Q4 2023 Earnings Call

Company Participants

- Jaime Morris, Executive Vice President, Investor Relations
- Naveen Chopra, Executive Vice President, Chief Financial Officer
- Robert M. Bakish, President and Chief Executive Officer

Other Participants

- Ben Swinburne, Morgan Stanley
- Bryan Kraft, Deutsche Bank
- Jessica Reif Ehrlich, Bank of America
- Michael Morris, Guggenheim Partners
- Robert Fishman, MoffettNathanson
- Steven Cahall, Wells Fargo

Presentation

Operator

Good afternoon. My name is Nadia, and I'll be the conference operator today. At this time, I would like to welcome everyone to Paramount Global's Q4 2023 Earnings Conference Call. At this time, all lines have been placed on mute to prevent any background noise. After the speakers' remarks, there'll be a question-and-answer session. (Operator Instructions).

At this time, I would like to turn the call over to Jaime Morris, Paramount Global's EVP, Investor Relations. You may now begin your conference call.

Jaime Morris {BIO 16725844 <GO>}

Good afternoon, everyone. Thank you for taking the time to join us for our fourth quarter 2023 earnings call. Joining me for today's discussion are Bob Bakish, our President and CEO; and Naveen Chopra, our CFO. Please note that in addition to our earnings release, we have trending schedules containing supplemental information available on our website.

Before we start this afternoon, I want to remind you that certain statements made on this call are forward-looking statements that involve risks and uncertainties. These risks and uncertainties are discussed in more detail in our filings with the SEC. Some of today's financial remarks will focus on adjusted results.

Reconciliations of these non-GAAP financial measures can be found in our earnings release or in our trending schedules, which contain supplemental information and, in each case, can be found in the Investor Relations section of our website.

Now, I will turn the call over to Bob.

Robert M. Bakish {BIO 6646765 <GO>}

Good afternoon, everyone, and thank you for joining us. There's no question that 2023 was a dynamic and in many ways challenging year in our industry. We saw two labor strikes, a tough macroeconomic environment, and continued evolution in the media industry, but we stayed focused on a disciplined execution aligned with our strategy, adapting as needed. In doing so, we positioned Paramount Global to deliver significant growth in total company earnings and growth in free cash flow in 2024. On today's call, I'd like to spend a few minutes speaking to our '23 accomplishments. Then I'll provide more color on our '24 priorities before handing it over to Naveen for a deeper dive on the financials.

With that, let's start with '23, a year where our content clearly continued to deliver, driving every platform. In fact, Paramount had the number one show on all of television and the number one broadcast network for the '22, '23 season. Not to mention five number one debuts at the domestic box office. And very importantly, we continued to scale streaming with Paramount+ and Pluto TV. Subscribers and MAUs grew nicely.

In 2023, audiences spent nearly 40% more hours on our streaming platforms compared to 2022, which when combined with our mid-year Paramount+ domestic price increase, delivered 37% D2C revenue growth. The disciplined execution of our strategy, including the integration of Showtime into Paramount+, led to a reduction in full year D2C losses and meant we hit peak streaming losses in 2022, a year ahead of schedule, with further significant improvement expected in 2024. Disciplined execution has been a theme across the entire company to deliver both impact and efficiency. And that obviously extends to managing our cost base as we continue to streamline the organization.

That brings me to the year ahead, where we're focused on returning the company to sustainable profitable growth in 2024 and beyond. And know that, regardless of current market sentiment, we're convinced that the value of our assets today, combined with the execution of our strategy as we move forward, represents a significant value creation opportunity, and we are dedicated to unlocking that value. To do so, we will focus on three key priorities. First, we will continue to lean into content with the biggest impact. Second, we're laser-focused on driving the direct-to-consumer profitability. And third, we'll continue to unlock synergies across the company. Naveen and I will unpack these further.

Let's start at the core, our content. As we say, popular is Paramount. We create hits that the whole household, country, and whole world love to watch. And that our partners need, that's the heart of our business. And in doing so, we've proven we can prioritize efficiency while still achieving viewership and revenue goals. As we've discussed in previous quarters, we continue to sharpen our ability to maximize our return on content investment, which informs how we approach our content, programming, and windowing.

As we move into 2024, we're focused on producing content more efficiently and magnifying the impact of our slate. And let me give you some examples to illustrate this. In the film segment, we're improving ROI by lowering the average cost per title. This, by balancing high-budget tenfolds with more modest cost titles, like Mean Girls and Bob Marley: One Love, improving the financial return on the overall slate. And we're off to an excellent start on this.

In TV media, at CBS, we have an increasingly efficient and targeted development process. We prioritize lower-cost formats like unscripted and those shot abroad while maintaining our strength in franchises. NCIS, one of the world's most-watched shows and one that has been licensed in over 200 markets worldwide is a great example of this. The latest iteration, NCIS Sydney, was produced in Australia at a much more efficient price point and was the most-watched new show this season on any network in the U.S., until February's debut of Tracker, also on CBS.

And we are excited to announce today that the NCIS franchise will expand further with the first original for Paramount+ U.S. expected later this year. By the way, you will see us leaning even further into offshore production for our global franchises, including the upcoming London installment of Billions, the new Ray Donovan origin story with the Donovan's, as well as new series like The Department from George Clooney. This benefits both TV media and D2C.

Finally, we're focused on magnifying the impact of our content, including through our combination of best-in-class sports and entertainment here in the U.S.

Look no further than Super Bowl LVIII, a blockbuster event, one that capped off a record-breaking NFL season. The game broke almost every record imaginable, most-watched telecast in television history, most-streamed Super Bowl ever, the first alternate telecast with Nickelodeon, and a new high-water mark for gross ad sales. The Super Bowl is the clear benchmark of the power of sports. But for us, it is more than that, because we know that Paramount+ subscribers who come into the service for live sports will ultimately spend nearly 90% of their viewing hours on non-sports content. Think about that as a 9x sports multiplier. That's the power of an integrated sports and entertainment strategy, which is why we use the Super Bowl, one of the world's biggest stages to showcase a whole range of our content with highly engaged fans, including launching the new CBS schedule and promoting our upcoming film slate.

The results speak for themselves, with Bob Marley: One Love recently crossing an incredible $120 million worldwide after only 12 days at the box office. And viewership for the CBS slate got off to a turbo-charged start, with audiences jumping 32% over last year on the network and 83% on streaming.

Magnifying content extends well beyond the Super Bowl and leverages our entire ecosystem, like how we use CBS to drive new audiences to Yellowstone, or we brought 1883, a Paramount+ original, to new audiences on linear cable as a second window, among other things, making 1883 the most-watched new series on cable last year. And looking ahead, we're excited to add the first season of Tulsa King to the CBS slate, ahead of its season two premiere on Paramount+ in the third quarter. So that's where we are and where we're going with our content.

And that brings me to our second related priority, driving to D2C profitability. Here we have already made meaningful progress. In 2020, our D2C revenue was $1.8 billion. In 2023, that number is $6.7 billion. Scaled revenue matters, and as I've said, we passed pre-streaming losses a year ahead of schedule. Perhaps more important, I'm pleased to say that we now expect Paramount+ to reach domestic profitability in 2025, a significant and exciting milestone in the company's transformation.

While Naveen will get into more detail, I want to preview the two parts of the story, domestic and international. Domestically, increases in engagement, reduction in churn, and continued ad monetization, as well as the flow-through impact of last year's subscription price increase, will continue to drive revenue growth, all of which will be done on a more efficient slate. Add to that the benefits of the Showtime Paramount+ integration, all driving meaningful D2C earnings improvement as we continue to gain operating leverage in the model.

Internationally, it's become unquestionably clear that Hollywood hits are the biggest draw for our audiences and partners around the world, which means there's a clear opportunity to lean into our CBS slate, Paramount+ Originals, and Paramount Films while slowing spend on local content and associated marketing. Though, the specific execution of this will vary by individual market, as one size does not fit all.

Of course, we also recognize that sustainable growth requires the continued transformation of our cost base, which leads me to our third priority. Unlocking synergies across Paramount. There is a lot of collective power behind Paramount Global, and we're unlocking that by aligning our assets to increase impact and drive greater efficiencies.

On the efficiencies front, we'll continue streamlining the business to transform our cost base, which Naveen will discuss in more detail shortly. At the same time, we're excited about the potential to unlock more impact from this company across content, marketing, partnerships, and more. And speaking of partnerships, advertising is a great example of where we're working to capture the power of one Paramount. Yes, the ad market was challenging in '23 and still isn't exactly where we want it to be. But we're encouraged by some signs of stabilization, including healthy scatter premiums. At the market level, many people are talking about increased supply and competition in the digital ad space. But what's not being discussed enough is the opportunity to grow the demand side of the equation, which is a big focus of ours.

In addition to our focus on tapping into small and medium business budgets, something that historically was not accessible at the national TV level, we're now excited about being able to go toe-to-toe in bringing retail media to connected TV, where we can incorporate purchase data from large-scale retailers to target and measure the impact of media investment on business outcomes. This is fundamentally reshaping the marketing landscape, drawing budgets to connected TV previously reserved for other formats like those associated with consumer and trade promotion as well as social media. Because CTV is not just the top-of-the-funnel awareness generator like its linear predecessor.

It is also a one-to-one vehicle that can deliver the full funnel to the living room, expanding the use case and addressable market for Paramount advertising. We're testing these capabilities with Paramount+ and Pluto. In fact, we're now partnering with Walmart Connect to bring the power of their data to streaming. And the early results show this combination significantly enhances ad effectiveness.

We're excited about the potential of the opportunity. And more importantly, clients are too. And stepping back, I'd note that we love our multifaceted partnership with Walmart, a partnership that continues to evolve and grow, including by adding Paramount+ subscribers and improving viewer engagement through our Walmart Plus relationship.

In closing, these three priorities, maximizing our content, driving the D2C profitability, and unlocking Paramount synergies, give us a clear roadmap. They balance revenue growth and cost management, all while demonstrating the power and efficiency of our content engine. And speaking of that content engine, I can't help but highlight the incredible momentum we have as we kick off 2024. That includes the Golden Globes, up over 50%. The Grammys, with their largest audience since 2020. A Super Bowl that was record-breaking on every level. The hugely successful debut of the new CBS slate, where multi-platform viewership across broadcast and streaming soared double-digits,

the return of Jon Stewart to the Daily Show, which is driving ratings, revenue, streams, and the cultural conversation, and our two-for-two start at the domestic box office, with both Mean Girls and Bob Marley opening number one, significantly exceeding box office expectations, and both soon to be hits on Paramount+. All of that in just the last eight weeks.

With that, I'll hand it over to Naveen. Thank you.

Naveen Chopra {BIO 17927186 <GO>}

Thank you, Bob. Good afternoon, everyone. As Bob mentioned, our full year 2023 results, reflect a year of continued execution. In my comments today, I'll provide insights on key elements of our Q4 results. Additionally, I'll discuss how we're making notable progress in scaling our D2C business, which will result in significant earnings growth for the company in 2024, and drive Paramount+ to reach domestic profitability in 2025.

Let's begin with our Q4 results. Paramount delivered total company revenue of $7.6 billion and adjusted OIBDA of $520 million. Despite navigating a variety of challenges posed by the strikes, we were able to deliver strong performance in our direct-to-consumer business and stable operating margins in TV media. As always, you'll find a comprehensive review of our financial results in our press release.

Let me walk you through a few areas of note, starting with advertising. In Q4, direct-to-consumer advertising delivered strong growth of 14%, benefiting from a 27% increase in total viewing hours across Paramount+ and Pluto TV. This viewership is monetized through our IQ platform, already one of the largest premium digital video advertising platforms in the United States, and its value continues to grow as engagement expands and as we evolve our digital advertising capabilities to attract new sources of demand.

In linear advertising, we saw strong demand in sports due to a record NFL season and incremental Big Ten inventory. Other components of linear advertising were negatively impacted by the strikes, a decline in political spend, and unfavorable FX. On a total company basis, advertising declined 11% in the quarter, including a 400 basis point headwind from the decline in political advertising.

Looking forward, as Bob mentioned, we're seeing some signs of stabilization in the ad market, including healthy scatter premiums. And based on what we've seen to date, we expect to report low to mid-teens advertising growth in Q1, including the benefit of the Super Bowl.

Next, let me turn to Affiliate and Subscription revenue, which grew 13% in Q4. As I've often noted, growth in total affiliate and subscription revenue illustrates that our multi-platform strategy, combining traditional and streaming, yields net growth for our business.

In TV media, affiliate revenue declined 1%, reflecting a continuation of the trends we saw in the first three quarters of 2023. D2C subscription revenue, on the other hand, grew 43% in the quarter. And that's in large part due to the impressive momentum at Paramount+, where subscription revenue increased nearly 80%, thanks to subscriber growth and global ARPU expansion. Paramount+ continues to reach new audiences, adding 4.1 million subscribers in Q4 for a cumulative total of 67.5 million subscribers globally.

Additionally, ARPU for the quarter grew 31% over the prior year, reflecting a full quarter of our domestic price increase and the addition of international subscribers in higher ARPU markets. Q4 also benefited from strong performance of our Paramount+ with Showtime tier. The expanded content offering on our premium tier led to an increase in hours of engagement per subscriber. Monthly churn for these subscribers also improved both quarter-over-quarter and year-over-year. And we're seeing higher-than-expected cost synergies from the combination. In fact, Q4 marked the third consecutive quarter of year-over-year improvement in D2C OIBDA.

And on a full year basis, we grew Paramount+ revenue over 60% in 2023, while content marketing and other expenses grew at a significantly lower rate. Said differently, as we approach the third anniversary of the third domestic launch of Paramount+ were capturing operating leverage in streaming faster than expected and we intend to build on that momentum. Paramount+'s value proposition is strong, cornerstone original and library content and top-tier movies and sports in an integrated package. This proposition allows us to continue to grow subscribers and drive revenue by deepening engagement, improving retention, and increasing monetization.

And we continue to believe that the key to deeper engagement and retention is savvy programming execution and a stable volume of original content. It's about smartly combining acquisition drivers like the NFL, blockbuster films, and our slate of hit Paramount+ originals with lower-cost library and affinity programming. This strategy proved effective in 2023 where average monthly viewing hours per domestic sub grew 8% and helped us implement a price increase while also reducing average monthly churn by 70 basis points.

Outside the United States, we are similarly honing our Paramount+ strategy by leaning into our global slate and identifying markets where we can slow investment in local streaming content and marketing. We've learned that Paramount+ subscribers outside the United States spend nearly 90% of their time with our global Hollywood hits. Meaning we can keep them engaged while right-sizing our investment in content that does not travel around the world. In some cases, this change will result in slower international subscriber growth, but given what we now know about viewing behavior in certain international markets, we're confident the shift will be highly accretive to our D2C P&L.

Domestically and abroad, we are finding ways to enhance engagement, reduce the cost per hour of viewing, and unlock greater marketing efficiency. By executing on these initiatives, we expect Paramount+ to deliver more than 20% global ARPU improvement in 2024, while programming expense will grow at a significantly lower rate. Ultimately, the ability to drive deeper engagement and ARPU growth, while slowing the rate of growth in content expense, is the path to profitability in streaming.

In addition to improving the profitability of streaming, we remain committed to optimizing the cost structure in other parts of our business. Programming for our TV media segment is the single biggest line item in our expense base, so it deserves particular focus.

As you've heard, 2023 presented an opportunity to experiment with alternative, lower-cost entertainment programming across our linear networks. And the performance we saw gives us confidence we can continue to reduce costs going forward while also delivering a consistent volume of high-quality content. And that's enabled by lower production costs, evolving format mix, and optimizing and sharing content across linear and streaming.

As Bob noted, we're also focused on using the collective power of Paramount Global to unlock synergies more broadly. This mindset enables headcount cost reductions, including the action we announced earlier this month, which eliminated nearly 750 domestic positions, or about 5% of our domestic employees, and represents approximately $200 million in annualized run rate cost savings, the majority of which will benefit TV, media, and corporate expenses. And we will continue to optimize our compensation expenses throughout the course of 2024.

As you've now heard, we're making a variety of important changes to our global workforce and content strategy. These moves reflect decisions we've made to transition our business and enhance our future value proposition. They will also result in a programming and restructuring charge in Q1, which we currently expect to be approximately $1 billion.

I'll close by sharing some guidance on how all this translates to our financial expectations for the current year. As you've now heard, we're executing against numerous initiatives designed to not only navigate ongoing ecosystem changes but also build operating leverage in our streaming business. This means significant OIBDA growth in 2024, largely driven by improvements to our D2C P&L, which also positioned Paramount+ to reach domestic profitability in 2025, a significant milestone in our streaming journey.

In addition, we're highly focused on continuing to reduce balance sheet leverage. We finished 2023 with an approximately half churn reduction in net leverage relative to Q3 following the sale of Simon & Schuster.

Leverage in 2024 will benefit from material OIBDA growth and positive free cash flow. In fact, we expect free cash flow to grow in 2024 versus '23 despite an increase in cash content spend as we restart production that was impacted by the strikes.

Despite a dynamic environment, our commitment to shareholder value remains Paramount. We have conviction that the value of our assets today, and even more so with the benefit of strong ongoing execution, represents a significant value creation opportunity. And as Bob said, we are dedicated to unlocking that value.

With that, operator, let's open the line for questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) We ask you please limit yourself to one question. Our first question today goes to Bryan Kraft of Deutsche Bank. Bryan, please go ahead. Your line is open.

Q - Bryan Kraft {BIO 20667157 <GO>}

Hi. Good afternoon. I had a couple. I guess would you talk about the content slate for TV and streaming this year on the TV side? Or are you shifting programming originally slated for the fall and to the first half of the year and therefore going to have higher than normal programming costs in the first half of the year at Super Bowl? Or should we expect a more normal level of programming costs for TV in the first half?

And then on the streaming side, how would you compare the strength of this year's slate to last year's? And what are some of the more important titles capitals that you think will drive customer acquisition for Paramount+?

And then it would be really helpful if you could give us a sense of the mix between domestic and international Paramount+ subscribers at this point, as well as where most of the growth came from in 2023, and any color just on your expectations for sub-growth this year in total, and anything on mix would be helpful. And then just the last one was just if you could give us any sense for where the relative ARPUs are for domestic and international now. That'd be great. Thank you.

A - Robert M. Bakish {BIO 6646765 <GO>}

Yeah, sure, Bryan. This is Bob. I'll take sort of the first part of that with the content, and let Naveen take the second part on what I'll call the metrics. So with respect to content, Paramount, as you know, has a robust content engine, and it's really been delivering. And now that we're through the strikes, it's again in full operation.

On the TV media side, we commented on the CBS slate earlier obviously, that was a delayed launch, but we're up and running now. And we will run a shorter slate in terms of number of episodes, but I want to highlight just how strong it is. We had the top 16 shows, all of the top 16 in the first week, and we had 18 of the top 20. And that's really stunning for one network. So feeling really great about where CBS is. And we will have a traditional fall slate launching again in the fall. So that's CBS.

In terms of the cable side, also have a whole set of programming coming there. Things like Yellowstone and the new Yellowstone, call it Yellowstone 2024 for now, coming to Paramount Network in the fall. A bunch of animation coming to Comedy Central, plus Jon Stewart, by the way, which Episode 3 this week continues to grow nicely that whole set of programming with MTV, et cetera.

Moving to streaming, we feel very good about the first half. Now, the first half, we are still dealing with some strike delays with respect to content, so we've been a bit creative, but if you look at the first quarter, obviously you had the NFL and the Super Bowl, that's performed very well for us. CBS slate, I talked about that. Also, Halo, the Mean Girls movie, we're back in the UEFA business and we got March Madness. So Q1 looks good.

Q2, add the Masters, the Bob Marley movie, Star Trek: Discovery, The Challenge: All Stars, the reality show originally from MTV, now broader. Dora's, a Sonic spin-out called Knuckles, the return of The Chi. And then once we get into the back half of the year, we're really finally operating at full strength and frankly it's chock-full. Things like Mayor of Kingstown Season 3, a new Ninja Turtle series, SEAL Team, Tulsa Kings, Special Ops, Frasier, The Chi for Season 7, The Donovans which we announced today a spin-off of Ray Donovan. Another Taylor series, Landman with Billy Bob Thornton, Jon Hamm and Demi More, plus of course, the NFL and Big Ten comeback. So we're feeling very good about Paramount+ and frankly linear from a content perspective. Naveen?

A - Naveen Chopra {BIO 17927186 <GO>}

Yeah thanks. So Bryan, I'll try to give you a little insight on streaming subs. So maybe just starting with Q4. As you saw we added 4.1 million subs to Paramount+ in the quarter. I think it's fair to characterize that growth as being relatively balanced as between domestic subs and international subs.

On the domestic side, I think the content slate performed really well despite, obviously, some strike impact. I think that speaks to the benefit of having a balanced sports and entertainment portfolio. So that worked well for us. We also saw some nice performance in the quarter from partnerships like what we do with Walmart and the bundle with Walmart+. And then on the international side, we launched a new hard bundle with J:COM in Japan. So that obviously contributed to sub-growth.

In terms of what we're seeing this year, 2024 sub-expectations, I do think sub-growth in '24 will be lower than 2023, though importantly, I'd point out, we do still expect very healthy Paramount+ revenue growth, and of course, revenue is the more important metric than subs. But just to give you a little color behind my comment on the sub-trends themselves there are a number of factors at play.

First you got the Super Bowl. We were very excited about the magnitude of starts that we saw from the Super Bowl. I think it's a little early to assess exactly what that means in terms of how many we retained. Obviously, you do have high churn on an event like that, but we're encouraged by what we've seen thus far. The content slate because of the strike as you heard Bob describe is a little bit back half loaded and so that kind of affects the timing of subs coming on.

And then international which as you heard in our prepared remarks, we've made a number of changes. We talked about dialing back on local content and marketing that has some impact on subs. We will also likely be exiting some hard bundle relationships where quite frankly the economics just weren't that compelling and that can probably represent a loss of a couple million subs, if you will.

But in both of those cases, while it impacts subs, it doesn't have a material impact on revenue or EBITDA. And so that's why, as I said, there's a little bit of noise in the sub-trends, but feeling very good about the revenue growth trend on Paramount+.

Oh, and sorry, you had a question on relative ARPU between international and domestic. As you know, we don't disclose specific numbers there, but I can tell you that domestic ARPU continues to be higher than what you see in international. The other thing to keep in mind is that international really has a number of different components to it.

So there's territories in Western Europe, for example, where the ARPUs look a little more like they do in the United States. And one of the things that has contributed to overall ARPU growth, both in '23 and we'll continue to do so in '24, is the fact that we'll be seeing more growth in those higher ARPU international markets than what we've seen in the early days of Paramount+.

A - Jaime Morris {BIO 16725844 <GO>}

Thanks, Bryan. Operator, next question, please.

Operator

Thank you. The next question goes to Michael Morris of Guggenheim Partners. Michael, please go ahead. Your line is open.

Q - Michael Morris {BIO 2323139 <GO>}

Thank you. Good afternoon, guys. Two topics, one on sports and one on content, if I can. On sports, the sports JV between Disney, Fox, and Warner Bros. Has been pretty high profile. I'm curious if you can share your thoughts on what you think that means for the competitive marketplace, whether you expect it to impact you and whether it might spur you to look for a partnership yourself. So that's my first question.

And then my second on content, as we talked about kind of repopulating the slate, the licensing revenue at the company has been pretty stable until this past year when it came down, I think, during the strikes. Do you expect it to return to a level that you saw in 2021, 2022?

And just one other thing, Bob, when you were talking about windowing, you mentioned Tulsa King and maybe putting that on linear before you put it on streaming, which seems a little inverted from what we would expect. So did I hear that right? And maybe if you could speak to that strategy a little bit, I would appreciate it. Thank you.

A - Robert M. Bakish {BIO 6646765 <GO>}

Yeah, I'm sure, Michael. So starting with the sports topic, look, start with the fact that there's still a lot we don't know about this service. Things like price, packaging, consumer appetite.

And to the consumer point, for a true sports fan, this product only has a subset of sports. It's missing half the NFL, a lot of college, has virtually no soccer or golf, et cetera. So look, that's hard to believe that's ideal, especially at the price points that have been speculated.

In terms of our view on sports, first, we serve true sports fans through our MVPD and virtual MVPD partnership that provides the full complement of sports really year-round. And second, we see clear value to an integrated sports payment strategy, true both for CBS and Paramount+, by the way. But if you look at the streaming side, Paramount+, we clearly see consumers watching both. I referenced this 90% factor, i.e., people that come in for sports on Paramount+, 90% of their engagement is with non-sports.

So that's a clear -- that's clear opportunity that we're continuing to exploit and we like. And our sports, our marquee, NFL, NCAA, UEFA, those are locked up into the next decade. So we have a real sustainable advantage here. Bottom line, we very much like where we are with respect to sports execution and see the Paramount strategy creating substantial value therein.

Let me briefly comment on Tulsa. You misheard it. What we're going to do is we're going to put the first season of Tulsa on CBS prior to the second season of Tulsa dropping on Paramount+, really using it as a broad marketing engine. And as you know we did a variant of that idea with Yellowstone and we really saw continued broadening of the audience. And so we think that's a real opportunity for Tulsa as well, given Stallone, et cetera, and we also think it's attractive from an economic perspective. You want to comment on the licensing thing, Naveen?

A - Naveen Chopra {BIO 17927186 <GO>}

Yeah, sure. Mike, I think for the most part, your thesis is correct on licensing. We do expect licensing to grow this year. As I've flagged in the past, the quarter-to-quarter trends on licensing can be lumpy just because there's a lot of timing elements that can affect revenue recognition.

But given that licensing was impacted by the strike last year, this should be called a more normal year from a licensing perspective. Probably does mean it's a little bit back half loaded because it will take a little time to be able to produce and then deliver all of that content. But in general, we're looking forward to the year. I'd also note that in our licensing revenue includes things like studio rentals, which were also impacted by the strikes. That's another place where we get a benefit in '24 versus '23.

A - Jaime Morris {BIO 16725844 <GO>}

Thanks, Mike. Operator, next question, please.

Operator

The next question goes to Ben Swinburne of Morgan Stanley. Ben, please go ahead. Your line is open.

Q - Ben Swinburne {BIO 5489854 <GO>}

Thank you. Questions are on Paramount+. Thank you for all the guidance that you laid out in your prepared remarks. Maybe for Naveen, you haven't talked about sort of international versus domestic EBIT or EBITDA in the past. I don't know if there's any way to help us think about what domestic profitability means at the segment level or any way to dimensionalize that disclosure.

And then on the $1 billion charge, it sounded like that was programming and restructuring. I just wanted to make sure that was true and if you had any rough sense of relative sizing and if you could just tell us, is that programming tied to this sort of international strategy shift that you guys have talked about?

And then lastly, also in Paramount+, you said programming cost growth at Paramount+ or D2C should be significantly lower than the ARPU growth of over 20%. That's a pretty wide range of outcomes. I was just wondering if maybe you could put a finer point on your expectations for Paramount+ programming costs for '24. Thank you.

A - Naveen Chopra {BIO 17927186 <GO>}

Yeah, thanks, Ben. Let me try to hit all those. So first of all, in terms of our comments on Paramount+ profitability and in particular sort of the domestic trend, if you will, versus the linear, I'd say a few things.

So first of all, most of the year-over-year improvement in the D2C P&L in '24, will be driven by the domestic Paramount+ business. That is driven by benefits we talked about, sub-growth, ARPU growth, to a slightly lesser extent, content efficiencies. While domestic is the bigger contributor, I do also expect to see some pretty material improvement in profitability at Paramount+ international.

The drivers there are a little bit different. That's going to be more about the evolving submix and what that does to ARPU. I kind of touched on that on the prior question, along with the benefits that we get from the content marketing efficiencies related to really leaning into to global content and dialing back on local, that there are some significant dollars to be saved there, not just on the content side of it, but on the marketing side as well, because the local stuff typically requires a pretty healthy dose of marketing to get to call it, sufficient levels of awareness.

So I think the international business, we generally think of as being call it 12 months to 18 months behind the domestic business. We obviously launched outside of the United States later than we did domestically. And we're continuing to optimize that business in the same way we are the domestic side to get it to profitability soon after.

So the first part of your question, your second question on the $1 billion charge, you are correct. That includes programming charges as well as restructuring charges. I think you'll see some of the details around that in the K, but you should assume there's about $200 million of restructuring charge in that number, and the programming piece does include charges related to the changes that we're making in international.

And then with respect to your last question on the trend line of programming costs relative to ARPU, we weren't trying to be cute in sort of the 20%. You should assume that the growth rate on, I'll say, cash programming for Paramount+ is going to be significantly lower than the growth rate we talked about on ARPU. The Amor piece will be also lower than ARPU, but we'll still see some call it slightly abnormal growth because of the unwind from the strike in '23.

A - Jaime Morris {BIO 16725844 <GO>}

Thanks, Ben. Operator, next question please.

Operator

The next question goes to Steven Cahall of Wells Fargo. Steven, please go ahead. Your line is open.

Q - Steven Cahall {BIO 18496900 <GO>}

Yeah, thanks. So first was wondering if I could just get your comment on skinny bundles and how you're thinking about an industry push towards more skinny bundles kind of follows on the earlier question about the sports streaming JV. It seems like MVPDs are going to continue to look for this.

I think you traditionally often looked for CBS to be distributed with a lot of your cable networks. And wondering if you have any change in thinking, in terms of sort of meeting MVPDs or consumers, especially as you have some renewals I think coming up this year?

And then on the advertising market, I think after Q3 you said that you were seeing some modest improvement in domestic ads. It seems like in Q4 that didn't quite come through, you seem more positive on stabilization in the Q1 outlook that you gave. So we'd love to just hear about what's changed to cause that and then specifically anything on Pluto's sequential advertising growth trends as well. Thank you.

A - Robert M. Bakish {BIO 6646765 <GO>}

Yeah, sure, Steve. So on the skinny bundle side, since we brought the companies together, we've obviously been distributing a full package, CBS plus the cable networks, and by the way, including streaming products, advanced ad sales, et cetera.

We are in some of the skinny bundles, if you will, Charter Spectrum Essentials, Sling, et cetera, with a set of cable networks. That is from deals that were done a while ago, which we continue to roll forward. So it is a piece of the market we participate in. And look, we've seen some nice growth, particularly at Charter. But that's that point.

Second, in terms of domestic advertising, look, in terms of the current ad market, strikes and political, we're clearly a headwind in Q4, and thankfully, we're through the strikes, and that's behind us. As I indicated in my remarks, we are seeing signs of stabilization, notably healthy scatter premiums.

Sports clearly remains a bright spot, NFL, Super Bowl, and I'm thrilled that we have the NCAA and UEFA and Masters as we get into this continuing 2024. And more broadly, we are seeing healthy growth in many categories, including consumer products, quick service restaurants, and retail. I'd also say that that's all domestic. The international side was tough last year. We are seeing stabilization there as well, but currency does really remain a headwind.

In terms of Pluto, that's really part of our broader digital business, digital ad sales there. I'd start by knowing we have strong trends in digital ad revenue. We were up 14% in the fourth quarter. And while it's true, there's more competition in the connected TV space. That's a $25 billion plus business, a lot of spend out there. And we're certainly not standing still. We like our positioning.

If you want to take it in pieces, look at content. In the eyes of advertisers, content matters. And our offering of Hollywood content plus sports, which by the way, is true on Pluto too, Pluto being more of a library service, Paramount+ being a first run plus library service. But our content resonates and people like to be in those environments. IQ, which is how we sell our digital product, the combination of Paramount+ and Pluto and some other full-episode video. It's one of the industry's largest high-quality digital video platforms, so we have real scale that can beat there, and that's a very good thing.

And third, we're doing a lot of work as we evolve more and more into the performance space, advancing our data and measurement. We talked about it a bit in the script, but working with retail media networks, attribution providers, to really enhance the bottom of the funnel piece of our offering.

We've already talked about what we're doing there with Walmart Connect, combining Walmart first-party data with our premium inventory, seeing early benefit there. Beyond that, there are other attribution players in the pipeline that have real scale. That includes retailers, credit card providers, so there's more to come there. And you'll really see this all come together in the next upfront, but we continue to be very excited about the digital space in general and positioning Paramount ad sales for success in what is and continues to be an expanding market.

A - Jaime Morris {BIO 16725844 <GO>}

Thanks, Steve. Operator, next question, please.

Operator

The next question goes to Jessica Reif Ehrlich of Bank of America Securities. Jessica, please go ahead. Your line is open.

Q - Jessica Reif Ehrlich {BIO 1498848 <GO>}

Thank you. A couple of things. One, I mean, there's been tons of press on M&A interest. I was wondering if you could maybe talk about how you're thinking about strategic options and what the time frame would be to put this aside or move on? And within that, maybe some bundling options for Paramount+, how you're thinking about that?

And then on the restructuring or the charge that you're taking in first quarter, it sounds like you're attacking costs. I'm just wondering, do you feel like there's more to go? And post the $1 billion charge, how much will the cost base be reduced? And then finally, you do have a big contract coming up in the spring. Can you give us some help in how you're thinking about, like if you think about what happened with Disney, if the diginets go away, can you size or help us think about what's the financial impact?

A - Robert M. Bakish {BIO 6646765 <GO>}

Yeah, sure, Jessica. Let me take the first part of this, and Naveen will pick up some of it. So first, in terms of M&A, look, at Paramount, we're always looking for ways to create shareholder value. And to be clear, that's for all shareholders.

But I'm not going to get into commenting on any speculation or timeline, et cetera. But it's obviously something we are focused on. But this call is really about talking business, which goes to your second question, I guess bundling or options for Paramount+. As you know we're big believers in bundling. It is one of the tried and true methods of value creation in media. It's certainly the case in streaming.

When you think about streaming, the benefits or potential benefits of bundling include strengthening your consumer proposition. That allows you to drive subscribers, enhance your share, reduce your churn. You get access potentially to an existing subscriber base. That lowers or potentially eliminates SAC. As an offset, it does require some form of revenue concession, might be a revenue share, might be wholesale pricing. So it does have an ARPU effect, but if you look at LTV, the result is a clear win.

And I'd point out that this is not a conceptual theory for us. We already have substantial experience with the power of bundling and streaming. As you know, we have hard bundles internationally with people like Sky, Canal, and others. They've been key to our market entry strategy. They're unquestionably additive to our Paramount+ sub-base and economics. There's also things like Walmart+ in the U.S., which is another form of a bundle.

That partnership has been incremental to our overall Walmart relationship. It's clearly additive to subs and engagement. And by the way, it's now creating incremental opportunity in ad sales as we expand into retail media. Even SkyShowtime is another version of a bundle, albeit in a joint venture structure. That again enhances the consumer proposition and actually allows us to reduce investment levels in a set of markets because it's a combined product we're going at.

So net-net, we strongly believe in bundling and the associated value creation opportunity. And we continue to look to incremental opportunities in that regard. Naveen, you want to talk about the restructuring point?

A - Naveen Chopra {BIO 17927186 <GO>}

Yeah. So look, I think the short answer is that we believe there is continued opportunity to find efficiencies in the business, that's true, both on the traditional linear side of the business and on the streaming side. On the streaming side, it's really more about how we grow even more efficiently. And on the linear side, it's really about how we preserve the margins in that business.

And you've seen us take a variety of actions, not just the elements that we spoke about today, but over the past few years, where we have combined organizations, we've taken out overhead in some cases, we've leveraged programming across different platforms. And you'll see us continue to do more of all of that going forward. Content is still the single biggest cost item for us, and that's one of the reasons why, as I noted, we're focused on programming our linear nets as efficiently as we can, while maintaining a strong volume of high-quality content.

And on the streaming side, we're using what we've learned about viewership to really figure out where to place our bets and how to continue to drive engagement without having to significantly increase the amount of cash content spend that we're using for Paramount+. So this is something that we continue to be focused on, and you will see us unlock further efficiencies across the board going forward.

A - Robert M. Bakish {BIO 6646765 <GO>}

And then, Jessica, in terms of your last question, we don't really comment on individual deals, but I'd ask you to remember three things; first, our content offering is strong. It's really must have in the eyes of U.S. PayTV consumers.

Second, as you know, we have many levers to pull in these distribution deals to address client objectives, linear networks, advanced advertising, streaming products, both free and pay, et cetera. And as you know, objectives vary across companies, so it's important that you can get to, if you will, bespoke solutions. And third, it's allowed us to get all of our deals done. In fact, we've now lapped every client multiple times over my tenure as CEO. So there's a lot to work with there.

In terms of a U.S. deal that potentially involves D2C, I'd say the following, it is along the lines of our international hard-bundled deals. As we just said, we like the benefits of that structure. Benefits are increased reach, ad monetization opportunity, reduced churn, lower SAC, yes, trade-offs, a lower wholesale rate, but net-net, the LTV can be compelling. And again, beyond D2C, there'll be lots of levers to pull in this discussion.

And in terms of the carriage question, the reality is these deals represent a combination of factors, so that's not necessarily the way future deals will play out.

Net-net, lots of work with, demonstrated ability to get things done, and we're always focused on getting to a win-win solution for a partner, and we'll get there.

A - Jaime Morris {BIO 16725844 <GO>}

Operator, we have time for one last question, please.

Operator

The next question goes to Robert Fishman of MoffettNathanson. Robert, please go ahead. Your line is open.

Q - Robert Fishman {BIO 16685682 <GO>}

Hi, good afternoon. I have one for Bob and one for Naveen, please. Bob, can you talk more about the potential licensing opportunities? I'm thinking specifically for Paramount+ exclusive original content to potentially third parties? And your view on keeping that original content and even your bigger library that's already in Paramount+ to yourselves versus looking to monetize that content to help drive upside to cash flows going forward.

And then, Naveen, any way to help frame how much the Hollywood strikes benefited either the quarter or the full year '23? And then on the related note to the first question, as you think about growing free cash flow in '24, despite the increase in content spending, just if you can help us think about how much licensing helps drive that growth?

A - Robert M. Bakish {BIO 6646765 <GO>}

Yeah, sure, Robert. So start with the fact that we continue to believe building a scaled streaming business is an attractive value creation path. If you think about it historically, networks of which streaming is the next or current iteration have had superior value characteristics relative to studios.

They allow more control over monetization, particularly in success. They allow control over marketing and promotion, which importantly allows you to use one hit to build another, think the old concept of lead-in, and you have direct connectivity with viewers, and that's particularly true in streaming. And I'd remind you that that Paramount+, our network, really has sustained momentum. It's ahead of time in terms of the past profitability, and it is poised for domestic profitability in 2025.

That being said, we recognize the inherent value of our content, and we know that others do too, and that is optionality we maintain, which we believe has real value, because the market for high-quality content, feature films, signature series, kids' franchises, which is really our wheelhouse in general and certainly with respect to Paramount+, that market remains strong.

And it just relates back to being at MIPCOM in October where countless clients that I met with and the whole team was there, we're looking for great content and needing our partnership, if you will. So there is a tremendous opportunity there. Again, we think using our content to drive asset value creation in the form of Paramount+, given the momentum we have, is the right plan A, but we have optionality in that regard and we clearly have valuable product.

A - Naveen Chopra {BIO 17927186 <GO>}

Let me try to hit your questions, Rob, on free cash flow, licensing, strikes, et cetera. And I'd start by just saying, we are intending to deliver free cash flow growth in 2024, that's very important, and the biggest driver of that is significant improvement in OIBDA, and we've talked about the various contributors to that.

Licensing is one of the contributors, as I said, I expect licensing revenue to grow in the year, and that benefits both OIBDA and cash flow, but I wouldn't say that it's sort of an inordinate impact relative to what it has been in prior years.

I'd also note that our cash spend in '23 came in at about $16.5 billion. That was lower than the prior year as a result of the strikes, and our plan for '24 contemplates spending really only about 50% of, call it the strike savings back, and that's a critical ingredient in our ability to drive healthy growth in free cash flow in the year. So that's something we're looking forward to executing against.

A - Robert M. Bakish {BIO 6646765 <GO>}

Yeah. So in closing, we're really proud of what we accomplished in 2023. And as we look ahead to 2024 and beyond, we're focused on disciplined execution. And in doing so, positioning the company to return a significant total company's earnings growth this year and Paramount+ domestic profitability next, generating more value for our shareholders. With that, thank you for joining us. Be well, and we'll talk to you soon.

Operator

Thank you. This now concludes today's call. Thank you for joining. You may now disconnect your lines.