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Paramount Global (PARA)

Q1 2024 Earnings Call

CORPORATE PARTICIPANTS

Jaime Morris

Executive Vice President-Investor Relations, Paramount Global

George Cheeks

President and Chief Executive Officer, CBS; Chief Content Officer, News and Sports, Paramount+, Paramount Global

Christopher D. McCarthy

President and Chief Executive Officer Showtime/MTV Entertainment Studios and Paramount Media Networks, Paramount Global

Brian Robbins

President and Chief Executive Officer, Paramount Pictures and Nickelodeon; and Chief Content Officer, Movies & Kids & Family, Paramount+, Paramount Global

Naveen K. Chopra

Chief Financial Officer & Executive Vice President, Paramount Global

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Harry, and I'll be your conference operator today. I would like to welcome everyone to Paramount Global's Q1 2024 Earnings Conference Call.

At this time, I would now 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 first quarter 2024 earnings call. Joining me for today's discussion is Naveen Chopra, our CFO; and to make some brief introductory remarks on behalf of our new Office of the CEO, we also have George Cheeks, Chris McCarthy and Brian Robbins.

Before we start, please note that in addition to our earnings release, we have trending schedules containing supplemental information available on our website. Also, 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 on 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, these can be found in the Investor Relations section of our website.

I also want to note that we will not be taking questions following our prepared remarks. The main purpose of today's call is to provide you with the information regarding our first quarter 2024 performance.

Now, I will turn the call over to George.

George Cheeks

President and Chief Executive Officer, CBS; Chief Content Officer, News and Sports, Paramount+, Paramount Global

Thanks, Jaime. First, we want to thank Bob for his many years of leadership and steadfast support for all Paramount Global businesses, brands and people. Now Chris, Brian and I want to speak briefly on our partnership, our excitement about this collaboration and what we're addressing is our first order of business.

Let me start by saying that Paramount Global has the greatest content in the world. That is the most important point. We've got incredible assets at this company, both in what we produce and the amazing people who make it all possible. Everything will build from that.

And now over to Chris.

Christopher D. McCarthy

President and Chief Executive Officer Showtime/MTV Entertainment Studios and Paramount Media Networks, Paramount Global

Thank you, George. And just as important is the fact that we've all worked together collaboratively for years and have known each other for decades. It's a true partnership. We have a deep respect for one another, and we're going to lead and manage this company together.

On that note, we're finalizing a long-term strategic plan to best position this storied company to reach new and greater heights in our rapidly changing world. The plan is focused on three pillars: first, make the most of our hit content; second, strengthen our balance sheet; and third, optimize our streaming strategy.

And now here's Brian.

Brian Robbins

President and Chief Executive Officer, Paramount Pictures and Nickelodeon; and Chief Content Officer, Movies & Kids & Family, Paramount+, Paramount Global

Thank you, Chris. George, Chris and I have been collaborating with each other for years; transforming our businesses and most importantly, making hit films and television, which is the core of Paramount Global. Each of us has deep industry knowledge, relationships and experience as business leaders and creative executives. We will bring all of that to bear as we chart a course forward for our company. We look forward to coming back to you in short order to share our plan and discussing it all in detail at that time.

Thank you, and now here's Naveen.

Naveen K. Chopra

Chief Financial Officer & Executive Vice President, Paramount Global

Thank you, Brian, and good afternoon, everyone. In Q1, we generated significant growth in earnings and free cash flow and improved our balance sheet.

Paramount delivered total company revenue growth of 6% to \$7.7 billion. Adjusted OIBDA grew 80% to \$987 million, reflecting improvements across all three of our business segments. Our Direct-to-Consumer business delivered healthy top-line growth and improved operating leverage. TV Media operating margins expanded year-over-year and Filmed Entertainment adjusted OIBDA improved by nearly \$100 million versus the year-ago period.

As always, you'll find a comprehensive review of our financial results in our press release, but I'd like to focus on a few areas of note.

Starting with advertising, which was a highlight in the quarter. Total company advertising grew 17%, benefiting from Super Bowl LVIII, which contributed 22 percentage points to the growth rate. The game broke records across CBS, Paramount+ and Nickelodeon, a great example of the power of our multi-platform offering.

TV Media advertising grew 14% in the quarter, including a 23-percentage point contribution from the Super Bowl. Sports continue to over-deliver with the NFL playoffs and NCAA college basketball contributing to growth in the quarter.

Direct-to-Consumer advertising grew 31%, driven by growth from Pluto TV and Paramount+, including the benefit of the Super Bowl. Beyond the Super Bowl impact on engagement, revenue growth reflects a combination of increased sell-through and higher CPMs.

Next, total company affiliate and subscription revenue, which grew 6% in Q1. In TV Media, affiliate revenue declined 3% year-over-year, reflecting overall Pay-TV ecosystem declines, partially offset by pricing.

D2C subscription revenue, on the other hand, grew 22% in the quarter, anchored by greater than 50% growth in Paramount+ subscription revenue. Paramount+ added 3.7 million subscribers in the quarter, reaching a total of 71.2 million. Subscriber growth benefited from the NFL and the Super Bowl.

And finally, on the D2C segment, revenue grew 24% year-over-year in Q1, led by 51% growth in Paramount+ revenue and 26% global ARPU expansion. ARPU growth reflects a full quarter of our domestic price increase and the addition of international subscribers in higher ARPU markets. Domestic ARPU was negatively impacted by lower-than-expected engagement due to the lagging effect of last year's strikes, which constrained the availability of new programming.

D2C adjusted OIBDA improved 44% year-over-year, led by improvement in Paramount+ domestic profitability. Healthy revenue growth and a disciplined focus on cost drove improved leverage in content, marketing and other overhead costs, which all decreased as a percentage of revenue relative to the prior year.

I'd also like to share some important notes regarding our balance sheet. In Q1, we delivered \$209 million of free cash flow, an improvement of over \$750 million versus a year ago. We also remain focused on reducing leverage, which improved 3/4 of a turn to 4.3 times, benefiting from growth in adjusted OIBDA.

Additionally, last month, we entered into an agreement with Reliance Industries to sell our equity interest in Viacom18 for approximately \$500 million based on current exchange rates. The after-tax proceeds will further benefit leverage when the transaction closes at the end of 2024 or early in 2025, subject to regulatory approval.

Selling our stake in Viacom18 provided an opportunity to exit our ownership position with an attractive financial return on our investment while preserving our ability to monetize our content in India through ongoing licensing arrangements.

And lastly, on April 1, we paid the last dividend on our mandatory convertible preferred stock, which converted to 11.5 million Class B common shares on the same day. Going forward, our cash dividend payment will be reduced by about \$55 million on an annual basis as a result of the conversion.

In closing, we are proud of our first quarter results. Although the operating environment continued to be dynamic, we remain focused on execution.

And on a final note, I'd like to take a moment to thank Bob for his leadership of the company through a period of immense change for us and the industry. Not only did Bob help navigate a number of challenges, but I'm proud of all we've accomplished and it's been my privilege working together with him.

I'm also looking forward to working closely with George, Brian and Chris who will be stepping in to lead the Office of the CEO. They are long-standing, seasoned executives with deep expertise across their businesses and are well-positioned to guide the next chapter of Paramount.

With that, we'll conclude our first quarter earnings call. Thank you for joining us.

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