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PRESENTATION

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

All right. We're going to get started. Good afternoon, everybody. I'm Ben Swinburne, Morgan Stanley's media analyst. And a quick disclosure statement, please note that important disclosures, including my personal holdings disclosures and Morgan Stanley disclosures, all appear as a handout available in the registration area and on the Morgan Stanley public website.

And with that out of the way, I'm excited to welcome, as our keynote conversation, Bob Bakish, President and CEO of Paramount Global. Prior to the recombination of Viacom and CBS, Bob was the President and CEO of Viacom, going back to December 2016. Bob, thanks for being here.

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

Hey. Always a pleasure, Ben.

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

Good to see you. And...

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

Particularly in the real world.

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

IRL.

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

IRL, in real life. So anyway...

QUESTIONS AND ANSWERS

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

Absolutely. It's nice to be back in person. Maybe before we talk about a lot of the news you guys provided to us back on your earnings call, I wanted to ask you, it's been about 2 years since the ViacomCBS merger. When you look back at sort of the strategic rationale of that deal, the synergies you guys laid out, how would you reflect on what is still a pretty new company and its position in the marketplace?

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

Yes. There were questions when we put the 2 companies together, but there was never a question on my part that it was a fundamentally powerful combination. And I think, if anything, we've proven that more quickly and more significantly than even I expected. You start with -- we have an aligned senior management team that really reflects the best in the industry. I'm thrilled with our team. You look at what we're doing from a content perspective. And we talked some about this in our investor event a couple of weeks ago, but we have leadership, very broadly. We have the top 4 shows on television, 3 of those are CBS, one of them is Paramount Network.

We just had 2 #1 films at the box office this quarter. Now we're pointing our content engine to streaming and having notable originals there. So content is really in very good shape, and I'm thrilled with what's coming.

You look at our company commercially, on the distribution side, where we have a singular organization distributing our content. We continue to get deals done. And in fact, we have broadened the relationship, most recently really adding apps into linear networks and advanced advertising, et cetera. And on the ad sales side, we are a kind of key solutions provider in the U.S. and really getting value from having a linear portfolio of linear inventory, combined with a market-leading streaming product. And that's working very well in the marketplace.

And then finally, streaming, where we have a differentiated playbook. We are the market leader in FAST with Pluto. That continues to be a rocket ship. And quite frankly, we couldn't have done Paramount+ without the combination. And that's off to an exceptionally strong year 1.

So I think we're really liking what we're seeing. I think the market is starting to see the performance. Maybe it's not reflected in our equity, but there's no question there's power in the combination. And by the way, it's not a combination anymore, it is a single company. And that's part of why we renamed it Paramount Global at our event as well.

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

So let's talk about the investor event you had a couple of weeks ago. There was a lot of new information, updated outlook, new name for the company. Maybe you could tell everybody what you think the main takeaways were from what you provided in the market a couple of weeks ago.

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

Yes, sure. I mean I think there were a couple. One is really the indisputable momentum the company has, and streaming was central to this presentation. And you look at our fourth quarter in '21 in streaming, on the free side, with Pluto, we added 10 million MAUs, to bring the total MAUs globally to 64-and-change million. That is significant growth, and it shows that the real -- the validity of a free ad-supported service in the current marketplace.

And by the way, it crossed $1 billion in revenue for year 2021. That's 5x what it was 2 years ago. And then likewise, on the pay side, with Paramount+, we added 9.4 million subscribers to our pay portfolio. We were the fastest-growing major streaming service in the quarter. We have the fastest-growing brand in the country, not just in streaming, but of any brand. For kicks, #2 is Moderna, by the way. And so point one of our investor event was really to showcase our momentum. Point two is we evolved our disclosure, introducing new segments, really to respond to the inquiries we were getting from all of you.

So we now have a TV Media segment, which reflects our linear television businesses. And you can really see the significant size and stability of that. We have a D2C segment, where you can see, all the way through the P&L, what that combination of our free and pay products look like. And then we, of course, have a Filmed Entertainment segment, reflective of Paramount and the like.

So the second element was that what I would call enhanced disclosure, which we thought it was important for people to fully understand our story. Third element was, given the momentum, we have higher aspirations. When we launched Paramount+ and we did an investor event a year ago, we talked about 65 million to 75 million paid subs by 2024. The truth is, we'll, based on what we see, we'll be through 75 million by the end of 2022.

So we raised our paid subscriber guidance to 100 million subs. And in case anyone is worried about low-calorie, low-revenue subscribers, we also increased our revenue forecast in streaming for 2024 from $6 billion, to $9 billion. So we see material financial performance as we grow this business more quickly than we thought a year ago.

And then lastly, we talked about our differentiated playbook and how we are going about this differently. And so those were the major takeaways. We didn't necessarily get the market reaction we would have hoped for. But nonetheless, it is a powerful story, and we're feeling very good about it.

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

So Bob, you mentioned the differentiated playbook, and we've had NBC and Disney at the conference talking about their outlook, AMC Networks. What is it about how Paramount goes to market with the assets that you have that you think is differentiated in driving the business?

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

Sure. I would really point to 4 key dimensions of our differentiation. The first is we have a differentiated content strategy. We believe in a broad strategy. When we launched Paramount+, we talked about news, sports and a mountain of entertainment. We think that breadth is advantageous as we can serve the whole household, the whole country and really get us access to a larger consumer base. And by the way, it's not that different people only want to watch sports versus kids or whatever, but that breadth of content also has people consuming multiple lanes, as we call it.

So breadth of content is our first source of differentiation. The second is really we have a broader streaming business model. We were a little countertrend certainly when we embraced free ad-supported streaming. But we are really both the market leader in FAST, and we have a pay product. And so that combination means that we have a larger revenue pool we can go after, that combines advertising and streaming. We think that's a real source of advantage for our company. And again, we believe in the stand-alone products in FAST and in Paramount+, and we believe in -- the combination has additional synergies.

The third source of advantage that our company has, and this one too is not necessarily always in vogue, but we're not just a streaming player, we also have a leading portfolio of linear networks on a global basis. We're the largest broadcaster in the world. And of course, we have a major Hollywood studio that continues to release films theatrically, including having 2 #1s this quarter. We think that's a real advantage as we go and attack the streaming opportunity.

And then the last source of advantage is there's a lot of companies out there that are U.S. companies that go licensed product internationally. We have long been a global operating company. We have teams on the ground in 30 markets. We have 12 studios creating content locally around the world. And we have really breadth of partnerships that we can bring to bear to accelerate our streaming strategy and provide new forms of value, and you see that in some of the distribution deals we've announced recently, with the likes of Sky and CANAL+.

So you put those 4 sources of advantages together, and we see faster growth. But importantly, we also see a business that has more attractive margin characteristics over time, benefiting from the combination of those advantages.

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

And Bob, how are you and the team at Paramount thinking about balancing where you put content? You talked about linear being important. Obviously, that's important for a variety of reasons, including the cash flows that it generates, but you're clearly taking the company further and further into streaming. So as you continue to build your content portfolio over time, what's the strategy internally in terms of where stuff gets distributed?

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

Yes. So as you point out, we have the #1 network in the U.S. in CBS, and we have the leading kids network in Nickelodeon and all. And we continue to fuel those networks and those -- and serve those audiences with original content. And so we certainly think about that in the context of maintaining the relevancy and financial performance of that -- of those businesses. At the same time, we are obviously investing in streaming. That's the growth opportunity in the business, no question about it. And you see us pointing our libraries and original production, particularly with respect to franchises increasingly in that direction.

And that, in turn, is growing our total pie. When we look at the linear side of the business, there's no question that we know that's a mature business and that we're managing it for profitability, and therefore, we think very carefully about content spend and we look for opportunities to gain efficiencies there. There's a variety of ways we do that. We do that with mix of content. You can think scripted versus reality versus other forms, sports, of content and looking to optimize that mix. CBS, as an example, is leaning more in a reality direction over time. That has some economic advantages.

We also are looking at opportunities to source product outside the -- not source, but create product using our international studios. We talked about a reality format that we're creating for all of our broadcasters, but we're creating it in Argentina. So there's a U.S. version for CBS, a U.K. version for Channel 5, Australian version for Network Ten, Argentinian version for Telefe. But we're creating all those in Argentina, and then we're actually going to do what we're calling, War of the Worlds, exclusively for Paramount+, where the winners of each of those country-specific formats compete.

The financial part of that is we're doing 5 shows for the price of 3. So again, economic advantage there. We're also looking at how we run networks, and we've done some consolidation of organizations over time. There's probably more opportunity there. So again, in this mature business, we're focused on maintaining and in our case, growing audience share, but doing it on an economically responsible way as we simultaneously invest in streaming. And you're going to see great originals continue to come to Paramount+ as this year goes on and as years unfold in the future.

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

And Bob, as part of this sort of financial algorithm, I think you guys expect to be able to keep your linear EBITDA roughly flattish over time, even as you move more and more programming over to streaming. Can you talk about your confidence there? That's certainly an area the market's debating.

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

Yes. Well, I would say a couple of things there. One is, if we didn't believe it would be a stable segment with respect to earnings, we probably wouldn't have broken it out as a segment for all of you. So that says something about our confidence in the going-forward performance.

As I said, on the economic side, it is certainly about growing share and carefully managing expense levels and looking for opportunities to do things more efficiently, which, by the way, when we put Viacom and CBS together, one of the other things we did which I didn't mention, is we actually beat our synergy cost savings targets that we gave The Street. And by the way, we also sold a bunch of noncore assets.

But -- so part of the reason we see stability is that we see strong share performance and we are able to manage investment levels, and we feel good about our going-forward ability to do that.

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

Okay. So let's turn to Paramount+ and your updated outlook. As you mentioned, you raised your guidance from 65 million to 75 million, which I think you gave basically just over a year ago, to over 100 million. What have you learned? What have you seen in the business over the last 12 months that's given you so much confidence and now raised your ambition so significantly?

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

Well, I mean, I would sum it under the umbrella of momentum. I mean when we launched Paramount+, the general narrative I heard was you guys are too late and you don't really have the wherewithal to do something interesting here. By the time we got to a couple of weeks ago, the question that we would be a scale player is now off the table. Everyone agrees we're going to be a scale player. And the reason is, is our proposition is working.

I would start with the thesis of being broad continues to prove itself out, combining sports like the NFL with movies from Paramount, whether they are great library movies or more importantly, fresh movies, particularly in fast-follow from a pay 1 basis, where, for example, 2 of our films that were #1 in the box office this quarter are both going to be on Paramount+ in this month. In fact, one of them, Scream, went up today, I think.

We're also seeing an ability to continue to leverage our CBS fleet and do innovative things with it. So one show -- 2 shows that we took, that were CBS shows, are now exclusively Paramount+ shows. And both of them have been clearly additive to subscriber acquisition and engagement on Paramount+. Those 2 shows are Evil and SEAL Team.

Our kids product, I had a thesis that we were going to be able to replicate our legacy leadership in kids in streaming, and that's exactly what is happening. Nickelodeon is a force on Paramount+. We have seen, in the first year, roughly half of our subscribers consume at least one piece of kids content. The kids content is working in the film format, in the episodic format. And the library is tremendously valuable.

And so that lane continues to prove itself out. And again, it proves itself out not only in kids, but when we look at our data, we see that their parents are doing things like watching scripted originals, most recently exemplified by 1883, which is a spin-off from Yellowstone that we've created -- or that Taylor Sheridan created for us.

So what we're really seeing is our thesis playing out on the content side, combined with our distribution strategy. And we believe -- the company has long believed in ubiquitous distribution as a source. We never said it this way, but to the largest TAM in streaming, that's how people talk about it and it clearly works. So it's that combination of, obviously, D2C distribution, channel store distribution, some things we call hard bundles, which is innovation in the distribution space.

So as we saw all that going on, we had -- we -- the confidence to say we're going to be bigger, particularly given what we saw through the fourth quarter of '21, what we're seeing in this quarter, What we see line of sight to by the end of this year, where, again, we will surpass the high end of our range. And frankly, we're tremendously excited about it.

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

So I wanted to ask you about your distribution partnerships. We had Netflix a couple of hours ago, and they've had a long-term relationship with T-Mobile. I think you guys are now in business with them in a serious way in the U.S. Any update on either how that's going? And maybe you could talk a little about what you're doing in Europe with Sky?

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

Sure. So again, we are pursuing a multifaceted distribution model, which includes working with key partners. One of the legacy, in a good way, our company has, is an ability to work with partners in various shapes and forms. To your question on T-Mobile, that partnership launched in the fourth quarter of '21. We did not have significant expectations for subscribers in the quarter because it launched more as like a soft launch without marketing, without billing integration.

We were quite pleased with what we saw in the fourth quarter from T-Mo, although it was not a material source of our subs. As we get to the end of this quarter, the marketing program kicks in. And then shortly thereafter, we'll have integrated billing. Right now, you have to put a credit card in if you're a T-Mobile subscriber. So we think the partnership is off to a good start, didn't contribute meaningfully in the fourth quarter nor did we expect it to. But looking forward to it really be a powerful engine for Paramount+ in the United States as the year goes forward.

You mentioned Sky. That's a different deal. Sky -- and I ran our international business for a decade. So I know the Sky company very well. They are a tremendously -- they're really the gold standard distributor outside the United States. Their cornerstones are U.K., Germany and Italy.

So we did a deal with Sky, whereby -- and we call this now our hard bundle strategy, whereby they will launch Paramount+ to a tier of their subscribers, in this case, the Sky Cinema tier. They don't disclose Sky Cinema subscribers, but I can tell you it's in the millions and millions and millions. And in the case of the U.K., they will launch that in June. And we are very excited about this model because it provides us a light switch to a very large number of incremental subscribers at 0 subscriber acquisition cost and because it's in the tier at very low churn, particularly relative to what you think of as D2C churn.

So we love this model. And importantly, we're both getting data and we have rights to pursue D2C and other forms of distribution outside of it. So we'll roll that in the U.K. in June and then later in the year in Germany and Italy.

We followed that up, by the way, with an announcement at our Investor Day that we did a, I would say, a similar deal with CANAL in France. They are the leader in France. And I think what's important about these deals is 2 things. One is the fundamental characteristics of them on an LTV basis because you get subscribers with very low churn and 0 subscriber acquisition costs. We think that's a beautiful model, particularly when paired with going after the whole universe through D2C and channel stores, which, again, we can do.

And the second thing I would say is it is really a demonstrable proof point of the advantage that we have of having a traditional business and having these partnerships. And I am 100% certain that just like we saw FAST early, and we were the first people to get into that business by acquiring Pluto, first people in terms of a major media company, and then subsequent to that, people have followed us there. We still have the market leader, and in fact, we increased our leadership position in the fourth quarter. People will follow us into hard bundles because it's innovation, but it makes sense, and people are starting to see that. So you should expect more of that to come.

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

So Bob, just to think about the shape of the year, that it sounds like T-Mobile should be a contributor, maybe more to Q2 and beyond.

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

Yes.

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

And then in Europe, obviously, rolling through the summer. And are your -- when we think about your overall company relationship with partners like Sky and CANAL+, are you giving anything up when you shift the model a bit from linear to streaming? Or is this part of a broader relationship where the overall economics to your company will grow?

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

Ben, it's a great question. And there's a couple of points. The bottom line is we are about partnerships and relationships, and both Sky and CANAL were part of a comprehensive renewal whereby 2 important things happened. One is the size of the revenue relationship increased. And two is, if you look at the ARPU of streaming versus the pay networks, the ARPU of streaming is higher. Now it is true that there's some remixing in there, but this is working with companies like these partners, who are also transforming their business for the future. So again, we think it's a great model. It's additive on a total revenue basis. And it's accretive on an ARPU basis.

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

That's helpful, Bob. So you talked a lot -- so we've been talking about your ambitions on the top line, but you've also increased your investment plans. Maybe you could talk a little bit about how you arrive at your overall content spending expectations. And what's a realistic time line to get to breakeven or -- and ultimately, the mid- to high-20s margins that you laid out for the stream?

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

Yes. So look, we've been greenlighting shows and films for decades. And in that vein, we have frameworks of -- and setting expectations for property. As we invest in streaming, we have extended that model into that universe. And so we look at every investment decision we make. We obviously have much better data on the streaming side than we ever had on the legacy side. We know exactly how much content is consumed. We can tell if a subscriber -- we attribute a subscriber to it as a subscriber acquisition. We know if they watch something else, what do they watch before it, what do they watch after it.

Fun fact, 50% of 1883 subscribers of -- people that came in to watch 1883 have watched 5 other shows. And that is very, very good news from a churn management perspective. But -- so we look at our investment levels very carefully. As we saw the success of Paramount+ through '21, we got comfortable increasing our investment levels because we were seeing early returns. But I would also say we didn't necessarily lean in exactly the same way as in the beginning of the year. And I think it's worth talking about the film business in this regard.

Some of our competitors embraced a strategy where they took their whole slate day-and-date. We looked at that, and I looked at that and I said, I don't think that makes sense, I don't see the ROI on that. Instead, we chose to do a 45-day fast-follow strategy. What that means is a film is released in the theaters, and then 45 days after that, it shows up on Paramount+.

The old -- that's -- we're doing this in what's known as the pay 1 window. The old pay 1 window definition was 90 days. But we looked at it and we said, if you look at the degradation curves on theatrical revenue, the reality is there's not much of a theatrical business after 45 days, with very few exceptions on maybe some huge titles, which, again, you could run a little longer if you wanted to.

But if you look at the ROI of being able to essentially get that theatrical revenue and provide that consumer option, quite frankly, and the experience, but get it and still have the product to be fresh enough and be viewed as fresh and importantly, benefit from all the theatrical marketing and bring it to streaming, that's a much better ROI equation. And that's -- we did it for the first time with A Quiet Place II last year, and we saw it in spades.

We did do a little day-and-date with theatrical, but we only did it for kids and family titles, which we thought, in the COVID, given how families and our research looked at, we thought was a good option to provide. And by the way, it was a home run for PAW Patrol, it was a home run for Clifford. Both of which actually outperformed their green lights and theatrical, we think, because of the combination of marketing and excitement. But a long-winded way of saying, we're looking at this very carefully, we're looking at ROI, we're doing mix.

One of the things I said early in the year was I thought we would have a movie a week on Paramount+ by the time we got to '22, mid-22. We won't. We'll have probably one every other week. We think that's a better investment strategy, and we mix some of that money over to the series side. So a lot of thought and analysis going into this literally on a daily basis. But we're feeling very good about what we've seen to date, and that, in turn, has obviously shaped our expectations and our decisions for the future.

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

And Bob, is there any way you can help us think about the time line to streaming breakeven or even getting to the kind of margin...

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

Yes. Sorry, I forgot that part. So a couple of things on that. One is, I would say, we raised our aspirations not only in subscribers, but also in revenue, so $6 billion to $9 billion. Yes, we are spending more. We also said, in our investor event, that we're spending more in '22 in streaming, and then peak losses will be in '23. And then after that, you'll see those begin to moderate. That has a lot to do with the combination of getting the content scale and investment, combined with where we are from a revenue perspective.

We're not necessarily at target margins by then. But we -- our math and models say that as that tracks out, we will move in that direction. So we feel, again, based on everything we've seen to date, we feel good about that. And I want to go back to those 4 sources of advantage. We are not a pure-play streamer. And when you look -- forget about growth for a second, but when you look at margins, that's a very good thing because we are able to leverage content costs across platforms.

Take our library as an example. It is irreplaceable and it is fundamental to driving engagement on streaming. A pure-play streamer doesn't have a library like that, and it's a tremendous advantage, including with respect to margins because we don't burden our streaming services with incremental cost for a library that's already paid for.

Likewise, using our linear networks has launched platforms, including what we did with 1883 and Mayor of Kingstown and SEAL Team and Evil, tremendous advantage. You're going to see Halo, which is piece of IP related to the Microsoft game drop later this month. If you watched the AFC Championship Game, which we aired, you would have seen Halo integration in it. You not only can't buy that, it actually didn't cost us much incrementally, another source of economic advantage which helps our margins. And so anyway, so we feel good about that trajectory. And obviously, we're going to have to prove that to all of you over time.

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

And Bob, you mentioned a couple of times that you raised your revenue outlook. These aren't empty calories. You, I think, inherently raised your outlook for ARPU. So what have you learned so far in the first kind of 12 months-plus of Paramount+, both on the subscription and the advertising side, that gives you confidence that you can continue to drive ARPU and actually drive it faster than maybe you had expected a year-plus ago?

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

Yes, 100%. I mean it's just math. The only way we could have gotten to that is not just subscribers, it's ARPU growth as well. For us, there is both ARPU growth on the subscription side and on the advertising side. On the subscription side, we are far from price leader. If you look at Paramount+ in the United States, you have a price point of $9.99 for the premium version or $4.99 for the with ads version. The price umbrella is well above that. Obviously, Netflix recently raised pricing to $19.99 in the United States.

So we think there's plenty of room to move price over time, and that will help ARPU. And that's true not only in the U.S., that's true globally. We're very much in the value-priced, intentionally, level all around the U.S., or internationally, where we're operating, we tend to stay there. But again, in our LRP, we clearly will raise price over time, even though we will still stay attractively priced for the consumer.

On the ad sales side, again, ad sales, we view as tremendously valuable and really both as an ability to have a lower-priced product that can appeal to certain consumers that wouldn't necessarily buy a higher-priced product and is fundamentally a way to access revenue from our advertising clients. That will grow through a combination of engagement, i.e., people spend more time. There's more effectively units to sell there. And price, and the price has 2 dimensions to it, too. It's just pure price increases, where, again, we're not at the high end of the CPM game. And it's applying data, which is another form, and ad tech, if you will, which is essentially another form of pricing and yield management that's not just a flat price increase. So we think there's clear room to run on ARPU driven both by ad pricing and subscription pricing.

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

And Bob, I wanted to ask you, there was news on Disney+ over the last few days. We talked about it with Christine McCarthy yesterday, adding an ad-supported element to that. What does that mean, if anything, for Paramount+? How do you view that announcement?

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

I think it's validation of the strategy. The stuff -- I didn't talk to the folks at Disney, but I read what was written. And they basically said the same thing we say, which is you can serve consumers that you wouldn't otherwise serve because you can have a lower price point and you can monetize the ad revenue. They're 100% right. And I'm not surprised they did that at all.

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

Great. Let's shift to Pluto, which you've mentioned a couple of times, a nice acquisition for the company for sure. I think revenue nearly doubled last year, and you're looking for 100 million, 120 million users by 2024. What makes this different? I think investors are trying to figure out, among all these free ad-supported streaming services, what differentiates them in the market with consumers and with advertisers. So talk about Pluto, if you can.

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

So all right, I'm biased, but Pluto is an unbelievable asset. When we acquired it, we closed in early '19, we acquired it off 2018 numbers. At the end of 2018, it had 12 million monthly active users and had $70 million in revenue. Fast-forward to the end of 2021, it had 64-and-change million monthly active users and over $1 billion in full year revenue. In fact, in the last 2 years, we've 5x'd the revenue. So it is a monetization rocket ship. Why? Because more consumers are using it every day. It is a high-quality product. It is stocked.

And we started in the U.S., but obviously are now rolling it around the world. But in the U.S., the content lineup now approaches 200,000 hours of content, fortified, of course, by Viacom legacy and CBS legacy content, but we actually have about 250 content suppliers to the platform. And for them, it has this flywheel effect as, as it grows, we just keep writing them larger rev share checks and they love it.

I would also point out that one of the things about Pluto, and this is actually the reason we picked Pluto over all the others when we did the M&A work, is it presents content in a lean-back linear way. And yes, you can get content on-demand as well. But still, overwhelmingly, the consumption is on the linear side of it because people love that model, so much so, by the way, that we've now introduced linear services inside of Paramount+. We just did that. And we're seeing -- although it's a single-digit percentage of people that are using it inside of Paramount+ to date, there's a double-digit percentage of engagement increase for all those people. So the Paramount -- the Pluto model fundamentally works for the consumer because it's free, people like free, and it has a high-quality offering.

It's broad, back to our thesis. It has all kinds of content on it, movies, series of all different genres, news. The sports stuff is mostly library, although we have some current sports as well. And that, in turn, is driving tremendous revenue growth and really continuing to set an incredible global expansion opportunity.

So we are thrilled with Pluto. Again, it crossed $1 billion in 2021. It's got a lot of runway ahead of it because on the monetization side, what you need to understand is it's got a 5-part multiplicative model. What I mean by that, 2 parts consumer, how many MAUs do you have, and again, we added 10 million MAUs in the fourth quarter. And then how much time are they spending, engagement, that combination is what creates your inventory. And that's growing very quickly.

Then you got the monetization side. That is a combination of sellout, how much of that inventory you created are you actually selling, and then price, both in the form of pure CPM and again, getting into data and other ad tech as another pricing lever.

When you look across those 5, MAUs continue to grow. Realistically, the MAU growth is going to be more outside the United States, significantly more than inside the United States at this point, although a material chunk of that 10 million were U.S. MAUs in the fourth quarter in terms of growth. Engagement continues to grow double-digits as people get more habitual with Pluto and they find all its richness. So that combination of supply, if you will, will continue to grow.

On the sellout perspective, when we bought Pluto, it was under 50% sold. It is now more than that, but it is far from sold out because we've been creating so much inventory that we haven't had to push sellout super hard. And now, we're actually doing some stuff on the ad insertion side to make it more dynamic, including how shows end. And so that will continue -- that gives us another kind of lever there.

And on price, we are -- believe it or not, we are value-priced in connected TV. We are far from the price leader. We like that because it gives us a good opportunity to take share now, and we are by far the largest FAST player today in the ad business, but also give us an opportunity to move price up over the future.

So we're thrilled with Pluto. We -- people are starting to understand that it is an incredibly powerful asset and by the way, a great promotional platform to drive subs to Paramount+, and it's got an exciting runway ahead of it.

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

And Bob, is Pluto going to be -- going to do anything different with the upfront coming up here in the next few months in terms of bringing Pluto into the pitch to advertisers?

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

100%. So one of the things I said up-top is on the commercial side, we have a single ad sales team in the United States. That team is very much a convergent team. So one of the advantages we have is this combined portfolio of linear inventory, which is extremely precious given what's going on in the ecosystem, and therefore, you have a continued ability to price that aggressively, aggressively as in high. And then we have the biggest FAST service. So when you put those together, you have an ability to really provide an even better solution to an advertiser, give them more reach.

But importantly, we now have a single ad service solution across all our digital inventory, and it ties into our television product. And what that gives us an ability to do is manage frequency. One of the biggest problems an advertiser has when they go buy individual digital platforms is they get too much frequency, and they don't like that because that's considered waste. But by running an integrated offering at scale, the #1 television network plus the #1 FAST service, we can really manage reach and frequency then in a compelling way.

So we will, for sure, be doing that in the market. But it wouldn't matter if we didn't have a killer content lineup, which we will also be showcasing in our upcoming upfront. And by the way, just like we're all here together again, we're going to do our upfront presentation in person in Carnegie Hall during upfront week, not that the virtual one didn't work and actually increased the reach of the presentation, it did, but it will be good to be back in person with folks again.

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

Absolutely. And just quickly, Bob, you mentioned Pluto as potentially a channel for driving subscription growth. Is that something that you're seeing yet? Or is that something you guys think you can start leveraging over the course of this year?

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

So today, Pluto is, for sure, a promotional platform for both Paramount+ and Showtime OTT. That includes the fact that we have a Paramount+ Picks channel on Pluto, where we put the first episode of our exclusive series. So maybe the first episode of 1883, as an example, not maybe we did that, Star Trek: Picard, whatever. And we do get some subscriber acquisition there. We do the same thing for Showtime, with things like Yellowjackets or upcoming First Ladies or Super Pumped. So it is a good promotional platform, but at the moment, it's mostly a promotional platform.

However, one of the elements of our strategy is we are going to be doing more integration over time. We are not going to integrate the brands because I think that will be a fundamental mistake. For Pluto, we shout to the world's consumers that it's the best free offering. I don't want to turn around and tell someone, all of a sudden, they have to pay for it. So we believe that distinctiveness of brand, Paramount+ versus Pluto, is the right way to go. However, that -- what you're going to see this summer inside of Paramount+ in the United States is essentially the option of adding Showtime in, not as a separate app, but as another brand inside of Paramount+.

We think that's interesting for consumers that want more content. It will be pretty attractively priced, and that will set the stage for other integration, including with things like BET. At the same time, we are going to have strategies over time, which bring, in the background, Pluto and our pay services closer together. In the foreground, the consumer is still going to see Pluto, but we believe there's opportunities to create value through the combination of these services, and we will be doing that again over time.

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

And Bob, you mentioned Showtime as I wanted to turn to that next, in the market for scripted has been super competitive for a long time. That's not slowing down. How has the business been performing? I know you've had some really strong shows of late. And what's the role Showtime plays, particularly internationally, as you look to expand the whole company overseas?

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

Yes. So Showtime had a great year in 2021. That was fundamentally a combination of the fact that it has a distinct brand positioning in the market. It's kind of more coastal, edgy versus, say, a Paramount+. But at the end of the day, it had great shows. And it's great returning shows, Billions as an sample, and great new shows, Yellowjackets as an example.

So it had a very strong 2021, nice over-the-top subscriber growth in streaming and really, as I look forward into '22, a great content lineup, which should continue that momentum. So we like that. That's a U.S. story outside the United States. Showtime doesn't have broad brand awareness. We don't believe it makes sense to invest in that. Instead, what we're doing is taking all that content and putting it into Paramount+. In the fourth quarter of '21, what we saw is shows like Yellowjackets and Dexter: New Blood, which, by the way, was the biggest premium show in the United States in 2021, were very effective subscriber acquisition vehicles for Paramount+ and also additive to engagement.

So we really have a duality of Showtime strategy, which I think is the highest and best use of the asset, taking advantage of brand positioning and strength to continue to build it as a branded offering in the U.S. and just taking that compelling content library and not worrying about brand and just focusing on a single brand, which is Paramount+ outside the United States.

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

And Bob, let's talk a little bit about the film studio and the movie business. How important are movies to your streaming plans? Do consumers value movies and are they consuming films on the service in a serious way?

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

Look, people love movies in general. They have long liked them -- loved them on premium television, Showtime or for that matter, HBO, and they definitely love them on streaming. One of the real advantages this company has, this company that we now call Paramount, is the Paramount

Pictures studio. That has an incredible library that's 110 years old, multiple Academy Award-winning films, et cetera, combined with ongoing production.

And what we see is that -- fresh films, if you will, and then we've done some day-and-date, things like PAW Patrol, 45-day fast-follow, which, again, I think is the best model, things like A Quiet Place Part II; today, Scream; later in the month, Jackass. Those bring people in, no question about it. But people consume the library.

And you look at where now -- I was, 2 weeks ago, in L.A. for the 50th anniversary of The Godfather release. We are -- we have all The Godfather films on Paramount+. And in April, we're launching a limited series called The Offer, which is the back story of The Godfather. Again, you couldn't do that if you didn't own Paramount arguably, but it shows why movies are integral to our streaming strategy.

And by the way, Paramount is the name on the door of the streaming product. And from what we've seen, both new movies and library have been tremendously valuable. And I expect they will continue to be, so much so that Paramount+ will be the home for all our pay 1 movies. At the expiration of the EPIX deal right now, we get them, but we get them a little bit later. We'll have total control of it. And we think that's pretty important. And it raises another point that I probably should have made earlier. I know people are worried about investment levels. I understand that.

Again, we're seeing the ROI. We feel good about it based on the performance to date. But the other thing I would tell you is what are we investing in, content, new series, which we have a good track record on, and repatriating highly valuable product that's out there, to get it back under our control, South Park, Paramount pay 1, et cetera. What that does, we believe, is fuel our organic streaming strategy, drive subscriber growth, revenue growth, ultimately, TV Media-like margins.

But it also increases optionality because when I look at a company to buy, and we've done a bunch of smaller deals, particularly in Latin America, and you can -- rest assured, we look at all the deals. The single most important thing is if you buy the company, can you use the content. And the answer typically is no, not for a while. Our investment strategy is increasing optionality because we're gaining more and more control over high-quality content. Again, we're deploying that against our O&O organic strategy, but it actually gives us more optionality, and that's sort of a fact that was missed in some of the post-investor call narrative.

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

Now that's helpful. And actually, I was going to ask you because one of the ways you historically have monetized that IP is through licensing, which is I think about a $6 billion business last year. So do we think about that as an offset maybe to bring some of the content back on platform in-house, that, that is a revenue stream that either will be flat or maybe decline over time? How should we think about that?

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

Yes. So I would say a couple of things. First of all, what we call licensing is actually a whole bunch of businesses. So it includes things like TV syndication in the United States, which is not typically what people think of. It includes our consumer products business, which, again, is a different business, things like PAW Patrol plushes and towels or whatever, includes our recreation business, which is our licensing of IP into theme parks. And yes, it includes licensing content to other people, including international broadcasters, which, again, we don't see as cannibalistic.

And then the last category is, yes, we have licensed product to streamers. So on that, I would make a couple of points. One is we have contracts for originals that are life of series that we're going to continue to fulfill, things like Jack Ryan on Amazon. And we make a little money on it, fine. But on a going-forward basis, for our -- particularly for our franchises, we're pointing those at our in-house assets. So you shouldn't expect to see lots of deals like that in the future. But at the same time, there's value to licensing content.

When we tend to license now, we'll license nonexclusive couple seasons, early seasons. And we do that because it doesn't really affect our ability to acquire subscribers with those series with the current season. And in fact, it's a good franchise builder and promotional vehicle. So we're not going to exit the content licensing business. Again, there's parts of it that have nothing to do with streaming. And the other part is there is strategic value to building franchises and monetization that we can have.

The last thing I would say, and this was a key bridge we crossed about a year ago, is -- and it goes to your question of, is there going to be a decline here. When we went from exclusive to nonexclusive, it would be reasonable to expect you would take a big haircut in price or revenue. The fact of the matter is we didn't, and we didn't because there's such strong demand, particularly for library product because again, think about if you had to program a streaming service with just original production. There's a big guy that's kind of doing that, and it's very, very, very expensive. It's not economic. You need a library.

So by saying you can no longer license this exclusively, you can have it nonexclusively and we're certainly keeping it for ourselves, we actually held price and we didn't take a revenue hit, which is just reflective of demand. So again, we feel good about where we are in content licensing, definitely a strategic evolution of the business, but it is a business that we'll stay in.

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

And then, Bob, I wanted to ask you about sports. Sports is a business that I think the market is still trying to figure out how streaming -- how will sports pivot to streaming, can it be done profitably. You guys have actually been streaming the NFL for many years, going back to the old All Access days. But what's the thought process for you, both in the U.S. and globally, in moving sports over to streaming? And should we expect you guys to be doing more and more of that over time?

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

So we think sports is a valuable piece of the streaming equation. To be clear, it is only a piece. We're not interested in going out and trying to create ESPN Plus or anything like that. We like having a component of sports inside of Paramount+. For sure, the cornerstone of that is the NFL. That continues to be a powerful subscriber acquisition vehicle and engagement vehicle. It's also a great launchpad for scripted. It's part of the reason why we launched 1883 on Sunday, to again try to get that NFL audience to sample.

We also obviously are in the UEFA business, European football. That continues to work for us. We do get some product through -- some additional product through CBS, like the NCAA right now. That's a nice product that we have, that also, of course, is on CBS linear. So I like sports as part of the strategy. I like where we are in sort of weighting and mix.

We are adding some sports outside the United States, to try to get some of the benefit we see inside the United States. So we have like Australian football in Australia, where, by the way, we benefit from having a broadcast network there, too. We just did EPL for part of Latin America. But it's only a piece of the strategy because ultimately, what you got to do to get an ROI, is you got to get them to consume other products once they come in for sports. And that's something we're very focused on and have had good success to date.

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

Great. I wanted to ask you about the ad market and advertising in general at the company. As we said, we're coming here on the last 5 minutes or so. Could you update us on the broader environment across your footprint? Obviously, the world is getting a little more -- or a lot more volatile in the last few weeks. But anything you could tell us about the advertising environment as you see it today, as you get ready for the upfront? And then maybe spend a minute on the ad -- advanced advertising platform you've built and what that means for the growth outlook for advertising longer-term.

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

Yes, sure. I would start by saying we continue to see the ad market as we described it in our investor event. So we see Q1 as comparable to Q4, excluding the Super Bowl. Of course, we had the Super Bowl last Q1. We don't have it this Q1, so we got to adjust for that. The only update I would say to that is that given what's going on in the world, the news business, ad business has softened a bit. Now that's unfortunate. But for us, we don't have a 24-hour news network. It's not a material part of the business.

At the same time, and I was with a couple of agency CEOs this weekend, we continue to feel very good about this coming upfront. Our differentiation in having linear plus streaming, which is the streaming stuff we sell under the iQ umbrella, that combines Pluto, Paramount+ essentials and some other full-motion -- full-episode video. Combined with our essentially branded programming and in-house ad agency for custom events and things like that, we're very well-positioned in the market.

And the agencies are starting to say they want to do business early vis-a-vis the upfront, which I was Chief Operating Officer for ad sales some years ago, and whenever you heard that, that was code for, they think the market is going to strengthen. So we feel very good about both our ability to lead, including with our advanced ad product and how the market is shaping up from a tone perspective. I guess we have to see where this Ukraine thing ultimately goes. But to date, the market looks like it's going to be very strong.

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

Got it. And just to make sure I understand your news point, that's not a demand issue, that's more brands don't want to be associated with this?

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

People don't want to run a news -- a national news covering the war right now. It doesn't really affect local news because that's not what local news is, which is good because we've got a big local news business, but this is really more national.

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

Understood. Well, listen, we covered a ton over the last 50-plus minutes or so. I wanted to maybe let you end talking about free cash flow. The market clearly is anxious about that. Free cash flow is coming in for a period of time as you guys make all these big investments we've been talking about for the last hour or so. How do you think about driving long-term free cash flow for the company, your balance sheet and really optimizing it all for shareholder value?

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

Yes. Well, a couple of things, maybe in reverse order. So our balance sheet is in phenomenal shape. When we did the ViacomCBS deal, one of the things we said is we would divest noncore assets. We moved very quickly on that, and we're now sitting on, I think, it's $6.3 billion of cash on our balance sheet. By the way, we also did an equity raise, which added another $2.7 billion to our balance sheet. So our balance sheet is in phenomenal shape. We did that because we knew there was a tremendous opportunity for our company to be a leader in streaming and capture a meaningful share of that very large and growing TAM.

So we always intended to get that capital and put it to work. And that's exactly what we're doing in the short term because it is money that we're spending on programming. It ultimately -- even though we're taking money off the balance sheet by selling, say, Black Rock and investing it in content, it effectively declines our free cash flow and declines earnings. So be it. But we're doing that because, again, we see a very compelling opportunity. And more important, we have evidence that we're right and that we're able to unlock it.

As I said, we are investing more in 2022 than we did in 2021, and there will be some incremental investment in '23. That will be peak investment, and then it will grow -- it will moderate from there. And ultimately, the company will return to growth. So that's how we think about it. Again, I feel very good about the trajectory that we're on, both with respect to things like the balance sheet and more importantly, or equally importantly, the overall performance of the company.

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

Great. Well, Bob, I enjoyed the conversation. We covered a lot. Thank you so much for being here, and please come back again next year.

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

Thanks for having me.

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

In real life.

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

Definitely in real life.
