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PRESENTATION

Operator

Good day, everyone, and welcome to the Viacom Conference Call. Today's call is being recorded. At this time, I'd like to turn the call over to Senior Vice President of Investor Relations and Treasurer, Mr. Jim Bombassei. Please go ahead, sir.

James Bombassei - *Viacom Inc. - SVP, IR & Treasury*

Good morning, everyone. Thank you for taking the time to join us for our September Quarter and Full year Fiscal 2019 Earnings Call. Joining me for today's discussion are Bob Bakish, our President and CEO; and Wade Davis, our Chief Financial Officer.

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

I want to refer you to the second slide in the presentation and remind you that certain statements made on this call are forward-looking statements that involve risks and uncertainties. These risks and uncertainties are discussed in more detail in our filings with the SEC.

Today's remarks will focus on adjusted results. Reconciliations for non-GAAP financial information discussed on this call can be found in our earnings release or on our website.

Before we begin, I want to note that due to the pending merger with CBS, we will not be providing forward-looking guidance for Viacom on today's call. During the February 2020 call for ViacomCBS, which will be the first call for the combined company, we will provide full year 2020 guidance.

Now I'll turn the call over to Bob.

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

Good morning, and thank you for joining us. Q4 was a strong quarter, capping off a strong and pivotal year, one where Viacom delivered on the ambitious plan we set out at the beginning of fiscal '19, strengthening and growing the business for today while accelerating the company's transformation for the future.



Let me start off with a few of the headlines. As promised, we returned Paramount to full year profitability. We delivered full year growth in domestic ad sales and affiliate sales. We grew International Media Networks revenue on a constant currency basis despite macroeconomic issues in the U.K. and Argentina. We used M&A as a transformational accelerant, including importantly, acquiring, integrating and scaling Pluto TV, the leading ad-supported streaming TV service. These are significant achievements, particularly in this dynamic media environment. But what is perhaps most important is that all of this reflects the delivery of promises we made to you, our investor base. So let's break down the quarter and the year a little more.

First, I want to highlight the success we've had at Paramount. The studio was profitable for the first time in 4 years. NOI improved by over \$500 million in the last 3 years. We did this by improving execution across the board, putting in place a new, balanced film slate strategy and by significantly ramping the TV business. Very importantly, it's again become a place where talent brings their best work, and we're just getting going.

While Gemini Man and Terminator: Dark Fate didn't perform as we hoped, our exposure was limited, and we remain optimistic and excited about what the studio has coming, including key franchises from our portfolio that we're bringing back for audiences. These include: A Quiet Place 2 coming in March, a new Spongebob movie expected in May and Top Gun: Maverick coming in June, which by the way, looks amazing.

And on the TV side, our studio business continues to thrive. During the year, Paramount Television delivered hits the third season of 13 Reasons Why, the second season of Jack Ryan; as well as debuts like Catch-22, Looking for Alaska and more.

Moving to Domestic Media networks. Viacom maintained the #1 share of U.S. basic cable viewing among key demos. And our portfolio grew market share in the quarter and for the full year with strong results at MTV, Comedy Central and Paramount Network. In fact, in the quarter, we had the #1 cable comedy telecast with South Park, the #1 drama series with Yellowstone, the #1 reality series with Love and Hip-hop: Hollywood and the #1 preschool series with Ryan's Mystery Playdate. And that is just the tip of the iceberg. We had 9 of the top 30 cable networks, more than any other cable family. More recently, in Q1 at BET, we launched Tyler Perry's The Oval. In fact, The Oval became the #1 new series for African-Americans 18 to 49 for cable and broadcast season to date.

Looking beyond linear TV, in Q4, Viacom Digital Studios delivered its highest views ever on YouTube, Instagram and Twitter. In fact, VDS drove year-over-year increases in Viacom's aggregate number of social video views and minutes by 38% and 75%, respectively, across all of our domestic social accounts, bringing our total social video views to 9.6 billion in the quarter. So no question about it. Our content continues to connect.

Moving to domestic ad sales. Thanks to the combination of our vibrant brands and strong ad sales execution, including our sophisticated suite of Advanced Marketing Solutions, we delivered 6% ad growth, marking the second consecutive quarter of positive performance. Perhaps more important, we also delivered full year revenue growth for the first time in 6 years. This represents a significant milestone for Viacom and is evidence of our transformation.

In particular, the success of our Advanced Marketing Solutions business, where revenue grew 83% in the quarter and 76% for the full year, shows how we have evolved the ad sales business to thrive even in the face of linear impression constraints. Our ad sales strategy was built to enable sustainable growth in an evolving TV marketplace. In executing that strategy, we created and acquired a suite of products beyond the pay-TV ecosystem, and it's working, evidenced by our strong domestic ad sales growth in the fiscal fourth quarter and return to growth for the full year, where AMS was an important driver. Looking forward, we expect continued growth, given the demonstrated power of the model and our leadership position.

Pluto TV is, of course, one of those strategic acquisitions and has quickly become an integral part of our AMS offering. Pluto TV continues to grow, expanding its leadership in the free streaming TV space and its contribution to our ad sales growth. It now has approximately 20 million domestic monthly active users, a nearly 70% increase this calendar year-to-date.

Our focus on and invest in Pluto is evident. In Q4 alone, Pluto launched 43 new channels. And last month, Pluto Latino added 11 new channels, giving the platform a total of 22 channels with over 4,000 hours of Spanish and Portuguese language programming.

We also continue to grow Pluto TV distribution both globally and on new platforms, which benefits both our audiences and our partners. And Pluto has not only been a driver of our return to overall ad sales growth, it has also been a platform to enable Viacom to widen our ad sales business and radically increase the number of clients we do business with, which is a very good thing.

In short, in a crowded subscription universe, as consumers become increasingly more value-conscious, we strongly believe that having the leading free streaming TV service in country, and over time, the world, is a huge competitive advantage.

Turning to affiliate revenue. Our growth in the quarter and full year demonstrate our strong execution in a challenging environment. Over the past few years, we have renewed or extended almost all of Viacom's traditional subscriber base, gained inclusion on vMVPDs and announced mobile partnerships. Last quarter, we highlighted our distribution renewal with NCTC. Today, I'm pleased to report that virtually all of the NCTC members opted into the agreement, further demonstrating the strength of our brands.

Over the past several years, we have implemented a distribution strategy to serve the widest addressable market. Our business today delivers and monetizes IP and content across all price points, including MVPDs, vMVPDs, SVOD and free. Our dynamic affiliate strategy has led us to grow and demonstrated resilience despite the macro trends within the industry. We believe persistent headwinds from subscriber trends and rates will continue to impact the business, which is why our multifaceted approach is the right strategy going forward.

On the Media Networks studio side, including Nick Studios, Awesomeness, MTV Studios and more, we have 17 domestic series ordered to or in production for third parties, which is an impressive achievement for a business we created less than 2 years ago. Add the 26 we have at Paramount TV, and we have a total of 43 shows in the rapidly growing TV studio business in the U.S. alone. And this business continues to show strong momentum.

For example, we got 2 new deals with Netflix. Just this week, Nickelodeon Studios announced a new multiyear output deal to produce original animated films and series based on both Nick library and brand-new IP for kids and families around the world. I'm also pleased to announce that Paramount has licensed the rights to Beverly Hills Cop to Netflix, which will produce a new film based on an iconic IP, further expanding our relationship with this important original production client.

In October, Comedy Central Productions and Trevor Noah signed an agreement to develop a comedy series for Quibi. And we recently licensed South Park's domestic streaming rights to HBO Max, further demonstrating the appeal of our IP and our ability to maximize its value.

We continue to broaden the business internationally as well. As an example, we now have almost 40 mobile deals live reaching 5 million subscribers. This is important early progress, and we believe this segment will ramp significantly in the near term.

Finally, we said we'd make more out of our foothold in live events, and we did just that, with total event attendance growing to more than 4 million people in 2019. VidCon is a great example of how we're expanding our event franchises. When we first acquired it in early 2018, it was purely an Anaheim-based experience. But now we have VidCon events in Australia, London, Mexico, Singapore and the Middle East with more planned in the coming year. By leveraging Viacom's significant international operating footprint, VidCon is rapidly becoming a global brand.

Now before I turn it over, I want to take a minute and thank Wade for his relentless hard work and dedication to Viacom. Over the past 15 years, he's been a critical strategist and operator, and over the last 3 years, played an integral role in helping develop and successfully execute our strategy to evolve Viacom for the future. I'm grateful for his many contributions and look forward to watching his future endeavors.

With that, I'll hand it over to Wade to provide some of the financial details.

Wade Cullen Davis - *Viacom Inc. - Executive VP & CFO*

Thanks, Bob. We've had a fantastic run together, and I really want to thank you for your friendship, your partnership and your support. You and the rest of Viacom couldn't be better positioned for success going forward.



Now getting into the numbers, as Bob just discussed, we ended the year as a stand-alone company on a high note, delivering on our promise: Returning Viacom to long-term sustainable growth. Paramount has had an amazing resurgence and delivered its first full year of profitability in 4 years.

Worldwide Media Networks grew total revenue on a constant currency basis, with both domestic ad sales and domestic affiliate revenue growing in the quarter and on a full year basis. The execution against our key growth initiatives and ad sales are driving the evolution of the company and are now at a scale that is fully offsetting headwinds in the linear business and will predictably deliver growth going forward.

Over the course of the year, we invested in AMS to reinforce our leadership position in advanced advertising. We acquired Pluto TV, establishing Viacom as the leader in free streaming TV in the U.S. And we expanded our suite of streaming offerings with the launch of BET+.

We accomplished all of this while continuing our focus on deleveraging the company and strengthening our balance sheet. The progress we've made over the course of the year is remarkable and lays an extraordinary foundation for the growth of ViacomCBS going forward.

Now turning to the results on Slide 10 of our earnings presentation, where we have a summary of our consolidated performance. For the full year, on a constant currency basis, total revenue grew 1%, driven by growth at both Media Networks and Filmed Entertainment. Adjusted diluted EPS grew for the third consecutive year. In the quarter, on a constant currency basis, total revenue was flat as growth at Media Networks was offset by a decline at Filmed Entertainment.

Taking a closer look at the segments on Slide 11. I'll start with Filmed Entertainment. Paramount has delivered on its turnaround promise, returning to profitability on a full year basis for the first time since fiscal 2015. Adjusted OI improved \$117 million versus a year ago and has improved in excess of \$500 million over the last 3 years. Profitability for fiscal 2019 benefited from carryover profitability of the prior year film slate, increased monetization of the library and growth in TV production.

In the quarter, revenue for Paramount declined 14%. While we saw strong growth in licensing revenue of 26%, fueled by TV production, this was more than offset by a decline in theatrical revenue, reflecting the comparison to the release of Mission: Impossible – Fallout in the prior year quarter. Filmed Entertainment profitability in the quarter was \$54 million, benefiting from profitability of the current year's slate, growth in TV production, increased monetization of the library as well as disciplined cost management.

Turning to Media Networks, which is on Slide 12. My comments on Media Networks will be in constant currency terms. For detail on our reported results, please see our earnings release. Worldwide Media Networks revenue finished up 1% for the year driven by 1% worldwide advertising growth and 2% worldwide affiliate growth. For the quarter, Worldwide Media Networks revenue grew 6%, capping a strong finish to the year. Adjusted operating income for the segment was down 5% for the year and 13% in the quarter largely due to investments we're making in growth initiatives, including Pluto TV, the launch of BET+ and the scaling of our AMS infrastructure.

Moving to domestic ad sales. Revenue finished up 1% for the year, benefiting from a return to growth in the back half, including a strong Q3 and Q4 with both quarters up 6%. The September quarter marked the second consecutive quarter of year-over-year growth and the fourth quarter of sequential improvement, excluding the timing impact of Easter. Domestic ad sales benefited from strong AMS growth, which finished up 76% for the year and up 83% in the quarter.

AMS is enabling us to decouple our ad revenue performance from broader industry declines in linear capacity, setting us apart from our peers and helping us now deliver industry-leading advertising revenue growth. AMS revenue accounted for 17% of full year domestic ad sales and over 20% of our fiscal fourth quarter domestic ad sales. The growth in AMS is being driven by Pluto, where both audience growth and engagement are contributing to a massive pool of premium digital video inventory. Beyond Pluto, the core components of AMS are seeing continued momentum as well, with Vantage, addressable media and brand solutions all setting new records in the quarter.

Now digging into more detail on Pluto. We've worked quickly on the integration and we couldn't be more pleased with the performance. Pluto is growing rapidly, fueled by expanding content offerings and distribution. Pluto launched 43 new channels in the quarter, including the NFL channel

and its own James Bond channel, Pluto TV 007, as well as 24 Viacom-branded channels. And internationally, Pluto has expanded its content offering and device availability in the U.K., Germany, Austria and Switzerland and will soon be made available in Latin America.

Importantly, advertisers are increasingly embracing Pluto TV, as evidenced by a very successful upfront as well as having over 3,500 brands advertising on the platform during the September quarter. In fact, in the month of September, Pluto registered its highest-ever revenue month, and total viewing minutes tripled over the prior year. We continue to see Pluto TV as a global opportunity, including over \$1 billion of ad sales in the U.S. alone as we expand the content offering, grow audience and enhance monetization.

Now moving to domestic affiliate revenue. Revenue was up 1% for both the full year and the quarter. Performance was driven by contractual rate increases as well as OTT and studio production revenues, which were partially offset by subscriber declines.

On Slide 13 of the deck, we have an overview of International Media Networks. Total revenue finished the year up 2% with the quarter up 15%. International ad sales finished the year flat with the fourth quarter down 2%, solid performance in light of the ongoing macro headwinds in the U.K. Outside of the U.K., advertising revenue grew high single digits for the year, including strong growth in Q4. Growth was driven by strength in Latin America as well as event-driven spend.

Looking at the ratings, Channel 5 achieved its fifth consecutive quarter of growth in viewership share, and Telefe remained the #1 network in ratings for 22 straight months. International affiliate revenue increased 8% for the year and 34% in the quarter, benefiting from strong SVOD and OTT deliveries, expanding studio production and growth in linear.

Turning back to the consolidated results and looking at items below the line. Net interest expense was lower than a year ago by \$7 million in the quarter and \$71 million for the full year due to our deleveraging actions. Our adjusted effective tax rate was 24% for the quarter and for the year.

On Slide 14, there's a summary of our cash flow and debt. We delivered free cash flow of \$1.4 billion for the year, which is down versus the prior year due to higher cash taxes and lower operating income. Moving to the balance sheet. At quarter end, we had \$8.7 billion of gross debt outstanding, a reduction of 13% versus the prior year. Our adjusted gross debt, reflecting the equity credit we received from S&P and Fitch on our hybrid securities, was \$8.1 billion. During the year, we repaid \$1.4 billion of senior notes and debentures, including \$220 million that matured in September.

Now before I turn it back to Bob for some closing remarks, I want to thank Shari and the rest of the Viacom Board for their support, their leadership and their vision. I also want to thank the investors and analysts on the call. It's been a privilege working with you all, and you will be well served by the amazing combined ViacomCBS team that will be taking you forward.

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

Thanks, Wade. I'm extremely pleased with the performance we demonstrated during the quarter and for the year. 2019 caps off an intense 3-year era of revitalization and transformation for Viacom. Our success reflects a combination of strategy and execution, of asset and people, of organic growth and M&A. And now we're beginning the next leg of our journey, one that is transformational, the merger of Viacom and CBS.

At the center of it all is content. ViacomCBS will be a truly global, multi-platform, premium content powerhouse with tremendous assets and scale. ViacomCBS will be positioned to serve consumers, the creative community, commercial partners, employees and other constituents while creating significant value for shareholders.

The strength and scale of ViacomCBS assets, which include one of the largest troves of IP in the world and production capabilities that are second to none, will enable us to pursue a growth strategy driven by one agenda: To maximize the value of the content we create for our own platforms and for others. These distinct strengths, supported by our culture of content, will make ViacomCBS one of just a handful of companies positioned to shape the future of the media industry.

We will be well positioned to meet the increasing demand for premium content across the global distribution ecosystem. We will be a leader in the U.S. ad market. We will pursue expanded opportunities in distribution, including through streaming on a global basis. And we will extend the use of our IP into important adjacent spaces.

We anticipate the ViacomCBS merger closing in early December, but we are already hard at work, including having announced the bulk of the senior leadership team of the combined company, which is deep into integration planning as we speak. And this integration is not just about cost savings. At its core, it's also about extracting more value from our content assets.

To that end, just this week, Pluto TV announced the launch of 3 new channels from CBS, giving customers free access to live local news streams from CBSN New York, CBSN Los Angeles as well as a leading entertainment new streaming channel, ET Live. This is just a taste of what's to come once this deal closes in a few weeks.

Overall, know that we will hit the ground running, unlocking synergies and opportunities as a combined company in the near term.

And with that, I'd like to open it up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Alexia Quadrani with JPMorgan.

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

Bob, understanding the deal hasn't closed quite yet, but can you please update us on your thinking of potential revenue synergies now that it's been several months since the plans to merge have gone through? And any -- I guess specifically, any potential positives to how we should think about potential benefits for affiliate revenues? Then I have a follow-up.

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

Sure, Alexia. Look, we're now, as we said, deep into integration planning, building a detailed and actionable view of both revenue opportunities and cost synergies, by the way, associated with the combined company. That in turn is feeding into our action plan, our calendar 2020 budget, and in short order, will also lead to a multiyear LRP. Your specific question is on revenue synergies. That is ultimately the reason we did this deal. We believe there are substantial revenue opportunities in the combination. There really are 4 areas to consider.

First was the one you name-checked: Distribution. Remember, on a combined basis, ViacomCBS delivers about 22% of U.S. prime time TV viewing with a range of highly sought-after content. Today, we only receive about 11% share of the fees. We believe that represents a significant going-forward opportunity. And we will have a combined cross-company affiliate sales force going after that. We've already announced leadership.

Second area of synergy, revenue synergy, is U.S. advertising. As you know, we will have a market-leading position in linear across every demographic. We're the #1 share player overall. We'll be the #1 player on every single demographic. Combine that with the industry's leading Advanced Marketing Solutions platform, that will position us as the go-to solution and problem solver for agencies and their clients, and that in turn will allow us to grow share.

The third area is content licensing. Here, we're uniting a Hollywood film slate with substantial TV production across multiple entities, whether that's CBS or Showtime or Viacom Media Networks or Paramount TV. That will allow us to create -- have a single point of contact for a bundled offering, which in turn, will let us take a larger share of buyers' budgets globally.



The last area, streaming. Again, slightly different kettle of fish, but bringing the complementary content and platform together to enhance our offerings and create this streaming ecosystem which crosses free and pay, we believe that's a tremendous opportunity. It will allow us to serve more consumers in free and also allow us to upsell an evolving set of SVOD services, starting with CBS All Access, Showtime OTT, BET+, Noggin and others. It's worth noting on that point that the streaming sector is not only a revenue opportunity but also one where we see opportunity in content investment as we make going-forward decisions to improve ROI and free cash flow conversion in that key sector of the business.

Across all these 4 areas, clearly, the domestic versus international mix will vary. But at least -- but all of them will have at least some global potential. Again, all of this will ultimately feed into our 2020 guidance, which as we indicated, will be provided on our first combined company earnings call in February 2020.

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

And just one follow-up. Bob, you highlighted many great examples of success you were having in selling content to third parties, I guess either new content as well as library content. Can you walk us through how you evaluate what is best to be licensed or kept to support your growing portfolio of distribution channels?

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

Sure. At Viacom, and soon-to-be ViacomCBS, we have a tremendous library of IP and very significant production capacity across genres and formats really on a global basis. And that means we have the ability to support our own platforms with compelling original content and supply third parties. And we can do both at scale.

Now let me give you a little more on how we think about IP and whether it flows in-house or third-party platforms. We really use a 3-part framework to drive decision-making here at Viacom and going forward at ViacomCBS.

First, clearly, you look at the direct financial consequences of a decision. We obviously think about the economic value of renting a piece of IP to a third party for some period of time in the current marketplace and how that value can feed into the delivery of our overall financial plan.

Simultaneously, we think about strategic considerations. We think about, in that regard, the potential for a piece of IP to be deployed in a manner to create other value. That might include the value of putting IP on an owned and operated platform to drive growth and value creation for that platform. It also could include the value of using the IP to drive other businesses. For example, using awareness, increased awareness of a piece of IP, to drive businesses like consumer products, like recreation or potentially downstream feature film initiatives.

And then the third thing we think about is partnership. And specifically how the decision to place a piece of IP could affect a broader relationship with a partner, those are typically in the distribution space, but in some cases, could be in other spaces, including the creative space as well.

Importantly, this framework applies both to how we think about library usage as well as new production.

Operator

Our next question comes from the line of Rich Greenfield with LightShed Partners.

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

First, I just want to say, Wade, it's been amazing watching what you've done. I know you're going to be missed at the new company. I think when I think about the Paramount turnaround, I don't know if it ever would have started without you. And I think the AMS strategy has put Viacom in a

pretty interesting position relative to its peers. And obviously, Jim, you've been through the trenches. I'm going to miss hearing your voices on these calls.

but I wanted to get to kind of a high-level question for Bob that's really a follow-up on Alexia's. Because I'm trying to understand the larger strategy of what you sell versus what you keep, and it seems like you sort of have to pick a lane. The #1 show on Disney+ within the first 48 hours is The Simpsons. And so kind of catalog content like that, like South Park, obviously -- I think if South Park had been on CBS All Access, it probably would be CBS All Access' #1 show. And I don't have a problem with you selling South Park for big numbers or Nickelodeon content for big numbers to Netflix, I actually prefer that arms dealer strategy.

But I'm just trying to figure out, why even bother with CBS All Access? Why bother with BET+? The Street's obviously panicking or upset with what CBS has disclosed in terms of the level of investment they're making in CBS All Access now relative to the ROI on that. And so I'm just trying to understand from your standpoint, don't you have to pick a lane? Either arms dealer or your own SVOD strategy? Playing in both, isn't that going to kind of just make it -- make life harder for you as a company?

Robert Marc Bakish - Viacom Inc. - President, CEO & Director

Yes. Thanks, Rich. Look, you're right. We have a multi-part strategy, one which we believe -- and this is at Viacom and this will be true for ViacomCBS, one which we believe allows us to unlock a range of opportunities in this shifting media landscape.

So as you know, we're playing in the linear TV and in the bundle because that's still a massive business. It may be declining somewhat, but the majority of homes in the U.S. continue to consume media this way. And with 20% of total day viewing on a combined company basis, #1 positions in every demo, must-watch content across a range of genres, including sports, we're an extremely important partner to video distributors. So of course, we don't want to pull away from that. We're going to continue to serve that market. We'd be crazy not to. And as we do it, importantly, we see this is a segment where we can grow share and margins. And our strategy and operating plan is to do just that.

At the same time, to your question on third parties, demand for content from third parties is incredible. And the combination of our assets and capabilities, with the fact that some of our competitors are pulling back, makes this sector an enormous opportunity for ViacomCBS. As you know, we have deep libraries and extensive production capabilities. At the moment, we have 750 series ordered to or in production, not to mention a library of over 140,000 television episodes and over 3,600 films. I strongly believe this level of volume is sufficient to supply both our needs and third parties. So why not access the revenue, income and cash flow it yields? Your arms dealer point. And the upcoming merger with CBS and associated sales consolidation, consolidation of global product licensing, will only enhance our position to extract value from that sector of the market.

And then finally, streaming. At Viacom, we have a real head start in both the free and niche pace -- bases. Our ad-supported free TV streaming product is on an incredible growth trajectory. As you've heard, monthly active users up 70% to 20 million calendar year-to-date, total consumption growing faster than that, monetization already in the hundreds of millions of dollars. Combine that with a partnership-driven rev share-based model, which means we scale costs as the business grows, versus deficit-funding content in advance of users and revenues, it's an incredible opportunity. And of course, we're leaning into it.

Our niche SVOD businesses are really natural complements to our Media Networks. They leverage a common infrastructure, leverage programming. It's not large, but it's a nice incremental business.

And so you put all that together, we have the assets and capabilities, including the financial resources, to pursue all of them. And we think this balanced economy is the right way to create returns and manage risk which create substantial value over time. So we like this strategy, Rich.

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

That's really helpful. And could you just take 1 minute or 30 seconds and just comment, Bob Iger announced on the last Disney earnings call that they're going to put content from FX several hours later on an unauthenticated Hulu service. Just wondering whether you've thought about taking content that's on your air, and several hours later, licensing it, whether to CBS All Access or whether putting it on Netflix or even Hulu, whether that's something you think about doing as well?

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

So we are in the middle of developing our combined company streaming strategy. As I said, that strategy will cross free, leveraging the tremendous head start we have with Pluto. And Pluto today, the last number I said, Pluto has 50,000 hours of content on it, 250-odd channels. We added many Viacom channels, but it's not just Viacom channels. You saw that this week, we announced we're adding some more CBS channels. So there's no question that the free segment of the market and the associated subset of consumers that participate in it, we think that's clearly a growth segment. And we believe deploying our content and third-party content to that segment is a way to create a lot of value.

Our deployment of content in that segment, it continues to be library value. So that's a way of getting more ROI out of assets we already own. That's certainly the road forward. And vis-à-vis time where it moves from one place to Pluto, that's something we continue to evaluate. But again, using pure Viacom library content with good distance from airdate, that's working very well for us.

And again, we're tremendously excited about that. So I'm not surprised that Iger wants to participate in the free space, too. It's a big part of the market. And by the way, that market is partially people that are only using free and is partially people that are using free as a complement. We see a lot of complementary use of Pluto, particularly in its on-the-go mobile configuration, which is a very high-growth portion of the user base.

Operator

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

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

Bob, I wanted to continue down the Pluto path, and you talked about it being the leading free streaming premium video service in the world. Just curious, what's the competitive set from your point of view? Peacock's coming. There's going to be an ad component to HBO Max in 2021. YouTube and Roku are out there. What do you have to do to differentiate Pluto into the future? It's obviously growing fast right now. But I'm just curious, if you sort of look forward and say that there's sort of an evolution of that product that we should be thinking about.

And then separately, I think you mentioned, Bob, a focus on free cash flow conversion on the content side of the house. Certainly, the S-4s that were issued had some working capital on the CBS side that was well above The Street over the next several years. But on the Viacom side, and Wade, I don't know if you would jump in on this, Wade's been the working capital guru, and you've been ramping production of content without seeing an increase in working capital at least the last year or 2. Any thoughts around the CBS working capital on the S-4? And whether we should consider that a guide for the combined company would be helpful.

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

Yes. Let me start and then Wade will add in. We'll actually flip it. I want to talk a little bit about this working capital piece, and I want Wade to talk some more about Pluto.

I'm not going to comment directly on the CBS call in terms of their streaming content investment. And as I said, we're in the middle of integration planning, which includes forming a combined company operating plan and budget. That will obviously include the level of content investment

across specific areas of the business, including streaming. And of course, it will feed our 2020 guidance. That said, let me give you some context from a Viacom perspective with respect to content investment and streaming. There's a few things I would highlight.

First, a key objective of the Viacom streaming strategy has been differentiation. That in turn led us to launching niche services based on our brands, targeting our specialized audiences. And here as you know, we have an expanding portfolio. It also led us to the free ad-supported TV space, where we now have the industry-leading offering.

As we pursue differentiation, we also focused on the development of a capital-efficient model. For example, on the niche SVOD side, our services are overwhelmingly based on the use of library versus original made-for-SVOD content, and that radically improves the economics. Where we do have original made-for-SVOD content, which is BET+, we've done that in a partnership model, in this case with Tyler Perry, which has enabled advantaged economics in terms of access to his library as well as his original production.

On Pluto TV, we have a different path to capital efficiency. Pluto TV's model is based overwhelmingly on rev share-based content partnerships, which as I said, allows us to scale expenses as the business grows versus investing significantly ahead of user growth and ad revenue. And that creates a much more attractive financial envelope where, candidly, we're not losing billions and billions of dollars for a number of years.

In addition, we've deployed Viacom library assets versus new production as a key content source, again producing attractive financial returns. As we move forward with the combined Viacom and CBS, including the streaming space, differentiation and capital efficiency will be key considerations. And the good news is we believe the combined company's content asset base as well as existing mix of free and pay services are really powerful levers in that regard.

And Wade, why don't you talk a bit more about Pluto?

Wade Cullen Davis - *Viacom Inc. - Executive VP & CFO*

Yes. The only thing I'd add on cash flow, Bob, is just we have seen for quite some time, and we'll continue to see in the Viacom businesses, some of the highest rates of free cash flow conversion in the industry. You did see a little bit of decline in this year -- in the fiscal year. And that was not really so much a function of working capital utilization as it was just lapping cash taxes from prior year tax reform. As you know, there is some lumpy -- when you're in the film business because just the timing of when the production and the release of the films come, there is some lumpiness to working capital consumption that is derived from the film business specifically. But in general, the working capital characteristics of the Viacom businesses are going to be -- continue to be leaders in free cash flow conversion.

With respect to Pluto and its competitive positioning, I guess what I would say is let's kind of break it down into 2: Its competitive positioning versus those in the market today and competitive positioning versus those that aspire to be in the market at some point in the future, perhaps.

With respect to the folks that are in the market today, Pluto is the definitive market leader. So I guess I would just say it's differentiation vis-à-vis the existing competitors speak for itself.

With respect to the people who might enter the market at some point in the future. We'll see, but we are confident of Pluto's ability to maintain its market leadership for a number of reasons. I guess I'd focus probably on 4: the product differentiation; its distribution approach; its content; and then ultimately, how that ladders up into its business model.

So from a product differentiation standpoint, Pluto's pursued a unique product approach, one that's linear-first that's a great familiar lean-back experience that's a front door to VOD, whereas most people have focused on a VOD-first experience.

Second, from a distribution standpoint, I mean, there are some folks like Roku who are doing really, really well with their free product. So they're constrained to only being on their own O&O platform. Pluto's differentiating itself by being really everywhere.

Look, people who are going to be coming to the market, of course, everybody's going to be on the big 3 or 4 platforms. But one of the things Pluto has an extraordinary lead on is that, for years, we have been working on the long tail of distribution, particularly having the Pluto service embedded in devices that sit in the living room. So the fact that we've been able to get embedded distribution on the world's largest connected television platforms in a very differentiated way is something that's going to serve us well as a big lead. People can do that over time, but it takes years to get that level of penetration.

The third thing is just the content scope. So we have an incredible content offering on Pluto. There's over 260 channels. In the aggregate, that's 50,000 hours of content across the genres that people care about, like news, sports, weather, movies, entertainment, kids.

And then the last thing, as I said, just ladders up into the business model. So this is a platform. It's a platform that benefits all partners. The construct is overwhelmingly variable. Since it's on a rev-share basis, we're able to sustain and refresh those 50,000 hours of content without losing billions of dollars a year.

So those are, I'd say, probably the 4 big points to keep in mind as it relates to why we believe Pluto's going to continue to be the market leader in free.

Operator

Our next question comes from the line of Michael Nathanson with MoffettNathanson.

Michael Brian Nathanson - MoffettNathanson LLC - Founding Partner & Senior Research Analyst

I have 2, maybe 1 for Wade and 1 for Bob. So Wade, on the Paramount side, given the ramping you guys have done in original TV and film, could you talk a bit about what's the ROI frameworks that you put in place to think about maybe payback period? And what type of thresholds do you need before you put something, greenlight?

And then for Bob, now that you've returned to profitability at Paramount, my next question would be where is kind of the normal resting profitability? If you look back at history, it's been higher than here, obviously. But do you think the business mix has changed enough that we could see perhaps a new level of peak profitability of Paramount into the future, given the higher investment you made in TV? So those are my 2 questions.

Wade Cullen Davis - Viacom Inc. - Executive VP & CFO

So also on the Paramount, your questions on Paramount TV in particular and ROI...

Michael Brian Nathanson - MoffettNathanson LLC - Founding Partner & Senior Research Analyst

Yes. TV and film ROI. How do you manage ROI?

Wade Cullen Davis - Viacom Inc. - Executive VP & CFO

Well, I would -- on the TV piece, it's very important to remember how we've built the television business at Paramount, which is we have taken a very, very capital-efficient approach to getting into the television business, in which we really mined the vast library of IP we've had. We've leveraged that into a leadership position in premium scripted.

But because we're doing that in partnership with our customers, principally, they're underwriting the cost of that and we're taking our fees on top of them underwriting the cost. And that has a lot of strategic benefits. But from an ROI standpoint, it's almost an infinite ROI, right? All we're doing



is we're underwriting the overhead. And then the volume of production that we've been building has largely been on a cost-plus basis. That does some important things for us strategically.

So first, it allows us -- although we're licensing to those customers the first window of this product, we're building the long-term library value of Paramount. Second, by building out a real scaled television business next to the studio, the film studio, which hadn't had one since the split of ViacomCBS, we're really able to leverage our distribution power. And ultimately, having distribution power combined across film and TV is one of the things that's allowed us, as you've seen, to really increase dramatically how efficiently we're monetizing the film library.

And then as it relates to the film business, there's not such a clear answer to ROI thresholds because, as Bob said before about how we think about the returns on content creation, franchise management, we're really looking at this holistically. Some films like the Spongebob film, we might actually on the pure underwriting of that film and that film alone, accept a relatively lower threshold. Although in that case, we didn't because we think that film is going to be an extraordinary piece of business on its own. But we really think about the broader ecosystem and how we can underwrite our franchise content to grow our ecosystem.

Robert Marc Bakish - Viacom Inc. - President, CEO & Director

Yes. And look, stepping back and thinking about Paramount bigger picture, you've seen the arc of where we got to from '16 to '19. And we think '19 is a really important milestone in our journey to move Paramount back to, and to your point, beyond historical profitability levels. We look at 2020, and we're excited about what's going on. You got A Quiet Place 2 coming. You got the Sonic film that we dropped a trailer on this week. That created a bunch of excitement. You got Spongebob. You got the Top Gun sequel that everyone's waiting for.

We continue to manage risk. So we got 30% -- about 40% of it slate cofinanced, which we think is important. And we like what we're seeing at Paramount TV as well. We mentioned 26 shows ordered to or in production, pipeline of other properties that are already in development. And given all the activity in the streaming world, we don't expect that demand to slow down any time soon.

So you look forward, we'll continue to ramp volume. We clearly see a growing theatrical business, serving the streamers is another business, TV production is a business, taking that IP and doing more and more with it in the recreation space, which is something else we're up to.

As you think about Paramount in the context of ViacomCBS, a way to create additional value out of that bundle is -- out of that collection of Paramount asset is through bundled sales. We talked a bit about that on the global product licensing. We think that's a material share opportunity. Also Paramount's access to our owned and operated platforms, whether that's in the television space, the premium space, the streaming space. And also Paramount as part of a ViacomCBS, which is undergoing cost transformation and the benefit of scale, whether that's in terms of support services, whether that's in the form of sourcing, et cetera. All that contributes to growth in revenue and also our ability to improve margins and really take this business to the next level, so to speak.

And I think it's important to note that as we do this, this is really a unique asset. This is one of the few iconic motion picture and television studios in the world. There are a few of them today than there were in the past. The library is truly irreplaceable. And you saw the benefit of us continuing to improve monetization of that in '19, tremendous demand for that product. So this is an asset that we love to own, that we love the momentum we're seeing. We think the team is executing well. And the road ahead is extremely exciting.

Operator

Our next question comes from the line of Marci Ryvicker with Wolfe Research.

Marci Lynn Walner Ryvicker - Wolfe Research, LLC - MD of Equity Research & Senior Equity Analyst

I have 2. The first, and this may be premature, but how did the NFL factor into Viacom's decision regarding content investment, if at all? Number one.

And then number two, it sounds like you're sharing some of the economics on the TV production side. So I guess I just want you to clarify that, that is correct. And then second, corollary to that, in what percent of what you produce in television do you tend to own?

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

I don't understand your second. What do you -- when you say we're sharing some of the economics of TV production, you need to be a little more specific as to your question.

Marci Lynn Walner Ryvicker - *Wolfe Research, LLC - MD of Equity Research & Senior Equity Analyst*

I guess with regards to Wade's comments. The underlying question's do you own 100% of the series that you produce on the TV side?

Wade Cullen Davis - *Viacom Inc. - Executive VP & CFO*

Why don't I just clarify, and you can take the NFL.

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

Yes, clarify.

Wade Cullen Davis - *Viacom Inc. - Executive VP & CFO*

No. Generally speaking, we own the IP, and the majority of the business that we have been doing historically on the television side is that we are selling to a customer the project. And so that customer, whether it's Netflix or Hulu or Showtime, they are underwriting that -- we're doing that business on a cost-plus basis and they own a window of that content. So they're ordering the show. We're agreeing on a budget. They're underwriting the budget, and they're paying us that budget plus, call it, 20%. They own the show for a certain -- either a certain window of time, a certain geography, the rights to a certain platform. We can then exploit the rights that they don't own. And then in the longer term, the negative and the associated IP revert back to us. Does that answer your question, Marci?

Marci Lynn Walner Ryvicker - *Wolfe Research, LLC - MD of Equity Research & Senior Equity Analyst*

Yes.

Wade Cullen Davis - *Viacom Inc. - Executive VP & CFO*

Okay. Great. And NFL, Bob?

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

Yes. By the way, I would use the word rent, not own. We tend not to sell property in the model that Wade just described. It's really a rental for a term. We ultimately own the IP and can remonetize it over time.

To your question on the NFL, look, the NFL is a world-class brand. It's important to certainly American video consumers. We have, a CBS, a very long-standing and highly productive partnership with the league and the teams. As we look to the NFL, we think the NFL is important going forward.

We -- and when you think about ultimately an NFL renewal, and it's still a little ways away, if you think from my conversations, the people at the leagues as well as people at CBS, the NFL clearly values and continues to value broadcast reach.

Why do they do that? Because they got a mass market brand and there's a well-understood consumption habit of people sitting around and watching Sunday football on their television through broadcast feeds. They want to continue to have a mass market business, and broadcast is mass market reach. So that's clearly important to them.

The second thing that people don't talk so much about is super high-quality production. CBS actually produces many games every week for the NFL. This is live sports, multi-camera, dynamic production. And it's the way that the American public, and in some cases, the world, sees the NFL product. That is very important to the league. And again, they trust CBS is able to do that at the highest level. You shouldn't underestimate the value of that.

As you look forward and Viacom enters the equation, there's 2 other things that we bring to the table in the context of the NFL. One is younger audiences. Whether it's through our linear feeds or our on-demand product like Pluto, we serve significantly younger audiences than CBS. And a league that wants to have a long-term brand, they need to bring young audiences and get them excited with the game, et cetera. And the Viacom assets are clearly additive to doing so. I've had those conversations.

The second thing also that gets to longer-term brand development and growth for the NFL is international. Clearly, Viacom has one of the strongest international operating portfolios in media, including broadcast, CBS-like, if you will, assets in markets outside the United States as well as a pay bouquet that reaches over 170 countries. So -- and again, if you're developing a brand long term, you've got to develop your business outside the United States, and we're additive there.

So I look at that and say the NFL is important to us as ViacomCBS. We've had a great partnership. We bring more to the table on a combined basis than CBS alone historically. And sure, they're going to want a bigger check, but I'm confident that we'll have a strong partnership for many years to come.

James Bombassei - Viacom Inc. - SVP, IR & Treasury

Operator, we have time for one more question.

Operator

Our final question comes from the line of Jessica Reif Ehrlich with Bank of America Merrill Lynch.

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

I have follow-ups to 2 topics, revenue synergy and Paramount. On the revenue synergy, I guess it's like a 2-parter. But can you talk a little bit about the timing on distribution? CBS said on their call that 50% of their retrans deals come up in the next year. I think YouTube comes up by year-end this year. Will you be -- how will you be able to benefit? Are any of your deals co-terminus?

And on advertising, can you talk a little bit about your approach to the upfront, but just more generally, maybe the advertising community? Because you have such a broad platform of networks now, both linear and digital, and so much premium content is going to non-advertising platforms, meaning subscription-only, it just seems like a really great opportunity.

And then on the Paramount side, you've had such an impressive turnaround under Jim Gianopulos, which is I guess not so surprising given his history of managing the business at Fox. But he's done a great job, and you talked about the opportunities of scaling up both in film and television. Maybe could you address some of the challenges? The home video market that seems -- how do you replace a market that is clearly in decline?

And have you had any pushback from China? Like are there any pushback from the recent trade issues?

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

Sure, Jessica. A lot packed in there, so let's try to tick through it pretty quickly. First, on your distribution question, the combined company. We do have at the first point, we are in the middle of creating a combined company sales force serving MVPDs and vMVPDs here in the U.S. Ray's going to lead that. And we're, like I say, creating a combined company team. We are going to go to market on that post-close. There are deals in '20 that are, we believe, actionable. And so we continue to think that's an opportunity.

We do ultimately believe that the realization of that opportunity is not all in 2020. This will take some time to play out. But nonetheless, I'm excited about it. And I think we really have a very important position in this ecosystem, given the breadth of our content and audience shares, et cetera. And there's no question that, that's a revenue synergy.

On the ad side, as you said, we have a tremendous opportunity here. If you look at what Viacom did in the last upfront, where we combined the Viacom portfolio of networks with Advanced Marketing Solutions, including Viacom Video and Pluto, doing things like taking our 18 to 34 reach from low 40s with our linear networks, high 40s with Pluto, 90 with Viacom Video, bringing that to market in a package to help get advertisers more reach without frequency cap problems and help them manage inflation, that was compelling. Every agency in the industry signed up for it. And as you know, we had a very strong upfront.

ViacomCBS is that on steroids. We will be the definitive problem-solver for the industry and the first port of call almost without a doubt. And look, U.S. ad impressions, U.S. ad delivery for product and services companies is very important. The market is complicated given what's going on in TV ecosystem, that's why our portfolio of solutions, which spans linear television and other forms of video, including by the way, branded content, is so important. And we're clearly ahead of the industry.

And you see it in the strength of the market. Pricing and demand remains very strong. It was strong in the upfront, it's strong in current day scatter, 30-plus percent premiums versus the upfront, teens premium scatter-to-scatter. This is a strong market and we're really looking forward, under Jo Ann Ross' and John Halley's leadership, to serving it. So that's a great opportunity ahead. Again, we will see that play out and create value in 2020.

On the Paramount side, there's challenges, sure. But you see demand ramping from streamers. Whether that's in the television series space or that's in the film-length space, that's a good growth segment. In some respects, that is the new home video. We have a longer-term opportunity probably in the PVID space. That's something that hasn't come to market yet. And clearly, ViacomCBS, given its ownership of Paramount, combined with its relationships with all the distributors in the United States, is ideally positioned for that should we choose to go down that path.

On China, it's a market we watch. Thankfully, we haven't had any issues. And look, our product resonates there.

So net-net, we're very excited. I'm very excited about the revenue opportunities associated with the ViacomCBS combination across a whole range of areas. And as you've heard, very, very excited about what's going on at Paramount.

In closing, I just wanted to say we are really proud of Viacom's accomplishments and evolution over the past few years, and we could be more excited about what's next. As we get ready to embark on it, know that the ViacomCBS management team will be transparent. We will be accessible. We will lay out a clear plan. And we will update you on our progress along the way.

Lastly, I'd like to offer my thanks on behalf of the Viacom management team to 2 important groups. First, the Viacom employees for their dedication and relentless execution over the last 3 years. It's your hard work that has set us up for this next exciting chapter. And second, to you, our investor base. I want to thank all of you for your continued support and partnership, and we look forward to the road ahead.

James Bombassei - *Viacom Inc. - SVP, IR & Treasury*

We want to thank everyone for joining us for our earnings call.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.

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