REFINITIV STREETEVENTS

EDITED TRANSCRIPT

VIAC.OQ - Q3 2020 ViacomCBS Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 06, 2020 / 1:30PM GMT

OVERVIEW:

Co. reported 3Q20 total Co. revenue of $6.1b and adjusted diluted EPS of $0.91.

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

Douglas David Mitchelson *Crédit Suisse AG, Research Division - MD*

Jessica Jean Reif Ehrlich *BofA Merrill Lynch, Research Division - MD in Equity Research*

John Christopher Hodulik *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

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

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

PRESENTATION

Operator

Good day, everyone, and welcome to the ViacomCBS Third Quarter 2020 Earnings Conference Call. Today's call is being recorded.

At this time, I'd like to turn the call over to Executive Vice President of Investor Relations, Mr. Anthony DiClemente. Please go ahead, sir.

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

Good morning, everyone. Thank you for taking the time to be with us for our third quarter 2020 earnings call. Joining me for today's discussion are Bob Bakish, our President and CEO; and Naveen Chopra, our CFO.

Please note that in addition to our earnings release, we have trending schedules containing supplemental information available on our website. We also have a slide presentation for you to follow along with our remarks.

I want to refer you to the second slide in the presentation and remind you that certain statements made on this call are forward-looking statements that involve risks and uncertainties. These risks and uncertainties are discussed in more detail in our filings with the SEC. Today's remarks will focus on adjusted results. Reconciliations for non-GAAP financial information discussed on this call can be found in our earnings release or on our website.

Now I will turn the call over to Bob.

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

Good morning, and thank you for joining us today. On today's call, I'll cover 3 key topics: first, how we've unlocked the power of a combined ViacomCBS in the year since we've merged; second, how our third quarter results demonstrate the company's building momentum; and third, how we're focused on achieving growth in the short and long term by aggressively leaning into streaming. I'll then hand it over to Naveen Chopra, who I'm pleased to welcome to his first earnings call as ViacomCBS's CFO. Naveen will give you his early perspective on the company as well as a detailed financial commentary on Q3. Following that, we'll take your questions.

Okay. So first off, it's been almost a year since the ViacomCBS merger closed, and I'm thrilled with the way our organization has come together to create value from the combined asset base. In fact, despite the challenges presented by the world around us, our company's transformation is ahead of schedule, and we've moved quickly to realize the power of the ViacomCBS combination, by establishing a best-in-class management team, including, most recently, through the creation of a new consolidated streaming organization; by accelerating our strategy and execution across pay and free streaming; driving growth in subscribers, monthly active users and revenue.

We're also unlocking more value in distribution by expanding our footprint through cross-company renewals and new deals and simultaneously strengthening our positioning in advertising by bringing to bear the power of our combined portfolio and capabilities, all while improving operational efficiency and exceeding the cost synergies we promised when we announced the transaction. We've accomplished a lot in a short amount of time, and we're just getting going.

Second, let me turn to the quarter's financial and operating results. ViacomCBS's Q3 reflects the continuation and acceleration of a strategy that is clearly working, even as we navigate through the pandemic. To that end, importantly, during the quarter, we saw improving top line trends across affiliate, advertising and domestic streaming and digital video revenue.

In affiliate, revenue grew 10% in the quarter, marking a significant improvement versus Q2. This improvement was fueled by strong growth in subscription streaming revenue as well as higher reverse comp and retransmission fees. It was also fueled by a return to growth in domestic cable affiliate revenue, which saw a 10 percentage point improvement in growth rate versus Q2.

Advertising revenue also improved dramatically versus what we saw in Q2 with the rate of decline slowing to 6%. Improvements were seen across the board in broadcast, cable, sports, national, local, digital and international. And the scatter market was robust with strong activity across key categories.

Speaking of categories, we've also seen certain COVID-impacted industries like auto and retail gradually return, which reflects improvement in the economy and the significant value our portfolio brings to advertisers to drive their own business recovery.

Importantly, as we look forward, the return of CBS' stable fall schedule is upon us with several scripted series already on air and more premier dates coming up. Add to that the NFL, the FCC and the Masters. Our content position is strong.

This dynamic, paired with a successful upfront and the hot political category, should provide further benefit in the fourth quarter. Overall, we're encouraged by what we're seeing and big-picture advertising is certainly moving in the right direction.

The commercial momentum of ViacomCBS is clear, and it is underpinned by the durable strength of our brands and IP. CBS was once again the most watched network across prime time, daytime and late night during the 2019-2020 broadcast year. We maintained our leadership in key demos as the #1 cable portfolio for share of viewing, and we owned more top 30 cable networks than any other media family.

Internationally, our linear share of viewing increased for a third consecutive quarter. And for the second quarter in a row, Tubular Labs ranked ViacomCBS the #1 media and entertainment company in social, reinforcing the popularity and relevance of our brands and IP in the digital space.

The strength of ViacomCBS' foundation in content, franchise IP and audience reach is an important competitive advantage, including as a growth accelerant for our streaming business, where we had another great quarter. To that end, ViacomCBS grew domestic streaming and digital video revenue by 56% in Q3, up from 25% in Q2, reflecting the real momentum in usage and monetization in our pay and free streaming products, something we're aggressively leaning into.

Let me unpack this a bit. In pay, we ended the quarter with 17.9 million domestic subscribers, up 72% year-on-year, which basically puts us just under the raised year-end guidance we issued last quarter, where we took it up from 16 million to 18 million subs. And both CBS All Access and Showtime OTT each had robust consumption growth in sign-ups.

Starting with All Access. The service benefited from strong demand for sports like UEFA and the NFL, originals like Star Trek Lower Decks and CBS network content like Big Brother and Love Island; as well from the 3,500 library episodes added from Nickelodeon, BET, Comedy Central, MTV and Smithsonian; plus the almost 200 films from Paramount that we added in late July as part of our preview launch.

CBS All Access is now in the early stages of benefiting from the power of the combined company, and there's much more to come. More on that in a bit.

And Showtime OTT had a strong quarter as well driven by the trifecta of original programming, including The Chi, Billions, the final season of Homeland, all of which drove strong adoption and engagement.

Our momentum in pay streaming is driven by the combination of compelling content and ubiquitous distribution. On the distribution side, the latest example is the All Access and Showtime streaming bundle we recently began offering through Apple TV+, which follows our recent Amazon renewal.

We have a lot going on here. And the combination of compelling content in ubiquitous distribution is clearly working, as evidenced by ViacomCBS subscription streaming revenue growth accelerating to 78% in Q3 from Q2's 52%.

On the free side, Pluto TV continues to build on its position as the #1 fast, free, ad-supported streaming television service in the United States. In the quarter, Pluto TV's domestic MAUs grew 57% to 28.4 million and globally grew to nearly 36 million MAUs. On top of that, Pluto's ad monetization has been growing rapidly, and the trend line is compelling.

Consider this. After logging its first $1 million ad sales day in 2019, it took Pluto 10 months to log its first $2 million ad sales day. But it just took 1 month after that for Pluto TV to achieve its first $3 million day. While this shouldn't be interpreted as a daily run rate, we are seeing revenue inflection at Pluto TV in a most positive way.

The trajectory is extremely exciting. And we remain confident that Pluto will meet or exceed its 30 million domestic MAU target by year-end, bolstered by the fact that we continue to add even more high-quality content to the market-leading service. In fact, in the U.S., Pluto now has well over 100,000 hours of compelling content available to consumers.

We recently added 9 ViacomCBS channels, including Star Trek, Bellator, CBSN Dallas and CSI. And of course, we continue to add a broad range of compelling third-party content. As an example, in October, Narcos began streaming on Pluto TV, marking the first time the series will be widely available to U.S. streaming viewers without a Netflix subscription.

We also ramped up Pluto's TV's distribution across multiple devices and services, including new distribution agreements with LG and Sony PlayStation, extending Pluto TV reach to well over 100 million additional devices worldwide. What's even more exciting is we're an official launch partner of the highly anticipated PlayStation 5 console debuting in mid-November.

Outside the U.S., Pluto TV is expanding rapidly and seeing strong adoption as well, especially in Latin America. And last month, we launched Pluto TV in Spain with 40 thematic and uniquely curated channels across multiple genres. In fact, during the first week of launch in Spain, Pluto TV was the #1 downloaded app for Android devices.

Looking ahead, we plan to bring new local versions of Pluto TV to other priority markets, including Brazil this year and France and Italy in 2021. Importantly, these are all markets where ViacomCBS has strong local operations, including a large pipeline of local language content in place and ready to go.

The world is quickly embracing fast, which is why Pluto TV's leadership and growth is a key component of our streaming strategy. And remember, as we progressively build out a linked ecosystem, Pluto will also serve as a gateway to and funnel for our pay services. So there was a lot to be excited about for ViacomCBS in Q3 in the streaming space, and I'm even more excited about where we're going.

Here, I want to touch on a few items. First, consistent with our strategy to maximize our position in assets across both pay and free, in mid-October, we announced the creation of a new consolidated streaming organization. Tom Ryan, the Co-Founder and CEO of Pluto TV, has assumed the role of President and CEO of ViacomCBS Streaming, overseeing Paramount Plus and Pluto TV. In this expanded role, Tom will drive our strategic execution globally as we create a progressively integrated streaming ecosystem across pay and free.

Tom's entrepreneurial drive, deep knowledge in over-the-top, his focus on the consumer experience and demonstrated ability to work effectively across our company make him ideally suited to lead this next leg of our streaming journey.

A second item I want to touch on is Paramount Plus, which is on track to debut in early 2021. As you know, Paramount Plus will combine live sports, breaking news and a mountain of entertainment, including exclusive original content plus a diverse and deep library of shows and movies, spanning all programming genres from ViacomCBS's leading brands in one unified service.

Here, despite the challenges of COVID, our original programming plans continue to advance. And we will have a deep roster of original series that leans heavily on our franchises, including THE OFFER, a scripted limited series that will tell the incredible story behind the making of The Godfather, one of Paramount Picture's most iconic franchises; a new addition of Behind The Music, a truly iconic music series; REAL CRIMINAL MINDS, a true crime docuseries spinning out of CBS' Criminal Minds; KAMP koral, a new original children's series from Nickelodeon's SpongeBob SquarePants, which we will release after the new SpongeBob movie, SPONGE ON THE RUN, and will be exclusive to Paramount Plus; and we also have new original content, including LIONESS, a new series from the creator of Yellowstone.

We will, of course, have more original programming to announce as we get closer to launch.

As we get into '21, we see substantial incremental growth ahead. Our preview launch at the end of July served as a proof of concept, and that gives us the confidence to lean into streaming even more. We're executing a plan which will bring more content, more marketing and more distribution to the table.

Paramount Plus with its live sports, breaking news and mountain of entertainment, together with Pluto TV in the free space and Showtime OTT in premium, will take ViacomCBS Streaming to a whole new level.

This is certainly an exciting time for our company, and I'm so glad that Naveen Chopra has joined us for the next leg of our journey. Since early August, he's truly hit the ground running. He's brought a fresh and valuable perspective to ViacomCBS, especially as we gear up for our launch of Paramount Plus early next year.

With that, I'll hand it over to Naveen to provide his thoughts as well as additional financial detail on the quarter. Naveen?

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

Thank you, Bob, and good morning, everyone. I'm excited to be here for my first ViacomCBS earnings call. It has now been 3 months since I joined the company. I was initially drawn to ViacomCBS because of its strong position in the media industry. Having now had some time to listen and learn, I find myself even more bullish about our future and our ability to create long-term value for ViacomCBS shareholders by leveraging the scale of our brands, content and distribution.

Thus far, ViacomCBS has exceeded my expectations in several respects. The company has moved quickly and effectively to capture synergies from the merger, has successfully found ways to enhance both the financial and strategic value of its traditional media businesses and has an even stronger presence in streaming than people recognize, all of which are demonstrated in our Q3 results.

I am particularly inspired by the opportunities we have in streaming, where the addressable market is expansive and growing, both domestically and globally. In addition, the value of the users of our largest pay streaming services continues to increase, driven in part by favorable trends in underlying churn and growth in engagement.

Similarly, in free ad-supported streaming, Pluto TV is not only rapidly growing MAUs and total viewing hours, but it is seeing a significant mix shift to consumption on higher-value connected TV platforms and material growth in monetization with plenty of room to grow in sell-through and CPMs.

I'm also emboldened by the fact that we have the rare DNA to produce world-class content at scale, including for the streaming generation, from original programming like Billions or Yellowstone to unscripted like MTV's The Challenge; to kids programming like PAW Patrol or SpongeBob; and of course, iconic movie franchises such as Top Gun and The Godfather, ViacomCBS content has proven to be a powerful audience magnet on both our owned and third-party platforms. And I consider this pipeline of content, regardless of where it is distributed, a tremendous asset that we can optimally allocate to support our overall strategy.

And I share with you that this depth of content production capability is quite rare. Both the content assets themselves and the ability to create them are scarce, valuable, and they are the envy of some of the largest technology and media players in the industry. So while the competitive environment is intense and requires sharp execution to achieve our streaming ambitions, I am encouraged by the progress we have made, and together with industry trends, believe pay and free streaming will yield compelling ROI, consistent with our goal of creating long-term shareholder value.

Now let me take you through some of the highlights of our third quarter results. Total company revenue was $6.1 billion, down 9% year-over-year. Adjusted OIBDA was $1.1 billion, down 12% year-over-year. And adjusted diluted EPS was $0.91.

I'll provide some additional details on revenue in a moment. But as you would expect, the year-over-year trend in total company revenue represents significant pandemic-related effects on advertising sales, content licensing and theatrical revenues. Compared to the year-ago quarter, adjusted OIBDA declined driven by lower revenue, somewhat offset by lower costs principally associated with delays in production expense.

Q3 adjusted free cash flow was very strong at $1.5 billion, largely because production activity remained limited throughout most of the quarter, resulting in a significant working capital benefit. As a reminder, adjusted free cash flow excludes $164 million of payments for restructuring, merger-related costs and costs to achieve synergies.

Looking more closely at our revenue performance in the quarter. Domestic streaming and digital video revenue grew 56% versus the year ago period to $636 million, owing to significant growth in sign-ups across CBS All Access and Showtime OTT and very strong growth in monthly active users and minutes viewed on Pluto. Domestic subscription streaming revenue grew 78% in Q3, an acceleration from 52% in Q2, driven by the continued momentum we are seeing across our subscription services.

And on the ad-supported side, digital video advertising revenue also experienced a strong recovery versus Q2. Pluto TV was a key contributor to this recovery. In fact, growth at Pluto TV accelerated materially from Q2 with revenue more than doubling from the year-ago period. In aggregate, our domestic streaming and digital video revenue is now pacing at an annual run rate north of $2.5 billion and growing over 50% year-on-year as of Q3.

Streaming momentum also benefited affiliate revenue, which grew 10% year-on-year in Q3 versus 2% in Q2. The growth in total company affiliate revenue was driven by growth in streaming subscription revenue and distribution renewals, which included incremental carriage and improved economics. Domestic cable affiliate revenue grew 4% year-over-year in Q3 versus a decline of 6% in Q2 and grew year-on-year even excluding the growth of Showtime OTT.

In addition, TV entertainment affiliate revenue grew 25% in Q3, an acceleration versus 22% in Q2, driven by strong growth in streaming subscription revenue and retrans feed and reverse comp, which also benefited from renewal activity in the quarter.

Advertising revenue was down 6% year-over-year, reflecting continued COVID-19 headwinds. However, the Q3 growth rate was a significant improvement relative to the year-over-year decline we experienced in Q2. The improvement in advertising trends has been broad based across broadcast and cable, but we are especially encouraged by the increasing contribution from the inventory included in EyeQ. As a reminder, the

EyeQ platform provides advertisers a single transactional point of entry to our digital video content advertising inventory and includes not only digital video advertising revenue from Pluto TV, but full episode inventory from our other ViacomCBS networks.

The recovery in Q3 also benefited from improvement in scatter pricing, owing to firming marketplace demand. In terms of key categories, pharma remains strong and we've seen improvements in automotive, financial services and retail. And as expected, political spend was very robust in Q3.

Turning to content licensing. Q3 revenue was down 33% year-over-year, reflecting a lower volume of licensing due to COVID-related production delays and several licensed programs reaching series-end in the year-ago period. As you know, licensing revenue is inherently lumpy as evidenced by the licensing of South Park earlier this year, which contributed a significant amount of revenue and adjusted OIBDA in Q2. So while content licensing will be a part of our strategy going forward, we do not expect to replicate a deal of this size and nature in 2021.

Theatrical revenue was immaterial in the quarter as most theaters remain closed. But we have found ways to mitigate the near-term loss of theatrical revenue through alternate monetization strategies, including early EST, PVOD and licensing select titles to streaming platforms.

And finally, publishing revenue increased 29% year-over-year due to strong sales in Q3, including Mary Trump's Too Much and Never Enough and Bob Woodward's Rage.

On the expense front, we remain focused on reducing our costs. We benefited from merger-related cost synergies in the third quarter and are on track to realize at least $300 million in savings for the full year 2020 and $800 million in annualized run rate merger-related cost synergies by the end of 2022 before consideration of onetime cost to achieve.

In addition, we are benefiting from COVID-related cost savings, which helped offset some of the COVID impacts of revenue. And a portion of these cost savings are sustainable, while some are timing related and will return as we increase production activity.

Turning to cash flow. Adjusted free cash flow in the quarter was $1.5 billion, equaling $2.9 billion year-to-date, benefiting from a significant working capital tailwind due in large part to temporary production delays. We expect this trend will reverse somewhat in Q4 as we continue to ramp production.

Regarding the balance sheet. As a result of the financing transactions completed earlier this year and our strong free cash flow, we ended the quarter with over $3 billion of cash on hand and have no debt maturities until 2022. When considering merger-related cost synergies, our gross debt-to-adjusted OIBDA ratio calculates to 3.4x and 2.9x on a net debt basis.

Following the quarter, we closed the sale of CNET on October 30, resulting in proceeds of $350 million net of taxes and transaction costs.

Our cash balance and maturity profile provide operating flexibility and capacity to delever even before factoring future noncore asset sales. We continue to hold a 2.75x long-term leverage target, and we will use our excess capital after streaming investments and dividend payments to pay down debt. We do not currently plan to repurchase any shares.

I'd now like to share some impacts regarding our expectations for the remainder of the year. First, regarding our domestic streaming and digital video revenue, we anticipate continued momentum as we move closer to the launch of Paramount Plus next year. We expect to end 2020 at an annual run rate north of $2.8 billion in domestic streaming and digital video revenue, powered by strong growth in streaming subs and Pluto TV, MAUs and engagement.

We continue to prepare for the launch of Paramount Plus by adding content to All Access, rolling out new features like customer profiles and enhanced recommendations and consolidating our marketing efforts to support the launch. As part of this consolidation, in Q4, we will start sunsetting some of our smaller legacy streaming services like MTV Hits, whose content will be incorporated in Paramount Plus. This will create a onetime headwind to streaming subscriber growth in Q4 as we set up for a much larger streaming service longer term. Nonetheless, we now expect to finish the year with at least 19 million domestic streaming subscribers, up from our original guidance of 16 million.

We continue to expect Pluto TV to finish the year at over 30 million domestic MAUs and expect 40 million when measured on a global basis.

Looking at affiliate revenue. We expect Q4 to show similar affiliate revenue growth rates to Q3 in both total company affiliate and domestic cable affiliate revenue as the combined strength in pricing, retrans, reverse comp, incremental carriage and subscription streaming revenue more than offsets linear subscriber declines.

In terms of advertising revenue, we expect another quarter of improving trends driven by strength in political, sports and digital.

And finally, on free cash flow. In Q4, we expect some reversal of the working capital tailwind as content production spend ramps materially. Nonetheless, for the full year 2020, adjusted free cash flow will still enjoy a material temporary working capital benefit from the delayed timing of production, which will continue to unwind in 2021.

Looking to 2021. We are encouraged by the growth opportunity ahead for Paramount Plus, Showtime OTT and Pluto TV, and we expect to support this momentum by increasing our investments in streaming. As it relates to adjusted OIBDA and free cash flow, we expect the impacts of additional streaming investment to be partially offset by the benefits of incremental merger-related cost synergies and the Super Bowl on CBS in the first quarter.

As we look forward, I want to reiterate how happy I am to be here and how excited I am about the growth opportunity we have.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will be coming from the line of Brett Feldman with Goldman Sachs.

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

A 2-part question, if you don't mind, about Paramount Plus. And these are questions we've been getting a lot. First is when you think about -- or how should we think about the content that's really going to be the foundation of driving the reacceleration? And another way we could ask that question is, more simply, how do you think about how many original hours you need to really draw and attract users to the service?

And then secondly, what ultimately is going to be the [metric] to determine whether the rebranding has been a success? I'd assume we'd be looking at subs. I don't know if you're willing to put a target out there right now. But if there's another way we should be looking at it, that would be very helpful.

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

Yes. Sure, Brett. Look, I'm incredibly excited about the launch of Paramount Plus in early '21. And it's going to be a truly differentiated and compelling offering that's unlike anything that's really out there today.

And look, as a reminder, Paramount Plus is building on CBS All Access, a product that already has strong momentum, as you've seen in the metrics in the third quarter.

That said, Paramount Plus is going to be live sports, breaking news and a mountain of entertainment. Look at live sports, includes the NFL, the FCC, UEFA, PGA Golf, the NCAA and more. The breaking news side, it will be Live CBS News anytime from CBSN, live local news from CBS stations, key new shows like 60 Minutes and more to be announced.

And then there's the mountain of entertainment from our flagship brands, which are Paramount, CBS, Nickelodeon, MTV, BET, Comedy Central, Smithsonian. It really provides us strength in a whole set of key genres: reality, crime procedurals, kids, films and more. It'll appeal across demographics, everything from preschoolers to 50-plus. Of course, it's going to be available on demand but has some live elements. And it's going to have a very strong original slate, many based on franchises that come from across the brands that are represented in the service.

I'd also point out that the consumer response from our preview launch -- and remember, in late July, we added 3,500 episodes from Viacom brands as well as about 190 Paramount films. That consumer response was strong and really served as proof of concept that's given us the confidence to lean in. The response include growing subscribers and a significant decrease in the average age. The average age of new subs came down by almost 10 years and was more diverse.

We saw material increase in time spent. That included more than doubling time spent with film and Viacom content becoming a strong double-digit part of overall consumption.

So no question the product is working. The plan now is to continue to add content. That will be about 10,000 additional hours. Of course, rebrand CBS All Access to Paramount Plus in early '21, and that will be the time when the original slate also has expanded further to encompass the flagship brands.

The last thing I'd say is the response to us selecting Paramount Plus as the brand has been overwhelmingly positive. So lots to be excited about here around Paramount Plus, and we see substantial incremental growth ahead.

Operator

The next question is from the line of Michael Morris with Guggenheim.

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

I'm hoping you can go into a little bit more detail on the cable networks' affiliate strength in the quarter. Certainly came in ahead of what we were expecting. And there's a few moving parts in there with the strength in streaming, what you're seeing sort of in the kind of core traditional cable universe. Also, you had a couple of new agreements with YouTube, I think maybe one with another major distributor. Can you help us at all with those different components that contributed to the acceleration? And maybe whether we need to consider any that might not be recurring going forward?

And then if I could, just real quickly, you talked a bit about cash flow into the coming year. And I'm curious if you can share a little more about how Paramount Plus might impact free cash flow. Like how much of your investment in that business is sort of a repurposing or a shifting of sort of existing run rate? And how much will be incremental?

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

Yes. Sure, Michael. I'll take the affiliate piece, and I'll flip it to Naveen for the cash flow piece. So the -- look, I'm really happy with the state of our affiliate business. We clearly had a very strong dynamic in the quarter, and that dynamic was driven both by unit and by rate.

So if you look at the unit side of the equation, subscriber declines were less than expected from an industry perspective. We saw that, too, in our remits. And we had the benefit of incremental carriage in the form of Viacom networks being added to YouTube TV in July.

And then on top of that, you overlay rate and the rate story is very strong. We had renewal activity that benefited retrans and reverse comp as well as our premium services. And that's in addition to the built-in escalators we have in all our network deals.

I'd also remind you that on the reverse comp side, deals are priced in absolute dollars, and therefore, insulated from subscriber declines. So that's effectively another driver of rate.

And then, of course, as you mentioned, our affiliate growth is also being driven by the strong momentum we have in streaming. And as I indicated in my prepared remarks, subscription streaming revenue growth accelerated to 78% in the quarter.

So you put all that together and we had a very strong affiliate story. And importantly, we expect the growth we experienced in Q3 will continue at a similar rate in Q4.

And then more broadly, I really like our position. Our product line positions us very well to respond to changing consumer behavior. We have compelling offerings in pay and free streaming apps, plus an industry-leading linear bundle. And we know how to work with a broad range of distribution partners. We know how to get deals done, and we have a legacy of creating mutually beneficial value. So feel great about affiliate.

On the cash flow side, Naveen?

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

Yes. In terms of the streaming investment piece, we're not going to provide any specific guidance for '21 at this point. But what I can share is that as we think about the magnitude and the composition of our content investments, we're very focused on thinking about it relative to the growth opportunities we see.

And what I mean by that is, look, streaming is obviously a big opportunity. It's one where we've got several years of experience and increasing momentum. So it's not a greenfield investment. Remember, our domestic streaming and digital video revenue is growing 50% on an annual run rate of $2.5 billion. So we see that as a really compelling case for investing to continue to support the growth.

And as I mentioned in my earlier remarks, we do intend to do that in 2021. Some of that investment will be funded by the growth itself, and some of it will be funded by incremental cost synergies. And so unlike a pure-play streaming company, I think our content investments have a lot of leverage, meaning that every dollar we spend on content can benefit us across the entire company, from streaming to linear to film and adjacent businesses like consumer products. So we spend a lot of time thinking about how to allocate and reallocate that spend to optimize that leverage across all of those different distribution channels.

Operator

The next question is from the line of Jessica Reif Ehrlich with Bank of America Securities.

Jessica Jean Reif Ehrlich - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Bob, you touched on this in your prepared remarks but -- on the streaming reorganization. Can you talk or give us a little more color about how you're better positioned to compete in a world that's quickly shifting more towards direct-to-consumer-driven business models? What can you do now under this new organizational structure that you couldn't do before? Do you need to reorganize any other parts of the company? And then just a separate topic, but could you touch on the upfront and how it turned out?

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

Yes. Sure, Jessica. So first, in terms of the streaming org, probably 3 things that I should highlight. First, as I mentioned in my remarks, we recently created this combined organization under Tom Ryan to enhance our ability to create value from the combined asset base. Now look, in particular, that's really about maximizing the benefit of us operating in both the pay and free space.

I see that combination of having a range of benefits. It will advantage us in terms of increasing lifetime value, including helping manage SAC and churn. An integrated model also facilitates sharing of tech, data and analytics. And I believe an integrated model will facilitate a more sophisticated approach to windowing across our streaming services.

The second thing you should know is that as part of this change, Tom Ryan joins our Content Council, and that means he's partnering with our content leadership as they execute on a multi-platform mandate.

Our brand leads, you know them, Jessica, George Cheeks, Jim Gianopulos, Chris McCarthy, David Nevins, Brian Robbins, they are the best in the business. And they are now aligned with Tom to ensure we put the full weight of our company behind our streaming aspirations.

I believe that enables a stronger team and allows us also to extract benefits from outside streaming from which to drive streaming, things like traditional reach and our broader IP portfolio, including, importantly, as related to key franchises. And by the way, we're already seeing that benefit in terms of our plans for Paramount Plus and for Pluto TV.

The last thing you should look, you should look at this really in the context of our overall execution as one ViacomCBS. As you know, Jessica, since day 1 of the merger, I've been focused on harnessing the combined power of this company. And you've seen us move quickly to integrate key functions, both on the commercial and strategic services side to really benefit from that. It's a powerful model. It's already working in many ways, and I believe there's much more to come.

On the upfront side, look, we doing an upfront -- a virtual upfront, in fact, in the middle of COVID-19, was something no one had ever experienced before, but I'm really happy with where we ended up. I think the team did a phenomenal job really benefiting from our asset base. We were up low single digits on price. And we were very careful with volume, holding back inventory so that we have inventory to sell in scatter. And as you know, Jessica, scatter market today is very robust. We're seeing historically high premiums versus the upfront, higher than pre-COVID, by the way. And we're seeing scatter-to-scatter in broadcast in double digits and then in cable in high singles. So that market is robust. You want to have inventory to play there, we will.

On the digital side of the upfront, demand was very solid, up versus last year's upfront. It's another reason why I love our position with Pluto. It's a solution -- because if you think about Pluto for a second, it's a solution to our clients' need for high-quality video reach in today's marketplace, and it's a solution to our needs for impressions to drive growth. And when you look at the numbers, it's a solution that's clearly working, and it has room to run.

So again, a different upfront than any of us have ever experienced, but I feel very good about how we're exiting it. And it is a good base to build on going into '21.

Operator

Next question is from the line of Alexia Quadrani with JPMorgan.

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

Just 2 questions. The first one is on your impressive performance that you're seeing at Pluto. I'm curious if you've seen any impact on engagement with some other your competitors that seem to move into the space, Roku, Peacock, to just name a few. And then just a follow-up, if I can. If you can discuss the licensing of Comedy Central content to HBO Max, just given your ownership over such an important comedy brand. I'm curious about the thought process of choosing to sell that to a third party rather than keeping it for Paramount Plus.

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

Yes. Sure, Alexia. So let me start by saying I couldn't be happier with our decision to acquire Pluto in late 2018. It's an amazing asset, and it's growing even faster than we had hoped, never mind planned, but hoped at the time.

I mean, look, you heard the metrics today. The momentum is unquestionable in both usage and monetization. If you recall, we closed on that deal in March of '19. And we quickly talked about it being a long-term opportunity of having $1 billion in revenue. I think people thought we were crazy when we said that. But given the growth we've experienced since then, our ambitions have actually grown from there.

Why? Because as I said, really, in my last answer, it's an amazing thing. It's a solution to the marketplace need for high-quality video reach, and it's a solution to us needing more impressions to sell. It's a great intersection.

In terms of the category and competitors, look, the category is very strong, but the good news is we have the #1 fast service. So are we feeling any pressure? No, not -- I mean look at the revenue growth rates. Pluto more than doubled in the quarter. And it's -- again, it's got tremendous momentum.

With respect to your question on Comedy Central and HBO Max, look, our content licensing strategy, I think there's really 2 things to think about here: one is content licensing is an important business; but two is, our strategy is clearly evolving, particularly with Paramount Plus.

So first, in terms of the content licensing business, we have a tremendous asset base in content, both from a library -- film library of 4,000 titles, TV library of 140,000 episodes, current series production of 750 series globally. We can't keep all that for ourself. It doesn't make sense. It's too much.

And we do have strong demand from third parties because we are proven hit-makers. And that demand, we can reliably and profitably monetize it, and we do. And remember, the monetization is overwhelming a rental model so the IP does return to us over time for other downstream uses.

I'd also say that beyond the financial value of licensing, it has strategic value. We can and do use third-party platforms to extend and expand audience, and that also provides downstream benefits to our owned and operated platforms. That could be about early seasons on a third-party platform, driving demand for new seasons or spin-offs on ours, could also be about broader revenues like consumer products.

All that said, and this is where I want to talk a bit about Comedy Central specifically that you asked, our strategy is clearly evolving in a more O&O, owned- and operated-based direction. And Paramount Plus has already impacted our content licensing decisions. We do have a 2-year view of the original slate for Paramount Plus that leans heavily on franchise, IP from across the company. We made those decisions before we decided what to license. That's IP we're very excited about. You've heard a bit about it, but there's more to come as we get closer to launch.

In terms of library, which is where your comedy question fits in, we've increasingly moved to a co-exclusive or nonexclusive model to ensure that Paramount Plus also benefits from the product. And again, you look at what is an acquisition driver versus what is an engagement driver. Library product is not acquisition drivers. These, we believe, will be our franchise-linked originals and our original originals. But library product, including some stuff from Comedy Central, is good for engagement. And so we want to have it for our own use. But again, we don't think that detracts from subscriber acquisition for Paramount Plus.

So again, I feel very good about where we are in content licensing. We have a very thoughtful strategy. We are supporting that business, but we are clearly evolving it, including in a more owned and operated direction as we ramp Paramount Plus. And again, very excited about what '21 is going to bring.

Operator

Next question is from Rich Greenfield with LightShed Partners.

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

I've got 2. First, I guess if we look at Peacock and HBO Max, it's pretty clear that SVOD, just as a business model, is really hard. And that you need sort of must-watch and kind of only-can-get-their-type content. You've got things like Star Trek that are only available on All Access, I assume, will only be available on Paramount Plus. But when I look at things like the NFL, you can get those in other places. You don't have to watch Paramount Plus to get the NFL. So maybe just help investors understand like what type -- what's the content -- can you give us any preview of like what's going to be the must-have franchises that are going to be only available on Paramount Plus to drive that product?

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

Yes. Sure, Rich. So look, we're absolutely focused on creating a must-watch service in Paramount Plus. And we do believe that our positioning of live sports, breaking news and a mountain of entertainment is differentiated and compelling.

Now as part of that, there's no question that franchises will be key to the success of Paramount Plus. And related to that, our strategy is to have new original variants of franchises to serve as subscription drivers. Those originals, in turn, much like my commentary to Alexia's point in a way, will be linked to larger library assets that drive subscriber engagement. So we're very focused on this strategy. And I'd also note that one of our competitors has clearly demonstrated the value of that approach.

So Star Trek, you mentioned, arguably the original proof of concept for CBS All Access, there are now multiple variants of it on All Access. It works well for us. Sports, which you also mentioned, they're a bit different but clearly powerful. We have UEFA. That is exclusive, and we're very happy we got it. By the way, we're super happy we got it early and now have it for a whole bunch of years going forward. But look, the NFL, the FCC, the golf, even though they're also available on CBS linear, they definitely work for All Access and will definitely work for Paramount Plus.

In terms of Paramount Plus, we have announced some new entertainment franchises that we're bringing to Plus: The Godfather, SpongeBob, the Criminal Minds spinout. But under the covers, our preview launch showed that there's other franchises that work, too, that have potential, things like MTV's reality show, The Challenge; things like Nick's animated library series, Avatar. And all this is really the tip of the iceberg. And we do have other franchises in the company. So you can safely assume that upcoming announcements will include new original variants of them for Paramount Plus. We will, of course, have some nonfranchise-based new originals to keep things fresh. But I'm not going to get ahead of things and reveal them until we get much closer to launch.

Operator

Next question is from the line of Ben Swinburne with Morgan Stanley.

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

Sticking on the direct-to-consumer theme. Two questions, Bob. How do you think about the kids and family investment and opportunity in front of Paramount Plus, particularly around sort of the Nick brand and animated content? Some of the more general entertainment, broader services have kids content, but they're not dedicated kids apps, so to speak. So just wondering how you're thinking about integrating Nick and animation and to make sure you get the most out of that inside of Paramount Plus.

And then for either you or Naveen, I'm just curious -- maybe Naveen, since from your Amazon days. When you look at how ViacomCBS is executing on like customer acquisition, retention, analytics, across kind of Pluto, Paramount Plus, Showtime, do you think there's opportunities to align those across the 3 services in a more effective way than what's being done today? Obviously, they've had a lot of success. So I'm not asking you to Monday morning quarterback then. But just from your perspective, I'd be curious what you see as the big opportunities operationally there.

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

Yes. Sure, Ben. Let me go first, and then I'll flip it to Naveen for the second part. So look, the kids -- and it's really the kids and family space, we believe, is fundamentally important to us at Paramount Plus. We obviously believe that bringing the Nick brand and its incredible library of both shows and IP that can continue to go forward is an amazing advantage.

If you look at the preview launch and what we've done with CBS All Access to date, we have added a bunch of Nickelodeon content. That content is definitely a significant contributor to what I characterized as a strong double-digit share of overall consumption that Viacom network content now represents on CBS All Access.

As we get into Paramount Plus, we mentioned adding 10,000 additional hours. Certainly, a bunch of that will be from Nick. We mentioned a growing original slate. Certainly, that's coming from Nick. We have mentioned one title that we are putting as new exclusive original on Paramount Plus, that is KAMP KORAL, which is a SpongeBob spinout. That is getting dropped after we exclusively release the SpongeBob, SPONGE ON THE RUN movie in the domestic U.S. market on Paramount Plus.

So we think kids and family is very important, and we think we have real advantage in terms of content and capabilities here. By the way, we are also -- Naveen, I think mentioned adding features and other things to Paramount Plus. One of the things we're doing there is in the profile area, including setting it up to be a safe kids environment. We believe that's important, particularly for the preschool side of the house, but obviously, older kids as well. So yes, that's important part of the equation. And again, this is another place where ViacomCBS brings a tremendous advantage to the table. And having Brian Robbins, who, as I referenced, is on the Content Council, is working with Tom Ryan, is focused on moving this forward. In fact, he was the advocate for KAMP KORAL debuting on Paramount Plus versus Nickelodeon linear because he believed it was a key part of a franchise play. So he's totally in us making Paramount Plus a success including, of course, in the kids space. Naveen?

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

Yes. Thanks, Bob. Ben, I think in terms of the analytics and the metrics that go into making a subscription business highly successful, as I said in my remarks, I see a lot of encouraging trends. And I look at it through the lens of all the components that are required to maximize the overall lifetime of our viewers. So whether you look at churn, whether you look at SAC, whether you look at engagement, I think that we have great momentum in many of those dimensions. And we're highly focused on continuing to optimize them.

In particular, the fact that we have the linked ecosystem between subscription in Paramount Plus and Showtime and Pluto TV as a free offering, I think, gives us tremendous opportunities to apply analytics and data and figure out the most optimal way to acquire subscribers and ways to maximize their lifetime, perhaps by moving them between those services, depending on their needs at any given point.

And I would add to that, that we can layer on top of those different services some really sophisticated analytics, and we'll be able to collect more data than we would have with a single service. So I'm extremely excited about what we can do there. I think there's clearly momentum, but also a lot of opportunity that we can take that to the next level.

Operator

Our next question is coming from the line of Doug Mitchelson with Crédit Suisse.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

One for Bob and one for Naveen, if I could. Bob, you've talked in the past about steady content spending. If we look through the COVID impacts -- and I guess I'd be curious how far back to normal the production of content is in 4Q. But the question is whether that's steady with 2019 content spending is the right way to think about 2021 or as you see all these opportunities in streaming, if you're starting to take those content spending budgets higher.

And for Naveen, seeing how much Bob wants to spend on content in the future, how is the balance sheet position at this point in time? How should investors think about allocation of free cash flow going forward?

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

Yes. So look, on the content side, obviously, COVID interrupted a trajectory that was pretty well understood because it did impact film and television production. But I am happy to say that we've made very significant progress in a safe return to production with the health of our crews and talent top of mind.

At this point, knock on wood, we're almost back to normal volumes. If you look at our Viacom media networks, the cable side of the house, they're probably at 95% of production relative to prior year. CBS essentially has all of the fall network series currently in production. By the way, we debuted a bunch of them recently, including Young Sheldon, Mom, NCIS as well as a new comedy from Chuck, B Positive. And there's more coming.

Showtime's back up in production in almost all of its series. And even Paramount on the film side, which obviously very location based, is ramping up and expects to be back at full capacity in 2021. And I also mentioned that our originals for Paramount Plus are on track.

So again, from a production volume standpoint, we really have made extraordinary progress, particularly in the last quarter. And we're currently in very good shape, and that means we're ramping back to a more normal level of content spend. Obviously, that trajectory will continue into '21.

And look, we'll continue to work to remix it as we have been to optimize our return on investment, pushing towards growth areas, et cetera. But the production side is actually in pretty good shape, again, knock on wood at the moment. Naveen?

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

Yes. Thanks, Ben. So in relation to the balance sheet and cash, I feel very good about the current state of the balance sheet. As you heard, $3 billion of cash on the balance sheet today. That's before accounting any of the proceeds from CNET or other future noncore asset sales.

And going forward, we think about 3 financial priorities. We want to be able to support our organic investment, principally in streaming. We want to fund our dividend, and we want to pay down debt. The first 2 are basically funded out of free cash flow. Debt paydown is accomplished through any excess free cash flow and then noncore asset sales. So to the extent we do complete additional transactions in the future, I would expect the proceeds of those to primarily go to debt reduction. So hopefully, that gives you some clarity.

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

Thanks, Doug. Operator, we have time for one last question.

Operator

That question will be coming from the line of John Hodulik with UBS.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

Great. Maybe just a couple of quick follow-ups. First, on the -- some housekeeping. The -- any update on those noncore asset sales in terms of what we can look for in terms of timing? And then maybe for Bob, on the paid streaming side. Net adds for the quarter slowed a bit versus the last 2. Was there -- did the consolidation of the legacy D2C platforms impact the quarter? Or was there some pull-forward in maybe 2Q from COVID? And then lastly, where is the distribution most effective? Did the Apple promo that you guys had out there pro forma as expected?

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

Yes. So I'll take the first part on noncore asset sales. No specific timing updates to provide there other than to say that as we've announced previously, we do intend to divest Simon & Schuster. We do also intend to divest Black Rock. We will complete both of those transactions at a time and in a form where we think we can maximize value.

Simon & Schuster particularly is one that we think has been performing extremely well of late and is a very valuable asset, though still not core for us. And so we do look forward to completing that in the future.

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

Yes. And to your question really on, I would call it, mix of subscriber adds and what's going on with subscribers. Again, Q3, on a pay subscriber growth basis, very strong. Q4, we didn't take the number up as much as we did before. Remember, our year-end target for pay used to be 16 million then. We took it up to 18 million. Now we're taking up to 19 million.

It is true that in the fourth quarter, as I think Naveen referenced in his remarks, we are doing some sunsetting of smaller services -- service like MTV Hits as we prepare for the relaunch of Paramount Plus in early '21. And we're also kind of focusing on marketing in '21 versus in the fourth quarter. So I wouldn't read too much into the fact that we only raised it to 19 million versus a higher number. We feel very good about our trajectory in '20, and we're super excited about where this thing is going in '21.

As to your question about kind of mix of ads and Apple TV+ versus others, the good news is we have broad and really ubiquitous distribution. It's one of our, I believe, real advantages in this game. It's partially because we don't have an in-house distribution channel that we favor. And we're really seeing net adds come from a broad range of places, yes, including Apple TV+. But by far, that's not the only place they're coming from. So we feel good about that.

Look, we're very pleased with our results for this quarter, including the accelerated transformation of our business that you're seeing in less than a year. And despite the challenges of the pandemic, we brought together a single ViacomCBS that does have growing momentum and is creating value on multiple dimensions. You see that in our Q3 metrics, both on the traditional side, and importantly, in streaming, where our momentum is indisputable. And while we're really pleased with Q3, it's what to come that we're really excited about.

So thank you for your time today. Thank you for your support. And finally, I'd like to thank all ViacomCBS employees for all they do every day to drive our company forward. Stay well, everyone.

Operator

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