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Paramount Global (PARA)

Q3 2023 Earnings Call

CORPORATE PARTICIPANTS

Jaime Morris

Executive Vice President-Investor Relations, Paramount Global

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

OTHER PARTICIPANTS

Michael Morris

Analyst, Guggenheim Securities LLC

Benjamin Swinburne

Analyst, Morgan Stanley & Co. LLC

Jessica Reif Ehrlich

Analyst, BofA Securities, Inc.

Richard Greenfield

Analyst, LightShed Partners

Brett Feldman

Analyst, Goldman Sachs & Co. LLC

Philip A. Cusick

Analyst, JPMorgan Securities LLC

John C. Hodulik

Analyst, UBS Securities LLC

Bryan Kraft

Analyst, Deutsche Bank Securities, Inc.

MANAGEMENT DISCUSSION SECTION

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 Q3 2023 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 now like to turn the call over to Jaime Morris, Paramount Global, EVP, Investor Relations. You may now begin your conference call.

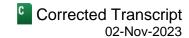
Jaime Morris

Executive Vice President-Investor Relations, Paramount Global

Good afternoon, everyone. Thank you for taking the time to join us for our third 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.

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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 M. Bakish

President, Chief Executive Officer & Director, Paramount Global

Good afternoon, everyone, and thank you for joining us. There's no question the media industry remains dynamic, and in many ways, complex, but our performance this quarter demonstrates clear progress against strategic goals, as we set the company up to return to significant earnings growth in 2024.

In the third quarter, we grew streaming revenue and Paramount+ subscribers while narrowing D2C losses. Multiple lines of business benefited from a franchise strategy powered by Paramount Pictures, and our licensing business continued to be an important component of content monetization. At the same time, we remain disciplined in our approach to cost management, helping maximize earnings of our TV media business.

Finally, as you can see, we delivered strong free cash flow in the quarter. Beyond operations, our delevering plan continues to be a priority. And on Monday, we closed on the sale of Simon & Schuster for \$1.62 billion, the net proceeds of which we will use to pay down debt. While we remain focused on executing our strategy to make world-class content with mass popular appeal, delivery across platforms and monetize it across multiple revenue streams, there's never been a more important time for us to remain agile and adaptive as the industry continues to evolve.

We are applying this thinking to every market we operate in, every line of business and every decision we make about the best use of our content. Today, I'll provide more color on how we're doing that with a focus on our D2C momentum. I'll also share our perspective on the distribution and advertising landscape, two topics we know are top of mind with everyone on this call.

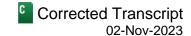
With that, let's dive in. Q3 was yet another significant step in our building of a scaled, profitable streaming business. Paramount+ crossed 63 million subscribers, and we delivered 38% D2C revenue growth aided by a successful price increase. We also narrowed our D2C adjusted OIBDA losses by over 30%. In fact, we now believe 2022 was our year of peak streaming investment meaning D2C losses in 2023 will be lower than in 2022.

We're clearly advancing on the path to streaming profitability and this continued D2C improvement will be a key driver of the total company earnings growth we expect next year. Related to that, our integration of Paramount+ and Showtime continues to deliver, as we expected. Since it launched at the end of June, the combination has driven increases in acquisition and engagement, ARPU and operational efficiency.

The power of partnerships is also a meaningful contributor to our momentum. The majority of Delta's daily domestic customers now have in-flight access to Paramount+. Also, we recently completed the first year of our partnership with Walmart+ which continues to add to Paramount+ subscribers and grow viewer engagement. It's also an incremental driver of consumer products franchises like Teenage Mutant Ninja Turtles, PAW Patrol and Yellowstone. And we continue to expand our participation in the global streaming market, leveraging a variety of different models tuned to market dynamics.

In major territories like the UK and Australia, for example, we have an owned and operated streaming presence that benefits from cross-promotion and programming with our local broadcast networks, much like we do in the

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US with Paramount+ and CBS. In certain smaller markets, we're now prioritizing partner-centric distribution to further unlock the international streaming opportunity. Here, partners will ingest a subset of our content into a Paramount+ branded area on their platform. That way, we have a local partner fully engaged in driving the business forward and we can monetize our content and amplify the Paramount+ brand without the investment in local content, marketing or operating infrastructure. So the financial benefit is quite accretive.

This new phase of expansion is just getting underway. In the past few weeks alone, we've locked deals in Belgium and in Greece with more on the way. And speaking of geographic reach, Pluto TV continues to be in more countries today than any other FAST service, and it had the highest total viewing hours ever in Q3, both domestically and globally. And like our partner-centric Paramount+ strategy, Pluto allows us to tap into international streaming consumption in an economically efficient way.

Moving on to distribution more broadly. Recent negotiations in the industry have raised questions about whether the hard bundling of streaming and pay TV will become the norm in the US and what that could mean for companies like ours. The reality is, operators have different priorities, but we've shown that we can adapt our partnerships to accomplish common objectives.

As we go forward, it is possible that some of our partners will embrace the strategy that more tightly integrates D2C into the pay TV bundle. And we expect that if they do, the bundles would have many of the same advantages we've observed in the various hard bundles we've deployed internationally, namely a dramatically lower cost of acquisition and improvement in streaming churn, and it may improve TV ecosystem trends as well.

In addition, adding the scale of US pay TV to Paramount+'s ad-supported tier would bring incremental benefit to our digital advertising offering as well as an additional marketing and promotional value and it would provide an opportunity to upsell to Paramount+ with Showtime. As a result, these deals, when structured with the right economic value, have the potential to be additive to our model while improving simplicity and increasing value for the consumer.

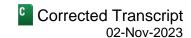
As a related point, it's worth noting that we have already finalized agreements with multiple distributors to offer Paramount+ with Showtime to their customers as a true multi-platform product. Importantly, this includes linear subscribers getting app credentials. That's where we are and where we're headed on distribution.

Now let's talk about advertising. There's no question that the broader ad market continues to face challenges, impacted by inflation, economic uncertainty and weaker demand from some categories. And while the industry isn't seeing the second half recovery we expected earlier in the year, there are a number of positive catalysts ahead that give us confidence as we continue to navigate the headwinds. As in distribution, we have prepared for the advertising transition from linear to digital, and we've built the asset base and the team to prosper in it.

On the supply side, continued growth in our streaming users and engagement means we will extend our position as one of the market's largest sources of high-quality digital video through EyeQ. In fact, we're now reaching over 100 million full episode monthly unique viewers in the US alone. This audience will continue to grow as we launch Paramount+ Essential on Amazon channels in the US in the coming months, and we're about to launch EyeQ globally allowing marketers to operate multinational campaigns across Paramount's domestic and international digital platforms, all with a user-friendly single point of entry.

In 2024, we will create even more opportunities for global ad growth. For example, in the UK, we're launching a consolidated ad-supported offering that combines Channel 5's broadcast video-on-demand platform, MiFi, with

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Pluto TV. We're also rolling out a new ad-supported tier for Paramount+ in select other markets including Australia and Canada.

Simultaneously, we're strengthening our hand to better serve the demand side. We're enhancing and expanding the collection of first-party data across Paramount+ and Pluto TV. And we're continuing to bring in new advertisers into our digital video ecosystem from the large and growing small and medium business market. There are currently tens of thousands of longer tail advertisers buying across EyeQ as part of a programmatic-only cohort, a cohort that only continues to grow. The fact is, CTV can compete for media budgets previously earmarked for other formats like social. And while we expand our business with long-tail video advertisers, Paramount remains very well-positioned to serve larger clients through our direct sales force.

There are a number of other bright spots anticipated in 2024, including the Super Bowl, where inventory is virtually sold out and it's an election year, so we can expect to see the benefit of higher political spending. Powering all of these opportunities is our world-class content, both our scale collection of first run and library IP. It's what draws viewers in and keeps them coming back. It's what makes us a first choice partner and what drives the continued success of our strategy. It's our greatest strength and remains our greatest focus.

And as we're talking about content, I'd note that we're happy the WGA deal was reached and ratified. It's a deal that's good for our company and our industry. At the same time, you saw that we recently made some changes to our film slate, which has been impacted by the continued SAG-AFTRA strike. And while late night is back up and running, the scripted side of TV is still strike-impacted. Obviously, we all hope to be back at work soon.

Despite the dynamics we're navigating, you saw the power of our content in the quarter, whether it's shows on Paramount+ like Special Ops: Lioness and The Chi, both of which were significant sources of subscribers and engagement, or CBS shows like Survivor, Amazing Race and 60 Minutes, as well as sports like the NFL, all of which drove audiences on linear and streaming. In fact, I'm happy to say the NFL on CBS is delivering its best season in viewership in years and its most streamed season to date on Paramount+ which, among other things, illustrates the power of our platforms in terms of reach and consumer engagement.

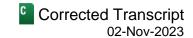
It's also about our kids and family franchises like Turtles and PAW Patrol, both of which had successful feature films, films which also drove a broader ecosystem of consumption on linear, streaming and at retail. And we look forward to future extensions, including the release of a new Teenage Mutant Ninja Turtle series next year and a third PAW Patrol movie in 2026.

I also have to mention the Yellowstone universe. Over the last five years, over 100 million viewers globally have watched the Yellowstone franchise across platforms. Not only is Yellowstone a top franchise in the US, it's a top show for Paramount+ in markets including the UK, France, Canada and across Latin America. And it's another perfect example of how we use the combined power of our platforms and partners to extend reach, revenue and relevance of our biggest hits.

This first-run content, combined with our massive library of titles from Spongebob to NCIS, drove momentum across our platforms, including Pluto TV as well as our third-party licensing business. This unique collection of world-class content is driving consumers, platforms and commercial activity with partners broadly speaking, and it's what makes Paramount one of the preeminent media companies in the world.

Finally, I want to leave you with two points. First, with content at the core, Paramount's combination of advertising, subscription and licensing revenue streams continues to provide attractive growth opportunities and

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diversification. This is particularly important during a period of rapid industry evolution. And second, know that we remain laser-focused on execution and our return to earnings growth in 2024.

With that, I'll hand it to Naveen to walk you through our numbers and provide additional commentary. Naveen?

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

Thank you, Bob, and good afternoon, everyone. As Bob outlined, we've made substantial progress in improving D2C earnings year-to-date and now expect to deliver lower full year D2C losses in 2023 than in 2022 with further improvement next year as we return to consolidated earnings growth. Broadly speaking, Paramount's Q3 results reflect two important takeaways: strong momentum in our D2C business, and our ability to navigate in a challenging environment by focusing on operational efficiencies across the company.

In my comments today, I will provide additional insights on key elements of our Q3 results. I'll also discuss our expectations for Q4 and outline our path ahead.

Let's begin with our Q3 results. We delivered total company revenue of \$7.1 billion and adjusted OIBDA of \$716 million. You'll find a comprehensive review of our key financial results in our press release but let me walk you through a few important areas.

First, affiliate and subscription revenue, which grew 14% in Q3. This demonstrates the power of our multi-platform strategy and affirms that the combination of traditional and streaming continues to yield growth for our business. In TV media, affiliate revenue reflects a continuation of the trends we saw in the first half of the year. This quarter, affiliate and subscription revenue included two pay-per-view events, which benefited both our TV media and D2C segments.

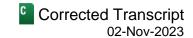
D2C subscription revenue grew 46% in Q3, anchored by over 60% growth in Paramount+ subscription revenue. This growth was achieved through a combination of healthy subscriber additions and global ARPU expansion. Paramount+ added 2.7 million subscribers this quarter, even as we lost 1.3 million Latin American subs due to the restructuring of a legacy hard bundle deal, which we previewed on our last earnings call. Q3 was also the first full quarter in which the new Paramount+ with Showtime service was operational.

As expected, this offering's expanded content proposition led to increased engagement among premium tier subscribers. In fact, for premium subs, hours of engagement grew 17%. Simultaneous with the launch of Paramount+ with Showtime, we increased monthly pricing, which helped Paramount+ ARPU grow 16%. I should note here that the price increases took effect at different times for different subscriber cohorts throughout the quarter, meaning we won't see the full ARPU benefit of the price increase until Q4.

In addition, we were pleased that domestic monthly churn continued to improve year-over-year despite the price increase, demonstrating the popularity and stickiness of our content. From a bottom line perspective, strong revenue trends, together with significant improvements in our D2C operating leverage, contributed to a 31% year-over-year improvement in D2C OIBDA in the quarter. Looking ahead, we expect strong D2C revenue growth with another quarter of healthy sub growth.

That said, Q4 D2C losses will be similar to the year-ago period. This reflects higher sports costs as well as higher marketing costs to support our broader geographic footprint as most of our Western European launches occurred late in the fourth quarter of 2022. Nonetheless, as I noted earlier, we now expect full year D2C losses in 2023 to be lower than 2022. Meaning we are ahead of plan in moving the D2C business toward profitability.

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The ongoing execution of our streaming strategy will yield further improvement in 2024 as we continue to drive subscriber growth, user engagement and Paramount+ global ARPU growth in excess of 20%. In addition, we remain focused on building operating leverage by capturing the benefits of integrating Paramount+ and Showtime, optimizing our programming strategy to efficiently target key audience segments and further expanding our international footprint in a financially efficient way.

Now, let's discuss advertising. Direct-to-consumer advertising growth remained strong at 18%, benefiting from 46% growth in total viewing hours across Paramount+ and Pluto TV. This quarter's growth continues to position Paramount as one of the largest digital video advertising platforms with a unique direct programmatic business that leverages deep relationships with advertisers and agencies. TV media advertising revenue declined 14%. We did see strong sports demand and healthy year-over-year growth in key categories like automotive, CPG and alcohol. But significant categories like tech and pharma were weaker than we would like.

Additionally, reduced political spend, strike-related impacts and international headwinds, including from FX negatively impacted the year-over-year performance. Looking ahead to Q4, advertising growth will continue to be impacted by a sizable decline in political advertising. We're seeing modest improvement in domestic linear advertising, but we continue to deal with strike impact and international weakness, which will limit improvement in the year-over-year trend.

Shifting gears a bit, I'd like to provide additional detail regarding the financial impact of the strikes. In Q3, total company OIBDA included nearly \$60 million of strike-related idle costs. These are incremental expenses incurred to retain production capabilities while the strike is ongoing. These costs impacted both our TV media and filmed entertainment segments. We expect to incur additional strike-related idle costs in Q4. However, the magnitude of these incremental expenses will depend on when the actors' strike is resolved, which, of course, we hope happens soon.

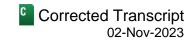
Now, I'll turn to filmed entertainment. Revenue was up 14%, benefiting from the theatrical performance of Mission: Impossible – Dead Reckoning and Teenage Mutant Ninja Turtles: Mutant Mayhem. OIBDA was a loss of \$49 million, which reflects release timing and film performance but also includes the impact of the strikes. In addition to the idle costs I described above, the strike also negatively affected revenue from third-party studio rental and production services. This had a roughly \$20 million impact on filmed entertainment OIBDA in the quarter.

Bob has spoken about how we're remaining adaptable and strategic in the face of industry-wide change. That includes proactively managing our cost base as we transform our business for the future. Earlier, I mentioned some of the initiatives we're prioritizing to improve D2C operating leverage. We also continue to identify new efficiency opportunities through disciplined expense management across segments, in content, in marketing and overhead.

Our decisions to reduce real estate footprint, prioritize content investments with global appeal, combine international broadcast video-on-demand platforms with Pluto TV and centralize more marketing activity are just a few examples of our ongoing and relentless focus on expense management and will all contribute to earnings growth next year.

Moving on to free cash flow. Free cash flow in Q3 was \$377 million, and we expect strong free cash flow in Q4 as the strike continues to limit the production of content. Some of the programming changes we've made in response to the strike will be sustained, resulting in lower steady-state production spend and improved cash flow across the two-year period of 2023 and 2024, which will also benefit leverage.

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We also closed on the sale of Simon & Schuster earlier this week, which generated approximately \$1.3 billion in after-tax proceeds. These proceeds will improve year-end net leverage by approximately 0.5 turn.

Today, we announced a \$1 billion tender offer for some of our upcoming debt maturities. Not only will this reduce gross debt, but it will extend our maturity profile thereby enhancing financial flexibility. Additionally, next year, the full year benefit of the dividend reduction, together with our expectation for growth in total company earnings will improve leverage even further.

In closing, I want to reiterate that despite a changing environment, our commitment to investors remains the same. We are well-positioned to deliver significant consolidated earnings growth in 2024. We'll continue to improve D2C earnings through a combination of subscriber growth, healthy global ARPU expansion and operational efficiency. And we remain highly focused on maximizing earnings from our traditional networks by proactively managing expenses in these areas. We continue to believe that successfully transitioning Paramount's business will yield significant long-term value creation for our shareholders.

And with that, operator, can you please open the line for questions?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today goes to Michael Morris of Guggenheim. Michael, please go ahead. Your line is open.

Michael Morris

Analyst, Guggenheim Securities LLC

Thank you. Good afternoon, guys, and thank you for all the details. Bob, you talked about the carriage agreement, the new agreement between Disney and Charter and the streaming app side of the business. But can you share thoughts about the elimination of carriage of some channels that came in with that agreement and whether that's something that you expect to work through as you do renewals in the future and how that might impact the business? And sorry, if I could just add one other, if we look at the 2024 outlook for returning to earnings growth, Naveen, could you maybe talk a little bit about what that assumes for the advertising environment and cost growth at direct-to-consumer? Thank you.

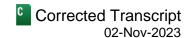
Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

Yes. Sure, Mike, happy to. Look, there's been a lot of conversation about this topic, Disney-Charter, if you will. And if we end up going this direction with some partners – and by the way, it's not clear that all partners want to go this direction. But if we go this direction, we think it could be an accretive development. And I'll talk about the D2C side and the channel side. So first, in many respects, this is a domestic hard bundle idea. And we've seen clear benefits with international hard bundles, namely increased subs, no acquisition cost and lower churn. That is offset by a lower potential D2C unit revenue, given that in some shape or form, you'll be dealing with a wholesale structure. But still, when you net it all, we see the LTV as compelling.

Also, I would point out importantly that we've seen these hard bundles actually catalyze D2C growth through channel stores and O&O, et cetera, which is obviously a positive. So there are puts and takes to this piece, but the aggregate value that we've seen is clearly positive.

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When you extend the question to the broader distributor economic relationship, obviously, that includes linear channels, if you will. Remember, all major deals include premium networks, advanced ad sales and data relationships, as well as marketing partnerships, plus in some cases, there are film and other types of content output deals. So there are a lot of levers here to pull as you get to what ends up being a bespoke solution.

And again, I'd look to international. When we've done this internationally, as discussed on prior earnings calls, the result was D2C was launched, revenue was remixed a bit, total revenue increased. And importantly, to your question, no linear channels were dropped. So in aggregate, that's clearly a positive outcome.

And lastly, on a related point, I'd note that we've already done a number of P+ with Showtime deals with major operators in the US where they get credentials for the Showtime linear subs, as an example. And we like those very much. So again, we think this is an interesting, accretive – potentially accretive development. We don't know if it applies broadly, but we're excited by it. And to you, Naveen.

Naveen Chopra

ecosystem.

Executive Vice President & Chief Financial Officer, Paramount Global

Yes. Mike, with respect to earnings in 2024, I'd note a few things. I mean, first, we remain very focused on delivering consolidated earnings growth next year. In terms of the composition of that, the TV media side of the business, we assume we'll continue to benefit from cost reductions. Obviously, get some tailwind on the

advertising side from the Super Bowl and political, all of which help offset continued evolution in the linear

I would say that we – with respect to the advertising market specifically, we do expect it to improve in 2024. Obviously, the exact magnitude of that would be a little too early to call but we have a number of levers that we can pull to adjust our plan depending on what we see in the advertising market to ensure that we're achieving our desired level of earnings.

On the D2C side of the business, we continue to expect significant improvement in the D2C P&L. That is a combination of both top line growth and improved operating leverage. I've talked about some of the drivers there in the past, includes things like growth in subs, continued improvement in engagement and ARPU both on the subscription and advertising side. It improves - it involves continued improvement in churn as well as lower growth in content, marketing and operational expenses.

So those are the drivers. It's, I think, too early to put specific numbers around that, given some of the uncertainty, both in the advertising marketplace as well as timing of content availability, but doesn't change the fact that there are a number of levers that contribute to year-over-year earnings growth.

Jaime Morris

Executive Vice President-Investor Relations, Paramount Global

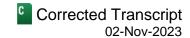
Thanks, Mike. Operator, next question, please.

Operator: Our next question goes to Ben Swinburne of Morgan Stanley. Ben, please go ahead. Your line is open.

Benjamin Swinburne

Analyst, Morgan Stanley & Co. LLC

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Afternoon. I guess two questions. Bob, could you talk a little bit about your kind of longer-term ambitions for Paramount on the film slide? I know the slate has been impacted by the strike, but there's a lot of momentum in the IP there and I'm just wondering if you could talk about maybe over the next couple of years, what you think the studio should be doing in terms of number of wide releases and what your strategy is to maximize value for the studio?

And then Naveen, since you're being very helpful with 2024, I thought I would push a little further just to take a swing. Is there a way you could help us think about like total cash content spending year-on-year 2024 versus 2023 or even total OpEx for the company growth? Because the allocation between segments gets pretty tricky for us externally. So, just kind of think maybe more bigger picture on cost in 2024 would be helpful. Thank you, guys.

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

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Yes. Sure, Ben. Obviously, let me start there. When you look at Paramount and you look at the slate, the word that comes to my mind is balance. And what I mean by that is a mix of titles from a target market and a genre perspective – by the way, that saw five titles open at number one in this year. We've obviously got a range of budget levels in there from modest to larger and a mix of franchises and new ideas. And so let's talk a little about franchises since I think that's part of your question.

Look, we continue to believe in them. We have seen our franchises contribute significant value really across the business because, again, we use Paramount Pictures as part of an integrated strategy. Theatrical window is very much a launch pad, but it yields other benefits beyond theatrical. Look at the kids and family genre, clearly, a strong point in the quarter. You had Turtles and PAW Patrol. Those were both successful feature films, but they really drove a broader ecosystem of consumption on our platforms and at retail.

In terms of consumption, it's worth noting that, again, both in linear and streaming, we saw a significant library benefit as well as traction from the new releases. And the retail value creation has been significant. On the Turtles side, it's actually the fastest-growing action figure brand in the US, and it was number one in August. And on the PAW side, we've got the biggest [indiscernible] (00:34:13) brand in merchandise. So that's clearly additive, it's part of the reason we feel great about our franchise strategy.

In terms of where we go over the next couple of years, we like the slate. It continues to be balanced. It continues to have range from genre and target market perspective. It continues to have range from – on budget. And again, it's a mix of franchises and new ideas.

If you look in the near term, we have the Bob Marley picture, One Love. That looks like a good sort of original idea, but clearly, a topic that people know. We've got another Gladiator movie that we're very excited about, and then more franchises, A Quiet Place, Mean Girls, Smile, Transformers, Sonic.

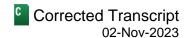
So there's a lot going on there in the near term. But again, you can assume the slate continues in that vein, but scales a bit. We're probably in the eight-ish release volume in the last year or two, that number probably ticks up marginally over time. Maybe we get up to a dozen in a couple years. But again, I think we're going to — I know we're going to field a very balanced slate. We're going to continue to drive franchises. We're going to get value across the business. And we're going to demonstrate what an incredible asset Paramount Pictures continues to be. Naveen?

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

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Yeah, Ben, with respect to your comment on long-term content spending, I won't answer it in the context of 2024 specifically because, as you know, 2023 and 2024 are going to be materially impacted by the effect of the strikes. And I think what you're actually more interested in is what is the sort of more organic long-term trend. And to that, I would say that we've got a long-term baseline in which cash content spend grows at low-single-digits.

However, as I noted last quarter, our long-term content strategy is not about solving for some specific volume of content. It's about having the right content for the right audience at the right time. And we are laser-focused on continuing to find ways to further improve the efficiency of our content spend in both linear and streaming, and there's a variety of things that we're doing to accomplish that.

It includes things like finding new ways to leverage content across both our streaming and linear platforms across geographies. You've seen us do a lot of that over the course of the last couple of quarters. It includes leaning into franchises, which are fundamentally more efficient from the perspective of building awareness, driving engagement and such, and it includes leveraging partners for local content, particularly in smaller international markets, as you heard Bob mention earlier.

And now we've got a whole lot of data that we're able to use to better understand how to super-serve these key audience segments in the most efficient way possible. So when you put all those initiatives together, from my perspective, it means there's an opportunity to improve the long-term growth rate of cash content spend relative to that low-single-digit baseline.

Jaime Morris

Executive Vice President-Investor Relations, Paramount Global

Thanks, Ben. Operator, next question please.

Operator: Our next question goes to Jessica Reif Ehrlich of Bank of America. Jessica, please go ahead. Your line is open.

Jessica Reif Ehrlich

Analyst, BofA Securities, Inc.

[ph] ... maybe two (00:37:59). So first, Paramount appears to have walked away from a number of potential asset sales in the last year or so. What would you consider the optimal portfolio mix for Paramount? And then just on advertising, advertising for DTC grew 18%, but your viewing hours were up 46%. I'm not sure what's Paramount+ and what's Pluto, but maybe you can talk about what's – it is a tepid market, but how do you think you can close that gap?

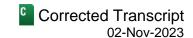
Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

Yeah. Sure, Jessica. I'll take those. Look, on the – oh, that's a weird echo. On the M&A side, two points. One is we continue to look to non-core asset dispositions, and we do that principally as a value unlock to reduce leverage. And that was clearly the case with Simon & Schuster and we continue to look at some additional opportunities, but I'm not going to comment on anything specific in that regard.

I think second, on a big picture level, we've really honed the core asset composition of this company, and it is, dare I say, strategic and logical. It's fundamentally long-form-video-centric both with robust production and very large libraries and our clear synergies in terms of how we maximize revenue and drive operating efficiency across the business. So again, these pieces work together.

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That said, and when it comes to M&A, we're always open-minded, and we look at opportunities – potential opportunities through the lens of really how can we maximize shareholder value.

In terms of the ad market and the digital ad market, in particular, as you know, digital growth was 18% in the quarter. Quite strong in the grand scheme of things. It is a meaningful business for us in terms of size. EyeQ, which is the fundamental trading umbrella for it, it's a multibillion dollar business. Product reaches over 100 million full episode viewers in the US. So, it's a very meaningful complement to linear.

We're doing a number of things, which gets to your question, to continue to drive this going forward, and they really tie it to both the supply side and the demand side. On the supply side, we are focused on continuing to grow engagement. And as you point out, viewing hours grew 46% in the third quarter.

We're also going to launch Paramount+ Essential on Amazon. That will be an additional inventory creation vehicle. And as we noted in our remarks, we're expanding internationally both in the context of Pluto TV and Paramount+ ad-supported peers, including what we're doing in the BVOD space in some of our broadcast markets.

So, we'll unquestionably grow supply, then we go to the demand side, i.e., filling that supply with advertising business. Start with the undeniable appeal of premium content to advertisers and we do deliver it in a brand-safe, high-quality environment and we prosecute that and facilitate access to it through both direct and programmatic channels, making us easy to do business.

We are also enhancing the quality of what we call [ph] Sigma (00:41:27) and that's increasing the amount of data associated with streaming consumption and that enables more precise campaigns for marketers. We believe that's important to monetizing the incremental inventory we're creating.

And we'll also have a whole initiative targeting the SMB sector, small and medium-sized business. That's bringing new advertisers into our digital video ecosystem and also giving them improved self-service tools, that's been growing plus we see a lot of potential there. And we're actually adding some incremental expertise to the sales force to prosecute it.

So, we're doing a bunch of things to ensure that we're continuing to create supply, maintain our scale position in this market and then drive the monetization by increasing further the appeal of that to our clients and their respective agencies. And I'm quite confident that that combination will serve us well in the marketplace in 2024 and beyond.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

And Bob, if I could just add one thing to clarify. Jessica, with respect to the numbers you mentioned. Just keep in mind that the engagement growth that you saw there, the 46%, that includes a significant amount of engagement growth in the premium ad-free tier of Paramount+. So you should not expect that to necessarily be a proxy for advertising growth.

Jaime Morris

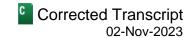
Executive Vice President-Investor Relations, Paramount Global

Thanks Jessica. Operator, next question.

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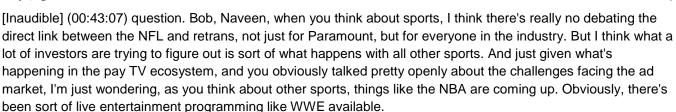
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Operator: Thank you. Our next question goes to Rich Greenfield of LightShed Partners. Rich, please go ahead, your line is open.

Richard Greenfield

Analyst, LightShed Partners



I'm just curious, as you think about sports licensing costs going forward, do you believe that they have to sort of be justified fully on advertising revenue alone? Or like how do you think about how you buy sports rights or licensed sports rights going forward? That would be really helpful. Thanks.

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

Yeah, sure, Rich. So, a couple points. One, as you know, sports is integral to our strategy, but it's not a standalone business. It's a slice of the wheel, so to speak, both for our CBS network and for streaming.

Second, as you point out, the NFL in that is clearly a juggernaut and I could give you chapter and verse on how it's driving our business, but you already know that, so I'll skip that.

But it's not the only sport that matters. One of the great things about Paramount is our collection of sports is truly A caliber. And so if you look at other elements, if it's college football, like now the Big Ten, which is going to be the best college football league in the US, the NCAA and golf, like the Masters, I mean, the fact of the matter is – and I know this because Ray Hopkins, who runs Distribution regularly brings clients to them, those events matter from a distribution standpoint too, AKA retrans and reverse comp. It's not strictly the NFL. And clearly, to your point, they're also valuable in the ad business.

The third point I'd make is, for us, remember, sports is a piece of the wheel. And we're actually in excellent place where we don't really – we don't need nor are we active in looking at any more sports.

Instead, what we're focused on is kind of the conjoined use piece, getting people who come in for sports to consume other product, be that on linear or on streaming, and because, again, we're in a great place. We have the volume of A-caliber sports that we need, and we've got stability too. Our deals are locked in the US, the vast majority of them and the ones that matter, through 2030 and beyond.

So, with respect to these other sort of auctions in the marketplace, we'll watch them. But again, we're in a very fortunate place that we got what we need and they're working really great for us.

Jaime Morris

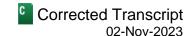
Executive Vice President-Investor Relations, Paramount Global

Thanks, Rich. Operator, next question please.

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Operator: Our next question goes to Brett Feldman of Goldman Sachs. Brett, please go ahead, your line is open.

Brett Feldman

Analyst, Goldman Sachs & Co. LLC

Great. Thanks for taking the question. Naveen, when you were answering Jessica's question, you made that point at the end about how a lot of that engagement growth was on the premium ad-free tier.

So, the follow-up question would be maybe give us your updated thoughts on the merits of launching a premium ad-supported tier in the US. And then just a housekeeping question, you identified two pay-per-view events in the quarter that helped out. I was hoping maybe you could just carve out what that revenue contribution was. Thank you.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

Yeah. So maybe in reverse order, Brett, in terms of the impact of the pay-per-view events in the quarter, I think if you were to adjust for those, what you'd see is the linear affiliate revenue trend would look pretty similar to sort of the trends you've seen in the last couple quarters where you've got some ecosystem decline being partially offset by rate increases. So, really no change to the trend there.

With respect to a premium ad-supported tier, that's really not something that has been a major priority for us. We like the configuration that we have right now as between an ad-supported tier at \$6 and then Paramount+ with Showtime at \$12. I think, if anything, one of the places where you are seeing some traction in the market is even higher-priced tiers, which we're going to continue to assess because those could be quite incremental from an ARPU perspective. So – but we're really not focused on a more expensive ad-supported tier.

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

Yes. And Brett, just – it's Bob. Just for the avoidance of doubt, I mean, when we launched Paramount+, we were a bit of an outlier and we launched it with an ad-supported version and a premium version. And other people have since followed us. So – and we're super happy with how the ad-supported version, we call it Essentials, works. But there's not really an incremental thing to do there because we basically have the product lineup in the space.

Jaime Morris

Executive Vice President-Investor Relations, Paramount Global

Thanks, Brett. Operator, next question please.

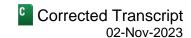
Operator: Our next question goes to Phil Cusick of JPMorgan. Phil, please go ahead. Your line is open.

Philip A. Cusick

Analyst, JPMorgan Securities LLC

Hi, guys. Thank you; couple of follow-ups. Nice move on the DTC ARPU growth and cost. Can you think about the further impact of pricing from here, both in the US and international? How should we think about carry-through in the fourth quarter, which you talked about a little bit? And then with this lower level of DTC drag, how do you think about the path to DTC EBITDA breakeven over time?

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And then just finally, Naveen, you had talked in the past about an improvement in free cash flow in 2024 outpacing the improvement in EBITDA. I wonder if that's still the case or if the strikes are sort of going to move those things around. Thank you.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

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Yes. Thanks, Phil. There's several questions in there and I'll try to tackle those. So first of all, in terms of the ARPU trajectory, we do expect that to continue to benefit Q4, as you heard in my comments. That really just has to do with the timing of when various subs convert to new pricing. Moreover, we see a very compelling pricing opportunity longer term, which is to say this won't be the last price increase that we do. We think there is a continued opportunity for pricing to play a role in growing both revenue and earnings in our streaming business.

I'd note a few things related to that. One, relative to competitors, Paramount+ is still positioned at a very compelling price point, and that's true both on our ad-supported tier and our ad-free tiers. Also, the price increase that we did in June has actually performed better than we expected. And what I mean by that is that the impact to churn and starts has not been as large as we forecast such that on a net basis, the price increase is actually more accretive to earnings than we originally anticipated. So that gives us some confidence.

And Paramount+ is all about cornerstone, high-value content. I mean, historically, Consumers have paid significantly more than \$6 or \$12 a month to watch live NFL games, live Big Ten football, big Hollywood movies, not to mention this incredible universe of very high-quality entertainment franchises, both for kids and adults. So there's no question that that continues to be a very strong value proposition and the data we've seen coming out of our first price increase suggests that that value proposition and the stickiness of the content does give us additional room for growing price over time.

In terms of the – your question on the path to streaming profitability, I'd just very briefly reiterate some of the things I mentioned earlier. We do anticipate significant improvement in the D2C P&L next year. There's both top line as well as cost elements to that, subs, ARPU, engagement, churn reduction, content efficiency, et cetera. So I think you're familiar with the drivers there, and that is something that we expect to be material in 2024.

And then I think the last part of your question related to free cash flow trends relative to EBITDA. And I think the short answer, as you sort of hinted at in the short term, that trend is, I'll say, a little bit noisy just because of the impact of the strike.

But longer-term, we expect to see healthy free cash flow growth. I mentioned that in — when we look at this on a two-year basis, we feel very good about free cash flow being higher than we had previously expected. And that's really a function of the fact that we're going to deliver consolidated OIBDA growth next year. That obviously contributes to free cash flow. And importantly, only a portion of the cash benefit that we are capturing in 2023 from the strike is going to be spent back in 2024. So that's also helpful from a free cash flow perspective.

Jaime Morris

Executive Vice President-Investor Relations, Paramount Global

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Thanks, Phil. Operator, we'll take the next question, please.

Operator: Thank you. The next question goes to John Hodulik of UBS. John, please go ahead. Your line is open.

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Corrected Transcript 02-Nov-2023

John C. Hodulik

Analyst, UBS Securities LLC

Great. Maybe a quick follow-up and then another question. First on the cost side, you guys are making a lot of progress, obviously, on both media and in D2C. On the D2C side, is the full \$700 million in synergies that you guys laid out from the combination of Showtime and Paramount+ already in the numbers at this point?

And then, Bob, in your prepared remarks, you guys seemed to talk a little bit about sort of leaning more into licensing. Just maybe update us on your view on further licensing and maybe how that should progress, especially coming out of the strike, just given the sort of softness in the market today. Thanks.

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

Yes. Well, maybe we'll do them in reverse order, John. So really two related points. In my remarks, I more characterize it as leaning more into partners in streaming at Paramount+. And obviously, we are scaling rapidly. You saw that in our numbers. We have today a run rate business of over \$6.5 billion in D2C. And we are advancing quickly on the path to profitability.

We are ahead of plan. Losses narrowed 30% in the quarter. That's really through focused execution. Obviously, peak losses now, we think were in 2022, not 2023. So we feel great about that. But we continue to look at streaming expansion.

And in that regard, we think there is an opportunity to lean more into licensing. We talked about that in – again, in my remarks, but that's really about going after incremental markets, focusing our contribution on, call it Hollywood content, content that we're already creating for Paramount+ in our O&O markets and doing deals with partners where they take that content, ingest it on their platforms. So that is really the principal extent of our participation. We also provide them value through the Paramount+ brand. They set up a branded area, and then they do the local content, local marketing, local infrastructure, local organization. And we think leaning in incrementally to partners in that way really is quite compelling from an expansion standpoint.

And I was at MIPCOM transitioning to your – the second part, of licensing, at MIPCOM a couple of weeks ago, and there is clear demand for that and recognition of the value of that content and the interest in having Paramount+ as an international global supplier in that regard.

Related to licensing in general, we continue to feel good about that market for – particularly for high-quality content, feature film, signature series, kids' franchises, really our wheelhouse. Again, at MIPCOM, our stand was very busy a couple weeks ago, and we do see content licensing revenue continuing to grow both in the US and internationally, and it does continue to be an important component of our model. Naveen?

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

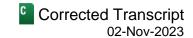
Yeah, just briefly on your question regarding the \$700 million synergies related to the Showtime, P+ integration. Short answer, we're not done capturing the benefits of that. Those synergies are an important ingredient in the earnings improvement that we expect to deliver next year in the D2C segment. And in fact, – as I think I've said recently, I believe we will exceed the \$700 million in future expense savings.

Jaime Morris

Executive Vice President-Investor Relations, Paramount Global

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Thanks, John. Operator, we have time for one more question.

Operator: Thank you. The final question goes to Bryan Kraft of Deutsche Bank. Bryan, please go ahead. Your line is open.

Bryan Kraft

Analyst, Deutsche Bank Securities, Inc.

Hi. Good afternoon. I wanted to ask a little bit about the Paramount+ subscriber outlook. How are you thinking about the pace of Paramount+ subscriber growth in 4Q and next year given the content pipeline as well as the international ad-supported launches? And are you starting to plan or to think about your own account sharing crackdown along the lines of what Netflix has done and Disney's started to do? And if so, any thoughts on timing or scope of that effort? Thank you.

Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

So to start, Bryan, with – we're feeling great about Paramount+ in general. As you can see in the quarter, again, real momentum. We continue to grow. The Paramount+ with Showtime integration is clearly working for us. We see value from that Showtime content being added to Paramount+ and we see usage kind of in both directions, Showtime users using Paramount+ content and vice versa. So that's totally working. And as we look forward, including into Q4, we definitely see continued growth of Paramount+, both at the Essentials and the premium level.

So we're feeling great about growth. Again, as we look at it on a year-to-year basis, also churn continues to improve. And that's a good thing for our sub base. And as we look at the content slate, yes, there's a bit of uncertainty given the strength, but our fourth quarter content slate is very strong. We got another piece of the Yellowstone universe coming very shortly in Bass Reeves. We've got Frasier, obviously, NFL is working. We got the PAW Patrol movie coming and some other goodies. So we're good there.

And as we look into 2024, we're feeling very good about that as well. So again, overall, great on the Paramount+growth trajectory. And importantly, we're accomplishing that while accelerating our path to profitability, which we also talked about today. Naveen?

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

Yes. Just on the second part of your question around password sharing. Right now, we don't see that as a major headwind to our growth efforts. Obviously, it's something that we'll continue to monitor. And the good news is, I think there's a template for how we could address that in a value-accretive way. But right now, we've got really powerful growth drivers, as you heard Bob describe.

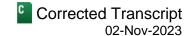
Robert M. Bakish

President, Chief Executive Officer & Director, Paramount Global

Yeah. And look, everyone, in closing, we're really proud of our progress in the quarter, particularly given the dynamic environment we're operating in. As you can see, we continue to execute on our strategy prioritizing prudent investment in streaming and continuing to maximize the earnings from our traditional business. Know that we remain confident in our plan to achieve significant total company earnings growth in 2024, and we're laser-



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focused on delivering value for our shareholders. And with that, thank you for joining us. Be well, and we'll talk to you soon.

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

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