

Paramount Global

Solid 4Q but big questions still remain

Reiterate Rating: UNDERPERFORM | PO: 9.00 USD | Price: 11.06 USD

4Q review: earnings trough in '23 with growth in '24

Paramount Global's (PARA's) 4Q23 results highlighted the combination of a challenging macro environment, continued secular headwinds along with outperformance in DTC revenue and losses. All-in, total revenue decreased -6% Y/Y (vs -7% estimate) to \$7,638mn (vs \$7,585mn estimate) and adj OIBDA declined 15% Y/Y (vs -19% estimate) to \$520mn (vs \$500mn estimate). Encouragingly, it appears: 1) advertising trends have stabilized, 2) FCF should be positive in '24 (even with production restarted post the two strikes), 3) there will be significant earnings growth in '24 (driven by improvement in DTC losses and cost saving initiatives), 4) global streaming ARPU growth is expected to grow 20%+ and 5) domestic streaming will be profitable in '25. Conversely, the challenging trends in the linear subscriber ecosystem are expected to persist in CY24 which should drive declines in the TV media segment. Notably, PARA also announced a \$1bn charge comprised of \$200mn in restructuring and \$800mn in programming.

Benefit for ALL shareholders

In recent weeks, PARA has been subject of media reports regarding a potential sale—either for the controlling stake of National Amusements, Inc (and thereby a controlling stake in PARA), the entire company itself or specific assets. As [discussed in our prior note](#), depending on the structure/timing of a potential deal, we believe the benefit to PARA shareholders is less clear. While no specifics on potential partners or timing was provided, PARA management definitively stated they are “looking for ways to create shareholder value. And to be clear, that’s for all shareholders”.

Modestly increase our '24 OIBDA forecast

We lower our CY24E rev estimate to \$30.3bn (vs \$30.7bn previously) and raise our adj OIBDA to \$2.77bn (vs \$2.65bn previously) driven by the 4Q results, cost cutting and the improving trajectory in DTC profitability. We raise our CY24E FCF forecast to \$100mn (vs -\$362mn previously) reflecting management's 2024 FCF outlook. For 1Q24, we estimate rev. growth of 6% to \$7,686mn (vs \$7,909mn previously), adj OIBDA of \$677mn (vs \$642mn previously) driven by the Super Bowl and continued growth in DTC subscription revenue.

Reiterate Underperform and \$9 PO

We reiterate our Underperform rating and \$9 PO on PARA. While we continue to believe PARA retains an attractive collection of assets, secular and cyclical headwinds should remain challenging to fundamentals near term.

| Estimates (Dec) (US\$) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------|--------|--------|--------|-------|-------|
| EPS | 1.71 | 0.53 | 1.24 | 1.83 | 1.89 |
| EPS Change (YoY) | -51.3% | -69.0% | 134.0% | 47.6% | 3.3% |
| Consensus EPS (Bloomberg) | | | 1.10 | 1.24 | 1.72 |
| DPS | 1.00 | 0.39 | 0.20 | 0.20 | 0.20 |
| Valuation (Dec) | | | | | |
| P/E | 6.5x | 20.9x | 8.9x | 6.0x | 5.9x |
| Dividend Yield | 9.0% | 3.5% | 1.8% | 1.8% | 1.8% |
| EV / EBITDA* | 10.2x | 14.0x | 12.0x | 10.7x | 10.4x |
| Free Cash Flow Yield* | -6.8% | 0.8% | 1.4% | 4.6% | 5.5% |

* For full definitions of *IQmethod*SM measures, see page 7.

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Timestamp: 29 February 2024 05:00AM EST

29 February 2024

Equity

Key Changes

| (US\$) | Previous | Current |
|------------------|----------|----------|
| 2024E Rev (m) | 30,710.1 | 30,310.8 |
| 2025E Rev (m) | 31,347.6 | 30,951.3 |
| 2026E Rev (m) | NA | 31,408.6 |
| 2024E EPS | 0.99 | 1.24 |
| 2026E EPS | NA | 1.89 |
| 2024E EBITDA (m) | 2,652.1 | 2,769.9 |
| 2025E EBITDA (m) | 3,065.7 | 3,109.3 |
| 2026E EBITDA (m) | NA | 3,201.7 |

Jessica Reif Ehrlich
Research Analyst
BofAS
+1 646 855 2921
jessica.reif@bofa.com

Brent Navon, CFA
Research Analyst
BofAS
+1 646 855 3827
brent.navon@bofa.com

David Plaus
Research Analyst
BofAS
+1 646 855 1572
david.plaus@bofa.com

Stock Data

| | |
|---------------------------------|-----------------------|
| Price | 11.06 USD |
| Price Objective | 9.00 USD |
| Date Established | 6-Nov-2023 |
| Investment Opinion | C-3-7 |
| 52-Week Range | 10.51 USD - 24.00 USD |
| Mrkt Val (mn) / Shares Out (mn) | 7,327 USD / 662.5 |
| Free Float | 84.0% |
| Average Daily Value (mn) | 193.54 USD |
| BofA Ticker / Exchange | PARA / NAS |
| Bloomberg / Reuters | PARA US / PARA.OQ |
| ROE (2024E) | 3.6% |
| Net Dbt to Eqty (Dec-2023A) | 52.7% |
| ESGMeter TM | High |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to “BofA ESGMeter Methodology”.

iQprofileSM Paramount Global

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------|-------|-------|-------|-------|--------|
| Return on Capital Employed | 5.1% | 3.3% | 4.5% | 5.1% | 5.9% |
| Return on Equity | 4.9% | 1.5% | 3.6% | 5.3% | 5.4% |
| Operating Margin | 7.8% | -1.5% | 4.5% | 8.7% | 100.0% |
| Free Cash Flow | (500) | 56 | 100 | 334 | 404 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--------------------------|-------|-------|-------|-------|-------|
| Cash Realization Ratio | -0.1x | 1.1x | 0.5x | 0.6x | 0.6x |
| Asset Replacement Ratio | 0.9x | 0.8x | 0.8x | 0.8x | 0.8x |
| Tax Rate | 17.9% | 28.8% | 21.0% | 21.0% | 1.4% |
| Net Debt-to-Equity Ratio | 54.9% | 52.7% | 52.8% | 51.3% | 49.5% |
| Interest Cover | 3.1x | 2.1x | 2.6x | 3.0x | 3.1x |

Income Statement Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------------|---------------|---------------|---------------|--------------|--------------|
| Sales | 30,154 | 29,652 | 30,311 | 30,951 | 31,409 |
| % Change | 5.5% | -1.7% | 2.2% | 2.1% | 1.5% |
| Gross Profit | 30,154 | 29,652 | 30,311 | 30,951 | NA |
| % Change | 5.5% | -1.7% | 2.2% | 2.1% | NA |
| EBITDA | 3,276 | 2,390 | 2,770 | 3,109 | 3,202 |
| % Change | -26.3% | -27.0% | 15.9% | 12.3% | 3.0% |
| Net Interest & Other Income | (1,076) | (802) | (959) | (767) | (767) |
| Net Income (Adjusted) | 1,112 | 345 | 808 | 1,193 | 1,232 |
| % Change | -51.4% | -68.9% | 134.1% | 47.6% | 3.3% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|-------------|-----------|--------------|---------------|--------------|
| Net Income from Cont Operations (GAAP) | 1,308 | (248) | 429 | 1,639 | 30,338 |
| Depreciation & Amortization | 405 | 418 | 420 | 420 | 420 |
| Change in Working Capital | 15,702 | 17,278 | 420 | 420 | 420 |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | (17,557) | (17,064) | (838) | (1,810) | (30,437) |
| Capital Expenditure | (358) | (328) | (331) | (335) | (338) |
| Free Cash Flow | -500 | 56 | 100 | 334 | 404 |
| % Change | NM | NM | 77.7% | 235.6% | 20.8% |
| Share / Issue Repurchase | NA | NA | NA | NA | NA |
| Cost of Dividends Paid | (689) | (447) | (130) | (130) | (130) |
| Change in Debt | (2,002) | (1,232) | 0 | 0 | 0 |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash & Equivalents | 2,885 | 2,460 | 2,429 | 2,633 | 2,906 |
| Trade Receivables | 7,412 | 7,115 | 7,273 | 7,427 | 7,536 |
| Other Current Assets | 3,437 | 3,128 | 3,197 | 3,263 | 3,311 |
| Property, Plant & Equipment | 1,762 | 1,666 | 1,577 | 1,492 | 1,410 |
| Other Non-Current Assets | 42,897 | 39,174 | 39,174 | 39,174 | 39,174 |
| Total Assets | 58,393 | 53,543 | 53,650 | 53,989 | 54,337 |
| Short-Term Debt | 239 | 1 | 1 | 1 | 1 |
| Other Current Liabilities | 10,952 | 9,655 | 9,743 | 9,828 | 9,889 |
| Long-Term Debt | 15,607 | 14,601 | 14,601 | 14,601 | 14,601 |
| Other Non-Current Liabilities | 7,989 | 6,236 | 6,236 | 6,236 | 6,236 |
| Total Liabilities | 34,787 | 30,493 | 30,581 | 30,666 | 30,727 |
| Total Equity | 23,606 | 23,050 | 23,069 | 23,323 | 23,610 |
| Total Equity & Liabilities | 58,393 | 53,543 | 53,650 | 53,989 | 54,337 |

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Entertainment

Company Description

Paramount is a leading Media & Entertainment company with a focus on mass-media. Paramount's portfolio of brands include: CBS, Paramount Pictures, Paramount+, Pluto TV, Showtime, MTV, Nickelodeon, Paramount Network, Comedy Central, BET, VH1, TV Land, and many international broadcast networks.

Investment Rationale

Our view is the longer it takes to execute potential asset sales, the less value PARA could ultimately garner. This, coupled with the challenging macro backdrop, persistent secular headwinds, and PARA's elevated leverage levels create an unfavorable medium-term outlook.

Stock Data

Average Daily Volume

17,499,424

Quarterly Earnings Estimates

| | 2023 | 2024 |
|----|-------|-------|
| Q1 | 0.09A | 0.31E |
| Q2 | 0.10A | 0.26E |
| Q3 | 0.30A | 0.48E |
| Q4 | 0.04A | 0.19E |

Exhibit 1: PARA—Variance Table

We now forecast \$30.3bn for CY24E revenue

| Fiscal Year Ends 12/31 | Current Quarter | | | | | | Next Year | | | | | |
|--|-----------------|----------------|--------------|----------------|--------------|---------------|-----------------|-----------------|--------------|-----------------|--------------|----------------|
| | Act. | Act. | | Old | | | Act. | New | | Old | | |
| | Q4/22A | Q4/23A | Y/Y | Q4/23E | Y/Y | D | 2023A | 2024E | Y/Y | 2024E | Y/Y | D |
| PARA Actuals & BofA Estimates | | | | | | | | | | | | |
| TV Media | | | | | | | | | | | | |
| Advertising | \$2,682 | \$2,283 | -15% | \$2,280 | -15% | \$3 | \$8,188 | \$8,130 | -1% | \$8,400 | 3% | (\$271) |
| Affiliate and subscription | \$2,024 | \$2,003 | -1% | \$1,963 | -3% | \$40 | \$8,085 | \$7,551 | -7% | \$7,844 | -3% | (\$293) |
| Licensing and other | \$1,177 | \$882 | -25% | \$930 | -21% | (\$48) | \$3,812 | \$3,837 | 1% | \$3,783 | -2% | \$54 |
| Total TV Media Revenues | \$5,883 | \$5,168 | -12% | \$5,173 | -12% | (\$5) | \$20,085 | \$19,518 | -3% | \$20,028 | 0% | (\$509) |
| Direct to Consumer | | | | | | | | | | | | |
| Advertising | \$460 | \$526 | 14% | \$508 | 11% | \$18 | \$1,795 | \$2,031 | 13% | \$1,956 | 10% | \$75 |
| Subscription & Licensing | \$936 | \$1,343 | 43% | \$1,276 | 36% | \$67 | \$4,941 | \$5,995 | 21% | \$6,005 | 23% | (\$10) |
| Total Direct to Consumer | \$1,396 | \$1,869 | 34% | \$1,784 | 28% | \$85 | \$6,736 | \$8,025 | 19% | \$7,960 | 20% | \$65 |
| Filmed Entertainment | | | | | | | | | | | | |
| Advertising | \$6 | \$3 | -50% | \$6 | 5% | (\$3) | \$24 | \$24 | 2% | \$28 | 3% | (\$4) |
| Theatrical | \$97 | \$78 | -20% | \$126 | 30% | (\$48) | \$813 | \$748 | -8% | \$839 | -3% | (\$91) |
| Licensing and other | \$833 | \$566 | -32% | \$583 | -30% | (\$17) | \$2,120 | \$2,125 | 0% | \$2,028 | -5% | \$96 |
| Total Filmed Entertainment Revenues | \$936 | \$647 | -31% | \$716 | -24% | (\$68) | \$2,957 | \$2,897 | -2% | \$2,895 | -4% | \$2 |
| Eliminations | (\$84) | (\$46) | -45% | (\$88) | 5% | \$42 | (\$126) | (\$130) | 3% | (\$173) | 3% | \$43 |
| Total PF Revenue | \$8,131 | \$7,638 | -6% | \$7,585 | -7% | \$53 | \$29,652 | \$30,311 | 2% | \$30,710 | 4% | (\$399) |
| Total PF Operating Expenses | \$7,517 | \$7,118 | -5% | \$7,084 | -6% | \$34 | \$27,262 | \$27,541 | 1% | \$28,058 | 3% | (\$517) |
| Adj OIBDA by Segment | | | | | | | | | | | | |
| TV Media | \$1,296 | \$1,142 | -12% | \$1,168 | -10% | (\$26) | \$4,791 | \$4,538 | -5% | \$4,555 | -5% | (\$17) |
| Direct to Consumer | (\$575) | (\$490) | -15% | (\$550) | -4% | \$60 | (\$1,663) | (\$1,100) | -34% | (\$1,273) | -26% | \$173 |
| Filmed Entertainment | \$87 | \$24 | NM | \$55 | NM | (\$31) | (\$119) | \$10 | NM | \$92 | NM | (\$83) |
| Corp./Elims | (\$150) | (\$111) | -26% | (\$125) | -17% | \$14 | (\$447) | (\$500) | 12% | (\$544) | 18% | \$44 |
| Stock Based Comp. | (\$44) | (\$45) | 2% | (\$48) | 9% | \$3 | (\$172) | (\$178) | 3% | (\$178) | 2% | - |
| Total Adj OIBDA | \$614 | \$520 | -15% | \$500 | -19% | \$20 | \$2,390 | \$2,770 | 16% | \$2,652 | 12% | \$118 |
| Margin | 7.6% | 6.8% | -10% | 6.6% | -13% | 0% | 8.1% | 9.1% | 13% | 8.6% | 8% | 1% |
| Total D&A | (\$123) | (\$108) | -12% | (\$120) | -2% | \$12 | (\$418) | (\$420) | 0% | (\$480) | 12% | \$60 |
| Operating Income (Loss) | \$182 | \$404 | 122% | \$380 | 109% | \$24 | (\$451) | \$1,350 | -399% | \$2,172 | -557% | (\$822) |
| Margin | 2% | 5% | 136% | 5% | 124% | 0% | -2% | 4% | -393% | 7% | -541% | -3% |
| Adj Net Income | \$69 | \$41 | -41% | \$5 | -93% | \$36 | \$400 | \$809 | 102% | \$646 | 77% | \$163 |
| Diluted Shares Outstanding | 651 | 652 | 0% | 652 | 0% | 0 | 652 | 652 | 0% | 652 | 0% | 0 |
| Diluted EPS | \$0.08 | \$0.04 | -50% | \$0.01 | -91% | \$0.03 | \$0.53 | \$1.24 | 134% | \$0.99 | 99% | \$0.25 |
| Free Cash Flow | (\$369) | \$366 | -199% | \$350 | -195% | \$16 | \$289 | \$100 | -66% | (\$362) | -233% | \$461 |
| Streaming Breakdown | | | | | | | | | | | | |
| Paramount Plus Ending Subs | 55.9 | 67.5 | 21% | 67.4 | 21% | 0.1 | 67.5 | 72.8 | 8% | 73.4 | 9% | (0.6) |
| Paramount Plus Revenue | \$802 | \$1,353 | 69% | \$1,246 | 55% | 107.1 | \$4,446 | \$6,008 | 35% | \$5,638 | 30% | 369.6 |

Source: BofA Global Research

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Exhibit 2: PARA—Income Statement

We forecast \$2.77bn for CY24E adj OIBDA

| | 2023 | | | | | 2024 | | | | | 2024E | 2025E | 2026E |
|---|-----------------|------------------|----------------|----------------|----------------|------------------|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|
| Fiscal Year Ends 12/31 | 2022A | Q1A | Q2A | Q3A | Q4A | 2023A | Q1E | Q2E | Q3E | Q4E | 2024E | 2025E | 2026E |
| PARA: Income Statement | 2022 | 2023.1 | 2023.2 | 2023.3 | 2023.4 | 2023 | 2024.1 | 2024.2 | 2024.3 | 2024.4 | 2024 | 2025 | 2026 |
| TV Media | \$21,732 | \$5,193 | \$5,157 | \$4,567 | \$5,168 | \$20,085 | \$5,284 | \$4,775 | \$4,442 | \$5,018 | \$19,518 | \$19,157 | \$18,820 |
| Direct-to-Consumer | \$4,904 | \$1,510 | \$1,665 | \$1,692 | \$1,869 | \$6,736 | \$1,918 | \$1,998 | \$2,014 | \$2,095 | \$8,025 | \$8,994 | \$9,746 |
| Filmed Entertainment | \$3,706 | \$588 | \$831 | \$891 | \$647 | \$2,957 | \$511 | \$706 | \$883 | \$797 | \$2,897 | \$2,935 | \$2,977 |
| Eliminations | (\$188) | (\$26) | (\$37) | (\$17) | (\$46) | (\$126) | (\$27) | (\$38) | (\$18) | (\$47) | (\$130) | (\$134) | (\$135) |
| Total Revenues | \$30,154 | \$7,265 | \$7,616 | \$7,133 | \$7,638 | \$29,652 | \$7,686 | \$7,441 | \$7,321 | \$7,863 | \$30,311 | \$30,951 | \$31,409 |
| YoY % Change | 5% | -1% | -2% | 3% | -6% | -2% | 6% | -2% | 3% | 3% | 2% | 2% | 1% |
| Total Operating Expenses | \$26,878 | \$6,717 | \$7,010 | \$6,417 | \$7,118 | \$27,262 | \$7,010 | \$6,798 | \$6,476 | \$7,257 | \$27,541 | \$27,842 | \$28,207 |
| YoY % Change | 11% | 5% | 3% | 5% | -5% | 1% | 4% | -3% | 1% | 2% | 1% | 1% | 1% |
| TV Media | \$5,451 | \$1,306 | \$1,194 | \$1,149 | \$1,142 | \$4,791 | \$1,307 | \$1,090 | \$1,106 | \$1,035 | \$4,538 | \$4,205 | \$3,796 |
| Direct-to-Consumer | (\$1,819) | (\$511) | (\$424) | (\$238) | (\$490) | (\$1,663) | (\$356) | (\$217) | (\$109) | (\$418) | (\$1,100) | (\$462) | \$7 |
| Filmed Entertainment | \$272 | (\$99) | \$5 | (\$49) | \$24 | (\$119) | (\$114) | (\$46) | (\$3) | \$172 | \$10 | \$61 | \$112 |
| Corp./Elims | (\$470) | (\$109) | (\$124) | (\$103) | (\$111) | (\$447) | (\$116) | (\$129) | (\$114) | (\$141) | (\$500) | (\$516) | (\$532) |
| Stock Based Comp. | (\$158) | (\$39) | (\$45) | (\$43) | (\$45) | (\$172) | (\$45) | (\$55) | (\$35) | (\$43) | (\$178) | (\$179) | (\$181) |
| Total Adj OIBDA | \$3,276 | \$548 | \$606 | \$716 | \$520 | \$2,390 | \$677 | \$643 | \$845 | \$605 | \$2,770 | \$3,109 | \$3,202 |
| % Margin | 10.9% | 7.5% | 8.0% | 10.0% | 6.8% | 8.1% | 8.8% | 8.6% | 11.5% | 7.7% | 9.1% | 10.0% | 10.2% |
| YoY % Change | -26% | -40% | -37% | -9% | -15% | -27% | 23% | 6% | 18% | 16% | 16% | 12% | 3% |
| Depreciation & Amort. | (\$405) | (\$100) | (\$105) | (\$105) | (\$108) | (\$418) | (\$105) | (\$105) | (\$105) | (\$105) | (\$420) | (\$420) | (\$420) |
| Restructuring | (\$585) | — | (\$54) | \$10 | \$75 | \$31 | (\$200) | — | — | — | (\$200) | — | — |
| Programming | — | (\$1,674) | (\$697) | — | — | (\$2,371) | (\$800) | — | — | — | (\$800) | — | — |
| Gain on Sale of Assets/Other | \$56 | — | — | — | (\$83) | (\$83) | — | — | — | — | — | — | — |
| Operating Income (Loss) | \$2,342 | (\$1,226) | (\$250) | \$621 | \$404 | (\$451) | (\$428) | \$538 | \$740 | \$500 | \$1,350 | \$2,689 | \$2,782 |
| % Margin | 8% | -17% | -3% | 9% | 5% | -2% | -6% | 7% | 10% | 6% | 4% | 9% | 9% |
| YoY % Change | -63% | -258% | -131% | 10% | 122% | -119% | -65% | -315% | 19% | 24% | -399% | 99% | 3% |
| Interest Expense | (\$931) | (\$226) | (\$240) | (\$232) | (\$222) | (\$920) | (\$226) | (\$226) | (\$226) | (\$226) | (\$904) | (\$904) | (\$904) |
| Interest Income | \$108 | \$35 | \$33 | \$29 | \$40 | \$137 | \$35 | \$33 | \$29 | \$40 | \$137 | \$137 | \$137 |
| Gain on Marketable Securities | — | — | \$168 | — | — | \$168 | — | — | — | — | — | — | — |
| Gain on Ext. of Debt | (\$120) | — | — | — | \$29 | \$29 | — | — | — | — | — | — | — |
| Other Items | (\$133) | (\$46) | (\$60) | (\$42) | (\$68) | (\$216) | (\$48) | (\$48) | (\$48) | (\$48) | (\$192) | — | — |
| Earnings from Cont. Operations | \$1,266 | (\$1,463) | (\$349) | \$376 | \$183 | (\$1,253) | (\$667) | \$297 | \$495 | \$266 | \$391 | \$1,922 | \$2,015 |
| Taxes | (\$227) | \$381 | \$95 | (\$40) | (\$75) | \$361 | \$140 | (\$62) | (\$104) | (\$56) | (\$82) | (\$404) | (\$423) |
| Tax Rate | 18% | 26% | 27% | 11% | 41% | 29% | 21% | 21% | 21% | 21% | 21% | 21% | 21% |
| Equity in loss of Investees | (\$204) | (\$75) | (\$109) | (\$75) | (\$101) | (\$360) | (\$90) | (\$95) | (\$110) | (\$115) | (\$410) | (\$445) | (\$480) |
| Net Earnings from Cont. Ops | \$835 | (\$1,157) | (\$363) | \$261 | \$7 | (\$1,252) | (\$617) | \$140 | \$281 | \$95 | (\$101) | \$1,074 | \$1,112 |
| Non Controlling Interests/Discontinued Ops | \$269 | \$39 | \$64 | \$34 | \$507 | \$644 | \$30 | \$30 | \$30 | \$30 | \$120 | \$120 | \$120 |
| Net Earnings Attributable to PARA | \$1,104 | (\$1,118) | (\$299) | \$295 | \$514 | (\$608) | (\$587) | \$170 | \$311 | \$125 | \$19 | \$1,194 | \$1,232 |
| Impact of Adj on Net Earnings/Preferred Dividends | \$67 | \$1,190 | \$379 | (\$88) | (\$473) | \$1,008 | \$790 | — | — | — | \$790 | — | — |
| Adj Net Income | \$1,171 | \$72 | \$80 | \$207 | \$41 | \$400 | \$203 | \$170 | \$311 | \$125 | \$809 | \$1,194 | \$1,232 |
| Diluted Shares Outstanding | 651 | 652 | 651 | 652 | 652 | 652 | 652 | 652 | 652 | 652 | 652 | 652 | 652 |
| Adj EPS | \$1.71 | \$0.09 | \$0.10 | \$0.30 | \$0.04 | \$0.53 | \$0.31 | \$0.26 | \$0.48 | \$0.19 | \$1.24 | \$1.83 | \$1.89 |
| YoY % Change | -51% | -85% | -84% | -23% | -50% | -69% | 245% | 160% | 59% | 381% | 134% | 48% | 3% |

Source: BofA Global Research

BoFA GLOBAL RESEARCH



Exhibit 3: PARA—FCF Statement

We forecast \$100mn for CY24E FCF

| | 2023 | | | | | 2024 | | | | | | | |
|---------------------------------------|-----------------|-----------------|-----------------|---------------|---------------|---------------|-----------------|-----------------|---------------|---------------|---------------|---------------|---------------|
| Fiscal Year Ends 12/31 | 2022A | Q1A | Q2A | Q3A | Q4A | 2023A | Q1E | Q2E | Q3E | Q4E | 2024E | 2025E | 2026E |
| PARA: Free Cash Flow | | | | | | | | | | | | | |
| FCF Derivation | | | | | | | | | | | | | |
| Adj OIBDA | \$3,276 | \$548 | \$606 | \$716 | \$520 | \$2,390 | \$677 | \$643 | \$845 | \$605 | \$2,770 | \$3,109 | \$3,202 |
| - Cash Interest | \$920 | \$275 | \$174 | \$247 | \$211 | \$907 | \$191 | \$193 | \$197 | \$186 | \$767 | \$767 | \$767 |
| - Cash Taxes | \$157 | (\$6) | \$76 | (\$68) | \$105 | \$107 | (\$140) | \$62 | \$104 | \$56 | \$82 | \$404 | \$423 |
| - Change In Working Capital and Other | \$2,341 | \$762 | \$497 | \$87 | (\$354) | \$992 | \$670 | \$330 | \$445 | \$45 | \$1,490 | \$1,270 | \$1,270 |
| = Operating Cash Flow | (\$142) | (\$483) | (\$141) | \$450 | \$558 | \$384 | (\$44) | \$58 | \$99 | \$318 | \$431 | \$669 | \$742 |
| - Discontinued Operations | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Capex | \$358 | \$71 | \$69 | \$73 | \$115 | \$328 | \$72 | \$70 | \$74 | \$116 | \$331 | \$335 | \$338 |
| = Free Cash Flow (FCF) | (\$500) | (\$554) | (\$210) | \$377 | \$443 | \$56 | (\$116) | (\$12) | \$25 | \$202 | \$100 | \$334 | \$404 |
| + Cash Restructuring/Merger Costs | \$289 | \$69 | \$78 | \$163 | (\$77) | \$233 | | | | | - | - | - |
| = Adj Free Cash Flow (FCF) | (\$211) | (\$485) | (\$132) | \$540 | \$366 | \$289 | (\$116) | (\$12) | \$25 | \$202 | \$100 | \$334 | \$404 |
| % Chg. (YOY) | -125% | -260% | -194% | -288% | -199% | -237% | -76% | -91% | -95% | -45% | NM | 236% | 21% |
| / Diluted Shares Outstanding | 651 | 652 | 651 | 652 | 652 | 652 | 652 | 652 | 652 | 652 | 652 | 652 | 652 |
| = FCF/Share | (\$0.32) | (\$0.74) | (\$0.20) | \$0.83 | \$0.56 | \$0.44 | (\$0.18) | (\$0.02) | \$0.04 | \$0.31 | \$0.15 | \$0.51 | \$0.62 |
| Leverage Statistics | | | | | | | | | | | | | |
| Gross Debt | \$15,846 | \$15,853 | \$15,800 | \$15,665 | \$14,602 | \$14,602 | \$14,602 | \$14,602 | \$14,602 | \$14,602 | \$14,602 | \$14,602 | \$14,602 |
| - Cash And Cash Equivalents | \$2,885 | \$2,109 | \$1,714 | \$1,804 | \$2,460 | \$2,460 | \$2,311 | \$2,267 | \$2,259 | \$2,429 | \$2,429 | \$2,633 | \$2,906 |
| = Net Debt | \$12,961 | \$13,744 | \$14,086 | \$13,861 | \$12,142 | \$12,142 | \$12,291 | \$12,335 | \$12,343 | \$12,173 | \$12,173 | \$11,969 | \$11,696 |
| LTM Adj OIBDA | \$3,276 | \$2,911 | \$2,554 | \$2,484 | \$2,390 | \$2,390 | \$2,519 | \$2,556 | \$2,685 | \$2,770 | \$2,770 | \$3,109 | \$3,202 |
| Gross Debt:OIBDA | 4.8x | 5.4x | 6.2x | 6.3x | 6.1x | 6.1x | 5.8x | 5.7x | 5.4x | 5.3x | 5.3x | 4.7x | 4.6x |
| Net Debt:OIBDA | 4.0x | 4.7x | 5.5x | 5.6x | 5.1x | 5.1x | 4.9x | 4.8x | 4.6x | 4.4x | 4.4x | 3.8x | 3.7x |

Source: BofA Global Research

BofA GLOBAL RESEARCH



Price objective basis & risk

Paramount Global (PARA)

Our \$9 PO is based on approximately 7x our CY24E OIBDA, which represents a modest premium to the current trading levels of both WBD/FOX and a discount to DIS.

Upside risks to our price objective are potential asset sales, better than anticipated earnings growth, and lower rates.

Downside risks to our price objective are failure to consummate a transaction, weakness in the advertising market, poor execution, accelerated declines in the legacy business and the shift of advertising dollars to digital media.

Notably, PARA has Mandatory Convertible Preferred Stock with an aggregate value of \$1bn converting on April 1, 2024. The conversion of these preferred shares would be anti-dilutive. However, if this changes and PARA decides to purchase these preferred shares prior to dilution, it would further pressure their balance sheet especially when paired with a lack of free cash flow.

Analyst Certification

I, Jessica Reif Ehrlich, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Cable, Entertainment and Satellite Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---------------------|-------------------------------------|-------------|------------------|----------------------|
| BUY | | | | |
| | Comcast Corp | CMCSA | CMCSA US | Jessica Reif Ehrlich |
| | Endeavor Group Holdings, Inc. | EDR | EDR US | Jessica Reif Ehrlich |
| | Madison Square Garden Entertainment | MSGE | MSGE US | Peter Henderson |
| | Netflix, Inc. | NFLX | NFLX US | Jessica Reif Ehrlich |
| | Spotify Technology | SPOT | SPOT US | Jessica Reif Ehrlich |
| | Walt Disney Co. | DIS | DIS US | Jessica Reif Ehrlich |
| | Warner Bros. Discovery | WBD | WBD US | Jessica Reif Ehrlich |
| NEUTRAL | | | | |
| | Charter Communications | CHTR | CHTR US | Jessica Reif Ehrlich |
| | Fox Corporation | FOXA | FOXA US | Jessica Reif Ehrlich |
| | Fox Corporation | FOX | FOX US | Jessica Reif Ehrlich |
| | Sphere Entertainment Co. | SPHR | SPHR US | Peter Henderson |
| | Warner Music Group Corporation | WMG | WMG US | Jessica Reif Ehrlich |
| UNDERPERFORM | | | | |
| | iHeartMedia, Inc. | IHRT | IHRT US | Jessica Reif Ehrlich |
| | Paramount Global | PARA | PARA US | Jessica Reif Ehrlich |
| RSTR | | | | |
| | Liberty SiriusXM Group | LSXMA | LSXMA US | Jessica Reif Ehrlich |
| | Liberty SiriusXM Group | LSXMK | LSXMK US | Jessica Reif Ehrlich |
| | Sirius XM Holdings Inc | SIRI | SIRI US | Jessica Reif Ehrlich |

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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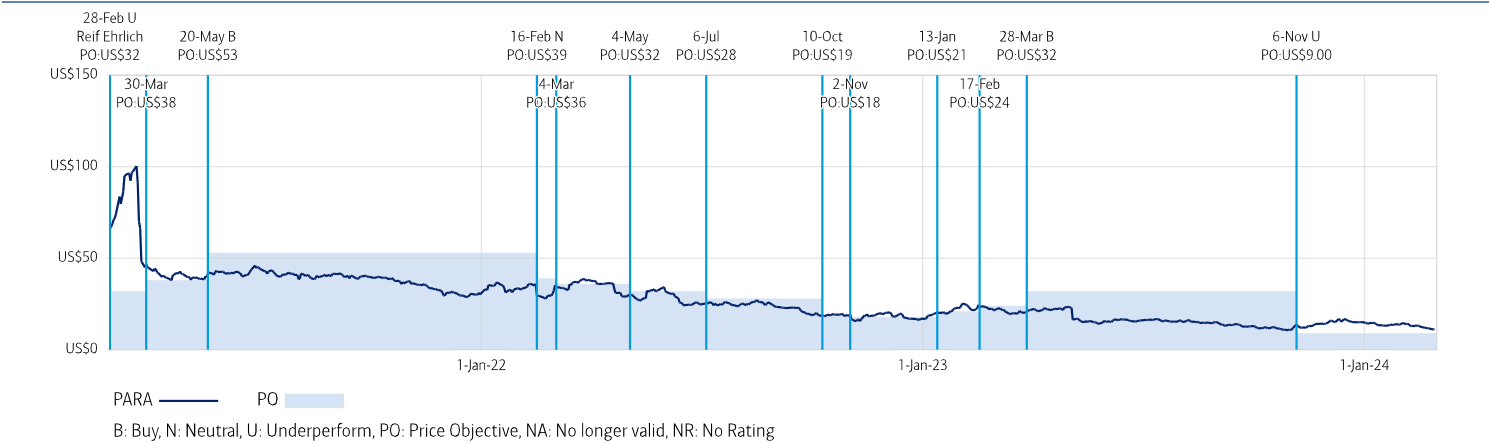
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Paramount Global (PARA) Price Chart



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Equity Investment Rating Distribution: Media & Entertainment Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 35 | 53.85% | Buy | 15 | 42.86% |
| Hold | 15 | 23.08% | Hold | 8 | 53.33% |
| Sell | 15 | 23.08% | Sell | 7 | 46.67% |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster ^{R2} |
|-------------------|---|--|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

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