon & Schuster to KKR for $1.62 billion. Naveen will walk you through some of the details. But in short, we are thrilled with this transaction, which is an important step in our delevering plan.

With that, let's turn to today's business. Let me start by saying this, without question, there is an incredible amount of change happening across our industry. But what I've learned is that when you have a coherent strategy, strong execution and the ability to stay nimble, your business will be built to weather periods of change and transformation. That is our approach at Paramount, what we remain focused on every day.

And starting with a key part of the transformation, our direct-to-consumer business. This quarter, our D2C business continued to scale with increased revenue and engagement and an improvement in earnings. In addition, with 2023 being our peak investment year in streaming, we remain on track to deliver significant total company's earnings growth in 2024.

But let me zoom out a bit. I'll start with the vision we've laid out for Paramount, how we're making progress on it and how we are continually fine-tuning our execution to navigate market conditions. Then, Naveen will talk through the financials and provide additional color on the business.

Despite what's happening across our industry, at a fundamental level, what we do at Paramount is what we've always done: create high-quality content with mass popular appeal and monetize it across multiple platforms and multiple revenue streams. We do all of that with an unwavering focus on building a sustainable business model, one built for growth. Let me break that down further.

First, content. As Sumner Redstone famously declared, and as we often echo, "Content is king." And at Paramount, content is certainly what we do best. In fact, in Q2, we were the #2 in the industry in terms of total U.S. TV set viewership of our content across TV and streaming. It starts with our library, one that spans over 100 years and includes more than 200,000 TV episodes and 4,000 movies. That irreplaceable library is a critical driver of Paramount+, Pluto TV, linear and licensing. This is coupled with our production capabilities that span the world: from Hollywood to key global markets, including the U.K. and Australia; in scripted and unscripted; in animation and live action; in features and episodic; and in live, including news, sports and events.

All of this helps to create, extend and localize enduring fan-favorite franchises and formats: from Transformers to Mission: Impossible, to last week's Teenage Mutant Ninja Turtles release; to unscripted hits like RuPaul and The Shores and to powerhouse CBS crime procedurals like the NCIS and FBI families; or the expanding set of Taylor Sheridan originals. In fact, Taylor Sheridan's newest series, Special Ops: Lioness, premiered a few weeks ago and became Paramount+'s most watched global series premiere in its first 24 hours on the service. A new season of fan favorite, The Chi, premiered this past weekend, and the highly anticipated season premiere of Billions is coming later this week.

Our franchises continue to grow in number and scale. We have a growing roster led by more than a dozen franchises that have grossed over $1 billion in revenue. Add to that popular originals such as Yellowjackets and some of the bigger sporting events in the world, including college football, where we'll soon have the debut of the Big Ten, plus March Madness, the PGA, UEFA and, of course, the NFL, with the Super Bowl coming in February on CBS, Paramount+ and, for the first time ever, on Nickelodeon with a kid-centric alternate telecast, something we and the league are very excited about.

I also want to note that given our international production capabilities, we have more than 85 international scripted and unscripted Paramount+ originals already produced, in production or greenlit, as well as more than 20 local versions of global unscripted formats slated to debut through 2024. In fact, we just announced a slate of internationally produced originals coming to Paramount+ in the U.S., including Bargain, a Korean crime thriller, that's already generating strong bus; and a number of British series like the gangster drama, Sexy Beast.

The breadth of our content serves an impressively large addressable market: within the household, across the country and around the world. That is the power and quality of our content engine, and that's a key competitive advantage for us.

Beyond quality, we continue to focus on being one of the most efficient content producers in the world and we expect to demonstrate continued gains in this area in 2024 and beyond. As part of that, as you will hear from Naveen, we are evolving our streaming content slate to super-serve key target audiences more efficiently. This based on all we've learned since Paramount+ launched.

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Speaking of content, I'd like to take a moment to address the issue that is top of mind for all of us: the ongoing writers' and actors' strikes. We're saddened that as an industry, we couldn't come to an agreement that would have prevented this. Our partnership with the creative community is critical to the health of our industry. So we remain hopeful for a timely resolution, and we are committed to finding a path forward.

At the same time, we have a responsibility to minimize disruptions to our audiences and other constituents. To that end, we've adjusted our CBS fall slate by leaning into the full power of Paramount's content capabilities. On top of a strong sports lineup, new additions to the CBS schedule include Paramount Network hits like Yellowstone and Paramount+ favorites like SEAL Team, as well as pairing the British hit comedy Ghosts with CBS' own popular version of the show, to name a few. The slate illustrates the strength of our global multi-platform asset base and strategy, and it's one of the ways we're staying nimble.

The second pillar of our strategy is using multiple platforms and multiple revenue streams to get the most value for our content. This allows us to monetize our content in more ways while giving us flexibility as markets, audiences and economics continue to evolve. That means accessing revenue streams across subscription and advertising and tapping into the very large global market of third-party platforms through our strategic approach to content licensing. And it means distributing our content across linear TV, theatrical and streaming, leveraging our powerful owned and operated assets, including the largest broadcast footprint in the world, one of the fastest-growing premium SVOD services with Paramount+ and the most widely distributed fast service globally with Pluto TV.

Let me give you a few examples of how this creates value for our company. Just look at CBS which, as you know, is the #1 network in all of television for the 15th straight season. What's lesser known is that CBS content accounted for nearly half of total minutes viewed on Paramount+. And one of the most underappreciated contributions of CBS' value to our company is its power in content licensing both domestically and abroad. To put a finer point on it, CBS-produced content accounted for over $600 million of licensing revenue in the quarter. This is an incredible asset.

Paramount Pictures, starting with its extraordinary library, also drives a significant multi-platform and multi-revenue stream advantage, and it's pay 1 films are the most efficient programming in driving acquisitions on Paramount+ in the U.S., a key asset as we continue to scale rapidly and move forward on the path to profitability.

And as you know, we've always embraced the combination of streaming and strategic licensing to third-party platforms, both in linear television and streaming, something that unquestionably produces economic value for us. In fact, over the past 18 months, the top 20 engagement drivers on Paramount+ also drove hundreds of millions of dollars in incremental third-party licensing revenue through windowing and secondary market exploitation.

And when it comes to generating revenue, I have to spend a minute on our strong position in the ad market. Paramount has seen sequential improvement in year-over-year advertising in Q2. And in the upfront we just wrapped, Paramount saw positive low to mid-single growth on volume. And in both cases, digital is a point of strength. Paramount is a leader in the digital video ad space, and I want to ensure you understand the extent and depth of our digital ad capabilities.

Our direct digital revenue is up by strong double digits year-over-year, powered by the premium content offerings on Paramount+ and Pluto TV. 3 years ago, we launched EyeQ, our digital ad platform, as a simple and effective solution for advertisers to connect their brands to consumers at scale. Since then, it has seen incredible growth. The EyeQ footprint now stands at more than 90 million full-episode viewers domestically, and we expect to generate revenue approaching $3 billion this year, rivaling the best -- the biggest players in digital video.

And we're building upon that strength internationally as well. We've just announced that we're expanding the global Pluto TV footprint with our launch in Australia. And we'll be launching ad-supported tiers of Paramount+ in certain international markets as we move forward.

Importantly, the strength of our proposition is not just digital. Our portfolio of sports, including Super Bowl LVIII and tent-pole events like the GRAMMYs, are differentiators for advertisers; as are our industry-leading capabilities in branded content. Simply put, world-class brands want to be part of Paramount where advertisers like Dodge Ram who's been ingrained in the fabric of Yellowstone since Season 1, or Pizza Hut, a key partner in the new Turtles movie, turn to our branded content capabilities to break through the quarter. This combination of strength brings Paramount advertising key advantages for the long term and helps to mitigate any near-term challenges.

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Finally, I want to speak to our hyper focus on creating a sustainable business model built for growth, an achievable goal and one that powers our entire mission. As we've said over the past quarters, there are a few key levers we're focused on here: first, revenue growth through continued subscription growth, price increases, ad monetization and more; second, cost and operational efficiencies, with a big focus on content and marketing spend and improving our operating leverage.

While Naveen will speak to our efforts to build a sustainable model in more detail, I do want to touch on how Paramount+ with SHOWTIME integration, which commenced on June 27, is an example of pulling all of these levers. Yes, it allowed us to secure consolidation-driven cost savings that extend across streaming and linear, more than $700 million, in fact. It also enabled price increases to further drive streaming ARPU. Perhaps, most importantly, it is creating a stronger product for consumers and our partners, one that is more engaging with less churn. Consider this, for the last year or so, we've had a bundle of the Paramount+ and SHOWTIME apps in the market. Customers of that bundle consumed over 40% more titles. So we have clear predictive data that the integrated product will deliver enhanced consumer engagement in streaming and soon in linear.

In closing, let me take this opportunity to say how proud I am of this company and the incredible team at Paramount who continue to power us forward. Our strategy, underpinned by compelling content and powerful platforms, is working. And our approach, fine-tuned to navigate the realities of the market, is focused on efficiently maximizing our business. We're doing all of this, of course, with driving shareholder value as our highest priority.

With that, I'll now turn it over to Naveen. Naveen?

Naveen K. Chopra - *Paramount Global - Executive VP & CFO*

Thank you, Bob. Good afternoon, everyone. .

Our Q2 results reflect strong momentum in our D2C business and continued focus on company-wide expense management. In my comments today, I'll provide additional insights on key elements of our Q2 results and discuss our expectations for the remainder of 2023. Then, before we take your questions, I'll share some more color on our path to streaming profitability and improved financial leverage.

In Q2, we delivered total company revenue of $7.6 billion and adjusted OIBDA of $606 million. In our press release, you'll find a comprehensive review of our key financial results.

What I'd like to focus on today are 4 important areas: affiliate and subscription revenue, advertising trends, filmed entertainment results and free cash flow.

Let's start with affiliate and subscription revenue, which grew a strong 12% in Q2, demonstrating once again that the combination of traditional and streaming yield a net growth for our business. We delivered strong D2C subscription revenue growth of 47%, largely driven by Paramount+ where we benefited from subscriber additions, improvements in ARPU and reductions in churn. Paramount+ net adds in the quarter reflected seasonal softness as well as a strategic shift of content releases to better align with the launch of Paramount+ with SHOWTIME. Looking ahead, we expect healthy levels of year-over-year affiliate and subscription revenue growth to continue.

From a subscriber perspective, we expect Paramount+ growth will be higher in the back half of the year than the first half. The quarterly cadence of net adds will reflect the timing of our content slate and the rollout timing of Paramount+ with SHOWTIME with our third-party distribution partners. In addition, Q3 net adds will reflect the loss of just over 1 million subscribers relating to the restructuring of a unique legacy Latin American hard bundle deal, which will have an immaterial impact on revenue.

Now let's turn to advertising. Year-over-year revenue performance improved 150 basis points compared to Q1. D2C advertising growth accelerated to 21%, fueled by subscriber growth and strong engagement across Paramount+ and Pluto, along with improvements we are seeing in direct programmatic buying activity. Looking ahead, we expect to see continued acceleration in D2C advertising growth in Q3, and we're also bullish about the long term, which I'll speak more about in a moment.

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The year-over-year change in TV media advertising was similar to Q1. In the national domestic market, we are seeing strength in key categories, including pharma, retail, movies and travel. That said, we see linear advertising recovering more slowly than digital, and we expect the Q3 rate of change for TV media advertising will be relatively similar to Q2 with improvement in Q4.

Moving on to Filmed Entertainment. Quarterly revenue and OIBDA were down year-over-year, reflecting the tough comparison to Top Gun: Maverick, which was released in the prior year period, as well as the timing and mix of other releases. OIBDA of $5 million was better than expected due mainly to the timing of licensing deals, which benefited Q2. As we've noted in the past, licensing in any given quarter can be somewhat lumpy based on deal timing and the schedule of content deliveries.

Turning now to cash flow. Free cash flow was a use of $210 million in the quarter, which included modest impact from the strikes. We anticipate continued delays in production for the duration of the strikes. And as such, we estimate free cash flow in the back half of the year will be significantly higher than previously expected.

Next, I'd like to touch on leverage. The $1.62 billion transaction we announced today to sell Simon & Schuster to KKR is an important step in our delevering plan. We expect the transaction to yield approximately $1.3 billion in net proceeds, resulting in a roughly 0.5x improvement in net leverage when the deal closes following regulatory review. We expect to use the proceeds from the sale to pay down debt. The transaction demonstrates significant value capture for Paramount. Between the $1.62 billion sale price, the $200 million termination fee paid by Penguin Random House and the cash flow we received during the pendency of the deal process, we will realize approximately $2.2 billion of gross proceeds. In addition to the impact of the S&S sale, we expect leverage will further benefit from the dividend reduction and significant total company earnings growth in 2024.

Now I'd like to shed more light on our path to profitability and streaming. Earlier, Bob described the 3 key pillars of Paramount's operating strategy: our strong content, our multi-platform and multi-revenue content monetization and our commitment to deliver long-term growth. In 2024, improved streaming economics will be key to delivering earnings growth and will be accomplished through a combination of continued subscriber growth, healthy ARPU expansion and significant improvement in the efficiency of Paramount+ investments. Let me dig a little deeper into that combination.

Starting with ARPU expansion. In 2024, we expect to deliver more than 20% growth in global Paramount+ ARPU. As you know, we implemented our first domestic price increase this quarter, and we'll see a full year benefit in 2024. Internationally, we will also be rolling out new tiers and revised pricing in certain markets. ARPU will also benefit from increasing D2C penetration in Western Europe, Canada and Australia, where new subscribers are being added at a significantly higher ARPU than our existing international subscriber base.

Paramount+, with major Hollywood movies, top-tier sports and world-class entertainment, remains an incredibly attractive value proposition relative to other SVOD services and to other forms of recreation. This compelling value proposition, plus the stickiness of Paramount+ content, gives us confidence in our ability to further improve ARPU over time.

We also see an opportunity to drive ARPU higher through enhanced ad monetization. As Bob highlighted, this year, EyeQ will generate digital advertising revenue approaching $3 billion across our business, a size and scale that are comparable to best-in-class peers in the domestic connected TV advertising market.

And the opportunity to enhance ad monetization extends beyond the United States. We've just begun to scale our international ad-supported streaming business, having now launched Pluto in over 35 markets. We also plan to launch ad-supported tiers of Paramount+ in certain markets. And monetization will benefit from expanded local partnerships and deeper integration with our own free-to-air broadcast stations.

Today, we're growing our digital advertising platform faster than many peers, as demonstrated by the 21% growth rate we've achieved in D2C advertising in Q2. Similarly, we saw 35% growth in total viewing hours across Paramount+ and Pluto.

The combination of rapid inventory expansion and broad integration with leading buy-side ad tech platforms means we are now growing D2C advertising not just as a replacement for linear but as a compelling video alternative for the long tail of advertisers who have historically relied on

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social media and short-form video advertising. Why is this important? Simply put, it means that TAM for connected TV advertising is much larger than typically imagined, and we're proving it by giving a whole new class of advertisers the ability to tell their story on the TV glass.

In order to drive accelerated earnings growth, we're focused not only on revenue but also on delivering captivating consumer experiences while using innovation to improve efficiency. In streaming, we're focused on optimizing spending in content and marketing, the two largest expense categories in our streaming P&L. As Bob pointed out, there's no question we make great content, but it matters just as much that we do it efficiently.

And when it comes to streaming content, we learned a lot from Paramount+ subscribers over the past 2.5 years: what attracts them to the service, what keeps them there and, therefore, what we want to invest in. And we've learned that success is not purely a function of content volume. It's having the right content for the right audience at the right time.

For example, we know that if a Paramount+ subscriber watches 4 hours or more of content in a month or engages with more than 2 different series, they are over 30% less likely to churn from the service. With these types of learnings, we've carefully defined specific audience segments and have evolved our programming strategy to super-serve them in an even more efficient manner. Our programming slate is designed to ensure that each key audience segment has compelling content to enjoy throughout the year, not too little but also not too much. The content charges we took in the first half of 2023 reflect this go-forward targeted programming strategy.

The benefits are already apparent in Paramount+'s content efficiency ratio or the services content expense relative to Paramount+ revenue. In the first half of 2023, we have seen nearly 10 percentage points of year-over-year improvement in this ratio. The integration of Paramount+ with SHOWTIME, together with an optimized programming strategy, will continue to drive this ratio lower and will be a key driver of the margin improvement we expect to realize in D2C over the next several years.

Beyond content, we also see room for efficiency gains in our marketing spend. The approach I just described, a targeted programming strategy, also allows us to focus our marketing on key audiences and fewer shows. And when it comes to marketing, we also leverage our huge O&O linear and digital footprint to promote our content at scale. In fact, in the United States, our O&O platforms have contributed over 30% of incremental Paramount+ starts since 2022. As a result, we also expect to see significant improvement in marketing spend as a percentage of revenue in 2024.

In closing, I want to underscore what we have said previously, that we expect 2023 to be our peak year of D2C investment with significant growth in consolidated earnings in 2024. We remain confident that the strategy we put in place will enable us to maximize earnings from our traditional networks while successfully building a profitable streaming business. Moreover, successfully navigating this transition positions Paramount for long-term growth and shareholder value creation.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question today goes to Jessica Reif Ehrlich of Bank of America Securities.

Jessica Jean Reif Ehrlich Cohen - *BofA Securities, Research Division - MD in Equity Research*

Since you talked about it a lot, but let's just focus on asset sales. With the sale of Simon & Schuster, you said you'd pay down debt. Can you give us an update on other potential asset sales, including BET or anything else? It just feels like this is the time where industry assets may move around. Other companies have talked about maybe doing stuff with their sports portfolio, linear assets. Can you just talk about where you see your assets in the next couple of years and what you would do with the proceeds?

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Robert Marc Bakish - *Paramount Global - President, CEO & Director*

Yes. Sure, Jessica. Let me take that. So on Simon & Schuster, we are very happy with this deal. It's a great outcome for our company. As we've discussed before, Simon & Schuster is a fantastic asset. But from a strategic perspective, it's not core to our mission of creating and monetizing world-class video entertainment. And we think we found a very good home for S&S with KKR. Importantly, this transaction checks all the boxes from a financial perspective. We're selling the asset at an accretive valuation and the deal will meaningfully help delever our balance sheet. And as we've said, we're going to use the proceeds to pay down debt. So again, thrilled with this transaction.

With respect to other assets, look, we're always looking for ways to maximize shareholder value. And as we said before, that might involve divesting, acquiring or potentially partnering on assets, all of which we've done. But other than that, I'm not going to comment on anything specifically.

Operator

The next question goes to Michael Morris of Guggenheim.

Michael C. Morris - *Guggenheim Securities, LLC, Research Division - MD and Senior Analyst*

I want to ask you maybe a couple of questions about the direct-to-consumer business. I appreciate all the details you just gave us. First, so your subscription revenue growth in the second quarter outpaced your subscriber growth. So it seems like you're already seeing that ARPU benefit or ARPU acceleration. Can you talk about what drove the acceleration in the second quarter?

And then as we look to the back half of the year, I know this year, you've guided us to peak losses, but given these top line drivers and the fact that you're already pretty similar year-over-year in your level of losses, what's coming up on the cost side in the back half of the year that's making you think that 2023 will be peak losses instead of '22?

And maybe if I could just ask lastly, strategically, Bob, there is some discussion about potentially seeing different media companies looking to possibly bundle their streaming services in the future for consumer benefit. Do you see that on the horizon? Is that something that you think could happen?

Robert Marc Bakish - *Paramount Global - President, CEO & Director*

Yes. Sure, Mike. Let me take the second part and then have Naveen talk about the first part.

So on the bundling side, I mean, look, we've been believers in bundling for a long time. Bundling has been one of the tried-and-true methods of value creation in media. And certainly, as we enter the streaming space, bundling is part of our strategy. And we've really pursued it in different ways. We, for example, bundled Paramount+ with SHOWTIME, originally as a price bundle than sort of an upgraded tier. This predates obviously the integration. And we saw value creation there. When you look at the deals we do with distributors, particularly outside the United States with respect to the streaming product, we pursued hard bundles, that is bundling Paramount+ in as part of a, if you will, peer that an MVPD might offer. We did that with Sky. We've done that with CANAL. We've done that with some others. We more recently did another form of bundle with Walmart where Paramount+ became the video service inside of Walmart+. That's another bundle.

And so we believe in bundling. We are continuing to look at incremental opportunities in this regard. And the only thing we know for sure is it will be a growing part of what we're doing. As to the specifics of partnerships and timing, et cetera, we'll see. But bundling is definitely a value-added element of streaming because it gives you access to consumer connections with other have aka allows you to penetrate a TAM and it has certain attractive margining characteristics. So we like bundling.

Naveen?

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Naveen K. Chopra - *Paramount Global - Executive VP & CFO*

Yes. So with respect to the questions on ARPU and what it means in terms of the D2C trends in '23 versus 24, I'd point out a few things. So first, the ARPU growth in Q2 was really driven primarily by improvements in, I'll say, subscriber mix, particularly in international markets but also a little bit as between our ad-supported and premium tiers here in the U.S., and also was benefited by growth in digital advertising, which obviously enhances ARPU for Paramount+ and also in Pluto.

The thing to realize about the trajectory sort of on more of a full year basis is that there is some seasonality in content expense. So as an example, in Q3 and Q4, we have more sports in season. And so you tend to see slightly higher content expense there, which is the answer to your question of why is '23 expected to be peak losses as opposed to 2022.

Now that being said, I think the important takeaway here is that there is significant earnings improvement expected in D2C as we move into next year. There are a number of levers that will contribute to that, obviously, continued subscriber growth, significant ARPU growth. I've talked about that a bit in my prepared remarks. That's a combination of the price increase; continued, what I'll call, accretive sub mix; continued improvement in advertising ARPU; churn reduction; and very importantly, getting more leverage on our content investments. We've already made a lot of progress on that front. And I expect to see additional large efficiency gains there next year, particularly as we focus on our key audiences, our key franchises, and find more ways to leverage content across platforms.

So we're really looking forward to what we'll be able to deliver next year but also encouraged by what we're seeing in 2023.

Operator

The next question goes to Ben Swinburne of Morgan Stanley.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Maybe just picking up on a couple of the discussion points so far. Can you guys talk about the 20%-plus ARPU growth next year? And sort of I know you mentioned a few of the drivers, Naveen, but a little more detail would be helpful on sort of what delivers that. And how are you thinking about elasticity or inelasticity of demand? That's probably more ARPU growth than we've seen from any other streaming service that I can think of off the top of my head. I'm trying to figure out if you think you're going to drive, you can still grow customers with that level of price increases next year.

And then I wanted to ask about cash content spend. Obviously, you guys are highly focused on deleveraging. That's pretty clear from your prepared remarks. And you've taken, I think, a $2.4 billion cumulative, right, programming charge this year, which would suggest, to your point, you don't need too much content. So what's the outlook for cash content spending as you look out, let's put the strike aside, over the next couple of years?

Naveen K. Chopra - *Paramount Global - Executive VP & CFO*

Yes. Thanks, Ben. There's a few questions in there, so I'll try to hit all of those. First, with respect to ARPU, I think we laid out most of the drivers in our prepared remarks. But just as a reminder, there's a significant benefit there from price increase, which we will get a full year of benefit in that in 2024. We do also expect subscriber mix to be favorable, particularly in international markets. Our base historically started in, I'll say, some lower ARPU markets and a lot of the growth next year will be in higher ARPU markets. That probably explains some of the delta between our ARPU growth rate versus what you may have seen elsewhere. And also advertising, we pointed to the fact that we are delivering very high levels of digital advertising growth. There's a significant piece of that, that is driven by Paramount+, and we expect that to continue to be a driver next year.

In terms of the elasticity of the business as we have started to raise price, I'll share a few things that we've observed thus far, although keeping in mind, it's still relatively early days since we implemented the price increase. Thus far, we've seen that new subscriber starts have basically been in

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line with our expectations. And we're seeing some really encouraging data around engagement, including a double-digit increase in daily hours per sub since we launched the combined product. That's obviously consistent with our thesis for putting these services together. And we're optimistic about the net churn impact, but it's probably a little early to have enough data to really measure that. And all of those metrics are driven by very strong content lineup, which we've talked about. So we're encouraged by what we see in terms of, call it, the consumer value proposition.

And then with respect to your question on what it all means with respect to cash content spend, I'd say a few things. First, we've historically talked about cash content spend on a total company basis as growing, call it, low single digits. But as you heard in my remarks, we are laser-focused on improving the efficiency of our content spend going forward. And that's true for both linear and for streaming. We're accomplishing that goal by leveraging content across platforms more and more, by leaning into franchises. And now that we've got more data, we're increasingly able to use analytics to understand how to super-serve these key audience segments. And so we can get away from, call it, a volume-focused game and be more focused on making sure that we have the right content for the right audience at the right time.

Financially, that means that there is opportunity to further improve the long-term trajectory of cash content spend. Now keep in mind the strikes, obviously, will create some timing shifts between how cash gets deployed in '23 versus 2024, but it doesn't change our commitment to improving that cash spend over a multiyear period of time.

Operator

The next question goes to Rich Greenfield of LightShed Partners.

Richard Scott Greenfield - *LightShed Partners, LLC - Partner and Media & Technology Analyst*

There's a bunch of major sports rights that are coming up, including NBA, WWE and college football playoffs, which I guess saw some pretty dramatic changes to conferences over the weekend. I guess the question sort of is, as you look at sort of the balance sheet and even sort of the headwinds facing the traditional media businesses, how are you thinking about what you spend on sports versus what you spend on entertainment programming? Curious like sort of how that mix shifts?

And then just I think if I looked at overall advertising, if I combine both D2C as well as your media networks, it was down about 6. It sounds like you think based on -- I think your comment is that's going to get a little bit better on a blended basis as the year progresses. What is happening with Pluto inside of that, without the disclosure anymore? Just curious if there's anything sort of in terms of Pluto year-over-year that you could help us kind of within those numbers, it would be really helpful to understand.

Robert Marc Bakish - *Paramount Global - President, CEO & Director*

Yes. Sure, Rich. Let me take the sports part, and Naveen will add on the Pluto side. So a couple of things on sports, really embedded in your question. One, on the announcements over the weekend, look, we view that as a very additive development for the Big Ten and Paramount in particular, meaning our Big Ten deal looks even better today than when we did it. In terms of specific impact, there will be no change in the fees that we pay or the volume of the games that we get for CBS and Paramount+. But the expansion of the Big Ten clearly enhances the quality of games, the portfolio, if you will, that we have to pick from and that we carry. So essentially, it increases the quality of our deal. And I'd add that we very much look forward to beginning our partnership with Big Ten in the fall. And frankly, given everything else going on, timing couldn't be better. So that's part one.

Part two is sports is, as you know, integral to our strategy. It's really a component of both CBS and Paramount+ from a content offering. We like that. We find sports working very well for us, driving distribution, attracting viewers and subscribers, enabling strong monetization in the ad market, providing powerful promotion and schedule lead-ins, et cetera. And we're in a great place because that works. And our schedule is essentially stable. Our deals are all locked through the end of the decade. So we're not in a place where we need to do anything.

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And if you look at what we have, we have broad and top-tier quality sports. We don't need or, frankly, want to do anything incremental. Sports, intentionally, as I said, are part of the equation. And we do view sports and entertainment as a synergistic mix, both in streaming and on linear. And we spend a lot of time thinking about how do we connect sports viewers with other types of content, including our original slate, to maximize the ROI for both. So for us, the marketplace is what it is. But the answer is not more sports. We're in a great place from a mix standpoint. Instead, it's about continuing to focus on maximizing the impact of these highly valuable rights that we already have. And again, we have stability. We're locked through the end of the decade.

Naveen, on Pluto?

Naveen K. Chopra - *Paramount Global - Executive VP & CFO*

Yes, thanks. So Rich, as you know, we delivered very strong overall digital advertising revenue growth in the quarter. And that was a combination of Paramount+ and Pluto. So Pluto is absolutely a key ingredient to driving that growth. And by the way, we expect that growth rate to accelerate next quarter. And it's really all about driving engagement on both of those platforms that allows us to do that, particularly in a world where, as we talked about, we see an opportunity to bring a whole new class of advertisers onto our digital advertising platforms.

There's been a lot of conversation about sort of the cannibalization of television advertising by other forms of digital. We think that's not the right way to look at this. We are very bullish about the volume of engagement that we're creating and what that means in terms of the digital advertising opportunity that exists in the future. And that will be enabled by both Paramount+ and Pluto. We sell them together to our advertising clients and that gives us a lot of opportunity to sell to both large and small clients. So Pluto is performing well, and we're very excited to have it as part of our portfolio.

Operator

The next question goes to Brett Feldman of Goldman Sachs.

Brett Joseph Feldman - *Goldman Sachs Group, Inc., Research Division - MD*

I'm going to ask about churn. Naveen, you shared some interesting anecdotes about different types of subscriber cohorts and how much lower their churn profile can be than the base.

Sort of a 2-part question, one, what are the principal churn initiatives you have underway right now? In other words, if investors are going to be walking your KPIs, I would say, in the next year or so, where are we going to see it? Is it mostly going to be something that supports sustained net adds? Or is this really about getting a lot more efficiency out of your marketing dollars. I'm sure it's a little bit of both, but I'm curious how you think about that. And then since we are talking about sports, how does sports consumption factor into churn? In other words, what's the churn profile of your customer cohorts that you clearly know are coming to Paramount+ for sports versus people who are a little more general entertainment focused?

Naveen K. Chopra - *Paramount Global - Executive VP & CFO*

Yes. Brett, it's Naveen. I'll take those, but probably in reverse order. So first, starting with sports. One of the reasons we like sports on Paramount+ is that those do tend to be some of our highest LTV customers. And that may be a little counterintuitive because some people assume that sports viewers come in during the season and then they disappear. But the reality is sports viewers are not just sports viewers. They like other forms of content, but you got to program it in a smart and thoughtful way. And so that's where we're able to use a lot of the data that we've collected over the last couple of years to understand what are the types of programming that an NFL viewer or a Champions League viewer is most likely to engage with. And as long as we can get them to engage with 1 or 2 additional titles, as I mentioned earlier, the churn rate drops dramatically, hence, the attractive LTVs that we get from those types of subscribers.

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With respect to the second part of your question, in terms of churn initiatives, it shouldn't surprise you to hear, it's multidimensional. It's, first and foremost, about content, making sure that we have the right content for the key audiences that we're focused on but also timing that content correctly and then programming and promoting it correctly, which is really about figuring out if an audience is starting with show X, what is the next thing that you want to put in front of them to ensure that you can engage them once a particular series comes to an end. So it starts with content, but it is also about getting smarter on the marketing side and then also using bundles and partnerships to further improve the churn dynamics. We've talked in the past about some of the benefits of doing that. So we're going to be using multiple angles to continue to make improvements on churn. And we've seen a great track record there to date.

Robert Marc Bakish - *Paramount Global - President, CEO & Director*

But Brett, just to jump in, I think it also goes to the fundamental premise behind our thesis, and that is broad. We talked about Paramount+ as news, sports and amount of entertainment. And the fact of the matter is when we look at the data under the covers, we are seeing conjoint analysis, if you will, of sports viewers watching entertainment programming. And to Naveen's point on efficiency, for example, we probably need to do less for that viewer who's an NFL viewer in the fall and do more for that viewer outside the fall because we can rely on the NFL. That's an example of fine-tuning our strategy.

And really, that also goes to why we're doing Paramount+ with SHOWTIME. Again, that broad product, which we're seeing 40% more titles consumed when they have SHOWTIME and Paramount+. It's all about studying the data and leveraging this combination of sports and entertainment, not doing either naked. That is, I believe, the path to success because, among other things, it helps you lower your churn, but it has broader benefits as well and ad monetization and subscriber acquisition, engagement, et cetera.

Operator

The next question goes to Robert Fishman of MoffettNathanson.

Robert S. Fishman - *MoffettNathanson LLC - Analyst*

One for Bob and one follow-up for Naveen. Bob, earlier this year, you provided thoughts on the TV advertising landscape in terms of the secular and cyclical headwinds and recovery expectations. I'd just be curious to get your updated point of view on the mix between the cyclical and secular headwinds and if anything has changed over the past few months.

And then, Naveen, can you just help us think about any timing benefit or maybe onetime in nature? I think it was the $600 million that was called out from the CBS licensing deals in the quarter, or how we should think about licensing in the second half of the year, especially factoring in any strike impact possibly impacting the regular delivery of your programming internationally or even domestically.

Robert Marc Bakish - *Paramount Global - President, CEO & Director*

Yes, Robert. So on the advertising side, you're right, we see a combined impact of cyclical and secular. On the cyclical side, look, rates are coming down a bit. Things are marginally improving. But what we've really been focused on is the secular side. And you see that in terms of how we're participating and really driving the digital ad market. For us, direct digital is very strong, and it wouldn't be had we not configured our product line to prosecute it basically. And we're going after that with EyeQ, which is a combination, of course, of Pluto TV and Paramount+. We are seeing direct digital strong, and we are seeing improvement in programmatic, and we expect both of those things to continue. So that's all about secular. And as we roll forward through the year, in Q3, we expect to see a slight improvement overall on a year-to-year basis, but that will be driven by D2C. So back to the secular piece.

And then as we get to Q4, there, sports are going to be a key driver, including the NFL, the Big Ten that, by the way, that timing has turned up to be great for us as well as our modified CBS slate, which is strong and has plenty of scripted programming. That should add meaningful benefit on

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the linear side. And yes, hopefully, we continue to see some cyclical improvement. But we are very much focused on this secular trend, and we think we are extremely well positioned given the impression scale we have in the marketplace with EyeQ, and the revenue growth trends we're seeing. So we're very excited about the road ahead.

Naveen K. Chopra - *Paramount Global - Executive VP & CFO*

Robert, just real quick on the licensing questions that you asked. I think the $600 million number that you referenced, just to clarify, that was just an indication of the contribution of CBS content to licensing in the quarter, not a timing benefit. And next quarter, CBS content will also be a major contributor to licensing. The timing benefit that was called out was really in relation to the Filmed Entertainment segment, where we did have deals that ended up getting closed in Q2 as opposed to Q3. So that accelerated some of the revenue. But as I said, the licensing business in general tends to be lumpy, so it's very possible you could have something similar next quarter or thereafter. So really no major timing issues to call out.

Operator

Our final question goes to Bryan Kraft of Deutsche Bank.

Bryan D. Kraft - *Deutsche Bank AG, Research Division - Senior Analyst*

I wanted to ask you on the film side, I realize we don't know at this point when the strikes will end, but if we were to assume it ends at the end of the third quarter, I was curious how you're thinking about your upcoming Paramount film releases for the remainder of the year and next year and maybe even into '25. Would you expect any disruption or delays? And on the Paramount+ side, assuming that same timing, would you expect any disruption to sub growth at some point from the strike? Or do you think based on producing in advance and being able to kind of catch up, you can make up for that 5 months' disruption in production?

Robert Marc Bakish - *Paramount Global - President, CEO & Director*

Yes, sure, Bryan. So look, I think we're all saddened, as an industry, that we could not get deals done with the writers and actors to avoid the situation we're in. And I'd reiterate that our partnership with the creative community is critical to the health of the industry. So we remain hopeful for a timely resolution.

That said, with respect to our film slate, the good news is we have a significant number of films, of which production is complete. That includes Killers of the Flower Moon, Bob Marley, John Krasinski's If, as well as A Quiet Place: Day One, and Dear Santa with Jack Black. We also have a Mean Girls musical for Paramount+. Strikes do present some marketing challenges, something we're working to assess with respect to our lease strategy. But again, we're well stocked. And you heard the commentary on the CBS alternate schedule. That, too, draws from our global multi-platform asset base and is very strong. So from a content perspective, we're in pretty good shape.

Again, it all comes down to duration. And I want to reiterate that we're hopeful that we can solve this as an industry sooner rather than later because we'd all like to get back in the content production business. But in the near term, we're working to mitigate the impact to our consumers and other constituents.

Naveen K. Chopra - *Paramount Global - Executive VP & CFO*

And then I'll just jump in on the P+ impact, specifically. It's similar in the sense that we actually feel pretty good about our slate. Our back-half plan does include a number of formats that are either unaffected by the strike or things that were already in the can. That include shows like Special Ops: Lioness, which is now on the service, the next season of Billions as well as our next Taylor Sheridan original Lawmen. We'll continue, obviously, to get the benefit of NFL Football, the SCC and Big Ten, all 3 of which will be in full swing during the fall. And then we will still have our theatrical

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movies coming to the slate. Transformers is doing well right now and then both Teenage Mutant Ninja Turtles and PAW Patrol will be on the service later this year.

So still feel good about the slate. There will be some originals that were previously planned to hit Paramount+ in Q4 that will move into 2024 due to strike-related production delays. But it's really too early to sort of estimate what the impact of that will be. But we feel pretty good about our distribution plan and the slate in general.

Robert Marc Bakish - *Paramount Global - President, CEO & Director*

Yes. And I'd just add, in closing, I want to emphasize that we remain focused on executing our strategy, and that means continuing to scale streaming while maximizing our traditional business to deliver significant total company earnings growth in '24 and create a more sustainable growth model in the process. Through it all, we will be nimble in navigating the current environment in the near term while focusing on creating shareholder value for the long term.

And with that, thank you, everyone. Be well, and we'll talk to you soon.

Operator

This now concludes today's call. Thank you all for joining. You may now disconnect your lines.

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