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PARA.OQ - Paramount Global at Gabelli Media & Entertainment Symposium

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OVERVIEW:

Company reported net debt of $13.7 billion.

CORPORATE PARTICIPANTS

Naveen Chopra *Paramount Global - EVP & CFO*

PRESENTATION

Unidentified Participant

So next up, we have Paramount Global. Many of you are, I'm sure, familiar, Paramount Global produces and distributes content across a range of channels, including theatrical broadcast networks, cable channels, and streaming services. The company's flagship streaming service, Paramount Plus, has about 60 million subscribers. The company recently announced that it would be combining Paramount Plus with its Showtime streaming service and premium cable channel.

The company has two share classes, 41 million Class A shares trading under ticker PARAA, trading around $19; 611 million Class B nonvoting shares, trading under the ticker PARA, trading around $16 for about $11 billion market cap, $250 million in preferreds at market and about $13.7 billion in net debt.

Today, we are pleased to have Naveen Chopra with us, CFO, Paramount. Naveen joined the company in 2020 and previously served the management roles at Amazon, Pandora, and TiVo. So thanks for being with us being here with us, Naveen.

Naveen Chopra - *Paramount Global - EVP & CFO*

Thanks for having us. Great to see you.

Unidentified Participant

Great to see you as well. It's been a little while.

QUESTIONS AND ANSWERS

Unidentified Participant

Maybe just to start off on a pretty narrow point before we broaden out, but the stock has been under pressure lately. Obviously cutting the dividend impact of the stock after you reported Q1 results. So what do you think the market's missing here and sort of what's your outlook from where we stand today?

Naveen Chopra - *Paramount Global - EVP & CFO*

Yes. Well, I'll give you a couple of high-level thoughts, and I'm sure we'll touch on some of these things in a little more detail as we go through. But you know, I think what the market really needs to focus on is the fact that our content engine is really firing on all cylinders. And you see that in the success of our theatrical slate, you see it in the continued dominance of CBS, and you see it in the very rapid growth of Paramount Plus.

And frankly, we expect that content engine to continue to drive momentum across both our linear platforms as well as our streaming platforms. You look at on the theatrical side, we've got a killer content slate lined up for the summer and our slate for 2024 is equally, if not even more powerful.

CBS just finished another year as the top broadcast network. And that slate is performing really, really well, continuing to grow share. And we expect that will continue, albeit navigating a somewhat weak advertising market, which I'm sure everyone has talked about. But that's cyclical and it will improve. And so we feel really good about where we are on the network side of the business.

And then Paramount Plus continues to grow at very, very healthy rate, both in terms of subscribers and revenue. And we expect that to continue with now an eye toward getting past peak losses and moving toward profitability in the streaming side of the business.

So when you combine the trends that we see in all three elements of those businesses across film, across the linear business, across streaming, we're now positioned to drive significant growth in both earnings and free cash flow as we move into the back of '23, and importantly in 2024. And that, I think, is a compelling investment opportunity.

Unidentified Participant

Yeah. It seems like -- we just discussed this with AMC Networks, but that streaming is entering a period of more rationalization. The last couple of years have been defined by just everything getting greenlit and content spending kind of getting out of control.

It seems like many streamers are now more focused on profitability than on just the overall streaming subscriber count. So where do you stand within that ecosystem? And what are the some of the key drivers as you sort of drive towards profitability path through -- after this year?

Naveen Chopra - *Paramount Global - EVP & CFO*

Well, I'd start by saying that for us, we started our streaming journey with an eye on profitability, not just breakeven, but the idea that we have to figure out how to build a streaming business that is going to be able to generate margins that look like the traditional business that is obviously transitioning to streaming. And that doesn't happen overnight.

But it's one of the reasons why we did a number of things when we crafted our streaming strategy, including adopting a multi-platform approach where we leverage content across both linear and streaming, including leaning heavily into franchises which have lower beta, require less investment in terms of marketing, et cetera. Really embracing a partner-based distribution model, which significantly lowers the cost of acquisition, enhances retention, lower churn, those kinds of things. And also continuing to embrace a third-party licensing business, recognizing that that is an important part of the overall monetization picture.

And so when you -- you talked about the industry getting more focused on profitability, really what's happened over the last few months, quarters, what have you, is that many of our peers are now embracing the same tactics that we said from the start, we're going to be a cornerstone to our streaming strategy, and which frankly, have been a part of what has enabled us to grow Paramount Plus very successfully in just over two years.

I mean, the service still very, very young, but now has over 60 million subscribers and is the largest part of a total D2C business that is now at a revenue run rate in excess of $6 billion. So strategically, we feel very good about that. I think we're doing all the right things and I think we're doing them ahead of many others.

In terms of where we go from here with respect to the path to profitability, it's really about a few important levers. So obviously, continued subscriber growth, but also importantly, ARPU growth. That's a big focus for us going forward, as well as improvements in operating leverage. And I'll spend just a minute on those.

From a subscriber perspective, obviously, that's driven by our content engine and a variety of new distribution relationships that we're always putting in place. So we're excited about that.

From an ARPU perspective, we are implementing the first price increase for Paramount Plus actually later this month. It will not be the last. So we do see many opportunities to continue to grow ARPU over time. We're also focused on growing ad ARPU, which is an important component of our overall model. That's driven by enhancements in both the engagement and monetization capability.

And you'll also see ARPU benefit from the fact that we are going to -- we're growing more in what I call higher ARPU streaming markets. Our first year and half or so outside of the US, a lot of our subs came from Latin America. We launched major Western European markets really in the back half of last year. And so you'll start to see those become a bigger part of our base this year and moving into next, which is helpful to ARPU.

We've also seen continued improvements in churn, which we expect to continue as we continue to enhance the service, add content, get better in terms of how we program, how we recommend content, et cetera.

And then the other big lever is operating leverage. And we are now at a point where we're starting to see expenses grow at a lower rate than revenue, sort of the definition of operating leverage. And that's enabled really by the fact that the growth rate in content expense is now starting to slow significantly.

We've kind of got to a base level of spend where we have a good drumbeat of new content. We've got amort that is going to start to roll off, which we haven't had for the last few years on Paramount Plus. So you will see that start to stabilize quite a bit.

And it will also benefit from the integration of Showtime, which is helpful to really all three of these metrics. It's helpful to engagement retention, it's helpful to ARPU, and it unlocks about $700 million of future run rate cost savings, which is important in capturing some of that improved operating leverage.

So you put all those things together, and I think we are on a path to significantly improve our streaming P&L in the coming quarters and certainly going into '24. And that will also lead to improvements in consolidated earnings and cash flow.

Unidentified Participant

You talked a little bit about the cost benefits of the -- of Showtime getting combined with Paramount Plus. Maybe if you could touch on the revenue side, how do you transition those subscribers and what will it do for ARPU as you move -- transition those Showtime subscribers over?

Naveen Chopra - *Paramount Global - EVP & CFO*

Yes, sure. I mean, this is a very exciting milestone for us. It's something we've been working on for some time. And in fact, the integrated Paramount Plus-Showtime service will launch later this month, June 27, to be exact. And so it will be available to new customers at that point in time. And then existing customers will transition into that new service over the course of Q3 and Q4. Exact timing depends on the distribution channel through which various customers come.

And when I think about the benefits of that integration, it really falls into three buckets. First, from a consumer perspective, it's a win-win because we're now able to offer consumers a broader set of content that includes not just the movies, the sports, the originals, the kids' content that they love on Paramount Plus, but really well-known and respected Showtime franchises, whether that's Billions or Dexter or a new franchise like Yellowjackets.

So we think that's going to be really additive and will result in more customer engagement. And we know that because we actually have a Paramount Plus-Showtime bundle that's been in the market now for roughly a year. And what we've seen with that bundle is that those customers spend 20% more time on the service and consumed 40% more titles on the service.

And those two metrics are key indicators of engagement and retention. And indeed, when we look at churn on bundled subscribers, it is significantly lower than the churn that we see for subscribers to the stand-alone Paramount Plus service. So we know it's going to be valuable for our customers.

The second big benefit really is around ARPU. We are timing the integration and the launch of the integrated service with the price increase that I referenced earlier for Paramount Plus. So that price increase will go into effect for new customers also on June 27, and then will become effective for existing customers roughly a month later.

And it really just helps solidify the value proposition of Paramount Plus because it's not only all the content you're getting before, but now the entire Showtime slate as part of our premium service. And that price point will go from $9.99 up to $11.99, including Showtime.

And then the third reason we're excited about that integration is the cost savings that it unlocks, which is sizable. I mentioned $700 million of future expense savings -- future annual expense savings. That's mostly driven by content because you obviously need less content to program a unified streaming service than two completely individual services.

But there are also significant savings in terms of marketing, headcount, technology, and operational costs. And all of that is material. So there's a lot to like about the integrated product, and we're super excited to bring it to market later this month.

Unidentified Participant

Great. I look forward to that. I think you've always been a little bit of ahead of the curve on bundling relative to the overall industry, whether it's in some international markets where you've opted to bundle instead of going alone or your deal with Walmart+ and others out there.

How do you think about the state of the current bundling opportunity and where do you -- what direction do you see that going? Could the tech companies get more involved? I know Amazon is doing some more in that space. So how do you think about the potential for bundling in the near term?

Naveen Chopra - *Paramount Global - EVP & CFO*

As you said, we have embraced all forms of partner bundle-type distribution. We like that model. Sure, there are trade-offs from an ARPU perspective. We typically don't get some form of a wholesale price in those relationships. But the trade for that is in many cases, virtually no acquisition costs and significantly lower churn rate.

Churn tends to mimic whatever the churn rate is of the thing that you're bundling with. And so when you kind of put all those pieces into the LTV equation, the LTV of those customers can actually be very attractive. I should say that LTV-to-cap ratio can be very attractive relative to direct customers, if you will.

So you'll see us continue to embrace those. We've got a big business with Amazon in the channel store. You mentioned Walmart where we're bundled with Walmart+. That's been very successful. We're very happy with those results.

We've recently announced the partnership with Delta, which is a little different because it's really about driving trial. So Paramount Plus will become the entertainment service on Delta's in-flight Wi-Fi service using their new high-speed Wi-Fi. That's now starting to roll out on planes. And I think we'll be in most of the fleet by the end of this year.

And then even more recently, we've announced a partnership with Verizon as part of the Plus Play bundle. So now you can buy a bundle that includes both Netflix and Paramount Plus with Showtime. So we like all those models; we'll continue to experiment. We do think that much like the days of pay television, bundling can be a very powerful force in improving the economic characteristics of the business, and you'll see us continue to do more of that.

Unidentified Participant

Great. Maybe just switching gears a little bit, I want to talk about sports and sports rights. After lunch, we have our sports valuations panels, so I figure it's somewhat relevant as we look forward to that. You have a pretty attractive portfolio of sports rights, whether it's college sports or NFL as well as other sports.

But you've got the NBA rights up; it seems like they're going to double in price per year. Sports rights have generally been bid up across the industry. How do you think about how sports fit into the future of streaming? And how can both Paramount and the industry overall figure out how to properly monetize them in this new environment?

Naveen Chopra - *Paramount Global - EVP & CFO*

Yeah. Well, as you said, I love our sports portfolio between the NFL, college football, which we've had the SEC, and that's transitioning to the Big 10 fully at the best possible time. We've got great golf properties, NCAA basketball tournament, UEFA football -- soccer, excuse me, football in European terms.

So we love that portfolio and it is a really valuable ingredient to both our linear and our streaming platforms. And that's a key part of the answer to your question, which is these rights are not inexpensive and you have to be able to monetize them across multiple platforms in order to make the economics work.

The other part of the answer to your question is that while sports are really valuable and powerful drivers of both customer acquisition and engagement, they are an ingredient and they have to be part of a more balanced content portfolio. Because if you get overly dependent on sports, it can become uneconomical relatively quickly.

So we spent a lot of time thinking about, okay, so we've got this sports portfolio. What are we going to put around that? And how are we going to engage the sports fan in other types of content? And so we were very deliberate about how we program.

Even when we think about the kinds of originals that we want to greenlight, we're doing it with an eye toward, okay, we got a lot of sports fans. Are they going to be interested in this type of content? And then we promote that content on the back of various sporting events.

So that, I think, is really the key, which is sports is really valuable. We love the fact that we have and we don't think we need anymore, particularly here in the US market. And we're very focused on making sure that we balance that with other types of content.

Unidentified Participant

Great. A big part of monetizing sports comes from advertising. So maybe we could talk a little bit about advertising more broadly. You took a little bit of a different approach to the upfronts this year. Obviously, with the writer's strike ongoing, I think in general, the tone was a little bit different. But how do you think about the state of the ad market? And I think you've been maybe a little bit more optimistic for a back-half rebound. And so just maybe some comments on your outlook for the rest of the year.

Naveen Chopra - *Paramount Global - EVP & CFO*

Yes. Well, short answer is our view on the ad market really hasn't changed in the last few weeks. Just to recap a bit of what we've said in the past. I mean, obviously, the sort of headwinds in the broader market are and well characterized by many others, and we are experiencing some of those headwinds as well.

But we also see some pockets where the trends are starting to improve. And that's true with respect to certain categories. So things like travel, pharmaceutical, and even auto have started to improve in a very measurable way. There are some other categories that are weak. Our international advertising business in particular has probably been one of the weaker dimensions of it.

If you look at the business between linear and digital or if you look at sort of different sales channels, there are also some encouraging trends there. The digital business continues to actually grow at a pretty healthy clip. We view that as a good indicator because the digital business tends to be sold more through scatter than the linear business.

And therefore, it tends to be a little bit of an early indicator of both -- really any sort of market change. So if the market is sort of deteriorating, you tend to see that in digital first. And when it's improving, you tend to see it in digital first as well. And so the fact that we are seeing some positive trends in digital, we like.

And we've also seen a difference between our direct sales business and our indirect channels, programmatic, et cetera. The direct sales business has actually done quite well. And we view that as an advantage because we do apply our direct sales force to this combined portfolio of linear and digital inventory. And we think that continues to work really well.

Regarding the upfront, I would just say a couple of things. I mean, as you pointed out, we took a very different approach this year. We did have a big, large gathering in Carnegie Hall. We did a series of individual smaller events with all the major holding companies and their key clients.

Feedback on that has been wildly positive. It allowed for much more substantive discussion, quite frankly, with those clients and agencies. And I think it is definitely something that we will look to replicate. And it's one of those rare things which has sort of a double benefit, which is customers like it better and cost us a lot less money. So we like that model.

In terms of where the upfronts are likely to come up, I think it's probably premature to comment on that. A lot of active negotiations which we don't like to do in public. So we'll see, but we're encouraged by some of the signs in the marketplace. And we love the advertising portfolio that we're bringing to the table.

Unidentified Participant

Great. Maybe just turning to the cable business for a moment. Obviously, trends there don't seem to be improving. At some point, you have to think that cable subscribers will level out at some point. But how do you manage through that decline? And how do you run that business for cash flow while you can?

Naveen Chopra - *Paramount Global - EVP & CFO*

Yeah. Well, look, I think it's no secret that the linear ecosystem is continuing to evolve. But I think what's really important to remember is that while that is happening, consumers are not watching less content. They're actually watching more content.

And so the real question is not just how do you stem the tide of linear decline? It's: are you successfully picking them up on the other side in streaming? And so we look at the combined trends. And on that basis, if you look at our overall affiliate and subscription revenue, it has continued to grow very nicely.

And in fact, in Q1, we were up 12% on a combined basis. So the fact that this transition is creating net growth for the company, I think is very important.

Now all that being said, we're not passive in that transition. While we are aggressively investing in streaming growth, we are also doing things to both elongate the revenue stream on linear and maximize the earnings and cash flow by managing the cost side of that equation.

So on the revenue side, we have successfully continued to renew our affiliate deals with built-in rate escalators. And on the reverse comp side, those deals are done with fixed fees so there's some measure of insulation against paid TV sub declines.

And on the advertising side of the business, over a multiyear period of time, we've been very successful also driving rate increases, which again help -- doesn't change the ultimate trajectory of linear business but it does help elongate that revenue stream.

And then on the earnings and cash flow side of that, we are continuing to do a variety of things to maximize the margins in that business and to rightsize the cost structure given what's going on with the top line. We've done a lot of work on the content side, which is the biggest cost line where we've -- we continue to evolve the programming mix. We're leaning into more formats, creating different formats of existing shows, which can be very cost effective.

We're doing more production offshore. We're sharing content across the linear and streaming ecosystems. So all of those things really help the cost base there. We're getting more diligent in how we spend in marketing. We're rightsizing the headcount and we'll continue to do those things.

You've seen us make various moves from quarter to quarter as we continue to execute against that plan. So it's definitely -- we're on a path to maximize the cash flow out of that business. But we're also very focused on growing the total pot, if you will, across linear and streaming.

Unidentified Participant

Great. We just have a couple of minutes left. So I want to make sure that we talk about the balance sheet. You've been public about shopping Simon & Schuster again after the deal, unfortunately, didn't go through. Previously, there's been speculation about other assets out there that I want to ask you to comment on specifically. But whether it's BET or your headquarters just up the street from here, how do you think about the current state of your balance sheet? And maybe any comments on potential divestitures, whether it's Simon & Schuster or other things that you can do to further shore it up?

Naveen Chopra - *Paramount Global - EVP & CFO*

Yeah. Well, look, I think it's important to think about our balance sheet in the context of what we're doing in the business. What we're doing in the business really is we are building the network of the 21st century by investing in streaming. And yes, that does require some relatively sizable investments that impact the balance sheet.

However, leverage is going to improve as we start to move through peak losses in the D2C business and realize significant earnings and free cash flow improvement in 2024. That will -- is really driven by improvements on the streaming P&L as we talked about and also recovery in the advertising market, which will have a sizable impact.

Leverage is also aided by more cash accumulated on the balance sheet through the reduction of the dividend and it will benefit from noncore asset sales.

You mentioned S&S, which is one, as you noted, that we've been public with. It is a very sizable transaction. We're pretty deep now into the, I'll call it, remarketing process for S&S and we're -- I would say we're not actually surprised by the results, but we're very encouraged. I say not surprised because the business is performing extremely well. And while it's not core to Paramount, it's a really good business with phenomenal intellectual property and has had very, very strong financial performance.

So that's proven to be a very competitive process. We had strong interest from a variety of different buyers, both financial buyers and strategic buyers, determining on who ultimately rises to the top of that process. There's even a path to closing that deal this year. But whenever that happens, it will also be a factor in helping continue to reduce leverage.

Unidentified Participant

Great. And then maybe just one last question to wrap it up. Obviously, there's been speculation about further consolidation in the media business, not just for Paramount, but for others. But how do you see potential consolidation? And what's your view over maybe three to five years on how things evolve?

Naveen Chopra - *Paramount Global - EVP & CFO*

Well, I think I'd answer that question in two dimensions. First, kind of with respect to the business itself, where is that going? And then I'll touch on your point about consolidation.

So on the business, if you really boil it down, what we have historically been doing is running a content or a studio engine. And we have been generating return on that by operating a networks business and by operating a licensing business.

And when I look three to five years out, in general, all of those things still exist, right? The content engine is going to continue to produce world-class hit using world-renowned franchises at global scale. The network business will continue to be an important way of monetizing that content, but it will transition from the networks of the 20th century, which were really broadcasting cable, to the networks of the 21st century, which are streaming with obviously a keen eye to driving the streaming business in a way that it can start to replicate the margins of the 20th-century network.

And then the content licensing business will continue to be an important part of the overall monetization equation and the ways in which we maximize the return on those content investments. So I think all three of those will continue to be important part of the business going forward.

Now with respect to the consolidation element of it, I'd say a couple of things. One, and we said this before, it's probably unwise to bet against consolidation in the media industry or really any industry for that matter. And given that, we try to remain very open minded and thoughtful about what those consolidation opportunities may be.

Whether Paramount is a seller of assets into consolidation or whether we are a consolidator of assets, we'll have to see. But as we said, we remain very open minded to those possibilities because they can be very effective ways of maximizing shareholder value.

Unidentified Participant

Excellent. Well, I think we're out of time. I'll leave it there. Thanks, Naveen.

Naveen Chopra - *Paramount Global - EVP & CFO*

Great. Thank you. Thanks for having us.
