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VIAC.OQ - Q1 2021 ViacomCBS Inc Earnings Call

EVENT DATE/TIME: MAY 06, 2021 / 12:30PM GMT

OVERVIEW:

Co. reported 1Q21 total revenue of \$7.4b and diluted EPS of \$1.52.

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PRESENTATION

Operator

Good day, everyone, and welcome to the Viacom Conference Call. Today's call is being recorded. At this time, I'd like to turn the call over to Executive Vice President of Investor Relations, Mr. Anthony DiClemente. Please go ahead, sir.

Anthony Joseph DiClemente - ViacomCBS Inc. - EVP of IR

Good morning, everyone, and thank you for taking the time to join us for our First Quarter 2021 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. We also have a slide presentation for you to follow along with our remarks. I want to refer you to the second slide in that presentation and 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 contain supplemental information and in each case, can be found in the Investor Relations section of our website.

Now I will turn the call over to Bob.

Robert Marc Bakish - ViacomCBS Inc. - President, CEO & Director

Thanks, Anthony. Good morning, everyone, and thank you for joining us. It's been about 10 weeks since we laid out our streaming strategy and goals at our investor event. Since then, we successfully launched Paramount+ in March, and I'm thrilled with where we are in streaming and overall.

On today's call, I'll cover 3 topics: first, ViacomCBS' strong Q1, a quarter with clear operating strength and sequential improvement in key financial metrics; second, the company's momentum in streaming, momentum, which is clearly visible in the metrics across fee, pay and premium and momentum, which gives us even more confidence in our strategy; and third, our path forward, an overview of the content we have coming and

our plan to build on the early success of Paramount+ by leaning in even more. Then I'll hand it over to Naveen to provide additional financial and operational detail before opening it up to take your questions.

I'll start with Q1 2021 results. What I'm pleased to say, we achieved another quarter of year-over-year growth in revenue, adjusted OIBDA and adjusted EPS, further demonstrating the strength of ViacomCBS and a related recovery from COVID impact on the business. It all starts with the power of our content and its enduring popularity with audiences.

In Q1, ViacomCBS had the #1 share of viewing in the U.S. across key demos. As part of that, CBS currently ranks #1 among all broadcasters and will finish the 2020-2021 season as America's most watched network in primetime for the 13th straight season. We also own the most top 30 cable networks among persons 2+ and persons 18-49 in the quarter, and Showtime had the top 2 scripted shows on premium cable. In social, ViacomCBS was the #1 company on broadcast, cable, radio and film properties in global social views. And as you'll hear momentarily, streaming consumption is on a powerful growth trajectory. That performance translated into total revenues of \$7.4 billion, a 14% increase year-over-year, driven by strength across key revenue types, including advertising, affiliate and streaming.

In advertising, which now excludes streaming, revenue grew 21%. The big picture here is that underlying advertising demand is strong and trending in a positive direction as the reopening of the economy gains momentum. And of course, we clearly benefited from our broadcast of the Super Bowl and NCAA tournament games.

In affiliate, which now also excludes streaming, we're seeing the power of the combined company manifest itself as revenue grew 5%, benefiting from successful renewal activity, incremental carriage and price increases. And since our last call, 14 ViacomCBS Cable Networks, including Comedy Central, MTV, Nickelodeon and BET went live on Hulu's vMVPD platform. We also completed a new distribution deal with Frontier, further demonstrating our valuable partnerships and must-have content. And we've seen robust growth in global streaming revenue, which is up 65% year-over-year. I'll dig into this momentarily. On top of that, we have substantially strengthened our financial position, benefiting from the \$1.7 billion of adjusted free cash flow we generated in the quarter and fortified by the \$2.7 billion of capital we raised from our equity offering in March.

Now I'd like to spend some time on our strategy and execution in streaming. Starting with free, where Pluto TV is the largest free ad-supported streaming service across all metrics: monthly active users, total viewing hours and revenue, this based on all publicly disclosed information. Clearly, the top of funnel continues to be robust, particularly as Pluto TV added 6 million MAUs in the quarter, bringing the total global monthly active users to nearly 50 million, reflecting continued domestic growth and international expansion. And that use of growth is translating into strong advertising performance. Across all our streaming advertising businesses, we saw a 62% surge in year-over-year growth in streaming advertising revenue, reaching \$428 million in the first quarter. That growth was led by Pluto TV, where revenue more than doubled year-over-year. High-value connected TV usage accounts for the overwhelming majority of Pluto TV consumption, with domestic monthly watch time per user increasing 28% year-on-year, making it a very desirable advertising platform for our clients.

To build on this growth, Pluto TV continues to substantially scale its content offerings. During the quarter, Pluto TV launched 19 new channels, including Major League Baseball, Smithsonian, and Paramount+ picks. All in, Pluto TV now has over 150,000 hours of content from 250 active U.S. partners. And this week, we launched Pluto TV on Español, a both new update and expansion, essentially doubling Pluto TV's U.S. Hispanic offering to nearly 50 channels and 20,000 hours of content. This, alongside the existing English offering, makes it ideal for bilingual audiences as well. Internationally, we also continue our expansion of Pluto TV. During the quarter, we launched in France and are now in 25 markets spanning Latin America, including Brazil, the U.K., Germany and Spain. Bottom line, Pluto TV has seen robust global growth in usage, monetization and sell-through, benefiting from a strong set of underlying drivers and overdelivering across all metrics.

In premium streaming, Showtime OTT had its strongest quarter ever, delivering another record-setting quarter in sign-ups while generating unprecedented viewership. In fact, it was the best quarter ever for streams and hours watched on the service. Viewers were highly engaged, driven by hits like Shameless and Your Honor. And looking forward, the content lineup for Showtime over the next year looks really strong. And then there's Paramount+. As I said at our Investor Day, Paramount+ comes to the streaming space with real competitive advantages and with a strategy that's unique to the marketplace. As a result of the strong launch of Paramount+ on March 4 and the continued momentum in our other streaming services, we added 6 million new global streaming subscribers in the quarter, bringing our total global streaming subscribers to 36 million.

Needless to say, we're thrilled with these early results. We're clearly seeing the benefit of putting the full power of ViacomCBS behind Paramount+. The service benefited from a dramatically expanded and diversified content slate communicated through a robust multi-platform marketing campaign. March was our biggest month ever for sign-ups. And consumption was strong, with watch time per active subscriber up 17% year-over-year. The broadening of this service is clearly working. In fact, almost half of subscriber engagement came from originals as well as content from Paramount and our Cable Networks. And our diversified content mix, including kids content, content from MTV and sports like soccer, reduced the average age of new subscribers by 6 years in the quarter.

Looking ahead, we're excited about the ad-supported Paramount+ \$4.99 tier, which will be coming in early June. Paramount+ joins Pluto TV's premium digital inventory and anchors of our ViacomCBS IT advertising offering, providing us with another powerful tool to showcase the full advertising power of ViacomCBS and our ability to satisfy the growing demand among advertisers in the category. Internationally, we launched Paramount+ in Latin America, Nordics and Canada. And these markets are also showing strong initial performance when it comes to both subscriber and engagement trends. And as part of the international rollout, we're expanding our distribution and awareness of Paramount+ by signing creative partnerships with leading MVPDs and e-commerce platform.

For example, in April, Paramount+ launched on Megacable, one of the largest cable operators in Mexico. Also in April, Paramount+ partnered with Mercado Libre, the largest e-commerce ecosystem in Latin America with recent launches in Brazil and Mexico. Another international transaction I want to highlight is our agreement to acquire Chilevisión, the leading broadcast network in Chile. This deal will strengthen and expand our presence in the Southern cone of Latin America and help accelerate our streaming strategy in the region by expanding our already substantial Spanish language library and production capabilities. Together with Telefe in the South cone, Chilevisión will contribute to ViacomCBS International Studios, becoming one of the largest content creators of Spanish language globally. And it's a great promotional asset for our streaming product offerings as well.

Stepping back from this, it's clear our unique strategy across free, premium and paid is working, which is why we're leaning in even more. As you know, we completed a \$2.7 billion capital raise in March. Naveen will speak about this in greater detail in a few minutes. But know that we did this transaction because we saw an attractive opportunity to raise capital to further incremental content and other investments to further drive our streaming ambition. And we've already begun to move on a few early opportunities in this regard. I want to finish by speaking a bit more of what's to come, particularly from a content perspective. In February, we laid out a content strategy for Paramount+, a strategy focused on key pillars that differentiate the service in the market: sports, news, kids, unscripted reality, scripted and movies. And since launch, that content has already started to scale and show real momentum.

There's no question that live sports and breaking news clearly differentiates Paramount+.

And Q1 saw a series of important events in this lane, including the Super Bowl, UEFA, the NCAA Men's Tournament, the PGA Tour and Oprah's Interview Special with Meghan and Harry. These events were key engagement and sign-up drivers. And looking forward, we're excited about our expanded soccer slate, the return of the NFL, College Football and more.

Speaking of football. As you know, in March, we extended our partnership with the NFL for another decade. This is a partnership we're thrilled about, and streaming rights are a critical component of that deal. Among other things, Paramount+ will have the flexibility to distribute NFL game on both the premium tier at \$9.99 and a new \$4.99 ad-supported tier. And as we announced in February, Inside The NFL will be exclusively available on Paramount+ starting this fall. And we're continuing to build critical mass in soccer. CBS Sports and Paramount+ recently acquired exclusive U.S. rights to Serie A, the premier Italian soccer league. It's another major step in us becoming the #1 destination for soccer fans with an unbeatable portfolio of now over 1,400 soccer matches each year, with teams including Juventus, Real Madrid and Chelsea. This, on top of all the other marquee CBS sporting events we deliver.

Moving to kids. Thanks to our Nickelodeon brand and massive library with renowned characters and global franchises, subscribers are discovering new content or rewatching some of their favorite shows. Since the Paramount+ launch, we've seen robust audience engagement with kids and family content. Nickelodeon originals like The SpongeBob Movie: Sponge on the Run, Camp Coral as well as library content like Paw Patrol, were some of the strong performers in the quarter, driving sign-ups and engagement. And we're excited for the upcoming launches of Rugrats in May and iCarly in June, new versions of 2 iconic Nick franchises that have fans buzzing in social.

In unscripted and reality, the fastest-growing genre in streaming, we saw solid early momentum. Exclusive original shows like MTV's *The Challenge*, *All Stars* and *Real World Homecoming*, plus library shows like *Ink Master*, all had very strong engagement. And we continue to ramp up reality series on the platform, including new exclusive originals starting with *Cradle to the Stage* starring Dave Grohl later this month; a new RuPaul in June; and later in the year, the return of *Behind the Music*.

And in scripted. Originals like *The Stand*, *Younger* and *Star Trek: Discovery* are performing extraordinarily well. By the end of the year, you'll start to see a substantially scaled volume of new exclusive originals, including new drama series like the first *Yellowstone* spinoff, *Y: 1883*; female-led dramas like *Why Women Kill* and *The Good Fight*; comedies such as *Inside Amy Schumer*, *Trevor Noah Weekly* and *The Game*; and original franchises like *Star Trek: Prodigy* and the fourth season of *Star Trek: Discovery*. In addition, we're expanding our global Paramount+ pipeline. As a first step in this endeavor, we're adding a number of originals produced by Viacom International Studios. This will start as soon as this summer with scripted content produced in Latin America and factual content produced out of the U.K.

Finally, turning to movies, where we are poised to dramatically enhance the scale of our offerings. In fact, we will shortly kick off a mountain of movies marketing campaign, where we will highlight the thousands of new movies we're adding to Paramount+, including blockbuster hits and exclusive originals. We start by greatly expanding the depth of the film library on the service. 1,000 additional movies are going live in early June with additional titles following through July, bringing the total to over 2,500. Hits like *The Avengers* and *Skyfall* will be available on the service soon as well as a bunch of great Paramount films like *Mission: Impossible - Ghost Protocol*, *Rocketman*, *Sonic The Hedgehog* and more.

And I'm thrilled to announce that *Infinite*, a sci-fi thriller starring Mark Walberg, will premiere exclusively on Paramount+ in June. That will be followed by the streaming premier of *A Quiet Place Part 2*, after its 45-day theatrical run, and we will follow that with the *Paw Patrol Movie*, a treat for families eagerly awaiting a feature-length version of the most popular preschool characters in the world. In addition, new original movies like *Paranormal Activity* and *In Between* will premiere on Paramount+ by the end of '21. And all of this is a preview to a substantial ramping up of original movies next year, where we expect to begin averaging an original movie a week in 2022. We'll have more on this in the months ahead.

And finally, we're moving to accelerate Paramount+'s global expansion. We have already established ourselves in Canada, the Nordics and all of Latin America, including Brazil. Next up is Australia on August 11, a launch that will include Paramount movies, Showtime and Paramount+ originals, in addition to a cross-section of product from our cable brands and Network 10.

By the end of 2021, we'll have launched subscription streaming services led by Paramount+ in 25 markets. And now we plan to almost double that by the end of 2022 when our global streaming footprint will reach 45 markets, all in less than 2 years. Net-net, we're thrilled with the performance of Paramount+ thus far. Our strategy is working. We're investing in content with a disciplined approach. We have a lot in the pipeline, and we look forward to what's to come.

Now I'll turn it over to Naveen to cover the quarter's financial performance in greater detail. Naveen?

Naveen Chopra - *ViacomCBS Inc. - Executive VP & CFO*

Thank you, Bob, and good morning, everyone. As Bob mentioned, we had very strong financial results in the first quarter of 2021 across revenue, adjusted OIBDA, adjusted EPS and adjusted free cash flow. Our results reflect robust growth in streaming, where we saw record subscriber additions and revenue growth of 65% as well as solid performance in our linear business.

Our first quarter streaming results are evidence of the early positive response we have seen from the launch of Paramount+ and continued momentum in Pluto TV and Showtime OTT. We added 6 million global streaming subscribers in Q1, marking a record quarter of subscriber growth and taking us to 36 million global streaming subscribers as of quarter end. The significant majority of new subscribers were from Paramount+. And of those, the significant majority were domestic customers. The combination of subscriber growth and increased engagement helped streaming subscription revenue grow 69% to \$388 million. These results include the impact of subscribers whose free trials extended beyond quarter end and international subscriber growth, where ARPU's are generally lower relative to domestic subscriptions.

Turning to streaming advertising. The largest driver of growth came from Pluto TV, where we added 6.4 million global Pluto TV MAUs in Q1 and now reached nearly 50 million MAUs globally. Pluto TV engagement also continues to improve. Average monthly watch time per domestic user increased 28% year-on-year in the first quarter. The increased engagement, combined with domestic sell-through rates that were up 600 basis points, drove significant improvements in Pluto's domestic ARPU.

The evolution of Pluto's domestic business also gives us confidence that a similar pattern of international monetization growth can be unlocked as we scale globally. Overall, Pluto TV revenue more than doubled in Q1 on a year-over-year basis for the third consecutive quarter.

The strong advertising performance from Pluto TV and our other brand-specific streaming sites and apps, all of which are critical drivers of our IQ digital ad platform, drove a 62% increase in streaming advertising revenue to \$428 million. Advertising revenue, which excludes streaming, grew 21% in the quarter to \$2.7 billion, driven by the success of Super Bowl LV and the return of the NCAA Men's Basketball Tournament, neither of which aired on CBS in the prior year period. Advertising demand continues to improve with strong scatter pricing relative to the upfront and last year's scatter market. Affiliate revenue, which also excludes streaming, grew 5% in Q1 to \$2.1 billion. We continue to benefit from distribution renewals signed in 2020 that included incremental carriage and improved economics as well as contractual rate increases, which more than offset the decline in the number of pay TV subscribers.

Licensing and other revenue grew 11% to \$1.8 billion. Keep in mind that licensing revenue is reported on a consolidated basis after the elimination of significant intercompany licensing transactions related to content on Paramount+. Theatrical revenue was insignificant in Q1 as we had no releases in the quarter. We are looking forward to our first theatrical release in over a year with *A Quiet Place 2*, which debuts in theaters on May 28.

Total revenue was \$7.4 billion, up 14% year-over-year, leading to adjusted OIBDA of \$1.6 billion, up 31% year-over-year. And diluted EPS was \$1.52, up 36% year-over-year. The growth in adjusted OIBDA benefited from our strong revenue growth, partially offset by costs associated with our investment in Paramount+. Q1 adjusted free cash flow was \$1.7 billion, benefiting from OIBDA growth and the timing of cash production spend and favorable collections, among other factors.

Moving to the balance sheet. During Q1, we redeemed \$2 billion of debt and raised \$2.7 billion of cash from the sale of equity and mandatory convertible preferred securities. In combination with our strong free cash flow generation, these transactions resulted in \$5.5 billion of cash on hand and total debt of \$17.8 billion at quarter end. This translates to a 2.2x net leverage ratio as of March 31.

I'd now like to share some insights regarding the second quarter. We expect continued robust growth in streaming revenue with the Q2 growth rates for total streaming revenue, streaming advertising revenue and streaming subscription revenue, all accelerating versus the Q1 growth rates. Streaming subscription revenue, in particular, will benefit from Paramount+ subscribers who began free trials in Q1 but only start generating revenue in Q2.

We expect another quarter of strong double-digit advertising growth as demand continues to improve and scatter pricing remains at all-time highs. We will also benefit from the NCAA Final 4 and championship games, which didn't occur in the prior year period.

Turning to affiliate revenue. We expect to see modest acceleration in the year-over-year growth in Q2 relative to Q1 as we continue to benefit from several new distribution deals signed in 2020 and early 2021, which include increased pricing and expanded distribution. For content licensing, we expect revenue to decline year-on-year because Q2 2020 included significant revenue and OIBDA from the licensing of *South Park*. In regard to Q2 adjusted free cash flow, we expect some reversal of the working capital tailwinds, which benefited Q1 largely driven by the timing of production spend and continued investment in Paramount+.

Looking further out, our enthusiasm for the potential of streaming continues to grow. The streaming market is global. It is growing fast, and we are well-positioned to take share. Streaming presents a compelling market opportunity for 2 key reasons: one, unit upside, where streaming allows for a greater addressable base of viewers than linear; and two, ARPU upside because streaming ARPUs have a more compelling long-term trajectory than linear.

The unit upside is especially true internationally, where streaming allows us to reach beyond the pay TV universe, which has limited penetration in many international markets. And when it comes to ARPU upside, we think that over time, the per subscriber economics of streaming can be accretive to linear when considering the combination of advertising and subscription revenue captured by our ecosystem of free, pay and premium streaming services. We see opportunity to drive Paramount+ subscription ARPU higher as distribution channels and subscriber mix evolve and as we expand our content offering to deliver greater and greater value to customers.

And we see even more growth potential in advertising ARPU, where both Paramount+ and Pluto TV will benefit from increased engagement, improved targeting, dynamic ad loads and sell-through optimization. I would also note that in most instances outside the United States, streaming economics are already accretive as international linear ARPU is materially lower than streaming ARPU today.

This attractive market opportunity is one of the primary reasons we decided to raise capital in March. We intend to use the additional investment firepower to take our streaming efforts to the next level, building on the consistent momentum we have demonstrated over the past few quarters and leaning even more aggressively into streaming. You will see us deploy new capital in 4 major areas: first, we intend to fund development of more original series and movies exclusively for streaming; second, we will pursue incremental streaming sports rights; third, we will look to accelerate international launches and market expansion; and fourth, we plan to further reduce the amount of content we license to third-party streamers, instead, preserving more of these assets for our in-house streaming services.

We're moving quickly to start deploying this capital. In fact, Bob shared some of our early investment initiatives, including the addition of Serie A football, a Paramount+ exclusive release of the movie, Infinite, and the acceleration of our international deployment plan. Nonetheless, the bulk of our investments will occur in 2022 and beyond. In the months ahead, we'll have more to share on these additional investment plans as we aim to capture an even greater share of a growing long-term market opportunity.

With that, we can now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Michael Morris with Guggenheim.

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

A couple of questions on the streaming business. First one on Paramount+. Appreciate all the detail on sign-ups and engagement. There's a lot in there. Hoping to dig a little bit more on trend. I know we're only a couple of months into Paramount+, but we do have some good historic data on -- with All Access. So I'm curious if you can talk about how engagement churn has sort of trended with the new product availability, the expanded product. And if anything, on the content side in particular, has maybe surprised you compared to what you were anticipating and how that might inform some of those investment decisions going forward?

And then also on Pluto, I think ad revenue growth is outpacing that sort of combination of usage and per engagement growth, engagement per user growth. Is that accurate? There's a couple of moving parts in there. And can you kind of provide any context for what the upside is for Pluto maybe compared to how you monetize your linear audiences?

Robert Marc Bakish - *ViacomCBS Inc. - President, CEO & Director*

Sure. Yes. Thanks, Mike. Nice midi 2-parter to open here. So in terms of your first question, we are super excited about what we're seeing with Paramount+. And I'd say, I'd start with the overwhelming learning from what we've seen is that our content strategy is working. There's no question that consumers are embracing a service, spanning live sports, breaking news and a mountain of entertainment. We can see that in the sub numbers. As we mentioned, we added 6 million pay subs in the quarter globally, but the overwhelming piece of that was from Paramount+ domestic. And importantly, that includes adding younger subs with an average age of new subs down 6 years.

Second point is Paramount+ is showing great lines in terms of engagement. In fact, the percent of our daily subs, which are active -- actually, the percent of our total subs, I should say, which are active on a daily basis is up sequentially and up year-over-year. And we see strong double-digit growth in hours per active user. In fact, that's up about 17% in March versus the prior year. When you look under that in terms of content, which is obviously the key driver, we continue to see the power of what worked before. That includes sports, where we obviously benefited from the Super Bowl, the NCAA, golf and UEFA, as we said. It includes originals, including The Stand, Star Trek and others. It includes CBS content. Live content is strong as our shows like NCIS and Hawaii Five-0.

But the real news is it's now broader. Nickelodeon, in particular, is turning into a powerful driver of subs and engagement, probably more quickly than we would have thought. It's a clear sub driver since the relaunch, and it now accounts for a strong double-digit share of streams. And that's really because of the combination of compelling exclusive originals. Of course, The SpongeBob Movie: Sponge on the Run and the new Camp Coral series, combined with a big known library. That's a recipe that clearly works. I think it's also worth noting that the SpongeBob franchise in totality quickly moved to the top of the rankers at Paramount+.

And probably what's most important here is this is an example of us replicating our strength in a legacy linear position here in kids in streaming. And we've also seen early positives from unscripted and reality as well as movies. So early days for Paramount+, but we very much like what we see in terms of consumer reaction to the product. And as you know, based on that, we're leaning in even more. Moving to the second part of your question on Pluto. As you heard today, Pluto TV continues to be an incredible growth engine for this company. And when you -- when we looked at it, we see 4 really powerful underlying growth drivers for Pluto TV, all of which are delivering now and all of which have a lot of room to run. It starts with MAUs, as you heard now under just 50 million globally, that's up about 90%, slightly a hair more year-over-year. And we have substantial momentum and opportunity ahead.

It then moves to engagement, where we see time -- you mentioned it. Time spent per user continues to increase. And this is particularly as users gain familiarity with the product and as the volume of quality content continues to increase, now about over 150,000 hours in the U.S. We also look at sell-out. That was actually up about 600 basis points year-to-year, but we're nowhere near 100%. And so we do have substantial room to run.

And equally importantly, if you look at ad load on Pluto TV versus linear, the Pluto TV ad load is substantially below that of linear. And then there's pricing. We see advertisers with significant demand for -- in particular, connected TV inventory. And that, in turn, is supporting a great pricing dynamic.

We haven't actually pushed pricing on Pluto TV in the last 2 years. So it's really one of the most efficiently priced products on the marketplace, and that gives us a really great pricing lane going forward when we choose to pull that lever.

Last thing I'd say is Pluto TV revenue now more than doubled for the third sequential quarter in a row. Overwhelming driver of that is volume, and that's a combination of MAUs and time spent. Again, we haven't pushed the price lever, and we haven't pushed sell-out much. And that's part of our overall streaming growth story. It's the biggest part, and it's what helped push us to 62%. So net-net, we're in a great situation here on so many levels.

Operator

Our next question comes from the line of Brett Feldman with Goldman Sachs.

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

Two if you don't mind. So just following up a little bit. As you had noted, the quarter-end global subscriber number would include anyone that was still in a free trial period. And with Paramount+ having launched in early March, anyone who signed up after the launch would have been in their free trial at the end of the quarter, so you're now 2 months past the launch. Many of those customers have gone through the free months, some of them have gone through a paid month. Can you give us any insight into what the free-to-paid conversion is looking like and maybe how that has compared to what you historically saw with CBS All Access?

And then Naveen, thank you for the color around sort of the 4 areas you're looking to sort of lean in with your investment on streaming. Can you give us any context? Are certain of those a little more front burner than others? You said we might start to see that in the financials next year. What does that mean? And then really, the more important question is if you're investing more, how should we think about seeing that payoff? Do you think you can meet your long-term targets sooner? Do you think there's upside? Any further insight there would be greatly appreciated.

Robert Marc Bakish - *ViacomCBS Inc. - President, CEO & Director*

Yes. Sure, Brett. So look, to your first question, we like what we're seeing in general with respect to conversion and churn. Unpacking that a bit, conversion rates from trial to pay are consistent with what we've seen historically with All Access. And that's despite the fact that we've ramped sub growth pretty significantly, and so we're not seeing any kind of degradation in quality as we widen the subscriber net. That's a good thing. And it's particularly a good thing given that we had the Super Bowl this year, which clearly brought in a bunch of folks for the Super Bowl. But as with the broader sub base, they're sticking around for more, again, for this broader Paramount+ offering.

On the churn side, again, remains in the same range as prior year despite the massive growth in the sub base. Specifically to your question of the 30-day free trial, which we did for launch, I'd highlight 2 points. One is, believe it or not, the conversion rate was actually marginally above our historical trial conversion rates. So we are happy about that. And second, that particular program, the 30-day free trial, ended on March 31 and is no longer in the market.

By the way, a little look forward past the end of the quarter, both conversion and churn improved in April, both versus prior year and versus March. So net-net, we feel great about what we're seeing in this area. I'm going to flip it to Naveen in a second for the second part of your question, but I do want to say, he highlighted the 4 investment areas. Probably the biggest investment area when push comes to shove will be more originals. We're very excited about what we have in the pipeline on the series side. And we see our studios, be that Paramount, be that Nickelodeon, be that MTV Entertainment, ramping original studios as part of this capital raise. And we're working on that.

And of course, we talked about movies and how we're ramping that and really excited about moving to an exclusive original movie per week as we get part of the way into 2022. And so a lot going on there in terms of our plans to deploy that capital. Naveen?

Naveen Chopra - *ViacomCBS Inc. - Executive VP & CFO*

Yes. So let me try to add a little color in terms of how we see the deployment of that capital playing out. You heard Bob talked today about some of the ways in which we're already starting to deploy that capital, which, as a reminder, it's things like the addition of Serie A football on Paramount+, the Infinite movie being released on Paramount+, significant acceleration of our international expansion plans and starting to ramp up to getting an original movie each week on Paramount+. So those things will allow us to start deploying some of the incremental cash, as I said, in the second half of '21. That being said, we're obviously not going to spend \$2.7 billion overnight. So the bulk of the investment will happen over a multi-year period of time. And we are continuing to be diligent in evaluating a variety of different investment options against one another, and we're very focused on the ROI of those across all of the different buckets that we articulated.

So I would expect that as we commit to some of those specific plans, we'll look to share more about the expense magnitude, the timing of the cash versus the expense, which could be different, by the way. And I think perhaps most importantly, how those investment plans affect our goals for subscriber and revenue growth, which is obviously the intent, the motivation behind any of those investments is to try to exceed some of the goals

that we've already set for ourselves. One other point that I think is important just to be aware of from a timing perspective, as I said, we are starting to fund some of these early initiatives this year. Though I'd note that our expectations for full year OIBDA and free cash flow really haven't changed materially because of the overperformance in Q1. So that is hopefully helpful to you in terms of thinking about some of the timing elements of this.

Operator

Our next question comes from the line of Ben Swinburne with Morgan Stanley.

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

Bob, can you talk a little bit more about what we should be expecting with the June product? I don't know if you called it a relaunch or the new tier. Anything to add on distribution partners or kind of marketing push?

And then Naveen, I'd like to just take another swing at one of the topics from the Investor Day, which is your content spending company-wide. Post the capital raise, sitting here today, can you -- is there any way to help us think about how you think about the overall growth in content investment for ViacomCBS over the course of the sort of forecast period you talked about at Investor Day?

Robert Marc Bakish - *ViacomCBS Inc. - President, CEO & Director*

Yes. So we'll take this sequentially, Ben. So on the \$4.99 product, we're really excited about it. It obviously brings live sports, breaking news and amount of entertainment, including this expanded original slate, to the market, at a lower price point. That's great from a consumer perspective. For us, it also has cost advantages, which improve margins versus the legacy \$5.99 product, which we will be discontinuing from a new subscriber standpoint.

If you step back from it, we believe 2 tiers of Paramount+ really maximizes its ability to drive the total addressable market. Obviously, the lower price point at \$4.99 is good for the more cost-sensitive consumer, and thus helps maximize total subscribers for Paramount+. It also adds another important asset for us in terms of advertising inventory. It will become part of IQ. And because there's so much opportunity in high-quality, premium streaming, digital advertising, we see the product actually generating higher ARPUs over time than the \$9.99 product. So it really is quite exciting there.

I'd also point out that adding this to our quiver, broaden the portfolio we have to work with distributors to meet their objectives really strengthens our position as a supplier of choice. We add that to our existing offerings, both in free with Pluto TV and the Paramount and Showtime OTT and BET Plus pay products. Obviously, it's at the lower end of the price point, so it could work for a subset of their consumer base. It also, related to the cost structure, gives us more flexibility on promotions. And so that's something we're excited to deploy. And lastly, I'd note, it will launch in early June with broad distribution. So very excited about the \$4.99 product and how it will continue to drive Paramount+. Naveen?

Naveen Chopra - *ViacomCBS Inc. - Executive VP & CFO*

Yes. So on the content expense, as you will remember, Ben, from our Investor Day, we highlighted the fact that we expect streaming content expense to increase materially between 2020 and 2024. And I'd say that our plan for this year, 2021, does incorporate some rapid progress in ramping up streaming content. In fact, streaming content expense in 2021, I think, will more than double relative to 2020.

And now it's important to remember that not all of the expense and cash impact is incremental to total company spend because we do expect to continue to reallocate content from linear to either a shared context where it's doing double duty on both linear and streaming or exclusively on streaming. That being said, we do expect that what we've described as sort of roughly \$15 billion of total company content expense to increase

modestly over the next few years. So not -- the entire amount of the increase of streaming investment will not be incremental to total company, but there will be some increase.

Now that's all precapital raise. With the additional capital, we now have the ability to invest more aggressively. And so I would expect that streaming content expense and total company expense should be somewhat higher but very importantly, over time, generate return in the form of incremental subs, MAUs, streaming revenue. And as I said earlier, most of that impact will really start to be seen in '22 and beyond. And the piece that we're funding in '21 as I said earlier, I think, is largely offset by some of the overperformance we've seen in Q1.

Operator

Our next question comes from the line of Alexia Quadrani with JPMorgan.

Alexia Skouras Quadrani - JPMorgan Chase & Co, Research Division - MD and Senior Analyst

Just staying on Paramount+. We've seen some of your competitors experience a pull-forward and growth in subs on their streaming platforms during the pandemic. And in Q1, you had the benefit of substantial marketing push and the rebranding, which accelerated subscriber growth. I'm curious how you're think -- how we should think about growth in subs at Paramount+ over the next couple of quarters?

And then my follow-up question is just sort of circling back to your comments on international expansion also on Paramount+. You highlighted a bunch of markets. You gave us some great color, which I really appreciate. I'm curious where you see the biggest opportunity? What markets? And outside of Spanish language, are you ramping up in local language like your peers as well?

Robert Marc Bakish - ViacomCBS Inc. - President, CEO & Director

Yes. Sure, Alexia. Let me take both of those. So actually, I don't think a comparison to peer services and how they did or didn't pull forward subscriber growth with COVID is really the right question for us. And that's simply because Paramount+ just launched, and so it's in a bit of a different situation. With Paramount+, we're ramping up product for new consumers. And so we're focused on generating awareness to those consumers and obviously converting them into subscribers. To that end, we're focused on executing against the content strategy that I articulated, the specific content additions that we talked about coming, in particular, as 2021 continues to play out as really the primary driver of growth.

And I'd remind you that the good news on that tip is that we have a really exciting content slate coming, whether you look at the kids space, things like new version of Rugrats, new version of iCarly, both of which are in the current quarter. And then, of course, Star Trek: Prodigy later in the year, and those are just examples. Scripted space, we're -- I'm super excited about the first Yellowstone spinoff. That's something -- that franchise has a big fan base. And so I'm bringing a new version exclusively to Paramount+ late in the year, will be great. And that joins a whole bunch of other scripted shows, some that are coming back like Why Women Kill and Star Trek: Discovery.

Reality, really a wheelhouse for us. And related to that, the music space, which is more general unscripted, I mean this Cradle to Stage show we have with Dave Grohl is cool. RuPaul has a huge fan base, so a new version of RuPaul coming, et cetera. And we got comedies, we talked about movies. Our movies push starting in June is massive. And by the way, it's true to the Paramount name. So I think movies will have a great home and be a great product for Paramount+. All this content to varying degrees will be supporting with marketing to make sure, again, consumers have awareness, and we convert them into subscribers.

The biggest piece probably will be our movie campaign, a mountain of movies, which is about to kick off. So you should look to us to continue to build our global sub base and actually accelerate revenue growth as the year goes on. To your second question on international. Look, this is something that's near and dear to my heart. I look at the international streaming opportunity, and it's clearly global, and we're going after it. As I mentioned, we'll now be in 45 markets by the end of 2022.

Content is, of course, key to that. And this company really has critical mass across genres and across geographies. And so that starts with the Viacom Media Networks, and that includes Channel 5, Network 10, Telefe, MTV, Nickelodeon, Comedy Central. They bring library. They bring local format derivatives, and they bring made-for-market local content. That library gets a scale out of the gate. The local content, both format and originals add really critical elements for subscriber acquisition and retention in many, many key markets. And Chilevisión adds another important piece to this equation.

To your question, international content will also be an important part of fortifying the global Paramount+ pipeline. It's not just about Spanish, I would highlight. It's about using our international studio assets to create a robust pipeline for Paramount+ because those studio assets, outside the United States, bring benefits in terms of access to incremental creativity, really attractive economics. And they help us drive volume further faster. We mentioned -- and I mentioned it a bit in my prepared remarks. We're at the very early stages of bringing this to bear but it's going to be another exciting piece of the equation. Add to that, of course, we've got output deals that routinely come up, giving us incremental access to content from Paramount and CBS and Showtime.

So put it together, we've got a lot of content to work with outside the United States for Paramount+, and a lot more is coming. And when you look at international and ViacomCBS and Paramount+, it's not just the content story. The other differentiating piece here is our on-the-ground operations, and they bring real additional advantages, unlocking that streaming opportunity. That starts with relationships, whether they're creative or commercial, and you heard 2 examples of that coming to life in my remarks with Megacable and Mercado Libre. Those are on-the-ground relationships that we were able to convert into streaming opportunity.

As we look out, it's possible that we'll do some partnerships in select international markets, additional markets. But net-net, I look at this, and I'm super excited about the global opportunity for ViacomCBS and streaming. And we really do see a strong runway of growth outside the U.S.

Operator

Our next question comes from the line of Rich Greenfield with LightShed Partners.

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

A couple of them. First, I want to just dig in a little bit deeper into the comment about what people are actually doing on Paramount+. It seems like Nickelodeon, just looking at like sort of the top shows every day, seeing things like SpongeBob and Paw Patrol, it seems like they are driving a very substantial part of viewership. And wondering like when you look at sort of the promotion, you talked about sports and some of the stuff that you have, and you certainly have had some originals, but it looks like the kid stuff is really driving viewership. I guess a big picture question is like you said double digits. Like is it half is kids? Like how substantial is kids programming? And how do you get more viewership of some of the adult skewing? I'd be curious how you're thinking about the marketing message because it seems like kids has been a very powerful force for you.

And then I just want to follow-up on 2 things. One, you said -- you haven't commented. Are Paramount+ subs higher today than 36 million? Could you give us any clarity on that? And then I think you mentioned one movie, one original movie a week in 2022. Does that include the 45-day after movies that are coming out in theaters? Or is that a dedicated original movie every single week? I just wasn't clear what you meant by that.

Robert Marc Bakish - *ViacomCBS Inc. - President, CEO & Director*

Sure, Rich. A lot there. So on Paramount+ and kids. Clearly, kids is working for us. And no, it is not half of the consumption. Again, material double-digit percentages, but nowhere near half. What's driving that relative to the other, call it, genres and demographics, is really the fact that we were able to at launch provide not only critical massive library product, which we could do in other categories, but volume of exciting, exclusive original linked to known franchises.

And that, in particular, was the combination of the SpongeBob movie, which obviously was a theatrical movie we chose to redeploy on Paramount+ and the new SpongeBob series Camp Coral. We had that ready to go because we had a movie for theaters and because we had a series that we were going to launch on Nickelodeon, call it linear.

As you look forward, those kind of things start to happen in the other genres. I mean, I'm very excited about what's going on with reality. As you know, we launched with Real World New York. It was only a couple of episodes, so it wasn't really volume. And MTV The Challenge. There, there was a little more volume, but it's the first series.

As the year plays out, we basically have one new exclusive original in the reality space and unscripted space every month. So that's more fuel for that tank, and that should start converting that genre lane for Paramount+, and we will market that, particularly leveraging our linear networks and social, where we know those fan bases are.

The other one I'd really highlight is movies. I mean, we have movies on Paramount+, but frank -- today, but frankly, not that many of them. That game changes dramatically in June, where we first drop an additional 1,000, and they're real movies. They're not deep library. Then we, late in June, have Infinite, which should create a lot of noise. I've seen the film. It's fun film. People love Mark Wahlberg.

And then that leads to more, I call it, library, again, not deep library, including pay 1 library in July and then Quiet Place on a short window from theatrical, leading into later in the summer, Paw Patrol. So we got a lot going on. And people love movies in premium television. They love movies in streaming. They already, based on engagement, love movies on Paramount+. We just don't have the volume we're about to have.

Let me use that to actually go to your third question for a second, which is around a movie a week. Does it include short window, pay 1 or not? Yes, it includes short window pay 1, call that a dozen pictures a year. The original movie per week will be an exciting movie per week. It will be a range of different kinds of movies. Some of them will be blockbusters that are heavily marketed from theatrical, the A Quiet Place 2-type films. Some of them -- the vast majority of them will be made for Paramount+. Those will be sourced from Paramount through our Paramount players, studio or substudio as well as through other studio operations we have, including Nickelodeon. As you know, we have the awesomeness side of Nickelodeon, which has done a great series of YA movies, including for streamers. So really excited about deploying that and getting that to have something on the platform every week that's fresh for someone to watch. Your second question, I have a mark here of 36 plus.

Naveen Chopra - *ViacomCBS Inc. - Executive VP & CFO*

Yes. I think he was asking about subs post the end of the quarter. We're not providing any numbers, but just remember, the 36 is total global streaming subscribers, Rich, not just Paramount+.

Operator

Our next question comes from the line of John Janedis with Wolfe Research.

John Janedis - *Wolfe Research, LLC - MD & Senior Media Analyst*

Bob, a lot of questions coming up about the value of traditional leader networks and the historical pricing model breaking as direct-to-consumer rollouts accelerate. So I wanted to ask you, to what extent do you see changes in pricing for TV or cable networks as Paramount+ scales into the tens of millions domestically? And then separately, how are you thinking about the go-to-market strategy and programming budget going forward for Showtime? Is a range of 10 to 15 originals a year in the ballpark? Or does that need to be stepped up?

Robert Marc Bakish - *ViacomCBS Inc. - President, CEO & Director*

Yes. Sure, John. So on your first question, I'd start with the fact that ViacomCBS is a critically important content supplier to the MVPD ecosystem. Why do I say that? We do have the #1 linear portfolio on share, and we do lead on a range of key demographics.

Within that, we have must-have content, including sports, including the NFL. Beyond that, we have a really broad opportunity to work with them to create value. And you see that, for example, as we deploy our assets in the advanced ad space. And we have advanced ad partnerships with most of the large MVPDs at this point. And more recently, we've become a supplier to the app space with both free and pay streaming products. And we supply those to both their set-top box and their broadband-only infrastructure, things like Flex. So that gives us even more to work with.

And you look at 2020 and you look at through the first quarter of 2021, and you see that we're using that asset base to consistently close deals. Deals with companies that are formidable, the likes of Comcast, Verizon, YouTube, Hulu. And when you take the contractual -- when you take that and then you combine the contractual rate increases for deals that are in flight, you've seen that drive affiliate growth and incremental distribution in linear. So it's a powerful combination.

As we look forward, including to a world, as you described, with D2C and Paramount+ growing, et cetera, we like our position. We are among the most important content suppliers in the industry. We know how to get deals done. The addition of streaming, including Paramount+, gives us even more to work with. And remember, that helps us drive value for those customers and simultaneously helps them evolve their business as consumers increasingly embrace broadband versus, say, set-top box. And our ability to do that, in turn, drives real revenue and asset value for ViacomCBS. So yes, negotiations might be a little more complicated than they have been in the past, but I feel very good about our asset base. We have the best affiliate team in the business, and I feel great about the outlook of our partnerships with MVPDs.

To your second question, Showtime, Showtime is on a really nice roll. It produces great content. And as we look at the segmentation of the consumer in the United States, there's no question that there's a significant market for a more upscale, more coastal, more R-rated offering, that's what premium is. And as you saw, Showtime really continued its great run in the first quarter. It had the top 2 scripted premium series with Your Honor and Shameless. It had record OTT sub growth and growth in total subscribers, and it had record engagement. So it's working.

The fundamental driver here is content, originals in particular, again, Shameless and Your Honor in the first quarter. Movies are important, too, as they always have been in the premium category. As we look forward with Showtime, because this is part of your question, we like our slate. We currently have about 10 or 12 tentpole series per year, and we support that or package that with 3 to 5 kind of lower-cost original series. Your look what's coming. It's the return of Dexter, it's the return of billions. It's a new series called [American Russ] with Jeff Daniels, a new series called Yellow Jackets with Juliette Lewis and Christina Ricci. It's -- that's pretty hairy kind of series. It's about a plane crash in Latin America and a girls soccer team and kind of what happens in that. We're doing a great project on first ladies. You could think quasi-Crown of the U.S. and then starting with Viola Davis playing Michelle Obama, really excited about that. We're going to do a Ray Diamond movie. So the list goes on.

And that product, by the way, is not only good for Showtime in the U.S. where it will continue to drive engagement and performance in the category, but it's also going to increasingly benefit Paramount+ outside the U.S. where Showtime product is an integral component of the offering. By the way, the movie outlook is good for Showtime, too, and we have optionality in-house. So we're feeling great about Showtime, both stand-alone and as an integral part of ViacomCBS, including in streaming.

So with that, in closing, I just want to say a couple of things. Clearly, very exciting times at ViacomCBS. We have strong operating momentum. We have amazing content, and we have a streaming strategy that is really delivering. You see all of that in our first quarter, and it really positions us well moving forward.

As management, we have a focus on value creation and delivering for our shareholders. That's true overall and certainly with respect to streaming as we build on these strong early results and momentum, particularly with respect to Paramount+. It's a differentiated product. It's a product with real competitive advantages, and we're investing to deliver on its promise.

So thank you for your time today. Thank you for your support. We look forward to continuing the dialogue as we execute and deliver on the ViacomCBS growth opportunity. And finally, I'd like to thank all the Viacom CBS employees for all they do every day to drive our company forward. Stay well, everyone.

Anthony Joseph DiClemente - *ViacomCBS Inc. - EVP of IR*

Thanks, Bob, and thank you all for joining us. That concludes our earnings call.

Operator

Thank you, ladies and gentlemen. That concludes today's conference. You may now disconnect your lines, and have a wonderful day.

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