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# Paramount Global (PARA)

Q3 2024 Earnings Call

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### Brian Robbins

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good afternoon. My name is Nadia, and I'll be the conference operator today. At this time, I would like to welcome everyone to Paramount Global's Q3 2024 Earnings Conference Call. At this time, all lines have been muted to prevent any background noise. After the speakers' remarks, there will be a Q&A session. [Operator Instructions] In order to get as many of the questions as possible, we ask that you, please, limit yourself to one question.

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

### Jaime Morris

*Executive Vice President-Investor Relations, Paramount Global*

Good morning, everyone. Thank you for taking the time to join us for our third quarter 2024 earnings call. Joining me for today's discussion are Paramount's Co-CEOs, Brian Robbins, Chris McCarthy and George Cheeks; and, our CFO, Naveen Chopra. Please note that, in addition to our earnings release, we have trending schedules containing supplemental information available on our website.

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

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

Now, I will turn the call over to Chris.

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## Christopher D. McCarthy

*Paramount Global Office of the CEO and President & Chief Executive Officer-SHOWTIME & MTV Entertainment Studios, Paramount Global*

Thank you, Jamie. And good morning, everyone. I'm Chris McCarthy, and I'm joined here by my fellow Co-CEOs, George Cheeks and Brian Robbins. Together, we'll share the results of another very strong quarter, demonstrating the progress we're making against our strategic plan, then Naveen will take us through the financials. Okay. Let's start with some headlines.

We are pleased with our very strong performance this quarter, fueled by our hit content and our focus on execution. In D2C, we saw Pluto reach record engagement; and on Paramount+, we added 3.5 million subscribers, reinforcing our position as the number four global streaming service.

Paramount+ continued its momentum with revenue growth up 25% year-over-year. This quarter marks the second quarter in a row where D2C achieved profitability, with adjusted OIBDA improving more than \$1 billion over the past four quarters, and we remain on track to reach Paramount+ domestic profitability in 2025.

We also made progress in streamlining our organization, as we continue to successfully execute cost reductions that will result in \$500 million in annual run rate savings. And, at the same time, we have not slowed down on doing what we do best: continue to produce some of the biggest and broadest hit films and television series.

In addition, the Skydance transaction achieved a few key milestones, including the conclusion of the Go-Shop period, the expiration of the HSR waiting period and, on November 4, we filed our S-4 registration statement with the SEC. We continue to expect the deal to close in the first half of 2025, subject to regulatory approvals and other customary conditions.

And now, I'll pass it to George to update us on distribution and advertising.

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## George Cheeks

*Paramount Global Office of the CEO and President & Chief Executive Officer-CBS, Paramount Global*

Thanks, Chris. I'll start with distribution. In an evolving landscape, we continue to renew long-standing agreements with key partners, including a number of distribution renewals this year. Our track record of getting deals done speaks to the power of our entertainment, news and sports content, and we'll continue to work with our partners to innovate and deliver for audiences.

As an example of that, our Paramount+ ad-supported tier is now available to Charter customers, enhancing the value we're delivering across linear and streaming. Now it's early days, but we're pleased with the response so far.

Now, turning to advertising. Q3 benefited from record political spend, as well as the return of NFL and College Football. Digital ad growth remains strong, showing notable increase in demand year-over-year, which reflects our value position from a price, quality and scale standpoint, and we'll continue to drive growth.

The scale of our digital advertising platform, spanning Paramount+, Pluto, as well as other digital properties, is one of the largest addressable footprints in the domestic marketplace, and it represents nearly half of our national domestic advertising revenue, when you exclude sports.

Major brands continue to tap into the power of Paramount. Recently, we launched The Summit, a new offering that connects our key ad partners with priority Paramount launches across theatrical, linear and streaming. For our first Summit partnership, we brought Pepsi together with Gladiator II.

The campaign launched with the NFL on CBS and included a media blitz across all Paramount Global linear, digital and social platforms, yet another example of how we're leveraging our creative assets and capabilities to deliver unmatched impact for our biggest advertisers.

I also want to touch on our ongoing dispute with Nielsen. We remain engaged with them and we're hopeful for a resolution. So far, we're encouraged by our partners' willingness to lean into innovation and adopt alternative measurement solutions. Bottom line, our brand and agency partners are the number one priority, and we're proving every day that content, scale and value are what matters most to advertisers.

And, with that, over to Brian for an update on our strategic plan.

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## Brian Robbins

*Paramount Global Office of the CEO and President & Chief Executive Officer-Paramount Pictures and Nickelodeon, Paramount Global*

Thanks, George. We are pleased with the progress we have made in advancing our business by transforming D2C and streamlining our organization to reduce costs.

Starting with D2C, the segment was profitable again in the quarter. Sports, including the return of the NFL and UEFA, originals like Mayor of Kingstown and Tulsa King, as well as post-theatrical releases such as A Quiet Place: Day One and IF, all drove acquisition in the quarter.

For Pluto, we're continuing to see a strong performance. Year-to-date, Pluto delivered its highest consumption ever, up 5% to 5.6 billion viewing hours. Growth is being driven by increased use of video-on-demand with more available content, enhanced discoverability and a better user experience.

And, as we said before, we are evaluating potential partnerships in streaming through a lens of creating value for the business and our shareholders over the long-term. And, given the complexity, we are being deliberate and thoughtful in our approach and assessment.

Moving to streamlining our organization, we have made progress on realizing \$500 million in non-content cost savings, which will reduce our US-based workforce by 15%. To-date, we have executed 90% of these reductions and expect to have the remaining completed by the end of the year.

Our objective has been to unlock operational efficiencies and right size the cost base, while continuing to invest in the growth levers that are the key to the future, including content, streaming and advertising.

In addition, we remain diligent as we optimize our asset mix. The sale of our equity interest in Viacom18 is a great example, which will result in an attractive financial return on our investment. We expect the sale to close in Q4.

Now, let's move to the core of what we do best, making some of the biggest and broadest hit films and TV series. I will pass to Chris to kick us off.

## Christopher D. McCarthy

*Paramount Global Office of the CEO and President & Chief Executive Officer-SHOWTIME & MTV Entertainment Studios, Paramount Global*

Thanks, Brian. Let's start with Paramount+, where this fall, we kicked off one of our most ambitious slate to-date, seeing the return of our biggest hits series like Mayor of Kingstown and Tulsa King, which returned to great fanfare, each quickly soaring into a top 10 streaming original across all SVOD services. And Tulsa King also broke records as the number one global debut in Paramount+ history.

Internationally, where we have South Park exclusively for SVOD, it ranks as a top five star driver and the number two engagement driver, and we're excited to have the South Park Series return to Paramount+ here in the US starting in June of 2025.

We're confident this momentum will continue throughout the quarter with the return of Lioness, which premiered October 27 and is off to a great start, scoring as a top five Global Series premiere in Paramount+ history. Followed by Landman, a new series from Taylor Sheridan, which will premiere November 17 and stars Billy Bob Thornton, Demi Moore and Jon Hamm. This series has all the makings of a great big hit and promises to do for the oil industry what Yellowstone did for ranching.

Now, moving over to our premium tier. This quarter marks the beginning of a new adrenalized Showtime slate, with cinematics high stake originals and the return of some fan favorites. Starting with The Agency, a new global espionage series from executive producer George Clooney, starring Michael Fassbender, Richard Gere, Jeffrey Wright and Jodie Turner-Smith, which will premiere later this month. And that's followed by the return of Showtime's most successful franchise ever, Dexter, with a new origin story titled Dexter: Original Sin.

And, on Cable, we also saw some impressive results. The Challenge a series that created the reality competition genre celebrated its 40th season, with the highest share in franchise history, up 60% versus the previous season. This was followed by the MTV Video Music Awards, which attracted its biggest audience in four years on linear and, on social, it broke records as the number one most social entertainment telecast in television history, besting all entertainment and sports.

And, on The Daily Show, the return of Jon Stewart continues to pay off, having won our second primetime Emmy in a row and on Monday Nights with Jon at the helm, The Daily Show remains the number one late night show across linear and social, and it's working hard for us on Paramount+ with Engagement up 10x. And Jon's not going anywhere, as we've just announced he's extended to stay through 2025.

And, to continue our momentum, this Sunday, Yellowstone, one of the most eagerly anticipated shows of the year, will return on the Paramount Network in the US and internationally on Paramount+, where it's been the number one star driver and the number one engagement driver for the full year to-date.

And now, I'll turn it over to George to walk us through CBS Entertainment, Sports and News.

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## George Cheeks

*Paramount Global Office of the CEO and President & Chief Executive Officer-CBS, Paramount Global*

For CBS, fall means football and the launch of our new primetime schedule. The network is coming off a record-setting 2023-2024 NFL season, as well as the top-rated primetime schedule that includes the return of last year's number one show. And in the first five weeks of the season, The NFL on CBS is averaging more than 20 million viewers. That's up 5% from last year and streaming of the games on Paramount+ is up over 50% year-over-year.

CBS Primetime, which just launched its new season, is off to a great start. Tracker is once again the most watched series on TV, Matlock is the number one new show, and Georgie & Mandy, a spin-off of Young Sheldon, is the most watched comedy.

And our shows are winning across platforms. Matlock's first episode reached more than 22 million viewers in its first 30 days; Tracker's Season 2 premiere delivered over 15 million multi-platform viewers in just its first seven days. That's up 25% from its time period premiere last year.

Now, turning to news, the total minutes watched on our CBS News 24/7 streaming network continues to grow, up 56% over 2023, and up 78% versus third quarter last year. We expanded and rebranded the platform with more live programming and the increased presence of key CBS News talent. All of this speaks to the collective power of broadcast and streaming, working together to aggregate more unduplicated viewership, while optimizing the value and efficiency of our content investments.

Our programming strategy remains laser-focused on entertainment, news and sports that excel on both CBS and Paramount+.

Over to you, Brian.

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## Brian Robbins

*Paramount Global Office of the CEO and President & Chief Executive Officer-Paramount Pictures and Nickelodeon, Paramount Global*

On the Paramount Pictures front, at the end of the second quarter, A Quiet Place: Day One opened to nearly \$100 million worldwide and set the franchise record for the biggest opening at the global box office. To-date, the film has grossed \$261 million worldwide. Transformers One also debuted as the first animated Transformers film in nearly four decades, grossing \$127 million at the global box office to-date and, most recently, the October release of Smile 2 from homegrown talent, Parker Finn, saw a record-breaking global premiere, out-earning its predecessors debut weekend. It also makes Smile 2 Paramount's fourth number one opening this year, after Mean Girls, Bob Marley: One Love and IF.

We're confident that the rest of Q4 will build on this momentum, thanks to an impressive roster of upcoming releases, including next up, Ridley Scott's Gladiator II, one of the most anticipated films of the year with a phenomenal cast, including Paul Mescal and Academy Award Winner, Denzel Washington. Early tracking and first reactions are generating optimism and excitement for the movie's release and awards season prospects.

Now, rounding out our diverse slate, we're excited to be bringing audiences the journalistic Thriller September 5, which has been on the festival circuit generating awards buzz, also the third installment of fan favorite, Sonic the Hedgehog, with Jim Carrey and the original cast reprising their roles. And then, Better Man, from the director of The Greatest Showman, Michael Gracey, and based on the life and music of Robbie Williams.

And, looking ahead to 2025, we have a fantastic, robust lineup, with something for everyone. That includes an eighth Mission Impossible, the reboot of The Naked Gun franchise, starring Liam Neeson, new installments of beloved animated franchises like Smurfs and SpongeBob, which is celebrating its 25th anniversary, and Running Man, from director Edgar Wright and starring Glen Powell, to name just a few.

Taken together, all of our content reinforces that we have so much to be excited about in this period of evolution and transformation for our business and the industry. It is what continues to create value for our partners, investors and the broader media landscape, both now and well into the future.

With that, let me turn it over to Naveen for more detail on our Q3 financials. We'll then look forward to taking your questions.

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## Naveen K. Chopra

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

Thank you, Brian. Good morning, everyone. Q3 demonstrated the progress we've made in transforming Paramount for the future. We delivered adjusted OIBDA of \$858 million in the quarter, up 20% year-over-year, reflecting significant improvement in our D2C business, which continues to deliver healthy topline growth and improved operating leverage. As always, you'll find a comprehensive review of financial results in our press release.

For today's call, I'll focus on a few areas of note, starting with advertising. Total company advertising grew 2%, powered by direct-to-consumer, which delivered strong growth of 18%, an acceleration versus the 16% growth we saw in Q2. D2C advertising growth was driven by a double-digit increase in sold impressions and higher CPMs, and these trends have continued in Q4, where we expect another quarter of double-digit D2C advertising growth.

In TV media, advertising revenue declined 2%, an improvement versus last quarter, reflecting the return of football and higher political spend. Similar to last quarter, international advertising benefited from the recognition of revenue that was underreported by an international sales partner in prior periods.

Looking ahead, we expect TV Media advertising growth in Q4 to be similar to the reported growth rate in Q3. And Q4 growth will benefit from record political spend, but will also have less sports inventory compared to the prior year. Our forecast for Q4 does not assume any additional revenue true-ups from a third party underreporting.

Next, let me turn to affiliate and subscription revenue, which declined 1% in Q3. Now, as a reminder, last year's third quarter included Showtime pay per view events that did not recur this year, as we exited Showtime Sports at the end of 2023. And this comparison reduced the Q3 growth rate by 270 basis points.

Absent the impact of Showtime pay per view, affiliate and subscription revenue increased 1% with growth in direct-to-consumer more than offsetting declines in linear. In the TV Media segment, affiliate revenue declined 6.6% year-over-year, reflecting ecosystem trends and the Showtime pay per view headwind I just mentioned.

D2C subscription revenue grew 6.8% in the quarter, with Paramount+ subscription revenue up 27% year-over-year. Paramount+ added 3.5 million subscribers in the quarter, reaching 72 million subscribers overall. Subscriber trends benefited from the expansion of an international hard bundle deal and the return of NFL and College Football, new originals and theatrical releases. And, in Q4, we expect continued subscriber growth at Paramount+, driven by a strong slate of originals and the CBS Fall schedule. Unlike Q3, we do not expect to add new hard bundle partnerships in Q4.

Global ARPU for Paramount+ grew 11% in the quarter. ARPU growth was tempered by the lapping of last year's price increase and a greater than expected shift in the mix of our subscriber base toward our essential tier and hard bundle subscribers. Additionally, the price change we announced in August of 2024 will take some time to be reflected in ARPU due to the grandfathering of existing essential tier subscribers, and these dynamics will continue to influence ARPU growth in Q4.

The combination of continued healthy revenue growth and expense discipline in Q3 helped deliver our second consecutive quarter of D2C profitability. In Q4, we expect continued top line growth. However, the timing of content and marketing spend will result in a quarterly loss for the D2C segment. That said, we like the trajectory of



the business over the last few quarters and believe we're well-positioned to reach Paramount+ domestic profitability in 2025.

Next, I'll touch on licensing. Licensing and other revenue declined 9% in the quarter, primarily reflecting a lower volume of licensing in the secondary market and lower home entertainment revenues. Now, as I've previously noted, licensing revenue can be fairly uneven from quarter to quarter. And for the full year 2024, we expect licensing revenue to decline relative to 2023. More than half the year-over-year decline will come from made for third-party productions, and these productions are strategically valuable, but the scale of our business has been impacted by the decision to steer more content to internal platforms.

A smaller part of the year-over-year decline in licensing is related to our second run and library licensing activity, partially reflecting lingering strike impacts on the business. Even though we'll benefit from the return of the CBS Fall slate in Q4, it will take longer than expected to return to our pre-strike level of output.

Turning to the balance sheet, in Q3 we delivered \$214 million of free cash flow and reduced leverage to 3.8 times. Free cash flow in Q4 will be negative given the timing of content spend and the headwind of approximately \$150 million of cash restructuring payments. However, this shouldn't negatively impact leverage as we expect to receive nearly \$500 million of proceeds from the Viacom18 transaction, which is expected to close this quarter.

Putting it all together, we remain on track to achieve our key financial goals for 2024. That includes significant growth in total company OIBDA, enabled by the progress in D2C profitability you've seen over the last few quarters and the execution of cost savings initiatives across the company.

Similarly, our expectations for full year free cash flow growth remain unchanged. Overall, I think 2024 will demonstrate meaningful progress in the ongoing transition of Paramount, encompassing streaming growth, enhanced cost efficiency and, of course, continued investment in our renowned content portfolio.

With that operator, please open the line for questions.



## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] . Our first question goes to Ben Swinburne of Morgan Stanley. Ben, please go ahead.

**Benjamin Swinburne**

*Analyst, Morgan Stanley & Co. LLC*

Q

Good morning. Brian, you talked about being deliberate given the complexity around direct-to-consumer and partnerships. I'm just wondering if you could talk a little bit more now that you guys have been working on it as to sort of what you're solving for, what are the key variables you're looking for, what would lead the company to kind of pull the trigger on either a partnership or a change in how you're kind of working internationally? I think that's been kind of one of your focus areas in streaming.

And then, Naveen, it's been, I think almost a year since you talked about domestic streaming profitability next year. Given the progress we've seen this year and the cost actions you've taken, how far away are you from overall D2C profitability? And any way to kind of update us and dimensionalize sort of the international versus domestic D2C situation as we look at 2025 would be helpful. Thank you, guys.

**Christopher D. McCarthy**

*Paramount Global Office of the CEO and President & Chief Executive Officer-SHOWTIME & MTV Entertainment Studios, Paramount Global*

A

Hey, Ben, how are you doing? This is Chris. I'll take your first part of your question and then I'll pass it to Naveen for the second part of that. First, let me start by saying that we're very proud of the success that we've had with Paramount+ this quarter. So, revenue growth up 27%. It's our second quarter of profitability. And for 2025, we're on track for full year domestic profitability. So, we feel good about our position and our ability to remain a standalone.

Now that being said, you can absolutely count on us to be opportunistic. We're looking at partnerships from a strategic lens to drive more value and you can be sure that in deciding that we'll be – take key factors into consideration. But the ultimate value will be is this going to drive increased value for our business today, our consumers and our investors? But as it stands today, we have real momentum driven by our strategy, our execution and are driven by our hit content. And so we feel good about our position as a standalone, and we'll continue to look for opportunities. Naveen?

**Naveen K. Chopra**

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

A

Great. Thanks, Chris, and hey, Ben. With regard to your question on D2C profitability in 2025, as you said, we've made tremendous progress this year. Chris mentioned some of the stats. And I think it's fair to say that progress has been really multi-dimensional between subscriber growth, improvements in ARPU, strong digital advertising growth and by the way, some real efficiency improvements on the marketing side of the equation. So I think we're well set up for 2025 and as you heard us say, we do continue to expect the business to get to domestic profitability next year.

In terms of how that translates to the segment as a whole, I'd note a few things. First, domestic, we do expect to be profitable next year. Pluto is already a profitable business. And so the real variable is what the P&L for the Paramount+ international business looks like. And I'd generally describe that as tracking somewhere in the sort of

12 to 18 months behind the domestic business just given the relative maturity and the timing of when we launched internationally versus domestic. And I think that's still the right way to think about the business as a whole. And obviously, we'll keep you updated on progress as we continue to move down that path.

**Jaime Morris**

*Executive Vice President-Investor Relations, Paramount Global*

A

Thanks, Ben. Operator, next question.

**Operator:** The next question goes to Bryan Kraft of Deutsche Bank. Bryan, please go ahead.

**Bryan Kraft**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Thanks. Good morning. I guess, the last answer, Naveen, was a good segue to my question, which was you've been making various moves in international markets, but I think you've also been reviewing the strategy on a market by market basis. So, I wanted to ask if at this point there is a clear path forward yet for Paramount+ in international markets. And if so, if you could talk about what that looks like and how it's differed from the approach up until now? And then on just a housekeeping question, Naveen, and sorry if I missed it. But would you be able to quantify for us the impact to the revenue for prior period international ad sales under that partner underreporting? Thank you.

**Christopher D. McCarthy**

*Paramount Global Office of the CEO and President & Chief Executive Officer-SHOWTIME & MTV Entertainment Studios, Paramount Global*

A

Hey, Bryan, how are you doing? This is Chris. Listen, let me start by saying, we think it is very important to globally monetize our content in the widest possible basis, and our success to date really proves that out. Now we're taking a market-to-market approach when we're looking through the lens of how do we drive the most value. In some cases, that will be an owned and operated situation, where we control; in other cases, it'll be a hard bundle, we're the market leader; and, in other cases, it may make more sense for us to really go in a licensing model. But you can rest assured, our goal here is to maximize the value for our hit content and look at all opportunities, very opportunistically through that lens.

And I'll now pass it to Naveen for the second half of that.

**Naveen K. Chopra**

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

A

Yeah. Bryan, with respect to your question on the size of the under-reported revenue in Q3, it is a relatively important factor in the year-over-year trend for international advertising, similar in magnitude to Q2. Actually I think a little larger in magnitude in Q3 versus Q2. It's – I'd size it in the, call it plus or minus \$50 million range. And, importantly, as I said in our prepared remarks, our forecast for next quarter assumes that there is no further true-up required due to the underreporting.

**Jaime Morris**

*Executive Vice President-Investor Relations, Paramount Global*

A

Thanks, Bryan. Operator, next question, please.

**Operator:** The next question goes to Rich Greenfield of LightShed Partners. Rich, please go ahead.

**Rich Greenfield**

*Analyst, LightShed Partners*



Hi. Thanks for taking the question. I've got a couple. First on Nielsen, I think you dropped – I think it's been now over a month, maybe it's been five weeks. I think the last time you had an impasse, it was only like 14 or 15 days. With – I think there's been a lot of speculation in the market that you've saved or that you're in – the run rate savings are hundreds of millions of dollars on the cost side. But, on the other side, I want to understand what's happening in terms of not being able to sell advertising against Nielsen data? Have you seen any material impact in Q4 from not having Nielsen data? And, I guess, related to that, any top advertisers that have left CBS or your cable networks because you can't sell against Nielsen and I think you're using VideoAmp.

And then just maybe a housekeeping question, for Chris or George, I guess. On the TV media side of the equation, I think everyone's trying to understand sort of the potential of cost-cutting longer term. Could you just give us a sense in TV media today, how many employees, roughly, do you still have in that division after all of the cost cuts that you've done to date? Thanks.

**George Cheeks**

*Paramount Global Office of the CEO and President & Chief Executive Officer-CBS, Paramount Global*



Hey, Rich, it's George. I'll take this. So, starting with Nielsen, I want to level-set. This really is not about affordability. It's about getting the value we need for what we pay. And I think it's important to consider all of this in the context of the media industry. I mean, as we all know, linear audiences, especially basic cable linear, are declining and shifting to streaming. This, of course, is going to affect how we look at the appropriate spend here. I mean, for example, we wouldn't want the Nielsen fee for certain networks to be greater than the ad revenue those networks actually generate.

Now, as to your point on impact, we haven't seen any adverse impact on ad revenue to date and we don't expect a material impact in Q4. But I do want to be clear Rich, that we do recognize that Nielsen can be a valuable resource. It's just that the economics have to make sense for the business.

Now, as to your second question [Technical Difficulty] (00:32:17), I think right now, the number is about 6,000-plus in domestic and about 3,000-plus [Technical Difficulty] (00:32:24). Now, you have to remember that also [Technical Difficulty] (00:32:27) big sports production infrastructure and our 27 local stations which obviously requires a lot of employees as well. But, as Chris mentioned before, we're very [audio gap] (00:32:36-00:32:41) organization.

**Jaime Morris**

*Executive Vice President-Investor Relations, Paramount Global*



Was there a second question about TV media?

**Christopher D. McCarthy**

*Paramount Global Office of the CEO and President & Chief Executive Officer-SHOWTIME & MTV Entertainment Studios, Paramount Global*



We just answered it.

**Jaime Morris**

*Executive Vice President-Investor Relations, Paramount Global*



Oh, I'm sorry. Operator, next question, please.

**Operator:** The next question goes to Steven Cahall of Wells Fargo. Steven, please go ahead.

**Steven Cahall**

*Analyst, Wells Fargo Securities LLC*

Q

Thank you. So, another one on streaming, the S-4 indicated that one of the parties might have been interested in a combination or even licensing Paramount+. And you've done bundles, we've seen a lot of bundles in the industry. I don't think we've actually seen any app integration or streaming integration deals. So, I'm wondering how you think about that. One of your peers also has a streaming product that has a lot of sports, has a good film library, seems like a very strong customer overlap. So, how do you think about the opportunities in streaming to go beyond just bundle deals and into something that's a little bit deeper from a consumer perspective?

And then, Naveen, just an accounting question. What's the method for allocating content costs like sports and series between D2C and TV media when they air on both, you're growing revenue and subscribers so strongly at Paramount+ and you've given the domestic profitability guidance? So, just wondering if there's a way for us to think about how content expense grows there since it's shared between the two segments. Thank you.

**Christopher D. McCarthy**

*Paramount Global Office of the CEO and President & Chief Executive Officer-SHOWTIME & MTV Entertainment Studios, Paramount Global*

A

Hey, Steve, it's Chris. I'll take the first part of that question and then I'll pass to Naveen. As we talked about, we are seeing real momentum at Paramount+ and across Pluto. We've got great growth, second quarter profitability and on track in 2025. So, we feel really good about the position and frankly our ability to remain as a standalone.

Now you talked about bundles and we've got some great partnerships and some great bundles in the way of Walmart and with Delta Airlines. Now these are ones that are very specific that add incremental value to us. They bring new consumers and really enhance the value proposition from a total business perspective for us.

Now, that being said, you can always count on us to be strategically looking through the lens of creating value. Now, part of that exercise is really to be opportunistic about both looking at things from a market to market perspective and from a broader partnership perspective.

And in doing that, we ask ourselves, is this the right market or is there something better that we can get and something more value? And you can count on us to continue to do that. But as of today, there's no change. We feel great about where we are and we feel really strong about the position moving forward. Naveen?

**Naveen K. Chopra**

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

A

Thanks, Chris. Steve, the question regarding how we allocate the cost of content that is shared between our streaming business and our traditional linear businesses, I think there's a couple of important concepts to understand. Number one, it does differ somewhat based on the type of content, but it's all based on the principle that the allocations of that cost should reflect the relative value of the content windows that each of the platforms has rights to.

So what that means is that, effectively, as more of the viewership moves to streaming, you will see more of the costs being allocated to streaming and moving away from linear, and that's certainly been reflected in the way that we do that allocation for sports, for movies, library and the like.

**Jaime Morris**

*Executive Vice President-Investor Relations, Paramount Global*

A

Thanks, Steve. Operator, next question.

**Operator:** The next question goes to Michael Morris of Guggenheim. Michael, please go ahead.

**Michael Morris**

*Analyst, Guggenheim Securities LLC*

Q

Thank you and good morning, and thanks for all the answers. I wanted to ask first about the D2C trends, and specifically, you said you were pleased with the response so far from Charter customers. I'm hoping you can share a little bit more detail on whether the third quarter results reflected the full impact from that Charter partnership at both TV and at D2C.

And anything you can share about customer activation and any churn from Charter subs who are already Paramount+ subs. Those types of things I'd love to hear any additional detail you can share.

And then, secondly, it was a very strong EBITDA quarter, you're growing 20% year-over-year. It kind of begs the question whether we should expect any incremental cost in 4Q to maybe offset the strength that you had in the third quarter or whether this outperformance kind of flows through to the full year? Thank you, guys.

**Naveen K. Chopra**

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

A

Yeah. Hey, Mike, it's Naveen. I'll take both of those, starting with the question on the third quarter's sub growth and, specifically, the impact of Charter. So just zooming out a little bit, the 3.5 million subs that we added in the quarter, I'd note that there's a contribution from both international and domestic. As I noted in prepared remarks, international did have a new hard bundle that we signed, so that was an important contributor.

And, on the domestic side, we did see some sub growth coming out of the Charter bundle, though I would note that it's still relatively early in terms of time since the launch of that bundle, and I expect the contribution will continue to grow over time.

That being said, when we look at the first few months, if you will, we're actually quite pleased with the results, both in terms of the take up from Charter subs and the impact on direct sub acquisition. So we continue to like the trends there.

Then moving to your second question on fourth quarter and how that is impacted by some of the over-performance in the third quarter. Let me give you sort of a big picture answer on that, too. If you think about the third quarter, the over-performance was really driven by the D2C segment, which came in better than we expected. As I mentioned earlier, that's multi-dimensional. But in particular, we saw some real strength in marketing efficiency that we were able to realize in the quarter.

I would say that the restructuring work had a relatively modest impact in Q3, just given the timing of when those actions were taken. More of that benefit is going to be realized in Q4. So then if you think about Q4 specifically, there are some moving pieces that are probably worth calling out.

First, some of the tailwinds, we will see more of that restructuring benefit that I mentioned. There will also be, as you would anticipate, some real strength in political advertising that will benefit Q4, and Q4 tends to be relative to

the first three quarters of the year, the strongest quarter for advertising generally. And so I think that will benefit us relative to Q3.

There are a couple of headwinds to keep in mind. We will have higher content expenses in Q4 than we did in Q3 just given the timing of sports and some of the streaming originals. And, as I mentioned, we do not expect to have any incremental true-ups for past period underreporting on those third-party advertising partnerships. And then, there is some shift of marketing expense from Q3 into Q4.

But when you put all of that together, I think the key takeaways for you should be that, number one, the vast majority of the over-performance that we saw in Q3, I do expect to flow through to the full year; and, number two, I think we're really well set up for 2025, particularly given the progress in D2C and the significant improvements that we've made in profitability for that part of the business.

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**Jaime Morris**

*Executive Vice President-Investor Relations, Paramount Global*

A

Thanks, Mike. Operator, we'll take one last question, please.

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**Operator:** Thank you. The last question goes to Michael Ng of Goldman Sachs. Michael, please go ahead.

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**Michael Ng**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hey, good morning. Thank you for squeezing me in. I wanted to just follow up on the last question around D2C efficiencies, Naveen you talked about the marketing efficiencies. I was wondering if you could just expand on that a little bit in D2C because obviously D2C OpEx was an area of positive surprise.

And then relatedly, I was wondering if any of the programming charges taken earlier in the year had any potential benefit to cost amortization for D2C in the quarter as well? Thank you.

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**Naveen K. Chopra**

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

A

Yeah, sure. Hi, Mike. I'll take both of those. The D2C improvement that we saw, as I mentioned, did benefit from marketing efficiency. But there's kind of a bigger story behind that which relates to the composition of our subscriber base. We've talked about for some time now the importance of having a diverse subscriber base that spans multiple channels, the direct channel partner base distribution on platforms like Amazon, Roku, Apple, hard bundles, both domestically and internationally, commercial bundles like what we have with Walmart+.

And when you have that sort of go-to-market approach, there are some real benefits with respect to acquisition costs and churn. And I think we're starting to see those fall into the P&L of the business, which is why I called out the marketing efficiencies that is enabled by the fact that we have these channels where we're able to acquire and keep subscribers very, very efficiently, and that's really flowing through to the bottom line.

And then with respect to your second question regarding programming charges, yes, that does obviously have some amort benefit in future periods. But I think we're really focused on driving the top line growth, continued sub growth, ARPU growth and then capturing these improvements in marketing and churn reduction as a way of continuing to drive the business toward profitability.



## Brian Robbins

*Paramount Global Office of the CEO and President & Chief Executive Officer-Paramount Pictures and Nickelodeon, Paramount Global*

Thanks, Naveen. This is Brian. And on behalf of my fellow co-CEOs, we like to thank you all for joining the call today. We had another very strong quarter with continued strength in streaming, improving momentum in advertising, and meaningful progress in making the business more efficient. All of which sets us up well for the future, all at the same time while we've been doing what we do best, which is making some of the biggest and broadest hit TV series and blockbuster films.

Thanks to our tremendously talented teams and creative partners, we look forward to updating you all on our progress again soon. Thank you and have a great day.

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

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