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Executive Vice President & Chief Financial Officer, Paramount Global

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Kutgun Maral

Analyst, RBC Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

Kutgun Maral

Analyst, RBC Capital Markets LLC

Good morning, everyone. My name is Kutgun Maral. I'm the media analyst at RBC. And we're thrilled to have with us today Naveen Chopra, the CFO of Paramount Global. So Naveen, thanks so much for being here.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

Yeah. Thanks for having us. Excited to be here.

QUESTION AND ANSWER SECTION

Kutgun Maral

Analyst, RBC Capital Markets LLC

Q

Yeah. Well, maybe to kick off the conversation, so far this year, Paramount has had a lot of success, right, including the subscriber growth at Paramount+, your international market launches, the studio has had a tremendous year at the box office. So, maybe you could talk about what you think the Street and investors are missing in terms of the overall strategy and the opportunities that lie ahead.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

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Yeah, sure. Well, I think if you'd asked me that question a few months ago, I would have said that the big thing everyone is debating is whether Paramount is going to be a player in streaming, and here we sit today with 67 million direct-to-consumer subscribers. We've got a D2C business that's closing in on a \$6 billion revenue run rate. We are the video partner powering Walmart+. We're the fastest growing streaming service in the US market this year. So I think people understand that we are very much a player in streaming.

Kutgun Maral

Analyst, RBC Capital Markets LLC

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Yeah.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

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But at the same time, the market has gotten very, very focused on really three issues I think; the sort of state of the current advertising market, changes in the linear ecosystem and streaming profitability.

Kutgun Maral

Analyst, RBC Capital Markets LLC

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Yeah.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

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And I think within each of those areas, there are details that the market is missing. So, on the advertising market, the reality is, yes, there are headwind. It's not a great advertising market, but it's a cycle. And we've seen cycles before. They are not necessarily that long. Most of what we've seen is these things last a few quarters.

And so the real question to focus on is whether you can be in a position to succeed when the market returns. And in that sense, I feel very, very good about Paramount. We have really the ideal advertising portfolio for the future world of advertising between the number one broadcast network, the number one free ad-supported streaming TV service in Pluto TV, and the fastest-growing SVOD service in Paramount+, which has an ad-supported tier associated with it. So we think we're very well positioned to win when the advertising market returns, which it will.

So then you go to the linear TV ecosystem and, yes, that world is evolving. Consumers are changing how they consume content. But importantly, they're not consuming less content.

Kutgun Maral

Analyst, RBC Capital Markets LLC

Yeah.

Q

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

They're just changing how they get access to that content. And so, rather than focusing exclusively on the evolution of the linear ecosystem, we think the right thing to do is to focus on the combined business, which is one of the reasons we've pointed people to our combined linear and streaming subscription revenue. And if you look at that number, in Q3, we grew the business 8%. What that says is that streaming is truly incremental to the linear ecosystem, and we see that kind of growth continuing going forward off a very large base, by the way.

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Kutgun Maral

Analyst, RBC Capital Markets LLC

Yeah.

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Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

So we think looking at this purely through the lens of the linear ecosystem misses the bigger picture. And then you go to the question of streaming profitability. And there, the market has gotten very, very short-term focused. And with that sort of focus, I think you miss the important impact that growth in pricing and continued expansion of the streaming TAM will have in that profitability equation. We feel very confident in both of those things.

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I think you've missed the tremendous operating leverage that is enabled by combining a traditional media business with a streaming business, and what that means in terms of the cost of delivering content, the cost of acquiring subscribers which are very different in our world than a pure-play streaming business.

Kutgun Maral

Analyst, RBC Capital Markets LLC

Yeah.

Q

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

And I think importantly, and this is probably the most significant thing that I think the Street is missing with respect to streaming profitability is, there's a presumption that the investments we're making in streaming are sort of sunk costs. And that's just not accurate because when you look at the dollars we're spending, it is overwhelmingly in content.

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So, those are assets which even if you have a very bearish view on streaming which we don't by the way, you would say, okay, well, worst case, you can go license or sell or monetize those assets in some other way other than through your owned and operated streaming service. And there would be some sort of floor value on those assets in that scenario. But if you look at valuation of the business, it implies that streaming actually has negative value, therefore – assuming those assets actually are not valuable.

And that's – as I said, it just doesn't make any sense, given what we're doing in terms of how we're building that business. So when you look at the difference between negative value on streaming and even a bearish view of what those content assets are worth, there's a big delta, and I think that's an opportunity for investors.

Kutgun Maral

Analyst, RBC Capital Markets LLC

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Yeah. No, I would agree. And maybe you could talk a little bit more about the ad market, and you alluded to it in point number one. But big area of focus for investors. You have a lot of different touch points on linear, whether it's local, national, international. Clearly, you have a growing presence in digital as well. What are you seeing over there, and maybe any incremental color you could provide on the fourth quarter?

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

A

Yeah. Well, so maybe I'll talk a little bit about what we saw in Q3 and then what we're seeing with respect to Q4. So if you look at our advertising business as a whole in Q3, despite a weak macro environment, the business grew 1% on a constant currency basis. And the digital part of the business which is primarily driven by Paramount+, Pluto and some of our other digital properties, grew 4%, off by the way a base that is larger than many of our competitors in the digital arena.

So, we feel good about that performance, particularly in a weak market. And you might ask, well, what sort of drove the relative over-performance compared to some other players in the marketplace? And I would point to a couple of things. Number one, it starts with, you got to have content lineup across all your different platforms that advertisers want to be associated with. And as you mentioned in your introduction, we've been in a very, very strong place there. I'll talk more about that later.

But it also comes back to that portfolio of advertising assets. And if you're going to succeed in a weak advertising market, you've got to be able to bring reach of broadcast, the immersiveness of broadcast. You've got to be able to bring the efficiency of digital and you've got to have a growing digital platform where you can start to provide scale to replace the changes that are occurring in the linear ecosystem. And we have all of those things. And I think that is reflected in some of what we saw in Q3.

So when we look ahead to Q4, look, the macro environment is going to continue to be a factor. There are some who have suggested that the current environment is worse than what they saw in COVID. We don't see anything close to that, to be clear. And again, I think that's a function of a couple things. Certainly, our advertising portfolio. I mean, if you were just selling cable network inventory, this would be a much, much more challenging environment. But that combination of broadcast, FAST, SVOD and cable puts us in a very powerful position.

And the way that we approached the upfront earlier this year, I think, is starting to pay some dividends for us now as well. We did not really try to optimize for the last dollar on price in this year's upfront. We recognize there was some uncertainty in the marketplace, and so we really tried to optimize for volume. And our thought was that, in a world of some uncertainty, we'd rather transact more business upfront than we did in the prior year. So, that is now starting to benefit us in Q4, where we have a greater piece of upfront business than maybe some others in the marketplace.

So it's not the ideal environment, but it will improve. And we feel really, really good about what we're bringing to the table as the market starts to return.

Kutgun Maral

Analyst, RBC Capital Markets LLC



Got it. Okay. That's great. And maybe let's talk a little bit about Paramount+, kicking off with content. Some of your peers have started to take a different approach in terms of the content that they're putting on their streaming platforms. They're maybe pulling it back a little bit and monetizing it with third parties. I know with Paramount+, you guys have had a decent amount of success with the broad-based offering that you have. [ph] You hit (9:43) quadrants.

But as you move forward, are you at a point where you're maybe rethinking certain categories or pieces of programming that may – warrants a fresh look at balancing the incremental benefits of Paramount+ versus the content licensing opportunity?

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global



Yeah. It's such a funny question because it really was not that long ago that...

Kutgun Maral

Analyst, RBC Capital Markets LLC



Yeah.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global



...the question we got in this area was why are you guys licensing any of your content? Why aren't you all in on streaming? And we said then and we continue to say that we believe in a much more balanced approach. So we don't think licensing is binary. It's not all-in or all-out. We've been in the licensing business throughout our streaming journey and we will continue to be. There are certain types of content that we will continue to use exclusively on our owned and operated platforms. And then there are others that we will license out because it's an important part of our overall economic model and it's also important to continued franchise development and building audiences.

And if you look at what we've done over the course of, call it, the last couple of years, there are examples of all of that. So there's certainly titles that we have kept for our own services, particularly some of our core franchises, whether that be a Star Trek or a PAW Patrol. And there are franchises that we've actually been repatriating to bring back to our own services. That includes things like Criminal Minds, where that catalog used to be a big driver on Netflix. It's now back on Paramount+ in advance of actually a reboot of the show...

Kutgun Maral

Analyst, RBC Capital Markets LLC



Yeah.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global



...that'll be coming later this year. And similarly, in our international business, we brought the South Park catalog back to Paramount+ as well. So there's definitely stuff that we believe is valuable to have exclusively. But we also are big believers in licensing and we've been doing that all along. So, shows like NCIS or FBI do exist on third-party platforms, typically catalog content, so older seasons. And that is helpful both from an economic

perspective, but it also helps build awareness and audience for the new episodes, which typically live exclusively on either our broadcast network or cable networks and Paramount+. So we actually think it's very synergistic.

And then there's some content that we continue to produce exclusively for third parties. Example of that is something like Jack Ryan, which we make for Amazon. And that's a modest sort of economic contributor, but is helpful from a talent relations perspective and being able to have access to a variety of different projects. So we think that combination will continue to live. Licensing is a big business for us. It was a \$6.5 billion business last year, and we think it'll continue to be a part of our growth engine.

Kutgun Maral*Analyst, RBC Capital Markets LLC*

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Great. And content obviously drives the success you've seen at Paramount+ subscriber growth. So, maybe let's dig in a little bit over there and you could provide us hopefully a little color on the recent trends you're seeing, whether that's on a gross add basis, on churn. And I'd be curious if there are any outsized contributors in terms of specific regions around the world, content or anything interesting you're seeing from your distribution partnerships. And as part of that, maybe you could also talk about expectations into Q4.

Naveen Chopra*Executive Vice President & Chief Financial Officer, Paramount Global*

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Yeah. So, there's a lot there. Maybe, I'll start with kind of Q3 and then talk a little bit about what we're seeing going into Q4. So just to level set for everybody, our D2C business ended Q3 with 67 million subscribers. As I mentioned earlier, the business is now at a revenue run rate that is closing in on \$6 billion. That's primarily driven by Paramount+. We added 4.7 million total D2C subscribers in Q3. The vast majority of those came from Paramount+. And top line of that business is growing at 95%. So, there's a lot of growth which we've seen throughout this year and that continued in Q3.

In terms of some of the drivers, one way to think about it is, from a geographic perspective, the growth has been actually quite balanced. So, we've seen healthy growth both domestically and internationally. In the domestic market, I would say, it was driven both by content and distribution. On the content side, we had things like the return of the NFL, UEFA, CBS fall season, all coming back to the service in Q3, and all three of those things are reliable drivers of sub-growth and Q3 definitely demonstrated that.

And then on the distribution side, we launched our bundle with Walmart+, which has exceeded expectations and continues to perform very, very well. And that was definitely a contributor in Q3. And then on the international market, we saw some real strength in the UK which we launched back in June. That, I think it's fair to say, has outperformed our expectations. So, that definitely was a contributor in the quarter. And then, we also launched our service in Italy, including another hard bundle with Sky, which leads to some nice accelerated growth, and that was a contributor in the quarter. So I'd say, very balanced in terms of content distribution, domestic, international.

So, what do we see going forward? Well, big picture. We're very bullish about continued growth, actually accelerating growth in Paramount+ subscribers. I said on the call a couple of weeks ago that I think we'll exceed our previously announced year-end goal of 75 million D2C subscribers, with some adjustment for services that we shut down in Russia.

Kutgun Maral*Analyst, RBC Capital Markets LLC*

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Yeah.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

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And that is, again, very much content-driven and distribution-driven. Frankly, our content slate for Q4 is amazing.

Kutgun Maral

Analyst, RBC Capital Markets LLC

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Yeah.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

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That might be an understatement. It starts with, if you look at last weekend, we premiered Tulsa King, which is our latest Taylor Sheridan series starring Sylvester Stallone. It's his first television series. And we launched that on Sunday in combination with a nice NFL day. And that actually became the single biggest day of starts in the history of Paramount+ since we launched the service back in March last year.

So we're off to a really good start in Q4 and we're sort of just getting started with the content slate. So in addition to Tulsa King, we had Smile which was sort of the sleeper hit movie that we made for \$17 million and generated \$200 million in the box office. That just hit Paramount+, I think, on Monday. And we've got more coming. We've got the reboot of Criminal Minds that I mentioned hitting the service in Thanksgiving.

The next installment in the Yellowstone Saga, 1923. We did 1883 last year. Next chapter is 1923. That will be coming in December. That stars Harrison Ford and Helen Mirren. So we're really excited about that. I think it's going to be a big contributor. And then, of course, we still got Top Gun: Maverick coming later this quarter. So I couldn't be more excited about the trajectory that we're seeing there.

Kutgun Maral

Analyst, RBC Capital Markets LLC

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Yeah. I may be the only person that hasn't watched Top Gun: Maverick in the theater. So I'm looking forward to catching it on Paramount+.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

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You should see in both places.

Kutgun Maral

Analyst, RBC Capital Markets LLC

Q

Yeah. Well, so let's talk a little bit about the pricing strategy and ARPU trajectory at Paramount+, because there's so many puts and takes. We talked about the broader macroenvironment and some pressures over there, the ad market, and there's always some nuances around distribution partnerships. Maybe you could help frame expectations into Q4 and just kind of more broadly talk about how we should be thinking about 2023 as well.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

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Yeah. Look, I think that in a sense, this is one of the places where, as I mentioned earlier, I think the market has not fully appreciated the long-term trajectory that we expect to see in this business. I do think ARPU can and will grow quite materially, not necessarily going to happen overnight, but it will evolve both as a result of price changes and continued evolution in ad monetization.

And if you think about each of those pieces independently for a second, our price points today are I would describe as very much a value price point relative to others. And at the same time, we're now starting to see some of the other comparable services in the marketplace taking price up. Not a surprise, something we expected would happen. And that actually gives us room now to start increasing price on our service while maintaining sort of that value positioning. And the fact that we have a two-tier system with a higher priced ad supported tier and a lower priced – excuse me, higher priced ad-free tier and a lower priced ad-supported tier, gives us flexibility there because we still have a place for price-sensitive consumers to be a part of our ecosystem and we can generate incremental ARPU on the premium tier.

So you will see us evolve price with Paramount+. And that's going to be a major contributor going forward. And I do think there's a lot of room from an advertising perspective as well. We're still in the relatively early days of advertising on Paramount+. And when I look at the engagement metrics there in terms of diversity of content that people are consuming, the amount of time that they're spending on the service, how deep into various shows they're going, those are all very encouraging in terms of what it's going to mean for monetization. And we're seeing it just in terms of the impression delivery.

Now, that's happening at the immediate point in time in a relatively weak advertising market. So, that will have some impact on the advertising ARPU side of the equation. But that short term, it will improve. And ultimately, the combination of those two things will drive ARPU.

Kutgun Maral

Analyst, RBC Capital Markets LLC

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All right. Well, and maybe for now to wrap up on DTC, let's talk about the path to profitability. You talked about it a little earlier, but maybe we could dig in somewhat deeper. You recently reiterated the target of having DTC OIBDA losses peak in 2023. Again, I know that the ad market causes some issues and limited visibility, but can you help us think about the potential – the size of the year-over-year step-up from 2022 into 2023? And maybe as part of that answer, ad market you don't have as much control over, but where your plans are on the cost side and any mitigating – how can you mitigate the macro-driven ad pressures?

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

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Yeah. Well, if you step back for a minute, despite all of the growth that we've seen in the last few quarters, we're still relatively early in our streaming journey. I mean, we launched Paramount+ just over a year-and-a-half ago. But we did that with an eye to both building top line scale in streaming, but also creating a business that will ultimately be a contributor to earnings and cash flow.

So, in our mind, that means we're very focused on the long-term goals that we previously announced, which include achieving more than 100 million D2C subscribers by the end of 2024, along with streaming revenue in excess of \$9 billion. And I think we're on a good trajectory as far as both of those goals go. And, of course, having top line scale is sort of the first ingredient to getting to profitability on streaming.

Now, at the same time, we have said that our strategy is to create a streaming business that will deliver margins that look similar to the traditional TV side of our business. That's not going to happen overnight, but we continue

to believe that our strategy and the things that we're doing in terms of how we invest in content, how we acquire subscribers, which, as I mentioned earlier, it's a fundamentally different model than a pure play streaming business, will get us to those types of margins.

Now, in terms of 2023 specifically, it's a little early for us to be putting the specific numbers on the step-up, etcetera. But as you noted, we have said that 2023 will be the year of peak losses in our D2C business. So yes, we will spend more next year than we spent this year, but that's not news. That was part of the plan that we articulated actually on our last Investor Day. And I think that continues to be the plan. And once we get through that then we'll be in the mode of starting to drive toward breakeven. And then ultimately, those long-term margins that we talked about.

The impact of the macro environment next year, no one knows exactly what that's going to look like. It is one of the reasons, as you mentioned, that we have been focused on the cost side of the equation. So there are a number of initiatives that we have accelerated with the thought that to the extent that macro environment creates sort of incremental headwinds next year, we can help mitigate that with some of these cost reductions.

And that includes everything from deeper integration with Showtime, which unlocks some meaningful cost savings for us, a very different view of how we operate globally and, again, tighter integration between sort of our global business and our domestic business. We're doing some significant restructuring in our ad sales organization to better align with our holdco customers. And those things were all meaningful, and they're things that we sort of had on our long-term plan regardless, and we're going to accelerate those, given the current environment.

And what I like about that is not just that it's helpful from a cost savings perspective, but there are things that I think actually position us to grow faster in the long term, like they take us where we want to be strategically. And so, I think our mindset is not one of retreat because of the macroenvironment. It's really, okay, let's lean in because we believe where we're going in the long term is still the right goal and we're going to take advantage of this to go as fast as we possibly can.

Kutgun Maral

Analyst, RBC Capital Markets LLC

Q

Got it. Great. Let's shift gears a little bit to the film and entertainment segment, because the studio has been on fire this year, Top Gun: Maverick, Scream, Smile, Lost City, Jackass, Sonic 2. I know I'm looking forward to Babylon next month. It seems like the studio is certainly at a different place today and its output is at a different place today than it was just a few years ago. So maybe you could talk a little bit about the strategic shifts over there and how you expect the slate to shape up over the next two years.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

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Yes. I still can't believe you haven't seen Top Gun.

Kutgun Maral

Analyst, RBC Capital Markets LLC

Q

I know. I have a baby, can't leave the house. It's not my fault.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

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All right. Well, then you have an excuse to watch it on Paramount+. So, you're right, I mean this 2022 has been an incredible year for Paramount Pictures, six number one movies. There's not much more that we can say about Top Gun that hasn't already been said. I mean, it's one of the biggest movies of all time. But we've also had a number of other successes, including Smile, which I mentioned is sort of our most recent really big win.

And if you think about the year we've had, your question is sort of like, well, what's the secret sauce? And the answer I think is really two things that we have done. Number one, we've really leaned into franchises. And if you look at our slate last year and this year, there are many, many examples of that. Whether it's the PAW Patrol movie or A Quiet Place last year, whether it's Sonic this year or things that we will do in the future. Next year, we got another Mission: Impossible movie, another one a year after that. We'll have another Transformers movie. We're rebooting the Teenage Mutant Ninja Turtles franchise. And we're also investing in new franchises.

So, we'll be doing a Dungeons & Dragons picture, which we think has a potential to be a really cool franchise. We got a project called, IF that we're doing with John Krasinski and Ryan Reynolds that has interesting potential. So, leaning into franchises is a proven strategy for us. It's all about IP that has a built-in audience and that you can – where you can leverage your investments sort of from one title or one year to the next. And that's true in how those assets perform, both in the box office and in streaming. So, franchise is number one.

Second thing we've done is really embraced this notion of 45-day fast follow to streaming, which is not to say that every single movie will follow that model. Top Gun is obviously an exception. But we do think of that as the default model. And the reason that we like that as the default model is that it allows us to capture the very important economics in the theatrical distribution channel, but also use those titles on Paramount+ at a point in time where the content is still fresh and the streaming service can benefit from the buzz and awareness that was created by the theatrical marketing campaign. So we really like that model.

And if you tie together what I said about franchises and how we think about the combination of streaming and theatrical, it influences how you think about your slate because you've got to fully exploit both of those distribution channels and you've got to have IP that has scaled audiences. And when you do that, you can build a compelling slate, you can attract the kind of projects, the kind of talent that you want to work with. You can get – you can tell compelling stories. And that's what we've shown that we can do. And I think you're going to see a lot more of that in 2023 and beyond.

Kutgun Maral

Analyst, RBC Capital Markets LLC



That's great. Well, unfortunately, we're out of time, but I can't not ask about free cash flow. So I'm going to sneak that in here as well. And maybe you could just kind of briefly level set expectations around free cash flow. I know working capital has been a big focus for you. And so far, you've seen very good success in limiting the downward pressure on free cash flow as it compares to what we've seen on the OIBDA trends. Is that dynamic sustainable as you head into 2023?

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global



Well, you kind of answered the question. So, yeah, the real quick answer is we've had, as you said, great success this year in sort of limiting the change in free cash flow relative to the change in OIBDA. And that is something that we will attempt to do next year as well. We do see a number of opportunities from a working capital perspective, particularly as sort of the rate of change in the growth of content investment that we are making starts to slow. Because if you think about what's driven cash usage over the last couple of years, it's really been ramping up of content production, and the pace at which we're increasing that spend is starting to mitigate.

Kutgun Maral

Analyst, RBC Capital Markets LLC

Perfect. All right. Well, Naveen, thanks so much.

Naveen Chopra

Executive Vice President & Chief Financial Officer, Paramount Global

Yes. Thank you. Thanks for having us.

Kutgun Maral

Analyst, RBC Capital Markets LLC

We appreciate it.

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