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VIAC.OQ - Q2 2020 ViacomCBS Inc Earnings Call

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OVERVIEW:

Co. reported 2Q20 total Co. revenue of \$6.28b and adjusted EPS of \$1.25.

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PRESENTATION

Operator

Good day, everyone, and welcome to the ViacomCBS Second Quarter 2020 Earnings 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. Thank you for taking the time to join us for our second quarter 2020 earnings call. Joining me for today's discussion are Bob Bakish, our President and CEO; and Chris Spade, 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 the 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. Today's remarks will focus on adjusted results. Reconciliations for non-GAAP financial information discussed on this call can be found in our earnings release or on our website.

With that, I will turn the call over to Bob.

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

Good morning, everyone, and thank you for joining us today. I'm pleased to report that ViacomCBS' second quarter delivered a continuation of, and in many respects an acceleration of, the 3 key themes we outlined on our Q1 call.

First, despite headwinds from COVID-19, ViacomCBS delivered another solid quarter with sequential improvement in key earnings and cash flow metrics and clear operational momentum. Second, we continue to proactively manage through the pandemic, taking significant steps to strengthen our business, preserve the value of our assets, increase our financial flexibility and further reduce costs. And third, we continue to focus on and deliver on value creation, unlocking the power of ViacomCBS and, specifically, our synergistic combination of studios, networks and streaming.

In the quarter, we continued to integrate the company and increased our projection for cost savings, both in year and overall. We made significant progress in distribution, and we rapidly accelerated our streaming business. Here, we achieved record users in revenue in free and pay, all while simultaneously making material progress towards the relaunch of our diversified super service.

So there's a lot to talk about. Let me start with an overview of the financials and some key operating highlights from the quarter. Financially, ViacomCBS posted the combined company's second consecutive quarter of sequential improvement in operating income, adjusted OIBDA, adjusted diluted earnings per share and adjusted free cash flow, this on both an absolute dollar and rate of change basis.

While advertising revenue declined 27% in the quarter, overwhelmingly due to COVID, we continue to expect Q2 to be the bottom in terms of year-over-year decline. To that end, we've seen sequential improvement month-over-month since April, June was strong, and we're encouraged by what we're seeing so far in Q3. We believe this reflects not only economic optimism for a gradual recovery but also the power of our portfolio and the significant value we bring to advertisers.

Affiliate revenue grew 2% in the quarter, with growth in pricing, retrans, reverse comp and streaming revenues more than offsetting pay TV subscriber declines. We anticipate this momentum to continue in the second half of the year. In addition, we increased domestic streaming and digital video revenue, which includes streaming subscription and digital video advertising revenue by 25%, reflecting record user growth in our streaming products, including 52% growth in subscription revenue.

Moving to earnings. Cost-cutting initiatives and proactive cash management helped offset COVID- and timing-related revenue impacts. Here, the company reported 8% adjusted OIBDA growth in the quarter and generated \$892 million of adjusted free cash flow, bringing year-to-date adjusted free cash flow to nearly \$1.4 billion, up 19% year-on-year.

Keep in mind that the second quarter free cash flow includes a significant working capital benefit from COVID-related programming shifts and production delays. As film and TV production builds in the second half, we do anticipate some reversal of the working capital benefit.

Operationally, the enduring strength of our brands and IP is enabling us to successfully navigate this landscape. During the quarter, our domestic media networks held the highest share of TV viewing in all key audience demos.

In broadcast, CBS finished the season as America's most watched network for the 12th straight year. CBS was #1 in all key dayparts for the third season, with the most watched drama and most watched news program in prime, the top 5 comedies and the #1 late night show, plus 7 of the top 8 new series. We also maintained our leadership as the #1 cable portfolio and share of TV viewing across all key demos, with more top 30 cable networks than any other media family.

Nickelodeon was #1 with kids 2 to 11 for the 20th consecutive quarter and owned all of the top 10 original series. MTV had its best second quarter ratings performance in 2 years, and Comedy Central marked its 13th straight quarter of year-over-year share growth. And Showtime had the top show on premium cable for 2 consecutive quarters and the top 3 premium scripted series so far this year.

Internationally, we continue to build on a global footprint that includes 190 million broadcast homes, the biggest in the world, and 2.7 billion cumulative TV homes. Our international linear share of viewing across countries increased 11% year-over-year.

And I'm very proud to announce that for the first time, in June, Tubular Labs ranked ViacomCBS the #1 media entertainment company in social. Not only does this reinforce our popularity and the relevance of our brands and IP in the digital space, but our huge social platform is also an important marketing tool, particularly as we gear up for the relaunch of our streaming super service.

And speaking of streaming, we have continued our momentum in user, subscriber and consumption growth across our streaming platforms as we increasingly lean into this opportunity. In free, Pluto TV's domestic MAUs grew 61% to 26.5 million, and we remain confident that Pluto will achieve its 30 million domestic MAU target by year-end. And Pluto TV is also ramping up outside the U.S., something I'll come back to shortly.

And in pay, we ended the quarter with 16.2 million subscribers, up 74% year-on-year, reaching our year-end goal 6 months ahead of plan. Here, CBS All Access had a great quarter, and you'll hear more about where that product is going in a minute. And Showtime OTT had its best quarter ever in subscriber growth. And in the last 6 months alone, Showtime OTT has grown more than the previous 2.5 years combined.

As we rapidly grow and evolve our streaming business, we're now increasing our domestic pay streaming subscriber guidance to 18 million by year-end. This growth, in addition to the revenue growth I mentioned earlier, supports our conviction in the growth potential of our streaming offering, and we're just getting started.

The combined strengths of our networks and streaming offerings also enabled us to make important strides in domestic distribution, where we struck significant carriage agreements. In April, we signed a truly comprehensive multi-platform partnership with Verizon, spanning pay TV, connected TV and mobile. One particularly exciting component of this deal is the significant expansion of Pluto TV footprint that it enables, one which is rolling out on Verizon Wireless as we speak.

Then in May, we announced a new deal with YouTube TV. This deal renewed CBS and Showtime early and, importantly, brought Viacom's cable networks to the fast-growing service. Viacom's brands went live on YouTube in late June, and we're thrilled to now provide MTV, Nickelodeon, Comedy Central, BET and more to its customers.

More recently, in July, we announced a multiyear renewal with DISH and Sling TV. This was our third cross-company renewal, further demonstrating the power of our brands and content. And we continue to benefit from strong reverse comp, recently signing agreements with Sinclair and Cox, in addition to Nexstar and Meredith earlier in the year.

This deal-making and more is reflective of the fact that ViacomCBS is a cornerstone content provider to a broad range of distributors. The combination here is powerful. And I'm happy to say we expect sequential improvement in year-over-year growth rates for domestic cable networks and total company affiliate revenue in Q3 and Q4.

Now turning from performance in the quarter to the second theme: how we've been managing through COVID. Here, there are a couple of points worth mentioning.

First, we continue to fortify our balance sheet, enabling us to navigate the pandemic from a position of continued financial strength. During the quarter, we issued 2 debt transactions totaling \$4.5 billion and used the proceeds to pay down \$2.8 billion of upcoming maturities, including a \$340 million redemption that settled in July. As a result, we don't have any maturities due until 2022. And we also have access to a committed and undrawn \$3.5 billion revolver.

Simultaneously, we have taken action to preserve and maximize the value of our assets, particularly in the film space. This starts with moving marquee film releases to 2021 when we believe the theatrical market will be stronger. In addition, we decided to take The SpongeBob Movie: Sponge on the Run and deploy this asset as part of our rebrand and relaunch of CBS All Access early in 2021 when we'll also have a short PVOD window leading into it.

Paramount continues to be an incredible asset for the company. And while there weren't any new titles released in the quarter, we were able to capitalize on the strength and breadth of the studio's massive library of product as well as from our recently established joint venture with Miramax. And we remain excited about our film slate and look forward to opening fantastic films as the market stabilizes.

Broadly speaking, everyone knows that COVID has presented material production challenges, but despite that, through alternate models, ViacomCBS continues to present consumers with fresh content in news, late night and selected unscripted areas. And in the quarter, we also resumed sports production with PGA Golf on CBS. It goes without saying that there is tremendous pent-up demand for live sports. Ratings for the Charles Schwab Challenge, the Travelers Championship and the Rocket Mortgage Classic have all been very strong. In fact, since returning to live golf, CBS Sports' overall viewership is up 25% from comparable events last year.

And building on that, we're excited to have Bellator and Showtime Boxing back on air, along with UEFA soccer premiering on CBS and CBS All Access this week. And we look forward to the return of football in the fall, including last week's announcement that the SEC has confirmed its in-conference game schedule, and we continue to be optimistic about the NFL 2 given all the work they are doing.

With respect to entertainment product, we have already started to resume production activity, albeit on a smaller scale. Our priority is to restart our production safely and in compliance with local health and safety standards. There are, of course, a lot of moving parts to manage returning to production, and we've been collaborating with our industry partners on industry-wide recommendations. We're using a phased approach based on geography, show format, in-studio versus location-based productions, along with other considerations.

But against this backdrop, things are ramping up. As examples, Tyler Perry just wrapped production on the new season of Sistas for BET. We're in production and close to completing Yellowstone in Utah and are about to start filming season 4 in Wyoming. And we recently started shooting a live action show for Nickelodeon in Canada. Add to that, we have a series of unscripted productions underway, including Big Brother, which debuted this week. And we're excited about Love Island, which will be broadcasting 7 days a week once it debuts in late summer.

Looking forward, we have a pipeline of productions moving towards starting. And we're optimistic that volume will grow, ensuring we have fresh product on air in the fall.

And third, through it all, we continue to be focused on value creation. Value creation starts with delivering on the material cost savings opportunity associated with the integration of Viacom and CBS. Here, we continue to make quick progress. In fact, we are increasing our expected 2020 merger-related cost synergies from \$250 million to \$300 million. And we expect to achieve annualized run rate cost synergies of \$800 million, up from our prior \$750 million by the end of 2022.

And of course, we continue to look for additional opportunity, including based on how we've had to rethink our operations since March. While it's premature to put a number on this, the experience sets the stage for further transformation and cost savings.

But the combination of ViacomCBS is not only about value creation through cost savings. It's even more about value creation through revenue generation. I already spoke about the very material progress we've made on the distribution side and how that will lead to further sequential improvement in affiliate revenue this year. Here, the merger thesis is clearly coming to life. Streaming is another area where the power of the ViacomCBS combination is beginning to come to life. And this is critical since streaming is probably the most material value creation opportunity in media today.

Building off our momentum in user, subscriber and consumption growth across our streaming platforms, we will capitalize on our positions across free and pay. This includes adding substantial content assets and user experience enhancements, broadening distribution and leaning into marketing to serve consumers with a robust differentiated suite of linked streaming offering. In short, by providing consumers with the broadest video experience, spanning news, sports, entertainment, local and live across free and pay, we will be a global leader in freemium streaming.

Let me unpack that a bit. In free, we continue to build on Pluto TV's position as the #1 free streaming TV service in the United States. During the quarter, Pluto saw strong growth and numerous product enhancements. This starts with content, where we continue to add more and more high-quality IP to our market-leading service.

In fact, Pluto now has over 100,000 hours of compelling content available on it. As part of that, we gave you nightly South Park airings on Comedy Central Pluto TV, we launched CSI and Star Trek next-generation channels, and we plan to debut more than 40 other CBS shows, including Survivor, Amazing Race, JAG, America's Top Model, MacGyver and more. And of course, we continue to add a broad range of compelling third-party content in both entertainment and sports, including renewals with the NFL and Major League soccer.

We also ramped up Pluto TV's distribution across multiple devices and services. I mentioned Verizon's first-of-its-kind deal earlier, but we also had major distribution expansions with TiVo and LG, which, on a combined basis, will shortly bring the Pluto TV service to well over 80 million new devices, setting the stage for the next leg of material growth.

And this growth is not just about Pluto. It will also benefit our pay streaming strategy as we progressively build a linked ecosystem of free and pay D2C services that will fulfill fundamental consumer needs around quality, convenience and cost. Here, Pluto will serve as an important complement to and funnel for our pay services.

In pay, we've progressed materially in the past few months, including being firmly on track with our CBS All Access transformation. On our last call, I said we'd preview a transformed service this summer. Last week, we did just that, adding the company's flagship brands, Nickelodeon, BET, Comedy Central, MTV, Smithsonian and 3,500 episodes from their libraries, bringing CBS All Access' offering to more than 20,000 episodes. This, in addition to the 150-plus Paramount movies we added roughly 2 months ago.

Apart from its vast library, the new service will continue to have compelling live offerings, spanning CBS local affiliates, tentpole events and a critical mass of live sports, from golf to football to basketball, plus exclusive streaming rights for major sports properties, including some of the world's biggest and most popular soccer leagues, adding a massive volume of compelling live sports content at just the right time. And as we get into 2021, expect to see a significant expansion of first-run originals, including originals from all the brands. This will be a truly differentiated streaming product, and we are very excited about the opportunity.

And I want to reiterate that we're doing all this in a targeted, capital-efficient way. We already have developed and scaled technology in the form of CBS All Access. We have a robust slate of exclusive originals from which we continue to build. Almost every dollar we invest in linear content across the company will benefit the service with varying windows.

We have established distribution points across all major platforms and high user engagement. And we're not starting from zero. Existing customers will benefit from the expanded library, service enhancements and product development, further reducing churn and driving greater value.

Outside the U.S., we also see a tremendous runway for growth in both free and pay streaming, and we're moving quickly. Pluto entered selected markets in Europe last year, and in April, entered into 17 Spanish-speaking Latin American markets. In fact, on a global basis, Pluto TV now has 33 million MAUs.

Looking ahead, our goal is to expand our channel lineup in Latin America to reach more than 70 channels by the end of the year and to continue expanding our content offering in Germany, Switzerland, Austria and the U.K. We'll also add more distribution platforms to accelerate the expansion. And our geographic expansion will continue, with plans underway to launch new local versions of Pluto TV in a number of additional priority markets, including Brazil and Spain this year and France and Italy in 2021. Importantly, these are all markets where ViacomCBS has strong local operations, including a large pipeline of local language content in place and ready to go. The Pluto TV platform is powerful, and the world is quickly embracing it.

And in pay, we're targeting early '21 for the launch of our international streaming service, a super-sized offering of truly compelling content with first-run originals and library from all ViacomCBS brands, including Showtime. We will focus next year's initial rollout on a set of high-value territories where we see an opportunity to become the market leader. These territories include Australia, Latin America and the Nordics.

Our streaming strategy is working, and it's really just getting going. As you can see, it's about value creation on a global scale for the short and long term. And I look forward to updating you as we pass key milestones in the coming quarters.

Now before I turn it over, I want to thank Chris for her relentless hard work and dedication to CBS and now ViacomCBS. Over the past 23 years, she's been a critical financial operator. And over the past year, she's played an integral role in helping combine and integrate ViacomCBS. On a personal level, I'm so grateful for her dedication, contributions, and I really look forward to watching her future endeavors. From all of management and from the ViacomCBS Board, thank you, Chris.

With that, I'll hand it over to provide additional financial detail on the quarter.

Christina Spade - ViacomCBS Inc. - Financial Advisor

Thank you, Bob, and good morning, everyone. It has been an amazing journey to be with ViacomCBS, and I do believe the best is yet to come for our united company based upon the strong performance momentum taking hold.

As you can see in our results for the second quarter, COVID-19 did have an anticipated negative impact to our top line revenue performance. However, in preparing for this downturn in early March, we quickly pivoted to more disciplined expense management for Q2 and 2020 to ensure we maximize our financial performance in light of the lower top line trends.

We delivered solid results in the second quarter of 2020. Adjusted OIBDA, adjusted EPS and adjusted free cash flow all improved sequentially for the second quarter in a row, evidence of ViacomCBS' ability to manage through COVID-19 and demonstrating the power of our united company.

Today, I will first take you through our second quarter results in more detail. Then I will update you on the actions we have taken to strengthen our liquidity and financial flexibility. And finally, I will provide you with some insights for the remainder of the year.

Let's start with our financial performance in the quarter. As a result of COVID-19 and our ongoing restructuring plans, we have made several adjustments to our results. These adjustments include \$121 million in programming charges associated with the abandonment of incomplete programs resulting from COVID-related production shutdown and \$134 million in restructuring charges related to our synergy initiatives.

In light of the ongoing COVID pandemic, we achieved solid results in Q2 2020. Total company revenue was \$6.28 billion, down 12% year-over-year. Adjusted OIBDA was \$1.69 billion, up 8% year-over-year, and adjusted EPS was \$1.25. Adjusted free cash flow was a strong \$892 million in the quarter, which excludes \$178 million of restructuring and merger-related payments.

Looking more closely at our revenue performance in the quarter, affiliate revenue increased 2%, benefiting from strong retrans, reverse comp and subscription streaming revenue growth, which more than offset the decline in cable network affiliate revenue. Cable network affiliate revenue declined 6% in Q2, in line with the decline in Q1 2020.

Advertising revenue was down 27% versus a year ago, overwhelmingly affected by COVID-19, which resulted in a significant pullback by advertisers. The comparison to the NCAA championship and Final Four games in the year ago period resulted in a 4-point headwind in the quarter.

Domestic streaming and digital video revenue, which includes subscription and digital video advertising revenue, was up 25% versus a year ago to \$489 million. Q2 benefited from significant growth in sign-ups and streams on CBS All Access and Showtime OTT and in monthly active users and minutes viewed on Pluto. Domestic streaming subscription revenue was up 52% in the second quarter, accelerating from the rate of growth in the first quarter driven by the continued momentum we are experiencing across all of our streaming products.

Turning to content licensing. Revenue was comparable with the prior year. Revenue associated with the licensing of South Park was offset by significant licensing activity in the year ago quarter as well as the timing of deliveries, which have been affected by COVID-related production delays. Theatrical revenue was immaterial in the quarter as most theaters remain closed in the U.S. and internationally.

For Publishing, revenue declined 8%. Strong growth in digital book and audio sales was more than offset by declines in print sales. These titles in the quarter included John Bolton's *The Room Where It Happened* and Stephen King's *If It Bleeds*.

On the expense front, we are highly focused on strategically reducing our costs. We continue to benefit from merger-related cost synergies in the second quarter and are on track to realize \$300 million in savings for the full year of 2020 before consideration of onetime costs to achieve them, up from our previous expectation of \$250 million.

In addition, we are benefiting from COVID-related cost savings, which helped offset the impact of revenue declines and drove adjusted OIBDA growth in the quarter. A portion of these cost savings are timing related and will come back as we return to live sports and production. However, we expect to realize sustainable cost savings as we take learnings from this crisis and find ways to operate more efficiently over the long term.

In addition, we now expect to achieve \$800 million in annualized merger-related cost synergies by the end of 2022, up from our prior \$750 million target as we remain highly disciplined in managing our costs. Overall, we are very pleased with ViacomCBS' results in the second quarter of 2020.

Turning to the balance sheet and ViacomCBS' liquidity. In the second quarter, we completed 2 debt transactions totaling \$4.5 billion. We used the proceeds to pay down \$2.8 billion of our upcoming maturities, including a \$340 million redemption that settled on July 10. And we added \$1.7 billion to our cash balance, providing us with additional liquidity. These transactions significantly strengthen the financial position of the company, enabling us to effectively weather the current economic uncertainty. We now have no debt maturities until 2022. And in addition to our cash balance, we have our \$3.5 billion revolving credit facility, which remains undrawn.

As of June 30, 2020, when you take into account the benefit of our full run rate merger-related cost synergies, our debt-to-adjusted OIBDA ratio calculates to 3.3x. On a net basis, taking into consideration our \$2.3 billion cash balance as of June 30, our leverage ratio is 2.9x, unchanged from the end of 2019. We remain committed to our 2.75x leverage target, including the benefit of full run rate synergies, and plan to use cash on hand, proceeds from our noncore asset sales as well as excess cash flow after dividend payments to reduce our debt balance in order to achieve our leverage target.

I would now like to provide you with some insights on the remainder of the year. Starting with affiliate revenue. As Bob discussed, we had an impressive quarter for distribution, with several new agreements secured, including Verizon, YouTube TV, DISH, Sling TV, Sinclair and Cox. And as Bob mentioned, we now forecast domestic streaming subscribers to reach 18 million by year-end 2020, up from our previous 16 million expectations, which we have achieved ahead of plan. While we expect to be affected by industry pay TV subscriber trends, we will benefit from our recent affiliate deal, increased distribution on YouTube and the strong growth we are experiencing across our subscription streaming platforms. Taken together, we expect the year-over-year rate of change in domestic cable network affiliate revenue and total company affiliate revenue to improve in Q3 and again in Q4.

Moving to advertising. We believe Q2 marked the bottom in the year-over-year rate of change in total company advertising revenue and expect to see sequential improvement in the year-over-year rate of change in advertising revenue in Q3 and again in Q4.

A few other things to note for the third quarter and adjusted free cash flow in the back half of the year. First, on content licensing revenue. We expect COVID-related production delays will continue to affect content licensing deliveries in the third quarter.

Second, on theatrical revenue. We have no movies scheduled to be released in the third quarter as we are saving valuable IP to be released in the theatrical window. That said, we strategically decided to deploy The SpongeBob Movie: Sponge on the Run through the relaunch of our super service in early 2021.

And third, on adjusted free cash flow. We had a strong Q2. Our free cash flow benefited from disciplined COVID-related expense management, which will continue to positively impact cash in the balance of the year given the natural lag between expenses and cash.

In addition, our free cash flow benefited significantly from the delay in the timing of production. As we get back to production, spend will return, impacting free cash flow in the second half of the year. Looking beyond this year, we are laser-focused on optimizing working capital for ViacomCBS, which will drive improved free cash flow in 2021 and beyond.

In closing, the first half results of the united ViacomCBS have many proof points of tremendous momentum that will benefit the company over the long term. Although COVID-19 has affected our short-term revenue trends, we remain focused on ensuring that we optimize our cost structure and investment strategy to maximize revenue growth and financial performance for the long term.

On a personal note, it has been a true honor to be a part of the ViacomCBS team during the past 23 years. To Shari, Bob, the Board of Directors and Naveen, I wish you much continued success as you lead this phenomenal company. To me, the company is really all of our talented people. So to the entire ViacomCBS team, I wish you the very best for the future.

Lastly, I would like to commend and thank the amazing finance team of ViacomCBS. You are second to none, and I am most proud of all that we have accomplished together.

With that, we can open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Alexia Quadrani with JPMorgan.

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

My first question -- or my main question is on the advertising. If you could give us a bit more detail about how it progressed through the second quarter with respect to your platforms, really looking from your linear cable networks all the way to AVOD, how it differed, I guess, throughout the second quarter on those platforms. But I think you said June was better, but I'm curious if you have any early thoughts on July, if that improvement continued.

And then my follow-up is just on Paramount, just really regarding the shortening window, theatrical windows, and the agreement that we saw between AMC and Universal. Are you looking to reach sort of similar agreements for Paramount?

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

Sure. Alexia, nice to hear your voice. So on advertising, let me reiterate that we believe Q2 is the bottom, and we expect to see continued sequential improvement in the rate of change in Q3 and again in Q4. With that, let me say a couple things to add some additional color.

First, our total company advertising, obviously down in the quarter, and that was, as you heard, overwhelmingly and not surprisingly due to COVID. Beyond COVID, there is some lack of comparability to prior year, and that specifically is because we had the NCAA championship and Final Four game in 2019, but Turner would have had that this year. So that's worth about 400 basis points if you're doing math.

Second, and really more to your question, the quarter turned out better than we thought early. And that was because we did see sequential improvement in each month of the quarter and simultaneously because scatter pricing held strong, 25%, really greater than that versus the upfront. The softness we did see is very concentrated in terms of categories. But at the same time, we saw some early signs of strength from some others, notably pharma, insurance and financial.

And to the other specific question you asked, segments have been impacted differently. So broadcast in the mix is relatively strong. Cable's seen more relative softness. But in the cable side, we did take the opportunity to produce ad loads to improve the experience. Local has also been tough, but things are getting better. In particular, auto's coming back in Q3 as factories have reopened, and we continue to look forward to political being a significant driver in the second half.

Digital also was impacted, but high-quality digital remains super strong. In fact, Pluto TV quickly returned to pre-pandemic growth rates and pricing and was very strong in Q2. So we like what we're seeing in terms of green shoots and look to continue to see that momentum.

On the Paramount side, let me start by saying that while the studio was obviously unable to release films in the quarter due to COVID, it is an incredible asset to ViacomCBS. It has a powerful collection of IP, which we continue to develop for film, TV and streaming purposes. It's got a massive library, which benefits our networks and more recently, our streaming services. And its library is obviously a critical component of our licensing business.

In this COVID time, which is really a time where theaters are shut down, we are focused on protecting asset value and really benefiting from optionality that our company and this environment presents. And that's driven us to do a number of things.

First, we do continue to move films later to save them for what we believe will be a healthier environment in '21. You saw us do that most recently with A Quiet Place Part II and Top Gun: Maverick. We've also monetized some films, yes, with streamers, which allows us to get a return on our investment now. But importantly, it allows us to avoid putting even more product into a '21 that's starting to look pretty full. You saw that with Lovebirds as an example. We also decided to use a film franchise strategically, and that's deploying SpongeBob: Sponge on the Run exclusively in the U.S. against our super service relaunch in early '21 after a short PVOD window.

And then to your questions about PVOD, we really are in sort of a COVID rules phase of the business right now, where studios, including Paramount, are doing some things they wouldn't normally do because theaters are closed. Know we remain committed to theatrical and believe a lot of this reverts once the world normalizes. But we do believe the actual windows will probably shorten, and some of these new monetization paths, including both strategic ones and others, probably will become more confident.

But as I look at the whole thing, it continues to make me highly confident that despite COVID, Paramount is incredibly valuable to us, both strategically and financially.

Operator

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

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

I have one on streaming and then one on margins and costs. First, on streaming, streaming TV, connected TV, advertising clearly have strong secular growth. You're investing into it with All Access and Pluto. But it's also a pretty complicated and fragmented market for advertisers. So Bob, I'd love to hear your thoughts on how you see that developing, how products like EyeQ gives CBS an advantage -- ViacomCBS an advantage and why advertisers are spending with you rather than, say, a platform like an Amazon Fire or Roku TV.

And then second, just on costs. There's a number of puts and takes as we look forward with the synergies and timing. But as you go through this transition and invest in this transition to streaming, can you talk about how we should think about margins for the business maybe into the sort of like launch period, and then over the longer term, if this is margin-expanding initiative?

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

Yes. Sure, Michael. Thanks. So look, I couldn't be happier that we acquired Pluto TV last year. When we announced that acquisition, the market was confused. Most people didn't know what it was. Since then, AVOD, or now what people call FAST, has been accepted as a legitimate and important part of the streaming ecosystem, and others have followed us.

But we haven't let up, not even close, like we leaned into its content, into enhancing the platform, into expanding distribution, into building the brand and into monetizing its ad inventory and most recently, global expansion. And as a result, we've grown Pluto TV dramatically and arguably extended our leadership position.

The reality is no other U.S. FAST asset can touch the combination of Pluto's 100,000-plus hours of high-quality content, which we built through a combination of assets we own and these innovative revenue share-based models that we use with third parties. It's on over 30 devices and platforms. You name it. If it's significant, Pluto's there.

We're rapidly expanding the distribution. We talked about these 80 million devices that are coming through new partnerships with Verizon, TiVo and LG not only adds to the expansive base we're already building through Amazon, Roku, Comcast, Vizio and more. And many of those have

preferred placement and/or built-in carriage. And by the way, we got more deals coming in the pipeline, which is going to take these numbers up higher.

Importantly, we're -- to the ad question, we're rapidly monetizing it. Pluto TV benefits both from programmatic flow and from direct ViacomCBS ad relationships. As a result, that business has grown dramatically. And as I said, it's bounced back to pre-COVID growth levels already. And now we're building an integrated ecosystem where Pluto's platform will feed our pay offerings.

Now to your question on EyeQ, it's worth noting that Pluto TV is really a cornerstone of EyeQ, which, for those of you that missed it, we announced this week. EyeQ is a new ad platform, which will reach premium viewing audiences across the ViacomCBS portfolio. And here, we're talking about over 50 million monthly full episode users. So super high-quality advertising base.

And by the way, to your question on why buy from us versus other people, you will only be able to buy that product direct from ViacomCBS. So we're -- in addition to being a broader solution provider, which, of course, we are, in this video space, we've really taken the next step in providing turnkey access to high-quality product to solve advertisers' problems. And that's just another example of the power of ViacomCBS in the ad marketplace.

On the cost side, I think your costs were largely, if not fully, related to the impact of streaming and scaling that service. So on investment, I guess, a couple of points. One is we have very significant amount of content that we've already invested in across the company that we can deploy against the asset, and you saw us do that -- some last week in the preview launch.

Second thing I'd say is we understand the math of content investment. On CBS All Access alone, we have 5 years of LTV data, which we use to drive content decision-making, what we commission, what we renew, et cetera. And third, we're obviously leveraging live events and sports, which we already have that are a real driver of subscribers and usage of service in our experience.

Now as the original slate grows over time and gets comprehensive across the full suite of brands, there will be some increase in cash content investment. However, we do intend to fund that as the mix shift from lower-growth areas. And remember, we're also going to be benefiting from a larger subscriber base, which will generate even more revenue and help fund it.

Lastly, I'd say we are going to market this in 2021 as part of a relaunch. But again, here, we'll significantly benefit from the power of our existing media assets and the appeal of our IP, including in social. So again, this is -- it's going to be ultimately additive to our financials, and we'll track through.

Christina Spade - *ViacomCBS Inc. - Financial Advisor*

It's Chris. The other thing I'll add about the cost management is we're 2 quarters into the combined ViacomCBS, which is a powerhouse to manage all the costs across the company. So we're highly focused on strategically managing them all, and we will continue to prioritize investment in streaming and studio production. And given that we're now combined and we have a lot more experience understanding what's under every rock of cost, cost savings will continue and we will find more.

Operator

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

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

Bob and Chris, I know it's too early to sort of hone in on 2021 free cash flow. But I'm wondering if you could just help us think about cash content spend this year. And any help in thinking about what it's going to mean to sort of resume production as the COVID restrictions lift, hopefully, and

things return back to normal heading into next year? Just anything you can do to help us think about cash content spend this year and into next year.

And then I wanted to ask you, as you think about the super service and evolving All Access, sports is obviously something that is a huge driver of consumption and pricing power. I think you guys have a unique opportunity already in how you use sports and All Access, but that's something you're certainly leaning into. Can you just talk about your sports strategy on All Access and how you think about leveraging sports content on streaming versus linear and sort of the trade-offs of that strategic decision?

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

Yes. Sure. So you're right, it's too early to provide 2021 guidance, and we're not going to do that. But I will say with respect to your question on return to production, which obviously is critical, particularly when you get to a cash basis, you saw our very strong cash flow delivery in Q2, close to \$900 million on an adjusted basis. Certainly, that number benefited from working capital implications of our sort of production, I'd say, radical decline. It's not totally shut down but certainly radically declined. And you should expect that as we move forward in Q3 but more likely Q4 at scale, that, that working cap benefit begins to go the other way a bit.

And just to give you a little more color on the return to production because I think it's a topic everyone is interested in, we are currently executing a multifaceted return to production. Obviously, we're focused on health and safety of all involved in front of and behind the screen. And we have a real commitment to evolving approaches, locations, even story lines, to deliver that fresh product to customer and, ultimately, the consumer needs on a timely basis.

And as we do that, by the way, we are finding some ways that we can operate less expensively. We've learned a lot through this COVID phase from the productions that are on. And we're rolling that through -- whether it's entertainment or sports, and we're rolling that through.

We are dealing with all this through a centrally managed process so we can ensure application of best practices, mitigate risk, and we have the whole portfolio going through it. That has led us to having a whole bunch of fresh content on or coming to air shortly, unscripted, like Big Brother, which is on air now. We're shooting Love Island in a hotel in Vegas where the cast and crew are actually quarantined together. That will air later this month. Daytime soaps are back in production. In late night, Colbert and Corden are scheduled to return to their buildings next week, albeit without audiences.

Animation production continues to move forward. And by the way, I don't know how many of you saw it, but we made a series of announcements that were picked up last week about our path in adult animation. And that's really a building area of activity for us that I'm super excited about.

On the scripted side, we have a whole set of things in motion. We do have scripts on all series. We are putting shows through the restart process I mentioned. Our third-party production studios are also beginning to move forward. And we got a range of contingency plans in place, which include additional unscripted library movies and some other things. So a lot of options here as we work to serve consumers and customers.

To the cash flow point in particular, I think you should expect Q3, there's more production spend. In Q4, it builds there. And then we'll transition into 2021.

Christina Spade - *ViacomCBS Inc. - Financial Advisor*

I would also add to that, that conceptually, we do still believe for now and the long term, the key drivers of free cash flow improvement are cost optimization, working capital efficiency and our continued focus on further revenue monetization.

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*

So during your prepared remarks, you talked about plans to release originals on the new All Access, enhanced All Access product, spanning all of your key brands. I was hoping you could just elaborate, give us a little more insight into what that output is going to look like over maybe the next 12 or 24 months, particularly as your ability to resume full production comes back.

And then just on the same content side of things, when we look at your TV library and All Access, it stacks up incredibly well versus other streaming products. You tend to be a little more focused with your film portfolio. So I was hoping you can maybe just discuss the importance of movies to the enhanced product and whether there's an opportunity to be a little more differentiated there, particularly in light of the fact that you own a movie studio.

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

Yes. Thanks, Brett. Let me take that from the angle of the overall -- where we're going with the overall super service, and I'll deal with each of your questions within that.

So our guiding objective for a super service is to have a broad differentiated product at a compelling price point. And to get a real sense of that, take a good look at the preview launch we did last week where we materially broadened CBS All Access. The entertainment offering is now far wider. We added 3,500 episodes from 70 series from our flagship brands. It unquestionably widens the demographic appeal because we now have a real offering for kids, young adults, millennials and more. And look at the sports offering, now including UEFA. In fact, if you look at the collection of football, basketball, golf, soccer and more on the platform, we really are the first that have taken sports over the top in a meaningful way. And we believe there's real appeal here as part of a broad streaming service.

We obviously have events like the GRAMMYS, the Tony's, the Super Bowl. There's news, which is something people need these days, or maybe not, I don't know. And then there are originals, to your other part of your question. Today, All Access has a baseline of compelling originals, shows like Star Trek: Picard, Discovery and now Lower Decks, which is animated, The Good Fight, Twilight Zone and The Stand.

Starting in '21, that slate will greatly expand to include all flagship brands. And as an indicator, really a taste, we announced last week that Kamp Koral, which is a SpongeBob spin-off, will join the super service as the first Nickelodeon original. And that will be on the back of the exclusive availability of the latest SpongeBob film, Sponge on the Run.

So that's the kind of way we're using franchises. We have an original plan that goes through '22 quarterly. And I'm super excited about it, and you're going to hear more about that at another time. But that gives you a sense. The originals are going to be important, and they're going to be defining as well as the sports.

Operator

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

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

When you -- it was reported the other day that you and the team from CBS Sports were up in New England meeting with the NFL to talk about the next round of media rights. I think sort of everyone has talked about, not just on your call but on multiple calls, sort of the importance of the NFL specifically. And if the AAV of the contract moves from sort of around 1 billion upwards towards 2 billion a year, your subscribers -- and this is not a Viacom issue, this is an industry issue, subscribers will have dropped from mid-90s into somewhere probably in the 60s by the time you get to the next contract. How do you think about the return on investment of the NFL? Like how does anyone essentially stay in the NFL business as subs

are falling with the cost of the content going up so much? Like just how do you frame it? Or how do you think about it? Maybe how does CBS All Access or the new super service fit into the equation?

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

Yes. Rich, sure. So I'm not going to get into commenting specifically on press speculation, but what I will say is we value the NFL and the partnership. We're long-standing partners, and that relationship has been a mutually beneficial one. And as ViacomCBS, we're even better positioned to drive value for the league and for ourselves.

And to that end, it's important that you understand, as ViacomCBS, we have many monetization vectors for the NFL rights. Obviously, affiliate revenue, advertising, to your point, streaming, and that's both subscription streaming and ad-supported streaming, and potentially international revenue. So there's a lot of ways we can go here. And I am very confident that the partnership will continue to deliver value for both sides as it has for decades.

Operator

Our final question this morning comes from the line of Michael Nathanson with MoffettNathanson.

Michael Brian Nathanson - *MoffettNathanson LLC - Founding Partner & Senior Research Analyst*

I'll keep it easy, Bob. I want to ask you about international, the pay services coming in 2021. Can you talk a little bit about how you're thinking about maybe the pricing points, whether or not it will be an AVOD, SVOD hybrid like All Access? And will there be any like foregoing content licensing to launch this business in these markets? So just give us -- I know it's early, but any kind of piece you can about how you're thinking about the structure of these new services.

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

Yes. Sure, Michael. So streaming is clearly a global opportunity. And for ViacomCBS, we believe, obviously, as part of that, there's substantial international opportunity. We believe that's true both in free and pay. You look at our global operating footprint, which includes our linear reach, the content we own, including local content, on-the-ground resources and relationships, we really see that as a powerful go-to-market advantage and feel we're well positioned to succeed.

You look at where we are today on the free side, we're already in Europe and Latin America, Spanish-speaking Latin America with Pluto. We've seen very strong growth to date, particularly in Latin America, which we've only been there a couple of months. We do have almost 7 million international MAUs, 33 million global.

And we got -- we're just getting going there. We got plans to enhance our product, expanding our channel lineup. We're adding a bunch of distribution partners. We will enter Brazil and Spain later this year, France and Italy in early '21. So there's real growth ahead. And obviously, we're thinking about other things from Pluto as well.

On the pay side, we're targeting early '21 for the launch of our international streaming service. The exact product details and pricing, which we haven't announced, will vary by individual markets. But broadly speaking, the new service will feature exclusive first-run premier. So we're going to get those from the slate we're using with CBS All Access in the U.S., from Showtime and from Viacom International Studios. And alongside that, we'll use Paramount movies, box sets from CBS and Viacom media networks.

If you want to just compare it at a high level to what we're doing in the U.S., it will be a much more entertainment-focused product. It doesn't really have a sports -- a material sports lane to it. And it will have an output deal from Showtime because we don't operate Showtime networks outside

the United States. We will be rolling it in multiple markets next year, including Australia, Latin America and the Nordics. You'll probably see some press about that. But we're really excited about the opportunity.

And again, this is another place where the power of ViacomCBS is really going to show through, the power of the combination of content, the power of the international footprint we have that's really differentiated from others.

So look, thanks, everyone, for making time in this COVID day coming to us probably from your home. I'd sum it up to say despite the COVID-19 headwinds, we did deliver another solid quarter, reaffirming the strength and optionality of our combined operations. We're executing against key objectives and pushing ViacomCBS to emerge stronger.

As you see, the key earnings and cash flow metrics improved sequentially as we continue to make progress on our integration, and we are now nicely ahead of our run rate and 2020 merger-related cost synergies that we committed to. Our deal-making and execution is underscoring the benefits of our increased scale. And that, obviously, you see in the significant distribution agreements we struck with Verizon, YouTube and others.

And importantly, we're ahead of schedule in building our streaming business. Pluto TV is really cranking, and we're progressively moving towards the relaunch of our diversified super service early next year. And by the way, we just debuted our latest original Star Trek: Lower Decks on CBS All Access. It's a great piece of adult animation. I hope you all go and check it out.

And lastly, to the employees of ViacomCBS, I want to thank you for your amazing passion, dedication and tenacity at this challenging point in time. You're all making a difference helping drive our company forward. So thanks again for your time today and stay well.

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

Thanks, everyone, for joining us. Have a great day.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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