

Paramount Global

Thoughts on S&P's move to CW Negative

Company Update

S&P put PARA on CreditWatch Negative

On Friday 2/23, S&P put its BBB- rating on Paramount Global (PARA) on CreditWatch Negative mainly due to the inclusion of a free cash flow metric as part of its ratings criteria. S&P is confident that PARA will continue to fall short of levels commensurate with the BBB- rating over the next two years (< 3.5x leverage and >10% FOCF/debt) to such an extent that it did not need to wait for PARA to report earnings on Feb 28. As of Jan 30, S&P expected PARA's leverage to improve to 4.0x by YE'24 and 3.5x by YE'25 and, as of Feb 23, for FOCF/debt ratio to improve to 5% in '24 and 7-8% in '25. They expect to conclude the review in the "next several weeks" after taking into account PARA's 4Q23 results.

Surprised by the timing; implications for COC?

We don't begrudge S&P for changing its criteria or even having concerns about its projections given challenges in the sector as WBD's results indicated on Friday. However, we are surprised by the timing of S&P's move since PARA reports earnings on Wed, when we expect an update on as many as 5 months of trends (4Q + 2 months into 1Q already), and given that PARA's last update on Nov 2nd beat consensus estimates on a number of metrics and improved its outlook on DTC losses. Most importantly, we are concerned that the change in rating criteria at the same time PARA is considering strategic options (as per CEO Bob Bakish on 2/9) could impair the effectiveness of the change of control (COC) covenants in certain PARA bonds. As highlighted in our Dec note, a COC event requires both a COC and PARA ratings to "become rated below investment grade by all of the rating agencies," the latter of which could be in jeopardy if at least one rating is already HY prior to such an event, in our view. Given numerous strategic options that have been cited in the press, we would have expected either a longer review by S&P or to wait until PARA has an opportunity to provide an update on the process, if still active. In our view, one of the challenges of the various acquisition scenarios is the potential refinancing of COC bonds (\$9.7B of senior bonds and \$1.65B of junior sub notes) and S&P's move could serve to entice bidders with less onerous financing needs if the COC covenant is no longer relevant. An S&P downgrade is unlikely to impact the effectiveness of the COC covenant for junior subs because the rating trigger language only requires a downgrade, not a downgrade specifically to HY.

Bonds underperformed, back to Oct Wides

Bonds were ~50-70 bps wider following the news and S&P's conference call on Friday, putting PARA 32s at ~270bp, firmly behind BB comps (~190bp). PARA 3.7 28s at ~185bp are still inside B/BB comps (CHTR HY, NXST Uns, UVN) at 300bp+. Basis to WBD is 80-110bp, about 10-15bp wider than the wides reached in Oct '23 but with a materially different backdrop currently given event risk and imminent ratings overhang. We reiterate our Marketweight rating on PARA given the move in spreads in reaction to S&P's action and/or the implications on the effectiveness of COC language. Upside risk from here could entail a more favorable outlook from PARA on Wed or a benign outcome from the strategic options being evaluated while downside risk could entail weaker results/outlook than expected, a full migration to HY, and/or a leveraging transaction that avoids triggering the COC language.

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Timestamp: 26 February 2024 06:00AM EST

26 February 2024

High Grade Credit
United States
Media & Entertainment

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Paramount Global (PARA)			
Key Data	2021A	2022A	2023E
Operating (US\$ mm)			
Revenues	28,586	30,154	30,156
EBITDA	4,444	3,276	2,281
FCF	599	-139	88
Balance Sheet (US\$ mm)			
Cash	6,267	2,885	2,355
Total Debt	17,709	15,846	14,665
Net leverage	2.6x	4.0x	5.4x

Source: Company filings & BofA Global Research.

[Paramount Global: Move to Marketweight on bond outperformance 07 December 2023](#)

Glossary

COC = change of control

CW = CreditWatch

DTC = direct to consumer

FOCF = S&P's free operating cash flow

Valuation & risk

Paramount (PARA)

We rate Paramount at Marketweight as the potential negative catalysts such as ratings downgrade(s) and event risk are partially reflected in spreads that are currently wide to BB-rated media comps and back to wides vs. Warner Brothers Discovery. PARA's 3Q results and favorable outlook on DTC operating losses surprised to the upside in November giving it positive momentum behind its turnaround plans. However, sentiment for the sector is negative, especially for linear TV, as indicated by the reaction to WBD's results on 2/23, and this is compounded by uncertainty by other matters, such as the ultimate outcome of PARA's evaluation of strategic options and the impact from the planned sports streaming joint venture between WBD, FOXA and ESPN.

Upside risk to our rating are continued execution on deleveraging via EBITDA improvement, particularly from DTC, and improving advertising backdrop, a slower pace of decline in linear TV, and event risk involving higher quality partners or triggering change of control covenants. Downside risks to our rating are weaker advertising revenues, faster secular decline in linear TV, poor execution and cost management in DTC, a change in its commitment to deleveraging and rating agency downgrade(s) to high yield, and event risk that does not result in triggering a change of control event for bondholders.

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Security/Loan pricing

Paramount Global / PARA

	Amt		Ratings			Yield	Spread
Security		Maturity date	Moody's/S&P/Fitch	Price	Price date	(%)	(bps)
2.9, Senior, USD, 2027:B	700	15-JAN-2027	Baa3/BBB-/BBB	91.93	25-Feb-2024	5.98	146
4.2, Senior, USD, 2029:B	500	01-JUN-2029	Baa3/BBB-/BBB	91.83	25-Feb-2024	6.03	173
4.375, Senior, USD, 2043:B	1,446	15-MAR-2043	Baa3/BBB-/BBB	66.61	25-Feb-2024	7.76	323
5.85, Senior, USD, 2043:B	1,250	01-SEP-2043	Baa3/BBB-/BBB	80.75	25-Feb-2024	7.78	325
4.95, Senior, USD, 2031:B	1,250	15-JAN-2031	Baa3/BBB-/BBB	88.64	25-Feb-2024	7.06	281
4.75, Senior, USD, 2025:B	1,250	15-MAY-2025	Baa3/BBB-/BBB	98.29	25-Feb-2024	5.99	111
4.2, Senior, USD, 2032:B	1,000	19-MAY-2032	Baa3/BBB-/BBB	82.72	25-Feb-2024	7.00	275
4.95, Senior, USD, 2050:B	1,000	19-MAY-2050	Baa3/BBB-/BBB	73.15	25-Feb-2024	7.25	275

For pricing information refer to "Other Important Disclosures" below.

B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Disclosures

Important Disclosures

Credit opinion history

Paramount Global / PARA

Company	Date ^{R1}	Action	Recommendation	Price
Paramount Global / PARA	31-Jan-2021		Overweight	
	08-Mar-2023	Extended Review	NA	
	17-Oct-2023	Coverage Reinstatement	Overweight	
	07-Dec-2023	Downgrade	Marketweight	
Security	Date ^{R1}	Action	Recommendation	Price
2.9, Senior, USD, 2027:B	31-Jan-2023		Overweight	
	08-Mar-2023	Extended Review	NA	NA
	17-Oct-2023	Coverage Reinstatement	Overweight	88.39
	07-Dec-2023	Downgrade	Marketweight	91.15
4.2, Senior, USD, 2029:B	31-Jan-2023		Overweight	
	08-Mar-2023	Extended Review	NA	NA
	17-Oct-2023	Coverage Reinstatement	Overweight	85.65
	07-Dec-2023	Downgrade	Marketweight	90.60
4.375, Senior, USD, 2043:B	31-Jan-2023		Overweight	
	08-Mar-2023	Extended Review	NA	NA
	17-Oct-2023	Coverage Reinstatement	Overweight	62.75
	07-Dec-2023	Downgrade	Marketweight	69.53
5.85, Senior, USD, 2043:B	31-Jan-2023		Overweight	
	08-Mar-2023	Extended Review	NA	NA
	17-Oct-2023	Coverage Reinstatement	Overweight	75.78
	07-Dec-2023	Downgrade	Marketweight	83.95
4.95, Senior, USD, 2031:B	31-Jan-2023		Overweight	
	08-Mar-2023	Extended Review	NA	NA
	17-Oct-2023	Coverage Reinstatement	Overweight	85.32
	07-Dec-2023	Downgrade	Marketweight	91.65
4.75, Senior, USD, 2025:B	31-Jan-2023		Overweight	
	08-Mar-2023	Extended Review	NA	NA
	17-Oct-2023	Coverage Reinstatement	Overweight	97.69
	07-Dec-2023	Downgrade	Marketweight	98.29
4.2, Senior, USD, 2032:B	31-Jan-2023		Overweight	
	08-Mar-2023	Extended Review	NA	NA
	17-Oct-2023	Coverage Reinstatement	Overweight	78.86
	07-Dec-2023	Downgrade	Marketweight	85.74
4.95, Senior, USD, 2050:B	31-Jan-2023		Overweight	
	08-Mar-2023	Extended Review	NA	NA
	17-Oct-2023	Coverage Reinstatement	Overweight	65.99
	07-Dec-2023	Downgrade	Marketweight	75.81

Table reflects credit opinion history as of previous business day's close.^{R1}First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security or loan. The investment opinion system is contained at the end of the report under the heading "BofA Global Research Credit Opinion Key."

Pricing information in the table is provided for each action where available. In the case of bonds, loans, capital securities and equity preferreds, the price shown reflects the nominal cash price for the security; and in the case of CDS, the price shown reflects the spread, on the date of the relevant action.



Paramount Global / PARA**Company****Date^{R1}****Action****Recommendation**

B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); EP=Equity Preferred; CDS=Credit Default Swap

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R2}	Count	Percent
Buy	144	37.21%	Buy	119	82.64%
Hold	193	49.87%	Hold	163	84.46%
Sell	50	12.92%	Sell	37	74.00%

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