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Paramount Global (VIAC)

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MANAGEMENT DISCUSSION SECTION

Douglas Mitchelson
Analyst, Credit Suisse Securities (USA) LLC

All right. Good morning. So, I am Doug Mitchelson, Credit Suisse's media and cable/satellite and wireless analyst. Very pleased to have with us here today, Bob Bakish, Chief Executive Officer of Paramount Global for our second keynote presentation. This will be a fireside chat format with Bob. And my questions are likely to run the full time. But just in case, we, if by chance, do have some time remaining, feel free to e-mail me questions if you like.

So, Bob, we saw some disclosures up on the screen. Welcome. Thank you very much for coming. I'm not sure if there's any more disclosures commentary.

Robert M. Bakish
President, Chief Executive Officer & Director, Paramount Global

Well, I don't think there's disclosures commentary per se. It's great to be here.

Douglas Mitchelson
Analyst, Credit Suisse Securities (USA) LLC

All right. Great. Thanks again.

QUESTION AND ANSWER SECTION

Douglas Mitchelson
Analyst, Credit Suisse Securities (USA) LLC

Q

So, look, I mean, the February Analyst Day feels like a lifetime ago, Bob. Why don't we start with the state of the union? How is Paramount positioned and how do you believe the management team can create value from here?

Robert M. Bakish
President, Chief Executive Officer & Director, Paramount Global

A

Yeah. So, Doug, look, as I shared with you in the past, our positioning is unique and differentiated. We're really the only major media company with a scale broadcast, cable, pay streaming, free streaming and theatrical offering. And the truth is we have momentum across all those businesses. We start with our TV Media segment. We have the number one broadcast network. We have a leading cable network portfolio. And those deliver a broad range of popular content that consumers love and that I'm talking about FEI, I'm talking about the NFL, I'm talking about Yellowstone.

And there's real resiliency in that business where price increases and cost optimization really offset, largely offset ecosystem declines. And then, there's our theatrical business. That's a market that is strengthening. And again, one where we have real momentum. All five films that Paramount Pictures released this year opened at number one. And that, of course, includes the incredible success of Top Gun: Maverick. And I note that all those titles, the first four already will be available on Paramount+.

And speaking of Paramount+, finally, the Streaming segment, our third segment, is another area where we have real momentum in the business. Our position as a diversified media business fundamentally improves the unit economics of streaming for Paramount+ and our other D2C products. Streaming clearly benefits from our broad, popular content offering which serves the whole household both for Paramount+ and for Pluto TV. We, of course, benefit from a dual revenue stream model, enabling lower cost consumer entry points. That broadens the TAM and is probably helpful during times of slower economic growth.

And finally, we're global. We're truly global operating company. And our international presence adds a lot to our streaming execution. So, look, all those segments create value on a standalone basis and really the combination benefits from synergies. So, I think we're very well positioned for today's marketplace.

Douglas Mitchelson
Analyst, Credit Suisse Securities (USA) LLC

Q

All right. So, let's dig in. I mean, streaming is obviously in focus. So, twice in the last two years, you've taken up streaming investment guidance. You're now, I think, guiding to $6 billion-plus in 2024 content spending. Could you walk us through the dynamics driving the more aggressive posture in streaming? And then, I'd just be interested in any reflections you might have on the streaming news flow since your Analyst Day and whether or not that's been influenced your strategy and how flexible that strategy might be.

Robert M. Bakish
President, Chief Executive Officer & Director, Paramount Global

A

Well, look, our streaming approach, by the way, as with entertainment in general, all starts with content. Our content investments are critical to building our company for the streaming future, and they really support our long-term revenue growth and subscriber plans. An advantage that we have is that a lot of our content investments do double duty. They work across platforms and that drives enhanced ROI for us. If you just look in recent times, a few examples, Lost City, the rom-com that we released theatrically played on theatrical and is currently playing on Paramount+; the NCIS, a show on CBS, again, on broadcast TV, also on Paramount+. The Yellowstone franchise on cable TV, also on Paramount+.

I could go on, but what I'd say is that shared approach has proven superior for us to a single platform strategy. And because when you have a single platform strategy, you focus all your spending on – a lot of your spending on exclusive scripted originals only for that platform, we're able to spread it and we see tremendous benefits in that.

And it gives us the confidence to continue to strategically invest in streaming, given the benefits we're seeing across the business. In terms of our level of streaming investment, that you asked in your question, we remain committed to the plan we laid out at Investor Day. Yes, there have been developments in the market. No, they have not impacted our strategy.

We anticipate increased investment in D2C content spend in 2022 and in 2023, after which the growth rate of D2C content and expense will slow. And it's important to note that the revenue side of this thing is really on fire. It'll grow from slightly over $3 billion in 2021 to over $9 billion in 2024. And we're very much on track for that. So, make no mistake, we're excited about our streaming business. We believe it represents an extraordinary value creation opportunity for Paramount. And we're confident in our ability to execute and deliver on that plan.

Douglas Mitchelson
Analyst, Credit Suisse Securities (USA) LLC
Q

So, that leads right into question on content. I'm just curious, Bob, because I feel like content development production for Paramount has shifted a lot the last couple of years. And I think you made all of the management changes. You're focusing more on in-house and on content that works for streaming as well as these other platforms. Of course, the market shifted due to pandemic. Maybe Netflix is cooling off a little bit in some of their Hollywood focus. Any reflections or learnings across either production of content or quality of content, as you sort of think about these last couple years and all the changes you've made?

Robert M. Bakish
President, Chief Executive Officer & Director, Paramount Global
A

So, look, Doug, the Paramount content engine is really firing on all cylinders. And it's the quality and diversity of the popular content that we create that sets us apart from the competition. It sets us apart in linear television, in film, and in streaming. So, look at theatrical. As I said, we're the only US studio, Paramount Pictures, to have five films open at number one in the box office this year.

And that, of course, is Scream, Jackass Forever, Lost City, Sonic 2, and Top Gun: Maverick. And as I said, the first four of those are on Paramount+ today, use our 45-day fast follow model. And Top Gun: Maverick will get there. In television, we break through in broadcast and in cable. That starts, of course, with CBS. The US' number one network yet again. You have fan favorites like Ghosts, like NCIS, like FBI, they power broadcast ratings and broadcast advertising revenue.

But they're also among the strongest performers on Paramount+. So, again, that dual duty point. And by the way, we have live events, too, like the Grammys. We had Harry and Meghan last year. We had Adele One Night Only. All those were great on CBS broadcast and also come over to Paramount. Then there's our cable networks. As you know, Nickelodeon, leader in kids and family. Comedy Central, South Park and more. MTV Reality and

Music, really a juggernaut in the space. Showtime hits like Dexter, like Billions and more. And of course, Yellowstone, the most watched show on cable TV. So, a lot going on there with popular content.

And then, there's streaming which is what everyone wants to talk about. All the platforms I just referenced feed our streaming efforts including with our library. And as you know, our library is massive. And then, you add to that new original series like the Yellowstone spin-offs that's powered by a relationship with Taylor Sheridan. He's a really prolific writer and producer of programming that brought us 1883. That will bring us 1932, which the next era, if you will, of Yellowstone, and also a cool show Tulsa King, which I'll come back to in a second.

It brings – you look at the franchise space, we've launched The Challenge: World Championship, leveraging what's going on in broadcast and then bringing it to Paramount+. And we're also doing more sports there on Paramount+ including internationally.

It's important to note that across almost every category we're really leaning into franchises. I like franchises. Example, Sonic, we had the first movie that brought the second movie. We have a series on the way for Paramount+, very exciting. Star Trek, I think you know the Star Trek story. We just expanded again with Strange New Worlds which is off to the fastest start from a viewership perspective of any Star Trek season to-date.

South Park, we brought special movies, multiple movies per year to Paramount+, which coincidentally one is titled The Streaming Wars. That will be available this month. We got a Beavis and Butt-Head Special coming in June and the animated series later. I could go on and on. But what you hear is franchise, franchise, franchise. We really like them, and we have depth of opportunity in that space that we're executing against.

And lastly, remember global, we have more than dozen studios creating compelling original content around the world that has advantages in diversity of ideas, and in fact, the cost for production. So, that's a real hallmark of the company. All of this feeds into our broad and diverse and really irreplaceable content library.

Now, before we go any further, since, hey, we're in the entertainment business, I thought I'd show you a clip from Tulsa King. This is a new show from Taylor Sheridan that we're making for Paramount+. It's the first series that Sly Stallone has ever done. And I think you'll see from this clip why I'm so excited about it. Play the clip.

[Video Presentation] (00:10:46-00:11:36)

Robert M. Bakish
President, Chief Executive Officer & Director, Paramount Global
A

I, for one, can't wait. I mean, you can think of almost like a new incarnation of The Sopranos. And again, Sly's first episodic TV series, and he's great in it. I think it's going to be a lot of fun. So, that'll come this fall to Paramount+.

Douglas Mitchelson
Analyst, Credit Suisse Securities (USA) LLC
Q

You talked about television a lot and film a bit. And obviously, Top Gun: Maverick, quite the success. How does the film slate look 2023, 2024? Are we going through just an unusually strong period for Paramount and there's always volatility in the film business, or do you think the slate continues from strength to strength?

Robert M. Bakish
President, Chief Executive Officer & Director, Paramount Global
A

Well, I'd say – I wouldn't say quite the success. I would say huge success. I mean, we knew this film would be great, but it has been a complete homerun in so many ways for our company. It set the record for the biggest Memorial Day weekend ever. It's Tom Cruise's biggest opening ever. It's done about $0.75 billion worldwide and still going. And it's already actually driven engagement on P+ because we put the original Top Gun there, and that was one of the most watched titles on our service this month. And in fact, it was the number three acquisition driver this week. So, franchise again.

In terms of the overall slate, 2022, as I said, we remain committed to theatrical. We held some movies. We have more than one. We have a lot of movies waiting for a better time. 2022 brought a better time. And lo and behold, we got five number ones to-date. We feel really good about that. The rest of 2022 is a little lighter in volume. We got an animated comedy coming, Paws of Fury: The Legend of Hank. We've got another great horror film in Smile and we've got Damien Chazelle's highly anticipated Babylon which stars Brad Pitt and Margot Robbie. That'll be in the holiday season, and I think it will create a lot of noise.

More to come in 2023 and 2024. The slates really look excellent. We've got existing franchises that we're using. We've got another Scream; another Mission Impossible; another Turtles, this time with Seth Rogen. We've got another A Quiet Place. We've got a Paw Patrol. We've got Star Trek. We got Transformers. We got a new one that we – new one to us in Smurfs. And then, we got some original stuff going on, like our Dungeons & Dragons film. We got a new franchise If by John Krasinski, starring Ryan Reynolds. We got a Bob Marley biopic. And look, I'm tremendously excited. I think this is setting up to be a great era for Paramount Pictures, and it's great to see it firing on all cylinders.

Douglas Mitchelson Q
Analyst, Credit Suisse Securities (USA) LLC

That was helpful and I think certainly one of the areas investors have asked you about and focused on is how do we add up all of this content spanning across the company, some cross-currents between investing in streaming and how you manage linear for profitability. So, over the next few years, how do we think about company content spend in total? And investment inflation impacts in content production costs, maybe you just need more volumes to match churn levels on streaming, how should we think about it?

Robert M. Bakish A
President, Chief Executive Officer & Director, Paramount Global

Look, in 2021, our content investment was about $15 billion, so that puts us in the Big Boys Club, if you will. Looking forward, that number will continue to grow. That growth will be moderated by sharing and remixing some of that with streaming investment. I talked earlier about the benefits of running multiple platforms. That benefit shows up in the on the content side as well.

We haven't guided on content spend in specific, but I'll say that we do expect total company content spend to grow at a much lower rate than direct-to-consumer given that we are doing some remixing and we are managing the linear and legacy side for where they are in the cycle.

And importantly, again, we can spread content amortization across platforms for a large portion of our slate; and by that slate, I mean both our television and our film, and that really drives attractive financial returns against our content investment. In terms of content cost in general, again, we are very conscious of ROI on content spend and that's true on the direct-to-consumer side, but it's also true on the linear side. Of course, we are investing for growth in a strategic way, but simultaneously we're enhancing our [indiscernible] (16:07) and are in fact are executing on opportunities to enhance cost management. Leaning into franchises, believe it or not, that helps with cost management because you have a higher probability of success. We are increasingly leaning into our global production capabilities, not only for diversity ideas, but also for advantaged economics.

We're evolving our mix, leaning a little more into unscripted and some of the linear sides and TV media. We're using more formats than ever that's taking a show that you know works and creating an international or many international specific versions. And of course, windowing. So, a range of tactics designed to achieve tighter cost management as we continue to invest in content which is really the foundation of everything that we do.

Douglas Mitchelson
Analyst, Credit Suisse Securities (USA) LLC

Q

All right. I understood. And I want to continue on talking about inflation a little bit more broadly for the company. Any macro – has any of the macro backdrop impacted any of your revenue streams and how you think managing your business through this uncertain environment, particularly, any inflation impacts of note?

Robert M. Bakish
President, Chief Executive Officer & Director, Paramount Global

A

Yeah. So, look, inflation is obviously very top of mind for consumers and for businesses alike these days. I'd say a couple of things. One, we believe the diversity of our business, again, this composition of broadcast, cable, theatrical, streaming, et cetera, is a relative advantage in periods of high inflation. I'd also point out that historically, entertainment including streaming and theatrical entertainment has fared well when consumer confidence can be a little soft since it provides a great value for our consumers trying to avoid high costs other ways, other areas. Advertising, it does have exposure for shared to the economy and to inflation, and it's a little choppy at the moment. But our best-in-class offering, which really combines those platforms in a turnkey way and adds creative capabilities and really world popular content, will help maximize share for us in this time.

On the cost side, the primary impact is production, but the reality is the production impact has primarily been talent and that has already happened. So, talent inflation, if you will, has front-run regular inflation. And so, we're managing that. And again, leaning into the tools that I mentioned earlier. But net net, the construction of our company is quite sound for an inflationary time, and we're going to manage through it and maximize share.

Douglas Mitchelson
Analyst, Credit Suisse Securities (USA) LLC

Q

All right, makes sense. And on the advertising side, and let's just talk through that a little bit. Any macro-related slowdowns in advertising that you've been able to tease out? And how is the Upfront going or did it go? I thought it might be closed off by this conference, but it seems, not quite. And we've heard buyers in the high-single digits and some of the sellers high-single to low-doubles. So, I'd be curious where Paramount Global starts selling out and, and any comments on political for this fall, which looks like will be pretty big.

Robert M. Bakish
President, Chief Executive Officer & Director, Paramount Global

A

Yeah. A lot in there. So, look, the market in general, visibility is mixed and there are some challenges in it given the economic headwinds. That's true. We are seeing some categories that are affected by things like supply chain, inflation, but we're also seeing some categories. They're doing well quite frankly, travel, movies, sports. And you mentioned political. That'll certainly be a huge plus in the second half of the year. There's a lot going on in the political environment that will feed the need for advertising, so we're quite happy about that.

On the Upfront, we had our event last month. As you know, it was really an excellent presentation. We brought the whole company together on a turnkey basis for clients and presented it in a very short [indiscernible] (20:11) about an hour and 15 minutes, and a comprehensive turnkey way for our clients. It really showcased our content slate which, as you know and we spoke about earlier, includes, like, a plethora of number ones, great stuff for people to be part of.

We also showcased IQ, which is our turnkey product for delivering digital reach, which combines Pluto TV and Paramount TV and some of our other video assets. With that combination, again, this combination of linear number ones and streaming, including the number one FAST service in the US with Pluto TV, we're well positioned to take share. As your question on where the Upfront is, we're very pleased with what we've seen on the agency side. We have real engagement. It speaks to the power of our portfolio and how we've approached the market quite frankly.

We're about 80% to 90% done at this point, so not totally done but almost there. Pricing, look, I'd say, broadcast, we're in high-singles. Interesting that we're in high-singles for cable, too. Historically, cable has lagged broadcast, tucked in under it. We're delivering high-singles on both, and that's a reflection of the quality of our products, but also the way we're bringing it to market. Digital is really a volume play, and actually our volume is up materially and I think it's – during my – some of our competition doing some things that are probably too aggressive on the linear pricing sides, because we've seen agencies add digital volume as the Upfront's gone on. So, I'm very happy with that. So, net-net, the market's a little tough, sure. But the Upfront is progressing very well. We're pleased with the outcome. And I think you will see us do very well on share coming out of this.

Douglas Mitchelson Q
Analyst, Credit Suisse Securities (USA) LLC

And I think when you mentioned volume up materially, I think you were specifically talking about digital. Should we think about the overall up as well?

Robert M. Bakish A
President, Chief Executive Officer & Director, Paramount Global

You should think about the overall up that will be...

Douglas Mitchelson Q
Analyst, Credit Suisse Securities (USA) LLC

For you, for Paramount across.

Robert M. Bakish A
President, Chief Executive Officer & Director, Paramount Global

Yeah, we'll be up. But the digital place is where we have the really significant growth.

Douglas Mitchelson Q
Analyst, Credit Suisse Securities (USA) LLC

Appreciate the clarification. So, I'm looking at about 20 Paramount+ questions here. So, I'll try to be somewhat targeted given time constraints. But let's just start with how is Paramount+ doing? I'm thinking fairly broadly here, level of engagement is a churn where you expect it to be anything on distribution or aggregate or development or partnerships or development of technology. Just relatively broadly, how are you feeling about Paramount+?

Robert M. Bakish
President, Chief Executive Officer & Director, Paramount Global
A

A kitchen sink question. Look, in a word, great. Paramount+ has been a homerun for our company. We added 21 million subs in 2021, coincidentally, 21 in 2021. We had another great quarter. In the first quarter of 2022, we added close to 7 million subs on Paramount+. It's really been driven by continued engagement with the breadth of our content portfolio. We've seen our domestic monthly active rate improve quarter-on-quarter and year-over-year. In Q1, we've seen double-digit increase sequentially in hours per active and unique titles per active in Q1, we've seen – we just saw – we just got a customer satisfaction survey. We just saw [indiscernible] (23:55), and had P+, Paramount+, P+ we call it, ranked number two in terms of customer satisfaction among all streamers.

So, we're very happy to see that. And we really think it's been driven by the combination of our multiplatform programming expertise. We know how to stunt. We know how to tie in to what's going on the calendar, and it follows something with something else. And the related broad content offering which is driving that customer engagement. Paramount+ really works if you have multiple people in your household and particularly multiple generations. As you know, we brought our kids leadership to it and that's an important piece. But we're really seeing great engagement. In terms of the product itself, we're continuing to improve it.

We just rolled out new carousels on the Android platform this month. We rolled out new content push reminders. And so, we'll day-to-day, week-to-week, month-to-month, continue to enhance Paramount+ and help consumers, again, have a better experience with more of that great content.

Douglas Mitchelson
Analyst, Credit Suisse Securities (USA) LLC
Q

So, care to set any expectations for our 2Q subscriber growth or the second half of the year, you're rolling out more content, you've got launches in the UK and South Korea in June and Germany, France and others in second half of the year.

Robert M. Bakish
President, Chief Executive Officer & Director, Paramount Global
A

Yeah. Look, we don't really – I don't want to say we don't really. We don't guide to quarterly subscribers. We have said annual subscriber growth will be in excess of 75 million total global D2C subs by the end of the year. And we're still on that with the removal of Russia subs. And we also guided that we're going to take out 2 million – a little over 3 million subs in the second quarter related to Russia. It's important to note that roughly two-thirds of those were related to a non-Paramount+ product that was specific to the Russian market. So, those subs are coming out.

We also had a delay in a hard bundle, which will affect YouTube. But we're launching in South Korea this week. We're launching in the UK next week. When you look beyond Q2. We're doing Italy, Germany, France, Switzerland, Austria, all in Q3 and Q4. We expect sub growth to accelerate in Q3 and Q4. We accelerate really because we expect it to slow a little in the second quarter.

And again, we expect to exceed 75 million total D2C subs globally with the Russia adjustment by the end of the year. And remember, it's not all that subs. At the end of the day, you, Doug, care about earnings and free cash flow. And so, it is about driving D2C revenue growth. And we continue to expect very strong year-on-year D2C revenue growth on the subscription side.

Douglas Mitchelson
Analyst, Credit Suisse Securities (USA) LLC

Q

Well, let's go right into that two of the most important common investor questions I get these days is, one, what's the path to profitability for Paramount+. And anything you'd be willing to offer that'll help investors understand time frames. And the second question kind of putting it both together is just concerns about the race to the bottom, competition peers in streaming. Is streaming ultimately going to be a favorable business for Paramount, and not just profitable, but is more profitable than being a wholesaler or a licensor like it was before streaming came along?

Robert M. Bakish
President, Chief Executive Officer & Director, Paramount Global

A

Yeah. Sure. So, a lot of discussion on this topic as you well know, we have not detailed a specific timeline regarding our path to profitability, but we have said that we'll reach peak losses in 2023. And beyond that, we expect D2C [indiscernible] (27:50) to grow. You can be sure that we are focused on building a D2C business in a smart, disciplined way. We view breakeven as a step along the way of generating D2C margins that are in fact comparable to our TV media business. And we see a significant opportunity to create value through that streaming business.

I note a couple of things in this discussion. One, we don't think it's a winner-take-all market. In fact, the data we have says the number of subscription services that consumer have subscribed to is now nearly five. Second, and you heard this earlier, our position as diversified media business fundamentally improves the unit economics of streaming for Paramount. That's because owning TV, owning theatrical really provides advantages in promotion and content amortization using libraries and also in distribution relationships. We look at the streaming math as compelling. We do think it's – on a projected basis, superior to studio margins, and as I said, approaches margins similar to our current TV media business over time.

And we also believe that our model, our multi-platform model, if you will, will generate better margins at comparable scale versus a pure-play streaming business. So, we're very bullish on what we're doing in streaming. But remember, for us, it's not all about streaming. Our other businesses create real margin at the total company level. And importantly, they help both franchises, too.

Douglas Mitchelson
Analyst, Credit Suisse Securities (USA) LLC

Q

So, let's talk about global expansion of your streaming ecosystem a little more broadly. Pluto TV has been active in expanding its global footprint. You just talked about P+'s rollout plans in some of the larger European markets starting this month. How do you think about the pace of international rollouts and willingness to partner in order to drive international growth?

Robert M. Bakish
President, Chief Executive Officer & Director, Paramount Global

A

Yeah. Well, look, international is near and dear to my heart. I spent a decade running our international business prior to becoming the Viacom CEO. We are extremely well positioned to grow streaming internationally by leveraging our international operating footprint. And I would suggest to you, I mean, you mentioned Pluto. We're over 67.5 million MAUs when you include Latin America, you include Europe.

And we recently entered some game-changing partnerships for the next leg of growth. We did a NENT deal in the Nordics. We had a Corus deal in Canada. Both of those have local players, NENT and Corus, contributing local content, so we don't have to invest in it and contributing local ad sales because they are market leaders. And then, we bring – Pluto brings platform and brings global library.

So, we think that's a very powerful combination. It's almost like you own a broadcaster in places where you don't. And that totally works for us in the US [indiscernible] (31:01) CBS. So, we're very excited about that. And see, Pluto is continuing to have a lot of road ahead of it. Paramount+, we talked about a little bit South Korea this week, UK next week. Italy, Germany, Switzerland, Austria and France in the back half of the year. We're also going to launch in India. We're very excited about that.

We're doing with our JV, Viacom18, which as you know is our partner in Reliance. Reliance is the most powerful company in India and now has Bodhi Tree involved, too. They just got the exclusive streaming rights for Cricket. Now, the Cricket won't be on Paramount+, but Paramount+ will be bundled with their super service. So, again, we don't have to invest in local content. We don't have to invest in local marketing. We ride alongside the super service and benefit from the market. Very excited about this model.

And the common thread I would give you in all this is our international operations and look at the tape. The reason we can do the deals we did, which are differentiated in the market, is because we've been on the ground for 25 years. We know these people. Look at the Sky deal, look at CANAL+, look at NENT, look at Corus, look at Viacom18, all those are the work of a decade-plus, 20 years, which are now coming into streaming. And we are going about it differently and we are going about it in an advantaged way. And you will see that make a real difference in streaming in 2022 and going into 2023.

So, tremendously excited about what we're doing in streaming. By the way, we just picked up another set of sports rights for Brazil, one of the leading soccer leagues there, which we think will be very additive to our efforts for our Paramount+ efforts in that market. So, we're excited about that. And then the other thing, of course, we got going on, again, going back to relationships is our SkyShowtime joint venture. That will be launching this year. That's mostly an Eastern European play, but it's really compelling and capital efficient way to play in those markets.

So, we're bringing a lot to bear as a truly global operating company to the streaming game, and I'm tremendously excited about where it's going to take us.

Douglas Mitchelson
Analyst, Credit Suisse Securities (USA) LLC

Q

A lot going on. And if I could follow up on the Pluto part, a lot of this isn't easy to forecast. So, I'm curious, what do you think about Pluto in terms of – whether it's market size or market share and in particular margins, of course. Anything to help us with our forecast.

Robert M. Bakish
President, Chief Executive Officer & Director, Paramount Global

A

So, the first thing I'd say is when I came out and announced that we bought Pluto TV in 2018, we closed in the beginning of 2019, people were like, what is that? You're crazy. It's irrelevant. And guess what, in 2021, it was over $1 billion business and it's definitely a rocket ship and it leads the US FAST category, free ad supported streaming television (sic) [free, ad-supported television], which is now a recognized important category and we're rolling out globally.

So, the first thing is we're early on this Pluto thing and it is totally working. The second thing is we look at the market, it is large and growing. Yes, there is competition, but we are the market leader. We are deploying our owned content from across the company. It is making a real difference and we see tremendous growth ahead because content drives engagement, which drives advertising, which goes back to content.

And we're now in the middle of converting some of our content, third-party content deals from variable to fixed fee deals. And there, we're benefiting from two things. One, the size of our platform. We couldn't do those deals when Pluto was smaller because people didn't want a small fixed fee. We can now write them a nice check which, in fact, on a projected basis will cost less than our variable check. But – and the second point is we know what check to write because we look at the data.

So, we feel great about Pluto and I couldn't be happier owning it. And again, a nice road ahead as we track to it, building a nice margin business there as well, which is additive to our D2C business. And in fact, good – in combination with the rest of the company, including in the ad space.

Douglas Mitchelson
Analyst, Credit Suisse Securities (USA) LLC

Q

I mean, you'll get a margin hockey stick out of Pluto at some point in time. I think essentially I'm not sure if we have to go back three years ago or five years ago, Bob, with our discussions where I would just have flipped the amount of time I spent on linear versus the amount of time I spent on streaming. And I've got one linear question for you. How are you driving value out of the linear network business, and how you manage that business as consumers shift their viewing and staying in streaming? Obviously, it's important, still generates a lot of cash flow.

Robert M. Bakish
President, Chief Executive Officer & Director, Paramount Global

A

Yeah. It is important. And look, in total, linear minutes are still greater than streaming minutes. So, it's not just important to us. It's important to the consumers in the US and globally. In terms of managing it, look, there's two broad things. One is we deploy our content expertise and I offer no better proof point than CBS, which was the number one broadcast network despite not having the Olympics or the Super Bowl. You know what that tells you? We know how to make great content.

And second thing is, look, we're managing it very focused on ROI. We're remixing certain types of expenses. We're unlocking synergies on our cable assets et cetera. And so, those two, taking price increases plus cost management really is offsetting or largely offsetting ecosystem decline. So, linear remains important. We're staying in that business. It's a powerful financial engine on its own. It does about $6 billion [ph] in viewing in (36:58) TV media.

And also, it's a powerful promotional platform for streaming. Look at what we did in theatrical. Look what we did with Top Gun. Look at what we did with Halo. Look at what we did with Yellowstone, 1893. What we'll do with 1934, what we'll do with Tulsa King. We're leveraging those linear platforms for commercial purposes as we're generating OIBDA and free cash flow. So, we like the linear business. It's an important part of the diversified entertainment company. It really gives us tremendous advantage and we will continue to unlock that advantage going forward.

Douglas Mitchelson
Analyst, Credit Suisse Securities (USA) LLC

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So, what's that all up, Bob? Is there clarity from your point of view how profitable Paramount probably in a few years? So, think about streaming investment cycle winds down, but at the same time, we're a few years farther along linear challenges. Is there – kind of last slide and what the free cash flow profile of the overall company is going to look like over time?

Robert M. Bakish
President, Chief Executive Officer & Director, Paramount Global

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Yeah. Sure. So, look, as we said in our Investor Day, our D2C business is in investment mode today. We believe that is an important part to invest given all the realities of today's media landscape. We continue to fundamentally believe it's a good business and will be accretive over time. We're encouraged by our success thus far, which is why we raised expectations for growth and believe why we can generate attractive margins over time.

It's worth noting that we continue to operate the non-D2C business, the traditional business in ways that generate significant earnings and free cash flow, which together helps obviously fund our streaming plan and in combination creates value for shareholders. So, we feel good about what we're generating in cash flow, how we're deploying that cash, and we'll continue to execute in the future.

Douglas Mitchelson
Analyst, Credit Suisse Securities (USA) LLC

So, look, I think I've ran us out of time with that series of questions, Bob. Any closing remarks you want to share with folks?

Robert M. Bakish
President, Chief Executive Officer & Director, Paramount Global

Look, I would just say two things. One, in today's market, we believe the diversification of our business positions us well. And as we navigate, we're committed to thoughtfully executing against our strategy, and we're focused on creating long-term value for our shareholders.

The second thing I would say is this company has strong momentum. Just look at it. A Paramount content engine is firing on all cylinders. You saw that with Top Gun: Maverick over the last month. I think you caught a glimpse of what we'll be in the future with Tulsa King. And that content engine is benefiting all of our businesses, the actual broadcast cable, and yes, of course, streaming.

In combination, that really creates a tremendous advantage. So, we're excited about where we are. We're navigating through it and we look to the future as a great opportunity and really great value creation trajectory.

So, thanks for your interest today. Be well, everyone, and we'll talk to you soon.

Douglas Mitchelson
Analyst, Credit Suisse Securities (USA) LLC

Thank you so much, Bob. Thanks for sharing your thoughts.

Robert M. Bakish
President, Chief Executive Officer & Director, Paramount Global

Thanks.