Corrected Transcript

07-Dec-2021

ViacomCBS, Inc. (VIAC)

UBS Global TMT Conference

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MANAGEMENT DISCUSSION SECTION

John C. Hodulik
Analyst, UBS Securities LLC

Good morning, everybody. I'm John Hodulik, the media and telecom analyst here at UBS. Welcome to Day 2 of the UBS Global TMT Conference. Very pleased to announce that our morning keynote speaker today is Bob Bakish, the CEO of ViacomCBS. Bob, thanks for being here.

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

Hey, John, thanks for having me. Great to be here.

John C. Hodulik
Analyst, UBS Securities LLC

So, we've got about 40, 45 minutes for Q&A. I've got a bunch of questions that I'm going to run through. And again, as always, if you have any questions out there in the audience, please use the app and send them in and I'll work them into the conversation.

QUESTION AND ANSWER SECTION

John C. Hodulik
Analyst, UBS Securities LLC
Q

So, Bob, obviously an eventful year, a lot has happened in 2021. Can you start out today by talking about the sort of key accomplishments for 2021 as well as the major priorities as we look out to 2022?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.
A

2021 has been an interesting year for all of us. But as I look at ViacomCBS, I'd note a couple of things. One is we really have a content engine that's firing on all cylinders. You see that we've strength at CBS, at Showtime, and our basic cable networks, and in film. In the film side, particularly day-and-date with streaming, which I guess brings me to the second thing I'd say, which is, we've seen real momentum on the streaming business, that's both Paramount+ and really Pluto driving pay and free streaming respectively for us.

In fact, as I look at the fourth quarter that we're in, total streaming revenue for the company will now cross a $5 billion run rate. So, we're getting somewhere significant pretty quickly. And we're set up well for 2022, both on the content side and with the important new distribution deals kicking in, including T-Mobile on the wireless side in the US and Sky in Europe. And we'll also be launching a significant joint venture in Europe with Sky Showtime, so 2022 will be a big year for us particularly internationally.

And then the third thing I'd say business wise is our core linear business continues to be a highly relevant asset. You've seen it return to ad growth. Our distribution track record on a combined company basis is really very strong and we're seeing benefit from the entire portfolio whether that's the broadcast networks, cable networks, premium stations, and of course now apps where we've extended our model into that. And it's a super powerful promotional platform. You've seen us using that at scale recently. And look, we're in great shape financially. Our balance sheet is bulletproof. We got a lot of cash on the balance sheet. And that all, you put all that together and I can't wait for 2022.

We're going to continue to focus on really two priorities which is driving streaming and maximizing the contribution from our legacy business. And against those two objectives, we've got a fantastic pipeline on the content side including, by the way, a killer film slate. So, as we look to theaters reopening at scale whether it's Scream or Sonic 2 or Top Gun Maverick or Transformers or Mission Impossible, those are all 2022 titles and they're all really good and they're all pretty much in the can. I think Sonic still has a little more work to do on it, but we're in great shape from a production standpoint. And then we got more drivers kicking in for streaming both in the US and internationally.

And for all of you out there, we'll have a significant investor event in early 2022 where we'll update you on our streaming performance. We'll talk about content, we'll talk about international expansion, we'll talk about an updated set of overall goals, and we'll be providing all of you enhanced transparency through new segment disclosure, including a D2C P&L. So, 2021, really big year for us and we're excited about 2022.

John C. Hodulik
Analyst, UBS Securities LLC
Q

Awesome. Great overview. Why don't we dig right into the D2C business and run through that and talk about the traditional TV business. About a month ago, you guys announced Paramount+ had its best week for sign-ups since the rebrand. What metrics are you looking at?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

Yeah. So, as I said up top, like we're really seeing incredible momentum in streaming including on the Paramount+ side. As you note, in November, we announced we had our best week ever. I would also point out that November was our best month ever. And so, we have real momentum both in terms of subscriber additions as well as in total consumption. And on the addition side, as we said on our last earnings call, we see Q4 accelerating versus Q3. And in fact, sitting here today, that acceleration is going to be greater than I thought when I made the comments on the call. So, feeling very good about that.

We, of course, don't only look at subscribers to your question on KPIs. We also look at other metrics. We look at hours watched per household and we've seen very material growth there in the quarter. We look at churn obviously and we've seen continued improvement there. So, [ph] we're feeling (00:05:10) very good about all these metrics we're looking at for Paramount+ and they're clearly moving in the right direction.

John C. Hodulik
Analyst, UBS Securities LLC

Q

That's great. So, let's talk about the content side. So, what's driving all the engagement and the lower churn? What content is really bringing people in and keeping them involved?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

Yeah. Well, look, as you said, what's driving it is the content, and it's really our broad content slate whether that's kids and family, whether that's movies, scripted, sports and events or unscripted, they're all contributing. And for some sort of tangible examples of that, look at Clifford, that set a new record as the service's most watched exclusive film. We launched the first of a whole series of South Park specials in South Park: Post COVID. That set the record for first day of streaming across all movie and series debuts across Paramount+. Of course, I think everyone's probably heard by now of Mayor of Kingstown, that was the number one scripted original drama we've launched since the rebrand of Paramount+. I'd also point out that it was the biggest scripted premiere on cable since Yellowstone, reaching over 3 million viewers. And also in scripted, we did this cool thing with SEAL Team which is a CBS show and that totally worked. We moved it from CBS to Paramount+ after four episodes, and we've seen that be a nice driver of subscribers.

Over on the sports side, we set a new NFL regular season record in terms of viewers, streams, and minutes on Thanksgiving Day. And I'd also point out, and this is amazing actually, it was the most watched linear game on linear since 1998. So that Dallas game was truly incredible. Events matter too. Probably some of you saw the ADELE ONE NIGHT ONLY event. If you haven't, you really should. It was spectacular, and that was a big hit on Paramount+ and in linear. In fact, over 26 million people watched that.

And then lastly, unscripted continues to work. That's a wheelhouse area for us. Latest season of MTV's The Challenge doing very nicely. And the other thing I'd point out since I talked about these lanes is we're also, and this was our thesis, but we're seeing consumption across the lanes from the same consumers. And that's really important because you might bring them in for one thing, but they're dining out on more and that's key to managing subscriber life and reducing churn and all that. And we're definitely seeing that work. And we're not done with the content yet. I mean, we got more stuff coming, including this year. We have another animated film in Rumble, coming exclusively to Paramount+ on December 15. We've got the Yellowstone prequel 1883. By the way, I watched the first episode of that recently. It's amazing. Tim McGraw is really good in it and we got another South Park special. Both of those are in December and then you look to 2022, early 2022, you got Halo, you got The Godfather story, The Offer. We're really chock full in terms of content.

Last point I'd make here is marketing and I referenced a piece of it with the SEAL Team comment but we have a very powerful marketing strategy we're using that really leverages our traditional assets. You see that what we did first day-and-date with Paw Patrol and then Clifford on the film side where the campaign spanned both. You see that with us launching this new Taylor Sheridan series on the back of Yellowstone. That's Mayor of Kingstown and soon to be 1883.

You see that in the move from CBS, [ph] the move of (00:09:00) SEAL Team from CBS to Paramount+. You see that without stumping around South Park on the cable in the Comedy Central side. And that's a real advantage that we're going to continue to deploy. So, it's not only about the content, obviously content is at the core, but it's also about how we're making consumers and fans aware of that content. And it just shows that we have a content engine that works and we have a marketing engine that works and that's true domestically, that's true globally, and it's definitely driving Paramount+.

John C. Hodulik
Analyst, UBS Securities LLC
Q

Yeah. It seems that you've seen a big expansion in the last couple of years. I mean I'm watching a lot of these titles that you're talking about right now. We'll come back to content, but first 2022 is going to be a big year for European expansion. Can you talk about the market opportunity I guess for both Paramount+ and Showtime and SkyShowtime?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.
A

Yeah. Sure. So, if 2021 was, at the core, about the launch of Paramount+, 2022 is really about global expansion. Not to say we're not going to do a lot in the US, we are, but the international story is going to be really big in 2022 because what we're doing is we're leveraging that international infrastructure, the on-the-ground resources, the relationships, et cetera to quickly drive our streaming business outside the United States. We did a bunch of [ph] ad (00:10:16) in 2021. We launched in 25 markets, including Latin America, including the Nordics, including Australia.

2022 is about expanding into Western Europe, including in partnership with Sky. There's really sort of two flavors of our Sky relationship. One is a commercial partnership, which we're using to launch in the UK, in Germany, in Italy, where they'll be distributing Paramount+ to all Sky Cinema subscribers. And for us, that's really a compelling way to accelerate our penetration while preserving 100% ownership of our streaming business. We also think it will have very attractive characteristics from a subscriber acquisition cost standpoint and from a churn standpoint. SAC should be significantly – both should be significantly lower than straight D2C. And importantly, we preserved our rights to do straight D2C in all these markets. So very excited about moving forward and operationalizing that deal, that sort of deals with Sky.

And then, as you mentioned, we're going to launch SkyShowtime and that's a 50/50 equity joint venture, 50% ViacomCBS, 50% Sky or Comcast. And that joint venture will target roughly 90 million broadband homes in 20 smaller, mostly Eastern European markets. By the way, we had no plan to launch in those markets previous joint venture for at least two years, so it brings that timeframe forward significantly. We also believe it will allow us to penetrate those markets, which again are small or midsized markets, faster and in a more cost effective manner and preserves capital for the larger markets on an O&O basis. And of course, it will benefit from a combined company or companies offering on the content side. So very excited about that.

John C. Hodulik
Analyst, UBS Securities LLC
Q

Your peers are also expanding into Europe. It seems like it's a big year for [ph] the D2C (00:12:20) platforms to move outside the US. Do you see room for all these services to succeed?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.
A

Yeah, look, streaming – there's a big TAM out there. If you look at the data on number of subscriptions per consumer, that number continues to go up. So, it's not a zero sum game. There is market share for multiple parties out there. I do very much like our positioning in that mix given the breadth and depth of our content, combined with our ability to really leverage on the ground relationships around the world again something you've seen us move quickly to. So, we feel great about penetrating that international TAM.

John C. Hodulik
Analyst, UBS Securities LLC
Q

[indiscernible] (00:13:07) Asia is another potential area of growth for you. And I think this morning you guys announced [indiscernible] (00:13:14).

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.
A

This morning we announce that we have a multifaceted partnership with CJ Entertainment there, a leading South Korean media company. And we're doing a bunch of things with them, including having them launch Paramount+ in South Korea in 2022 in a bundle with a product that they are a significant equity owner in called TVING. And TVING is really a top local South Korean streaming service. And so, we like and they like this combination of bundling in Paramount+ because it'll give you the benefit of kind of the best of local with the best of global, and we think that helps both of us. And for sure, it accelerates our plans in Asia because, again, we didn't have any near-term plans in Asia and now we're going to be starting there in 2022. And you shouldn't be surprised if you see us do some other things there as well.

John C. Hodulik
Analyst, UBS Securities LLC
Q

Got you. Now, bringing it back to the US. You announced a big wholesale deal with T-Mobile, obviously, on the back of what you're doing in Europe with Sky. Anything you can tell us about the economics of that relationship and are you seeing a strong reaction in terms of uptake in the [ph] US from (00:14:28)?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.
A

Yeah. So, I've spoken at this conference. I think this is the fifth year. Actually, UBS conference was the first conference I spoke at when I became CEO of Viacom legacy. And I'm pretty sure at that time, I said and I've certainly said it repeatedly, since then that I fundamentally believe in the power of partnership. And that there's huge benefits to aligning with great brands and great companies to build important market share. And the T-Mo and Sky deals are examples of both. I already talked about Sky a little bit. On the T-Mobile side, we recently launched with them in the US, where Paramount+ was being offered to all their subscribers. Now, that deal has had no promotion yet, that was intentional. We wanted to kind of get it up on the platform, et cetera. And now, the promo will really ramp as we get into 2022. And by the way, in 2022, we'll have integrated billing where you just click and you're setup.

Right now, it's not promoted and it's not integrated billing. You have to put your credit card in. So, we have very modest expectations. We are ahead of those expectations, so we're very pleased with it today. But again, 2022 is the big year certainly for T-Mobile. In terms of your question on economics, we like the deal. We see it as providing real advantages in acquiring and retaining subs in a very cost effective manner. And as you know, they've already done a bunch of stuff in the streaming space, so they have a sense of how their platform and how consumers interact. So, we're very excited about that deal and believe it will pay significant dividends particularly as we get into 2022.

John C. Hodulik
Analyst, UBS Securities LLC

Q

So, is that in early 2022? Is that like a first quarter contribution, do you think you should start to see the advertising ramp-up for that?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

Yeah. Yeah. Yeah. The real push starts – it'll affect Q1. And there's really two parts. Just to be clear, there's the ad piece and then there's the billing integration piece. And the ad piece is the first piece and then the billing integration kind of really kicks in after that. But by the time we get to the end of the first quarter, we should be in full swing.

John C. Hodulik
Analyst, UBS Securities LLC

Q

Got it. So, let's move on to the FAST market and Pluto. Pluto is on pace to be a $1 billion business this year. Have we seen the majority of the growth or how big can that get? And how much of this, the incremental ad spend, is sort of – the ad spend is incremental to the business?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

Yeah. So, look, Pluto is the leading, as you said, FAST, free, ad-supported streaming television service in the United States. And you see us quickly move to rollout in international markets, most recently in Italy. So, it's rapidly becoming one of the top FAST services globally. As you know, because we talked about it in our Q3 call, at the end of Q3, we had 54 million monthly active users and we continue to expect that Pluto's MAU ads will, like Paramount+, accelerate in Q4 versus Q3 because look, people, like many people, like free. When we first did the Pluto deal, people were confused, what are you doing. I mean, since then, a lot of people now understand the power of free, the power in the ad space, and the fact that free has a very large TAM, so the positioning of Pluto is great. The revenue model is really powerful here. It's part inventory creation, part monetization on the inventory creation side. We're seeing the benefit of MAU growth and time spent. That's what really creates the inventory.

And then you monetize it through pricing and we got a lot of room to run on the pricing side as well as sell-through. We've lean more on sell-through than price to-date. But that combination, it really is working and it's already at scale. I mean, Pluto, when we first said it would be $1 billion business in a couple of years, people thought we were nuts. Well, guess what? It's a $1 billion business this year and that's at least a year ahead of what we thought at the time we said it. Why? Because it's overwhelmingly super high value, attractive to advertiser, connected TV revenue, and that revenue that we're getting is really incremental to our linear business. Why? Because linear is supply constraint. And here, we have very high-quality supply. We're able to introduce into our existing agency and advertising relationships. And as I said, it's working.

And that revenue coming into the system, that's what's driving what we call our flywheel effect or actually more accurately, Tom Ryan, who runs streaming for us calls the flywheel effect. I just stole it from him. And that flywheel effect means as more revenue comes into the system, third-party content owners because obviously we have a lot of ViacomCBS content on the platform but there's a lot of third-party content too, there's like 200,000 hours of content on the platform in the US. So, as more revenue comes in, these content for suppliers see more value on the platform, which in turn leads to a bigger and higher quality selection of content, which in turn leads to more revenue. So, the Pluto business is great. It has tremendous traction on the consumer and advertising side, and we feel great about the road ahead for Pluto in terms of growth.

John C. Hodulik
Analyst, UBS Securities LLC

Q

It sounds like the net ads up sequentially. And I guess your comments suggest that engagements have been very strong as well, which is surprising. I guess coming out of the pandemic everybody was locked in their homes, we thought that there would be some kind of slowdown in engagement, but doesn't really look like there is. Can you talk about what's driving that? Is it new content you guys are continually adding to the platform or what's driving the strong engagement?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

I think it's two things. One is, yes, we continue to add compelling content to the platform. Some content cycles through and we look to upgrade it. And again, given that we have more revenue, people are seeing more value and they want to be part of it. That's one thing. But the other thing is it's starting to become more habitual to people. When you first start using something, you might check it out here and there. But as people dig more into Pluto and they see the value of both the lean back linear offering, which continues to be most of the consumption by the way, as well as the on-demand product, people are spending more time with it. So, again, it's a mix of both, I would say.

John C. Hodulik
Analyst, UBS Securities LLC

Q

Got it. How does Showtime fit into the longer-term D2C strategy? And I guess over the last few months, you guys have been focusing on bundling Paramount+ and Showtime. Is that helping to drive subs? What's the uptake on that one?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

Yeah. So, feel really great about Showtime. Showtime also had its best month ever in November in terms of both signups and consumption. And like Paramount+, that's driven by content. We had Dexter: New Blood. That set new records really for OTT signups on its premiere night, and it's become Showtime's most watched drama debut ever. It's a great show by the way. We bought the original Showrunner back. If you guys like Dexter at all in prior seasons, you should really check it out. It's a great version of Dexter. And it's not only working back to our general story over the top, it's also the most watched premium new series of the year on all of premium television. So, very happy with Dexter.

And then we introduced a new show to people this quarter, which is Yellowjackets. It's kind of an intense series, involves a girls' soccer team that's involved in a plane crash some years ago, and it's all the backstory around that. And that quickly became Showtime's second biggest OTT series to-date. So, look, the D2C product is clearly connecting with consumers, and it's going to continue. I look at the slate going forward. We have a show called Super Pumped: The Battle for Uber. This is by the Billions creators. That should be really good. We have Man Who Fell to Earth, which we're excited about. And then we got a very cool show called The First Lady, which is all about a series of US first ladies. And all three of those are going to premiere in the first half of 2022, and I know Nevins and I are excited about all of them.

And if you take it up a level, we really like this strategy that spans free, pay, and premium because we're convinced, and early data suggests we're right, that it allows us to unlock the largest total addressable market. And within that, the premium slice of it with Showtime, we're really benefiting from a differentiated brand position, really a pure brand position in premium. And we're seeing the subscriber appeal. To your question on the bundle, the bundle of Showtime and Paramount+, which is only available on our owned and operated distribution, is off to a good start. And more broadly speaking, you look outside the US, we're going to have a fully integrated product. So, Showtime remains an important part of our D2C equation. We're very happy with how it's performing. And again, at the core, it's about great content.

John C. Hodulik
Analyst, UBS Securities LLC

Q

Right. Staying with content and sort of putting it all together, you guys suggest that D2C content spend is going to go from about $1 billion in 2020 to $5 billion in 2024. Can you give us a sense of, I guess, where do you expect 2021 to land and 2022 if possible? And one of the big questions we're always getting is how much of that incremental spend is incremental to the company? [indiscernible] (00:24:29) anything you could give us on that would be great.

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

Yeah. Sure, John. Look, we're investing in streaming for two reasons. One is we know it's the next leg of media. There's no question about that. And two is because we know our content works and you only rewind to five minutes ago when we're talking about the content both on Paramount+ and Showtime to see our content is really connecting with consumers in streaming. We knew that initially from our licensed business. Now we're repatriating and doing it for our O&O platforms, and it works.

As we've said before, we're more than doubling streaming content investment in 2021 versus 2020. And that doubling is back-weighted because it syncs up to when content has become available, in particular for Paramount+. And obviously, we're having a big quarter. Now, we did reflect that in our Q4 outlook. And again, we're executing on our plan. We said we would deploy incremental capital to streaming. That's exactly what we're doing, and we're very encouraged by the early results we're seeing.

In terms of total company spend, we will continue to increase streaming content investment in 2022 and 2023, but not all of that will be incremental to total content costs. As we have before, we will continue to remix as well as benefit from multi-platform utilization of content. On that second point, if you think about it, the whole CBS slate in the US does double duty. You've seen us do a bunch of cross-platform moves. I talked about SEAL Team. We just recently did something with Loud House in terms of a holiday movie on Nickelodeon. And of course, we're going to be running that whole original content slate globally which is another benefit. So, yes, we will continue to invest. The streaming investment won't be totally incremental. But we're doing it because we're seeing positive results and because we see a big prize out there.

John C. Hodulik
Analyst, UBS Securities LLC

Q

And what lanes do you think that this is sort of getting back to what we were talking about earlier, you have sports, you've got live events, you've got kids, you've got movies, you've got scripted drama series. I mean, what areas do you think you guys could go deeper into and drive growth? [indiscernible] (00:26:52) tying it all together, we're talking about Europe, we're talking about Asia. Can you just talk a little bit about sort of locally produced or international content that might help drive some growth in those individual markets? Just trying to get a sense for where those incremental dollars will be deployed.

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

Yeah. So, look, as I said earlier, we are actually seeing all those lanes work on the Paramount side, so we will continue to increase investment in all of them. They won't be at the same level. You will see more benefit or more product from the film side. Now, that's partially because as you come out of COVID, you have more [ph] pay one (00:27:31) availability. And again, we like this fast follow strategy, so more product will show up just simply because more will be released theatrically. We continue to grow our scripted line-up. That took a little while to get going for P+ given COVID production delays, but now you're seeing that come online. We love kids. We're already at, really at scale at kids. So that's probably not material growth there, but we'll continue to introduce fresh product.

On sports, likewise, we're in a good place on sports with the NFL, with some of our European football properties, et cetera. So, we'll look selectively, but I like the waiting that we have now. And then on scripted, we'll continue to build that out because that's a real wheelhouse. So, you'll see growth in all those to varying degrees. And then to your question on global, one of the other big things that's going to happen in 2022 is we're really going to leverage our ex-US production at places like Telefe in Latin America, which has its own like mini Paramount lot makes over 1,000 hours of content a year. We'll start to use that as part of our global slate. We'll add in content from the UK, from Israel, some stuff from Down Under, so we'll harness that. That will both give us local relevance as well as improved sort of cost per episode.

And one of the related things we're doing there is we're setting up some offshore unscripted hubs to do formats, which will take down our costs and we'll use them for US product too, made for CBS, made for MTV. And that will take down our cost per episode, but increase the level of offering we're able to have all around the world. So, a lot going on in the content space that really leverages the tremendous capabilities we have.

John C. Hodulik
Analyst, UBS Securities LLC

Q

Got it. So, certainly one of the themes over the last [ph] six ROGs (00:29:28), like 5 to 10 years frankly has been just increasing budgets of players in the media space especially D2C I guess most recently you saw Disney go to $33 billion talking about their content spend. You guys have this [indiscernible] (00:29:43) $5 billion in 2024. What gives you confidence that this is the right level of spend for the D2C business longer-term? And I guess like many of your peers, you have to wait to see what Discovery says after the HBO Max deal closes but what gives you confidence that this is the right level, or if you look out, you're not going to need to spend more than that to continue to drive growth?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.
A

Yeah. Look, it's an excellent question. A lot of discussion on that in the industry today. What I can tell you from our perspective is we are executing against the plan that we first debuted to investors earlier this year. We are ahead of that plan in terms of subscriber and top line performance. We've got all kind of KPIs that say our content investment is really working. And in fact, driving our business faster than we anticipated at that time. And it's definitely correlated to our planned ramp in spending where you see more original scripted series this quarter than, say, in the second quarter.

So, that's why we're confident in our plan because the early data suggests it is working and confirms that consumers all around the world are attracted to ViacomCBS content and will spend money to get it in the form of subscriptions or time in the form of Pluto. Now again, Pluto is more library, but we feel we're on the right track. And you look at the metrics, I mean our pay subscribers since our year-to-date have grown by 17 million. We're at around 47 million as of the end of the third quarter and again the net ads will increase in the fourth quarter. We've picked up about $1.2 billion of incremental streaming revenue year-to-date. And now we're at this $5 billion run rate as we look at the fourth quarter that we're currently in. So, again, it's early data. There's a lot of discussion about it. But what I can see looking at all this is our plan is working and arguably better than we thought when we crafted it.

John C. Hodulik
Analyst, UBS Securities LLC
Q

Makes sense. So, it sounds like we already got some profitability data. This is the last question on the D2C side. We're going to get some profitability info from you guys, I guess starting in the first quarter. What can you tell us about the sort of profitability of the D2C segment today? And maybe if you could delineate between what you're seeing at Pluto and then versus SVOD? And when do you expect to see sort of peak earnings pressure from the investments in these D2C businesses?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.
A

Yeah, sure. So, to set it up a bit, when you think about ViacomCBS and streaming, whether it's top line or bottom line, you really should think about three advantages we have. And it's this combination that I believe gets us to a very good place particularly over time. One is clear benefit from multiplatform and windowing. You heard me talk about numerous examples of that earlier today. Two is global and we've long been a global operating company and we will continue to be and there's a lot of, as you know, eyeballs out there.

I think Sumner once said that 97% of the world's eyeballs are outside the United States and that's directionally true. So big market opportunity for us to unlock and lean on our relationships, et cetera, like you saw us do this morning with CJ, and importantly, a strategy that fully embraces dual revenue streams. We like the subscription business, but we like the ad business too. And again, that combination, if you want to think in TAM terms, it's the largest TAM revenue. And we see clear benefit of being in both from serving customers as well as from driving our revenues and ultimately creating margins. We do [ph] believe (00:33:45) streaming will be accretive to our business over time. As I said, we're ahead. And one interesting fact that we haven't mentioned on the Pluto side since you asked specifically is Pluto in the domestic US today is profitable.

Now, we haven't been running it for profitability. We've been running it for growth, but it's actually profitable in 2021 and it's at margins approaching broadcast. So, this business clearly has the opportunity to create incremental bottom line value. And with the subscription side of it, where earlier in that curve, we only launched

Paramount+ this year. It'll take a couple of years as it has for everyone to get to profitability. But again, we look at our plans, we get there as well. And again, we strongly feel we're on the right track and that this is an incremental business. I love the fact that it's a $5 billion run rate business this quarter annually. And we're very excited about the road ahead. We're obviously continue to be very focused on how we're investing money. We literally look at it weekly, but we're pleased with where we are.

And you're going to see more of that as investors because as I said, we're having this investor event in early 2022. In this investor event, we're going to provide actually slightly ahead of it, enhanced segment disclosure, new segments, which include a D2C segment, so you can see that business top and bottom line separately from call it the legacy [ph] business (00:35:19). And we think that's going to help you understand better the value [ph] on the streaming side and traditional side (00:35:30), which is very material. And so, that should help you with things like sum-of-the-parts and all, and we're really looking forward to taking all of you through that.

John C. Hodulik
Analyst, UBS Securities LLC
Q

And Bob, do you expect to give guidance on that D2C business in terms of both sort of peak earnings dilution from D2C as well as sort of a timetable for when we get to sort of see EBITDA breakeven in that segment?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.
A

Yeah. So, we're going to provide an updated view on the business. I don't want to get into all the specific metrics...

John C. Hodulik
Analyst, UBS Securities LLC
Q

Sure.

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.
A

...but there will be certainly some, call it, top line-related stuff as well as looking at margins and the like and how that tracks out over time.

John C. Hodulik
Analyst, UBS Securities LLC
Q

Got it. Looking forward to that. Maybe let's turn to the sort of the traditional business with the time we have. Maybe starting first with advertising. Any impact you're seeing from the supply chain issues we're hearing about and how's the scatter market turning?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.
A

Well, look, I'll start by saying we're not immune from the supply chain issues that are out there. That said, this is a transitory issue. It's not a long-term reflection of the ad market. And we're certainly very well-positioned for the rebound of it. And regardless of that challenge, we do see growth in Q4 linear advertising as we look at it today. The underlying health of the business is good. There's strong pricing out there. There's good demand from a variety of categories. Speaking of categories, we're seeing health in some categories that we're weak, call it, earlier in the year. And that's movies, that's retail, that's travel. So, yes, supply chain is a bit of a headwind, but we will grow and the business overall is looking very good.

John C. Hodulik
Analyst, UBS Securities LLC

Q

Got it. And I mean, the drivers of that, I guess, are these categories coming back, the new pricing in the scatter market. I guess as you look out to 1Q, do you think that – I mean again in every presentation from an advertising standpoint, we talk about these supply chain issues. Do you think that that could drag into or have a noticeable impact as you look out into 2022 or is it more transitory?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

I think it is transitory. I also don't think anyone really knows what the exact timeline of coming out of it is. I know the retailers are working really hard and the big ones have made a lot of progress. So, I think you're going to see categories rebound at different rates and probably that feathers in as you go into 2022 and beyond. But a precise timetable is a little hard to call overall at the moment.

John C. Hodulik
Analyst, UBS Securities LLC

Q

Sure. You had some positive comments on affiliate renewals earlier in the presentation. How is pricing or anything you can tell us about pricing on [ph] recent renewals (00:38:26)? Obviously, you've done a lot of work on the cable side recently. And anything you could tell us also about the scope of those deals. I know that they've sort of become a lot more holistic and include distribution of your apps and it just seems to us that there's been – these renewals are a lot less contentious. It seems like you guys are getting the pricing and getting distribution of your apps. Just anything you can tell us about just the overall environment in terms of these affiliate deals.

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

Yeah. So, look, I'm feeling great about our role in the affiliate side of the business. We're clearly a cornerstone supplier to MVPDs and vMVPDs in the US and beyond. Our content matters to their customers. And we know how to get deals done. We have a lot of levers to pull, whether that's pricing on [indiscernible] (00:39:17) whether it's on-demand product, advanced advertising. Now, we're distributing apps with folks, whether that's pay or free. And we have a world-class team doing it. So, we feel very good about it and you've seen us do deal after deal after deal. We continue to get ARPU improvements and continue to have annual escalators. We continue to grow our distribution of our newer products like Paramount+ and Pluto and we continue to see growth including in the fourth quarter. So, feel very good about what's going on there.

John C. Hodulik
Analyst, UBS Securities LLC

Q

Got you. And then lastly on the traditional business just licensing trends going forward. Obviously, it's a big part of your business, licensing your content to third parties. How should we expect that to trend over the next several years as you sort of balance growth and/or cash flows in that business with growth in the D2C business?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

Yeah. So, licensing is a big business and I would note just from a definitional standpoint, it includes a lot of things. It includes our home entertainment business whether that's physical or digital. It includes syndicated television. It includes consumer products. And of course, it includes licensing content. If you look at the near-term, that business will continue to reflect licensing deals including of original content that we did before we launched Paramount+ because you typically do life of series deals, so there are some series that we're going to continue to fulfill.

And that's certainly going to impact on a revenue basis positively next couple of quarters, et cetera. As we increasingly transition to leveraging our particularly franchises and original production for our owned and operated streaming assets principally Paramount+, I would and that in turn will create a decline in that third-party business over time as these deals roll off.

I would note that as an example of that, we just took back Star Trek: Discovery internationally from Netflix. And so, we now have that property globally. That's clearly a core franchise for us. And it's working. We just launched Season 4 I guess it is, and it's off to the fastest start in terms of subscribers than all of the Discovery series seasons to-date. So, we're feeling good about that. Again, we're on a path where you will see us increasingly maximize our franchises for our owned and operated benefit.

John C. Hodulik Q
Analyst, UBS Securities LLC

Makes sense. Maybe some sort of bigger picture questions about the industry. Obviously, we've seen a spate of consolidation. Viacom has been a part of it. I mean, how do you expect the – do you expect more consolidation among the traditional media industry? And then maybe thinking about ViacomCBS itself, I mean, do you believe at this point that as the world transitions to D2C that Viacom sort of has the scale to sort of compete in that business longer-term?

Robert Marc Bakish A
President, Chief Executive Officer & Director, ViacomCBS, Inc.

Yeah. So, John, always a popular question. I think there's certainly potential for additional consolidation in this industry, particularly with respect to the smaller players, and there's some narrative around that with some companies as we speak. We will certainly look at opportunities in that regard. We've done a number of deals particularly internationally, most recently Fox TeleColombia [indiscernible] (00:42:56) Mexico.

John C. Hodulik Q
Analyst, UBS Securities LLC

Right.

Robert Marc Bakish A
President, Chief Executive Officer & Director, ViacomCBS, Inc.

So, we'll look at it. But big picture, we really like the configuration of the company. You see us extracting significant value from it, particularly on the streaming growth side. So, we feel very good about that. And we're going to continue to focus overwhelmingly on organic execution because that's where we see material value creation ahead.

John C. Hodulik Q
Analyst, UBS Securities LLC

Got it. And then maybe the other side of the fence, are there additional sort of non-core assets that you think you could look to sell? And then any color you can give us on the Simon & Schuster process?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

Yeah. So, we made a commitment to all of you that we would divest non-core assets as part of the ViacomCBS merger. You've seen us move very quickly in that regard, divesting real estate assets like Black Rock and Radford divisional assets, non-core divisional assets like CNET and Simon & Schuster. We've done on the order of $5 billion of divestitures since the deal closed. And again, feel very good about the value we're extracting there and using that value to support our financial priorities, which are investing in streaming, continuing to return capital to shareholders through our dividend, and deleveraging our balance sheet.

I mean, I remember the first time I was on with you, John, we were over 5 times levered [ph] five (00:44:23) years ago. Now, it starts with a low 2. So, we're in great shape financially. And part of that is that we moved swiftly and aggressively in terms of non-core asset disposition. I will tell you that there really, at the moment when I look at our portfolio, there aren't any other significant non-core assets. So, we're probably through the activity there. Yes, we do have to close Simon & Schuster [indiscernible] (00:44:52-00:45:01) transaction is in the best interest of consumers [indiscernible] (00:45:07) also say that PRH, Penguin Random House has agreed to take all necessary steps to obtain the required regulatory approvals, including defending the transaction through litigation. So that's what they'll do if need be. In terms of when it closes, it's kind of hard to predict. Obviously, we look forward to resolving this as soon as reasonably possible.

John C. Hodulik
Analyst, UBS Securities LLC

Q

Got it. And then just last for me. Post the sale of the lot and some of these other asset sales, you're going to have a fair amount of cash on the balance sheet. As you said, the leverage has come down. You touched on it, but can you just give us a sense for sort of uses of cash. Is all that cash going to be used to support and grow the D2C business? Or is there other – is it possible to sort of return excess cash to shareholders through buybacks or other means?

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

A

Yeah. So, in order, we're going to invest in streaming. We're going to pay our dividend. And you know, we might do some small, small tuck-in acquisitions here or there, but it's overwhelmingly about financing our organic plan and maintaining a strong financial position for our investor base.

John C. Hodulik
Analyst, UBS Securities LLC

Perfect. That's great, Bob. I think that's all we have time for. Thank you very much for participating again as always.

Robert Marc Bakish
President, Chief Executive Officer & Director, ViacomCBS, Inc.

Yeah. Well, look, it's great to be with you. I hope next year, we'll actually be in person. I'm confident that we will be. And just to close, I feel great about 2021. We've done everything we said we would, including [ph] advancing (00:46:48) really strong momentum in streaming. And you'll see that in our fourth quarter streaming numbers where they accelerate nicely. You heard that today in terms of Pluto being profitable on a domestic US basis and you see the road ahead. So, we're excited about what's to come. We're excited about our content that we have out today. We're excited about 2022 and we're confident it's going to continue to pay dividend. And I would say we're more than confident. Shari and I have conviction on this because you will note that both of us bought stock in November. [indiscernible] (00:47:23) extraordinarily undervalued company and we're committed to creating real shareholder value here and we fundamentally believe we're on the path to do so.

John C. Hodulik

Analyst, UBS Securities LLC

Perfect. That's great, Bob. Again, thanks for joining us and thank you all for attending.

Robert Marc Bakish

President, Chief Executive Officer & Director, ViacomCBS, Inc.

Thanks, John. Thanks, everyone. Stay well. Bye-bye.

John C. Hodulik

Analyst, UBS Securities LLC

Bye-bye.