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PARA.OQ - Q1 2023 Paramount Global Earnings Call

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OVERVIEW:

PARA reported 1Q23 total Co. revenue of \$7.3b.

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PRESENTATION

Operator

Good morning. My name is Nadia, and I'll be the conference operator today. At this time, I would like to welcome everyone to the Paramount Global's Q1 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. Kristin, you may now begin your conference call.

Kristin Southey - Paramount Global - EVP of IR

Good morning, everyone. Thank you for taking the time to join us for our first 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 morning, I want to remind you that certain statements made on this call are forward-looking statements that involve risks and uncertainties. These risks and uncertainties are discussed in more detail in our filings with the SEC.

Some of today's financial remarks will focus on adjusted results. Reconciliations of these non-GAAP financial measures can be found in our earnings release or in our trending schedules which contains supplemental information, and in each case, can be found in the Investor Relations section of our website. Now I will turn the call over to Bob.

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

Good morning, everyone. Thank you for joining us. Today, my remarks will cover Q1 highlights as well as some perspective on the balance of the year. But let me start with the big picture. The media landscape is evolving, and we are executing on our plan to transform Paramount with it. We're leveraging our traditional media base, both financially and operationally to invest in, build and scale a set of streaming networks for the 21st century. With a robust content engine at the core all in service of delivering long-term value to our shareholders.

We're also navigating a challenging and uncertain macroeconomic environment, and you see the impact of that in our financials. As the combination of peak streaming investment intersects with cyclical ad softness. All of this makes us even more focused on making the necessary decisions to return the company to earnings growth and positive free cash flow in 2024 and to that end, we continue to hone our cost structure, align resources

with growth areas and divest noncore assets. Because at the fundamental level, our strategy is working, and our momentum is strong. We are producing popular content, adding subscribers, increasing engagement, growing streaming revenue and progressing towards key business objectives.

As we do that, we see several things that encourage us. First, we are seeing signs of stabilization in the ad market. But perhaps more importantly, we're seeing the unquestionable and growing value of our content and platforms to both the consumer and business community as exemplified by growing usage as well as a broadening range of deals and partnerships. Paramount is transforming. We are confident in the company's execution and shareholder value creation remains our top priority. With that, let's dive in. I'll begin with a look at our popular content, the foundation of Paramount and the engine that's powered our company for decades, and today, that engine is stronger than ever.

It's this content that underpins our D-to-C momentum, where revenue grew 39% year-over-year to an annual run rate of more than \$6 billion. And this quarter, we reached 2 big global milestones for our flagship streaming services. Paramount+ grew to 60 million total subscribers, adding 4.1 million subs while Pluto TV hit 80 million monthly active users. Importantly, both are resonating globally, not just in the U.S. Paramount+ saw a 65% year-over-year revenue increase while total global viewing hours across Paramount+ and Pluto TV increased over 50% year-over-year and over 20% sequentially and viewers don't just subscribe to Paramount+ or watch Pluto TV because of a single hit. They come for our broad, bold slate of content, the film franchises they crave, the news they rely on and the TV series and sporting events they're obsessed with.

In the quarter, we saw Paramount+ subscriber growth driven by newly released originals like Tulsa King, Mayor of Kingston, 1923 and Teen Wolf: The movie as well as from theatrical movies like Top Gun: Maverick. In sports like the NCAA and UEFA Champions League soccer. And on Pluto, we see the engagement of our broad and deep libraries, led by the CBS brand as well as great content we source from third parties. In Q1, the Paramount+ with Showtime bundle also benefited from strong Showtime content including Your Honor and Yellowjackets. Not only were they both top acquisition drivers in the quarter, the two shows also dominated consumption, driving nearly 30% of the hours streamed on Showtime.

This, thanks to our devoted enthusiastic fan basis. We see this as an extremely good sign as Paramount+ is about to transition to Paramount+ with SHOWTIME. Looking at the quarter more broadly, CBS programming strongly attracts viewers across linear and streaming to illustrate the power of CBS, I'd note that CBS programming accounted for 281 billion minutes of viewing in the quarter. That's nearly 50% more than the closest broadcast competitor and nearly 4x more than the combined total minutes spent watching original content on Amazon, Hulu, Disney+ and HBO Max, a testament to the power and scale of CBS content.

I'd also note that CBS with its powerful entertainment lineup, essential news offerings and marquee sports is on track to be the most watched broadcast network for the 15th consecutive season. And in film, Paramount Pictures released the latest installment of the Scream franchise, Scream VI, which opened at #1 in March and is now the highest grossing installment domestically in the franchise. This, to us, is yet another example of the power of our franchises and how that power keeps growing. And it's not just a theatrical story. It extends to streaming, too.

With Scream VI debuting on Paramount+ on April 25 to great results, more on its performance next quarter. Big picture, our franchises deliver consistently excellent content and drive high fan-based engagement, advantages that you will see play out again and again as we look ahead. But it's not just content. It's how do we go to market and deploy that content, including in streaming. Since launch, our streaming strategy has been built on a dual revenue stream model, one that spans both subscription and advertising and benefits from strong innovative partnerships with iconic brands.

To that end, we are very happy with our Walmart partnership, and we're thrilled that it now includes Pluto TV. And in March, Paramount+ launched on the subscription hub for Verizon +play customers. This partnership is another step forward as we continue to introduce third-party partnerships to deliver ubiquitous distribution to consumers. And coming soon, Delta Loyalty members on planes originating in the U.S. will have access to a special free trial of the Paramount+ premium service.

Members will have the opportunity to customize their in-flight entertainment experience via Paramount+ on their personal mobile device with big, broad and beloved hits across every genre. These powerful partnerships represent just one component of a multifaceted strategy, a strategy that has led to a streaming business with total revenue that's more than double what it was 2 years ago, and a subscriber base on Paramount+ alone that has grown over 3.5x since launch.

This business is, in fact, scaling at a rapid rate and one that benefits from a TAM that is much bigger than TV. Yes, this takes investment. And as we've described, 2023 represents our peak investment year. But there is no question that our investment is producing results and as we scale, we are very much on a related path to streaming profitability. Advertising, the health of the market and where we are in the cycle is a topic of industry conversation. As I mentioned earlier, there are signs of stabilization in the ad market. We like what we are seeing in many categories, and we would like what we're seeing in the direct side of digital.

And as the market continues to turn, ad growth will improve. As it does, we are confident that the strength of our multiplatform strategy puts us in a unique position to capitalize on it, something my recent conversations with agency and client leaders during our series of upfront events has been more convinced than ever. We have the right strategy, assets and team in place to succeed in the evolving landscape. For example, EyeQ, our integrated suite of streaming and creative ad solutions helps brands place ads across all of our digital platforms with a combined reach of 90 million full-episode monthly unique viewers.

This proprietary advertising product is built on our investments in Pluto and Paramount+, and it is a product whose reach has grown more than 50% in 2 years, whose ad tech and targeting capabilities are advancing at a rapid pace. That is only one example. And across our company, there's no question that our investments are creating compelling sought-after products for consumers, advertisers and distributors. But at the same time, we recognize how these investments on top of the macroeconomic headwinds that have impacted the ad market also impact earnings in our balance sheet in the short term. So with creating shareholder value and financial flexibility as fundamental goals we're deploying three key tactics, all of which Naveen will provide additional color on.

First, we are implementing significant cost-saving measures across certain parts of our business. Second, we're assessing and executing on the value creation opportunities associated with the divestiture of noncore assets, like with respect to Simon & Schuster, where we have restarted the sale process. Finally, we are amending our dividend policy. This decision will further enhance our ability to deliver long-term value for our shareholders as we move towards streaming profitability. As we look ahead, we're producing popular content across owners and platforms. And while the writer strike may cause some disruption, we are confident in our ability to manage through it given the many levers we have to pull.

We will continue to deploy content across platforms in an efficient way. From theatrical movies that create revenue at the box office, then move to Paramount+ to CBS entertainment, news and sports content, which drives massive reach and engagement in broadcast and in streaming and more. This multi-platform approach starts with our strong upcoming theatrical film slate including four franchises in just the next 4 months. The highly anticipated Transformers: Rise of the Beast in June, the return of Tom Cruise in July in Mission: Impossible - Dead Reckoning Part One. Seth Rogen's Teenage Mutant Ninja Turtles, Mutant Mayhem in August and PAW Patrol: The Mighty Movie in September, all of which have incredible buzz, including coming out of last week's CinemaCon in Vegas.

Paramount+ is increasingly a destination for excellent streaming content. Sure. The films I just mentioned will make their way to Paramount+ after a theatrical run, but there is much more than that to it. Fatal Attraction just debut on the platform, and we're excited to release Taylor Sheridan's next show Special Ops: Lioness starting Zoe Saldana with Morgan Freeman and Nicole Kidman in the summer.

We will also shortly see the unscripted side of Sylvester Stallone in The Family Stallone. And in sports, the combination of CBS and Paramount+ has a strong slate coming including the UEFA Champions League Final and all of the PGA Tours FedEx Playoffs Cup events, followed by Big Ten football later in the year, accompanying the return of the NFL and SEC. Likewise, news will power engagement, both on CBS and Paramount+, including favorites like CBS Mornings, which has been consistently growing share. And from Nickelodeon Studios, we'll have all new series and movies based on classic Nick properties, including Good Burger 2, Zoey 102, The Thundermans and the Loudhouse coming to Paramount+ and Nickelodeon linear.

Finally, we are thrilled to begin to bring the integrated Paramount+ with SHOWTIME product to market this summer, a game-changing multi-platform offering we are very excited about. This product will integrate Paramount+ content with the SHOWTIME slate, including highly successful series like The Chi, which will be returning for Season 6 this summer. Along with a collection of Showtime franchises as we look to the balance of the year and early '24. So once again, there's a lot here for the whole household, and that will drive subs and engagement. As Paramount+ rapidly becomes a cornerstone streaming service.

Before I hand it off to Naveen, I want to close by underscoring what remains our top priority, generating long-term shareholder value. From our franchise fueled content slate to our innovative partnerships to the powerful scale of our platforms, this is a company that knows its strengths, knows how to build on them and one that is positioned to succeed including as the macro environment continues to stabilize, which makes us excited about the path ahead. And with that, I'll hand it over to Naveen.

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

Thank you, Bob. Good morning, everyone. Our Q1 results reflect a combination of strong momentum from Paramount content, investment in our D2C business and the continued impact of macro headwinds. Today, I'm going to cover three things. First, I'll provide additional color on a few elements of our Q1 results. Second, I will talk about optimizing our capital allocation. And third, I'll discuss our expectations for earnings and free cash flow improvement in the back half of this year and into 2024. In Q1, we delivered total company revenue of \$7.3 billion, and adjusted OIBDA of \$548 million. Our press release includes a comprehensive review of key financial and operational results for the quarter.

I'm going to focus my comments here on four specific areas, affiliate and subscription revenue, advertising, our filmed entertainment results and cash flow. Affiliate and subscription revenue growth accelerated to 12% this quarter. continued evidence that the ecosystem shift from pay TV to streaming yields material growth for our business. Notably, we saw improving trends in both linear and streaming. On the linear side, TV media affiliate revenue declined 1% year-over-year, an improvement versus Q4. And in streaming, D2C subscription revenue was up 50% year-over-year. Paramount+ subscription revenue saw even stronger growth driven by subscriber additions, an increase in ARPU and improvements in domestic churn. Looking ahead, we expect healthy levels of year-over-year affiliate and subscription revenue growth to continue over the next several quarters, aided in part by the integration of Showtime and Paramount+.

From a subscriber perspective, we expect net adds in Q2 will be seasonally soft ahead of the release of key content titles and marketing initiatives aligned with the rollout of the integrated service, which will occur throughout Q3 and Q4. Now let's turn to advertising. The global ad market continued to experience weakness in Q1, resulting in a 7% decline in total advertising revenue. This consisted of 15% growth in D2C advertising and an 11% decline in TV media advertising.

The decline in TV media was impacted by international markets and fewer NFL games than in the prior year. However, we are seeing signs of market stabilization. Within the domestic ad market, sports remains an area of strength. We also saw improvement in key buying categories, including pharmaceuticals, food and beverage, travel and auto. Though categories like insurance, web services and big tech remain relatively weak. With respect to Q2, we expect the year-over-year trend in TV media advertising to be slightly favorable to what we reported in Q1. And in D2C advertising, we expect continued acceleration.

Related to digital advertising, Pluto TV hit a new milestone in Q1, reaching 80 million MAUs. We're proud of this milestone, and we expect global MAU growth to continue. However, the key driver of Pluto's future revenue growth will be the strong engagement trends we're seeing. In fact, total viewing hours on Pluto increased 35% in Q1 after growing nearly 20% in 2022. Going forward, we'll provide updates on engagement rather than reporting quarterly MAUs as we believe this is more indicative of Pluto's revenue growth opportunity.

Moving on to Filmed Entertainment. Revenue and OIBDA were down versus the prior year, due in part to the timing and performance of the film slate. In terms of timing, Dungeons & Dragons: Honour Among Thieves was released on the last day of the quarter such that expenses were incurred without significant revenue contribution. And in terms of performance, Q1 included operation fortune for Miramax which contributed to lower profitability of the film slate relative to the prior year. Filmed Entertainment OIBDA was also negatively impacted by macro-driven softness in consumer products licensing. Looking ahead to Q2, Filmed Entertainment revenue and OIBDA will be down significantly versus the prior year. due to the tough comp against Top Gun: MAVERICK. This year, Q2 will include Transformers: Rise of The Beast, our next big franchise film, which will be released on June 9.

The quarter will also include significant marketing expenses related to Mission: Impossible, which will be released in early Q3. As a result of these timing dynamics, we expect a filmed entertainment OIBDA loss in Q2 that will be somewhat better than Q1. Given that the expenses for our biggest films this year are weighted to the front half, we expect significant improvement in Filmed Entertainment OIBDA in the back half of the year, driven by our strong lineup of franchise films, including Mission: Impossible 7, PAW Patrol and Teenage Mutant Ninja Turtles.

Moving on to cash flow. In Q1, free cash flow was a use of \$554 million. This reflects our previously shared expectations for negative free cash flow for the full year 2023, with the first half of the year showing a use of capital and the back half of the year turning positive. The improvement in the back half will be driven by the timing of our film slate, streaming ARPU growth and improvement in advertising trends. Now let's turn to capital allocation. As we stated in the past, our capital allocation goals are threefold. First, we want to invest in organic growth. Second, we want to delever the balance sheet; and third, to return capital to shareholders.

In order to continue to accomplish these goals in an uncertain macroeconomic environment, we're doing the following: First, with respect to organic growth, we're highly focused on efficiency. While growing our streaming business to an annual run rate of over \$6 billion, we're capturing \$700 million of future annual expense savings through the integration of SHOWTIME. And as we progress through the integration, we're increasingly confident about our ability to get even more from our core franchise content investments and believe we will ultimately capture more than the \$700 million in future expense savings.

In fact, the programming charge incurred in Q1 illustrates our ability to concentrate content investments going forward. Second, we continue to manage net debt by divesting noncore assets. We have restarted the sale process for Simon & Schuster, and we see a path to potentially closing a transaction this year. The combination of initial interest and strong operating performance of the business over the last several years gives us confidence in our ability to maximize the value of this asset for our shareholders. With respect to capital returns, we will be reducing Paramount's quarterly dividend on common shares to \$0.05 or \$0.20 annually.

This change provides additional financial flexibility and enhances long-term value creation while continuing to return capital to shareholders. The dividend modification will be effective as of our next payment and will result in approximately \$500 million of annualized cash savings. We believe this combination of actions across organic investment and expense reduction, noncore asset sales and dividend policy reflect a prudent capital allocation strategy in an era which presents both macro uncertainty and tremendous growth opportunity.

Finally, I'd like to address our path to earnings and free cash flow improvement, which starts with our world-class studios who continue to deliver popular franchise content and leverages our global distribution platforms to monetize content across theatrical, linear streaming and licensing channels. At the same time, we are keenly focused on commercial execution, which preserves the earnings and cash flow from our traditional TV media businesses while also narrowing D2C losses. And there are several key levers that enable us to accomplish these goals. At TV media, OIBDA will benefit from contractual rate increases as well as ongoing cost rationalization. Importantly, we expect to generate meaningful revenue and OIBDA in this large segment of our business for the foreseeable future.

And in streaming, B2C earnings improvement will be driven by a combination of subscriber growth and ARPU expansion as well as margin improvement unlocked by slowing growth in content expense and other operating efficiencies. We Overall, we remain on track for peak streaming investment in 2023, in combination with continued cost optimization in our traditional business and recovery in the advertising marketplace, we're poised to deliver meaningful total company earnings growth and positive free cash flow in 2024.

We have taken steps to build a stronger, leaner, more integrated one Paramount while positioning the company for earnings growth and value creation. With that, operator, let's open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today goes to Michael Morris of Guggenheim. Michael, please go ahead.

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

Bob, first, maybe I'll ask you on direct-to-consumer. You've had strong subscriber and subscription growth, revenue growth of Paramount+. As you look forward this year, can you expand a little bit more on the balance of subscriber growth and pricing power that you expect to drive that

continued subscription revenue growth from here? And then I apologize, I have to ask a second, though, Naveen, I need to ask you why now was the time to reduce the dividend so significantly so based on your comments overall, it seems that the level of investment that you're going through is consistent with the plan you've had all along.

And that dividend level is such an important outward signal of your sustained confidence so I'm hoping you can dig in a little bit more and help us specifically with what drove that change now.

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

Sure, Mike. Let me start and then I'll toss it to Naveen for a little more D2C and then the dividend piece. So look, we're thrilled with the momentum we continue to see for Paramount+. We talked about the \$60 million subscriber milestone in the quarter. And we do look to grow both on a subscriber side and very importantly, a revenue side as we continue in the year and beyond, and that goes along the associated path to profitability.

Focusing on Paramount+ growth in the back half of the year, look, it starts with content. At the end of the day, some there said it, content is king. It is, what people come to any media service for, including Paramount+, and you saw our -- the success of our slate in the first quarter, and we feel really good about it for the balance of the year. And again, it's entertainment, which is a great driver of subscriber additions and engagement. It's news, which is more of an engagement vehicle and it's sports, which has been great for us on both.

As the year tracks out, the second quarter for terms of subscriber addition is probably seasonally a little softer, and then we pick it up in the back half of the year again. Part of that is -- in the U.S., the combination of Paramount Plus with SHOWTIME, we think that is clearly additive to the Paramount+ sub base. And then -- but part of it is just the content slate at large. Add to that, the revenue side of this -- before I get to revenue, I want to also talk about the marketing. As you know, we continue to expand our partnership approach, including with Paramount+. The Walmart one is working very well for us. We're about to light up Delta. That's going to be interesting as well. So we're doing a bunch of stuff on the marketing side to add to it and then go to revenue, ARPU. As you know, we are effectuating a price increase as we move forward in the summer.

We feel really great about that. So the levers are in place to continue to drive Paramount+ subscribers, revenue and ultimately, continue down this path to profitability. Naveen?

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

Yes. Thanks, Bob. And Mike, I'll just add a few things on the D2C point and then address your question on the dividend. As Bob said, on D2C this is a combination of subscriber growth as well as ARPU growth. Bob talked about a number of the drivers on those. I would just add, particularly with respect to ARPU, we continue to see growth there, both from a favorable mix shift in terms of tiers, channels, geography, we're also seeing some good trends from an ad ARPU growth perspective.

So that's going to continue to grow -- continue to contribute to growth going forward and it benefits from nice growth that we're seeing in terms of engagement, hours per sub and the like. And then the pricing piece, which Bob mentioned, and I think is really worth reiterating -- all the pieces are in place for us to, I think, successfully raise pricing without a significant impact on churn and growth, the value proposition for P+ both relative to other streaming services and traditional pay television remains incredibly strong. And as I said, engagement on the service is only getting deeper. So we're very encouraged by what we can do there. And we're going to be taking really just the first step this year. I think there are also future opportunities to grow price down the road, both domestically and internationally.

So that's B2C. And then with respect to your question on the dividend, Look, I think the capital allocation policy, the changes we made to our capital allocation policy are totally appropriate for a company that has both the compelling growth opportunity we see today. but operating in the current macro environment. There's no debate that our streaming momentum has obviously continued to build. But the reality is the macro environment has not gotten less complex so it's prudent really for all companies to optimize their balance sheet for flexibility.

And that's exactly what we're doing by reducing the quarterly dividend to \$0.05. That does translate to significant cash savings, roughly \$500 million annually, as I mentioned, while still returning some capital to shareholders. And to one of the elements of your question, I would emphasize that the reduction in the dividend does not mean that we intend to spend more than previously planned on streaming. You should really think of this as the cash benefit of reducing the dividend, along with other initiatives like noncore asset sales and continued cost management, is intended to help delever our balance sheet, which is generally a smart thing to do in an uncertain macro environment and is also a key ingredient in creating long-term shareholder value, which is, of course, the primary goal that we have.

Kristin Southey - *Paramount Global - EVP of IR*

Okay Operator, we can take the next question.

Operator

The next question goes to Brett Feldman of Goldman Sachs.

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

Yes. Naveen, you expressed a great deal of confidence that you'll continue to see significant cash generation out of the TV media segment for a number of years. I think we all appreciate the rate dynamic that you highlighted in terms of the opportunity to continue to get good rate out of the affiliate fees.

I was hoping you could go a little deeper into the P&L and talk about some of the opportunities to drive OpEx efficiencies in the business. We get a lot of questions about the flexibility to contain non-sports related content costs. And then there are any other operating costs within the P&L you think you can make headway against as you sort of grapple with the cord cutting environment.

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

Yes. Sure, Brett. Thanks for the question. And as you said, that the top line dynamics are important here as well because even though the traditional ecosystem is obviously evolving, the financial impact for us is somewhat mitigated with -- given the combination of rate increases in both the linear advertising side and linear affiliate revenues. Which offset some of that ecosystem shift.

You saw that in Q1 where linear affiliate revenue declines were just 1%, which is much lower than what you see in terms of declines in the pay TV sub base overall. But with respect to the cost base, which you specifically asked about, there are numerous levers that we continue to exercise. That includes a variety of opportunities on programming, things like continuing to evolve the mix of genres, transitioning some of our programming to lower-cost formats. Moving more production offshore where factor costs are significantly lower.

And we're even doing things like adopting AI for content localization, which, by the way, produces some really high-quality results at very, very compelling economics. So lots to do on the programming side. Beyond programming. We're taking a highly disciplined approach to headcount and continuing to find efficiencies there and also evolving marketing budgets where it makes sense and where we can do so efficiently. Then we're also doing some things around licensing, which is a little more revenue related. But we do see opportunities to expand our licensing business in call it, noncore international marketplace.

So the way I think about it, it's really the combination of our ability to mitigate some of the ecosystem declines on the top line. while also exercising a lot of these levers on the cost side, the combination of which means that TV Media OIBDA will continue to be a source of significant earnings and cash flow going forward.

Kristin Southey - *Paramount Global - EVP of IR*

Operator?

Operator

The next question goes to Ben Swinburne of Morgan Stanley.

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

Maybe for Naveen. Just on the content spending front, you talked about the dividend saving the company a lot of money. But obviously, cash content spending is your biggest cash outflow. Can you give us any guidance on how you see cash content spending over time? That seems like another big lever, could that decline and then just back on the dividend's timing. I mean, I hear you on the macro, but you guys are also talking about the ad market getting better. You just mentioned your affiliate revenues improving. The ad market has been weak for a while. Were there other catalysts that the Board and the management team looked at that determined this was the right time to cut the dividend by this magnitude because a lot of these headwinds, I think, have been around for some time now. I just wanted to see if you had any more to add.

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

Yes. Look, I think I'll go in reverse order there, Ben. With respect to the dividend, as I said, it really is about providing as much financial flexibility as possible. And finding ways to create the most value for our shareholders. And I think having a strong balance sheet is helpful to that. And the macro environment is something that we're conscious of as we think about what the balance sheet should look like.

So that is very much the motivation there. With respect to your question on content spend over time, I'd say a few things. Number one, really, since we launched Paramount+, we have had an strategy which is very focused on being as efficient as possible in how we deploy cash related to content for building out streaming. If you remember, we embrace the concept of sharing content across platforms to reduce costs and maximize ROI. We leaned very heavily into franchises, which are fundamentally more cost efficient. We never abandoned third-party licensing.

And we took a very capital-efficient approach to international expansion. Now we're always looking for ways to be even more efficient with content spend. That's one of the reasons that we decided to integrate SHOWTIME and Paramount+, which as we said last quarter, means more than \$700 million of future expense savings, not all of which is content. And I think I also noted at the time that, that does mean D2C content expense in 2024 should actually be less than what we originally indicated. And we're not stopping there. We're pushing even harder to unlock additional savings. That means an even bigger focus on franchises and some of the things that I referenced earlier, genre mix formats, order size, looking at the special effects budget, international development, et cetera.

And I think the combination of those things means we will likely find even more efficiencies in content spend across both linear and streaming than what we've assumed today.

Kristin Southey - *Paramount Global - EVP of IR*

Operator, you can take the next question.

Operator

The next question go to Jessica Reif Ehrlich of Bank of America Securities.

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

Maybe moving over to advertising. You've taken a different approach this year. Can you give us your current like upfront expectations given the macro and secular challenges and maybe talk about like AVOD versus linear? And then on the writer strike, how prepared do you think you are? And will it potentially reduce cash spend in -- at least in the near term?

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

Yes. Sure, Jessica. I'll take both of those. Let me do the writer strike first since it's a little bit shorter. Start with writers are an essential part of creating content that our audiences enjoy really across platforms. And we hope we can come to a resolution that works for everyone fairly quickly. But it's also fair to say there's a pretty big gap today, and it's really a multifaceted kind of bid mask.

So obviously, we've been planning for this. We do have many levers to pull. And that will allow us to manage through the strike even if it's for an extended duration. In terms of those levers, we have a lot in the can, so to speak, content in the can. So with the exception of things like Late-Night, consumers really won't notice anything for a while. Add to that a broad range of reality and unscripted, where we're definitely a leader as well as sports and that's not affected. And so look, we can do more in those areas if necessary. And again, we have a leadership position overall. Plus, we have offshore production. Which we've been moving to leverage prestrike anyway as part of our broader strategy, and Naveen touched on that.

Plus finally, one of the largest libraries in media features, television series, multiple demographics, et cetera, which we can pull from to fill the schedule. So we're well positioned to navigate that. And by the way, in case -- because I'm sure you're wondering, in terms of financial impact, it really ultimately depends on duration of strike. But at this point, we think it's probably slightly dilutive to revenue, flat on OIBDA and accretive to your question to cash.

But again, ultimately, really a function of how long it lasts. Over to the ad side, when you said we're doing something differently, you're referring to our upfront events, which I'll come to. Big picture, we feel great about our proposition to advertisers and their agencies I've been associated with it for a long time. And frankly, I think it's the strongest it's ever been, given our differentiated platform portfolio, industry-leading creative integration, advanced advertising a lot on alternate measurement. And of course, our popular content, including sports. And by the way, we have the next Super Bowl. So that's all good.

We did realign our sales force in terms of doing something differently also. We realigned it. So now easier to do business with us, particularly if you're an agency holding company where you now have a dedicated team serving you that's knowledgeable about your business, and again, can give you turnkey access. With respect to the upfront, we did a couple of things differently this year. In fact, we just wrapped 9 upfront events in a new format that really strongly resonated with our clients in the room. They like targeting specific buyer groups. It was more intimate. It allowed for really quality two-way conversations.

And that contrasts kind of with the old model of one big presentation event and then a huge party after, not really effective anymore for the day. By the way, we did it earlier. That's clearly better. And for us, it's one of those rare moves. It's both more effective based on the feedback we got and more efficient because in aggregated cost significantly less in the old model. So we feel great about that. And again, we're in the very early stages of the upfront. I'm not going to comment on what's going on, price volume, et cetera, because at the end of the day, it's an active negotiation, and it doesn't make sense to get into it live on the call.

So that's it. I will say, by the way, without getting into it, we definitely have a plan here. We are executing against that plan. And I do believe that when the dust settles, we will clearly demonstrate the power of Paramount in the ad space. So feeling good about it going in.

Kristin Southey - *Paramount Global - EVP of IR*

Okay. Operator?

Operator

The next question goes to Rich Greenfield of LightShed Partners.

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

I got a couple. I mean, first on Paramount Plus you're growing subs at a pretty healthy clip, leveraging a bunch of the structural deals that you've done with partners but I'm sort of wondering about through the engagement side of Paramount+. It looks like ad revenue is still relatively small on a per sub basis, somewhat sub-\$2 versus your peers that are upwards of \$9 or \$10. And I assume that's engagement driven. And I'm just sort of wondering as advertising becomes a bigger part of Paramount Plus, what are you doing marketing spend or content production wise, meaning more to drive overall time spent per user per day on Paramount+.

I'd love to get your sense there. And then just sort of following up on something that Bob and Naveen you were talking about before in terms of headcount or the cost side of the equation, I think you ended last year with like 24,000 employees I'm just wondering as sort of if you look at sort of the pressure on the cable network media network, CBS, MTV, et cetera. What's the right nudge, how much lower can that go without really eating into sort of the core strength? Like can employee count get cut in half over the next 5 years? Like how -- how much smaller can the employees get? How do you think about reducing headcount going forward?

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

Well, Naveen why don't you start with the ad price of D2C.

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

Yes, sure. So Rich, as it relates to your question on engagement and ad monetization. Short answer is we are very bullish about the opportunity to grow, add ARPU on P+. That opportunity really begins with engagement, and we've seen really strong momentum there. In fact, if you look at our Q1 results, the viewing hours per sub actually grew double digits, both sequentially and year-over-year.

And I expect we'll see further growth in engagement as the content slate continues to expand as awareness continues to grow and frankly, as we get even better at optimizing the programming strategy, recommendations and the like. I think there's a really interesting data point that is relevant there in the form of customers who use the current SHOWTIME P+ bundle. Those customers spend about 20% more time on the service, and they watch 40% more titles than the folks in stand-alone Paramount+. So there's clearly a significant opportunity for us to continue to grow engagement, which means significant opportunity for ad monetization, particularly when the ad market improves.

Though quite frankly, even the current trajectory is encouraging. I think domestic ad ARPU, similar to engagement was up double digits this quarter on both a sequential and a year-over-year basis. So big value creation opportunity there.

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

Yes. And going to your question about the cost side, clearly, start with, it's something we are very focused on as an umbrella point. If you look and you could think, Rich, when we started this conversation 7 years ago, at the time, on the cable network side, we had probably five fully built-out groups organizationally programming each set of networks. Fast forward to today, through consolidation, call it, economics, we now have one kind of master cable networks group here in the U.S. And I'm going to come back to the international side in a second. And they're running all the networks with a slight exception, and we're in the middle of effectuating the latest step on that, which is the SHOWTIME consolidation into effectively the U.S. cable group.

And so there's all kind of economic savings there. And we continue to ask the question of how can we extract more from operating a set of networks as a portfolio managed in a single group. And that goes to organization, that goes to how we use content that goes to cross-promo, et cetera. And

again, we've seen significant benefit along the way, and we think there is further road to go. And right now, we're just in the middle of integrating SHOWTIME. And if you look at, for example, what we did with 'Your Honor' most recently, we launched that show on the back of this second season on the back of what we call the Yellowstone launch pad on Paramount Network.

That probably would -- that was much easier to do as we integrated the structure into one than it was previously. And those are the kind of things we'll continue to model -- mine as you look outside the U.S. and the international, there's two things you should know, again, going to the cost. One is we've now globalized management of those networks. So Chris' team is ultimately thinking about how can we run that whole portfolio more efficiently and effectively. And related to that, we are going from a place where you have country-specific feeds to, in a way, it's back to the future, it's shared feeds with local opt-outs and multiple language tracks, which has all kind of efficiencies. So there is -- I'm not going to get into what the specific headcount could be -- but rest assured, that is something we are very focused on, and we will continue to extract benefits as we go forward.

Kristin Southey - *Paramount Global - EVP of IR*

Okay. Operator, we can take the next question.

Operator

The next question goes to Robert Fishman of MoffettNathanson.

Robert S. Fishman - *MoffettNathanson LLC - Analyst*

I've got one for Bob and one related on for Naveen. First, Bob, can you give us your latest thoughts on keeping your key IP exclusive to your own platforms instead of selling it off to third parties? And specifically, maybe speak to the selling the Spongebob spin-off movie to Netflix whether we should interpret that as like a shift away from keeping content exclusive to Paramount+. And then for Naveen, how much does licensing content to third parties or the international licensing you called out earlier, help in terms of getting back to that free cash flow positive next year?

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

Yes. Sure, Robert. So look, there's been fundamentally no change to our views on content licensing. In general, we believe in a balanced strategy with two key components: keeping our franchise content for our owned and operated platforms on a first window basis. We think that's a real strategic advantage. It's certainly drive subscribers, and you've seen that to great effect with Paramount+.

But at the same time, and we used to be an outlier here, other people are pivoting back to the rationality of the approach. We do believe in monetizing content, mostly library content on a co-exclusive or nonexclusive basis with third parties because the fact is it generates incremental revenues, incremental margins, incremental franchise impressions, which are good for that and doesn't really adversely affect subscriber acquisition on the O&O side.

Yes, we do things from time to time particularly in international markets with the franchise. Remember, Paramount+ isn't fully penetrated yet on a global basis. It's very much -- we're in 9 of the top 10 streaming markets, but the world is a pretty big place, as you know. So content licensing can be very important on a rest of world basis. But the main thing is we haven't changed our point of view on licensing. We believe in this dual model of core IP and franchises to drive O&O, particularly streaming combined with a broader licensing strategy.

And we continue to evaluate opportunities against that framework, including, we believe there are some broader licensing opportunities that have financial upside, but that's licensing. Naveen?

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

Yes. So Rob, with respect to sort of the financial impact of that, particularly the international component. Obviously, we're not going to give you any specific numbers there, though I'd say a few things. Number one, that business is a high-margin business. And so it can be a nice contributor, it's largely about licensing stuff that has already been produced for other channels.

So unlike the original production business, which is a little lower margin this one can be a nice contributor, and I suspect it will grow over time. More importantly, there are multiple drivers for earnings and free cash flow growth in '24. And I think it's important to remember what those are and the potential that they have. We talked about them last quarter, and they continue to apply. We're expecting to see significant growth in Paramount+ subscribers and ARPU, i.e., revenue growth. We're tracking nicely in terms of the integration of SHOWTIME and Paramount+, which unlocks both top line benefits as well as significant savings in content in other places.

That does mean you'll see slowing growth in streaming content spend as well as marketing efficiencies that we get through content leverage, more utilization of promotional inventory, et cetera. So those are the big drivers into '24, and we remain confident in what we'll deliver there.

Kristin Southey - *Paramount Global - EVP of IR*

Operator, we can take another question.

Operator

The next question goes to Doug Mitchelson of Credit Suisse.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

So I guess, I'm curious, are there other assets that you're considering selling beyond Simon & Schuster, I was just sort of unclear from the preamble, if you were thinking more broadly there? And then Naveen, on the positive free cash flow in 2024, I was just hoping you could outline the bridge, and you can kind of just mention part of it on D2C. Is it as simple as flowing through EBITDA growth? Or are there other drivers of free cash flow beyond operating growth?

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

Yes, Doug, I'll speak to the asset sales and throw it to Naveen. Look, we're always looking for ways to maximize shareholder value. That might involve divesting, acquiring or potentially partnering on an asset. And by the way, we've done all three of those things. So we look at everything. As I indicated in my remarks, we are now back in the market with Simon & Schuster. We feel very good about the value creation opportunity there, given both its operating performance, which is substantially superior to what it was when we brought it to the market before.

And frankly, the level of buyer interest has a lot of interest. So we feel good about that. And depending on who the ultimate buyer ends up being, we see a type of buyer really, we see a path to potentially closing that deal this year. I'm not going to comment on any other speculative -- there's a bunch of speculation out there, transactions what we might or might do, other than, again, to reinforce we are always looking for ways to maximize shareholder value. Naveen?

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

Yes. And Doug, with respect to your question on free cash flow, I think I just took you through some of the sort of operational levers, if you will, that will drive the business into '24. If you think about it through more just a pure financial lens, yes, OIBDA improvement is a big contributor to the improvement that we expect to see in free cash flow but there are also benefits from a working capital perspective.

We've talked about this dynamic, where over the last few years, as we've ramped up in streaming, you saw significant growth in sort of cash content spend, and then it takes a little while for the expense side of that to the P&L side of that to show up because of the nature of amortization. What you will see going into '24 and beyond is actually that the cash content growth really starts to slow very significantly. And you start to get to a place where the rate of growth in cash content and P&L expense will start to converge but there's going to be real benefits from a working capital perspective over the next couple of years because of those dynamics.

Kristin Southey - *Paramount Global - EVP of IR*

Okay. Operator, we can take our last question.

Operator

Our final question goes to Phil Cusick of JPMorgan.

Unidentified Analyst

I heard the comment around lower content costs in '24 for B2C. How should we think about your '24 goals around revenue and subscribers given the SHOWTIME integration? And then maybe, Naveen, you have not talked about this before, but how is retail churn trending in the Paramount+ space, both overall and does the cohorts mature?

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

Yes. Thanks, Phil. So first, with respect to '24 goals. We talked about this a little bit on our last call. We continue to be very bullish about D2C growth overall. There are some puts and takes in terms of what's going on in terms of the ad market, but we're, I would say, ahead of our plans with respect to Paramount+ growth subs revenue, et cetera.

I noted that with respect to content expense, the integration of SHOWTIME and Paramount+, we think does put us in a position where we'll actually be spending less in 2024 than we originally indicated. So I think in general, we continue to be very excited about the trajectory of the D2C business relative to our plan. Regarding the question on retail churn characteristics, I think the short answer is churn continues to improve. We saw that in Q1, and it's been a pretty consistent theme as we see really nice improvements in engagement.

The content portfolio continues to expand. We get more partnerships in place. All of those things are beneficial from a churn perspective, and that's definitely one of the key ingredients that's going to drive revenue growth going forward. So we like what we're seeing there.

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

Yes. And with that, in closing, look, I want to emphasize that we have momentum. And importantly, we have conviction. So we're going to focus on driving market-leading streaming growth while navigating this dynamic macroeconomic environment, and know that the decisions we're making will position us well for our path to streaming profitability, significant earnings growth and a return to positive cash flow, free cash flow in 2024.

So we're laser-focused. Thank you, everyone. We appreciate your support and be well. We'll talk to you soon.

Operator

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

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