

December 18, 2024

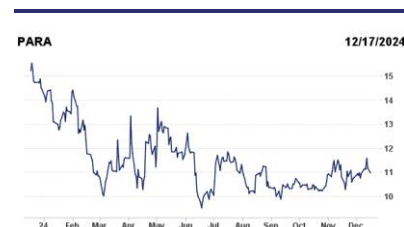
Paramount Global Class B (PARA)

Names of Interest in 2025 - New Deal Math Given Regulatory, Market Environment?

- ▶ As we slowly inch closer to the end of the year, one thing continues to be constant – investors still do not like or are not paying attention to Paramount (PARA: Buy, PT \$19). In fact, since the deal was announced, shares are down ~\$0.65 despite the potential for a deal close in 1H25 and several other relatively positive developments in the regulatory and market environment. We get that with a deal already on the table but while also being challenged by several sources, investors may prefer to just wait this one out. However, something feels like it has to give next year, and whether it is the Skydance deal or another deal that ends up coming to fruition, there should be value to unlock over the next 12 months, especially from current levels.
- ▶ First question: will the current deal close? We think...yes? The latest challenge comes from the Center for American Rights, citing Tencent's investment in Skydance and the subsequent foreign impact on American media. Given the ongoing headline fight with Tiktok, this is not an accusation to be taken lightly, although the Ellison family's control over Skydance does diminish the argument somewhat, in our view. There are also potential remedies, and does new incoming FCC Chairman Carr want to make shooting down a media deal his first major milestone? The 60 Minutes overhang remains as well, but again, fines and apologies seem to be working for the incoming administration so far.
- ▶ Second question: if the deal closes, does the math change now that the regulatory environment is different and other players have shown a willingness to potentially create a market for legacy assets? We still do not know who is a buyer or seller yet but we do know Paramount is a seller, although what is defined as "non-core" to new management could be a more fluid definition. Even if we assume that the golden studio asset is not for sale, the lot may still be (65 acres at the 2018 land sale price would be \$2 billion), plus assets like the O&Os (estimated \$300M in OIBDA with a premium multiple could be worth \$2-\$2.5B), Showtime (had a firm \$3B bid at one point), Nickelodeon and MTV (could be worth another couple of billion to the right buyer)...the list goes on. Smaller and more profitable has been the message, and we would be surprised if Paramount did not ultimately benefit from this new potential cable aggregation market under a friendlier FCC and DOJ.
- ▶ Last question: what else are we missing? Per Nielsen, Paramount remains the number 3 most watched platform behind only Disney and YouTube. DTC has been profitable for 2 quarters in a row. The synergy targets look achievable. And the new org structures in the industry suggest that it will be easier to allocate rights and enter into streaming partnerships. But what does David Ellison see as the long-term future for Paramount, and do they end up fighting larger opponents as others find dance partners? We think the risk/reward is skewed to the upside.

Company Update

Rating:	Buy
Current Price	\$10.81
Price Target	\$19.00
52-Wk Range	\$9.54 - \$16.63
Shares Outstanding (mm)	1,118
Market Cap (mm)	\$12,086
Enterprise Value (mm)	\$22,886
Average Volume (000s)	11,456
Net Debt (mm)	10,800
Float (mm)	1,110
Sector Weight	Overweight



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FY Dec		Q1	Q2	Q3	Q4	Total	EV/EBITDA	P/E
EBITDA	2023A	\$548A	\$606A	\$716A	\$520A	\$2,390A	10x	
	2024E	\$987A	\$867A	\$858A	\$586E	\$3,298E	7x	
	2025E	\$731E	\$845E	\$862E	\$666E	\$3,104E	7x	
EPS	2023A	\$0.09A	\$0.10A	\$0.32A	\$0.04A	\$0.55A		20x
	2024E	\$0.62A	\$0.54A	\$0.49A	\$0.17E	\$1.82E		6x
	2025E	\$0.30E	\$0.43E	\$0.45E	\$0.23E	\$1.41E		8x

Paramount Valuation Analysis	
(\$ in millions, except per share data)	
Fiscal Year Ending December 31,	Blended 2025/2026E
Stock Price	\$10.81
OIBDA	
Diluted Shares	1,118
Market Capitalization	\$12,086
Long-term debt	(14,000)
Cash	3,200
Enterprise Value	22,886
Bear Case 2025/2026E OIBDA	3,250
Skydance Projected 2025/2026E OIBDA	3,750
Bull Case 2025/2026E OIBDA	4,950
Bear Multiple	6.0x
Median Multiple	7.0x
Bull Multiple	8.0x
Implied Bear Price	\$7.78
Implied Median Price	\$13.82
Implied Bull Price	\$25.76

Source: Company reports and The Benchmark Company Estimates.

Paramount - Income Statement, 2020 - 2026E							
(\$ in millions, except per share data)							
Fiscal Year Ending June 30	2020	2021	2022	2023	2024E	2025E	2026E
Total Net revenue	\$25,285	\$28,586	\$30,154	\$29,644	\$29,231	\$28,921	\$29,395
Yr. - Yr. Pct. Change	-8.4%	13.1%	5.5%	-1.7%	-1.4%	-1.1%	1.6%
Adjusted OIBDA	\$5,132	\$4,444	\$3,276	\$2,390	\$3,298	\$3,104	\$3,404
Yr. - Yr. Pct. Change	-6.4%	-13.4%	-26.3%	-27.0%	38.0%	-5.9%	9.7%
Adjusted OIBDA margin	20.3%	15.5%	10.9%	8.1%	11.3%	10.7%	11.6%
Operating income	\$4,260	\$6,297	\$2,342	(\$451)	(\$4,493)	\$2,664	\$2,904
Yr. - Yr. Pct. Change	0.8%	47.8%	-62.8%	-119.3%	896.2%	-159.3%	9.0%
Operating income margin	16.8%	22.0%	7.8%	-1.5%	-15.4%	9.2%	9.9%
Other/Interest income (expense)	(997)	(1,091)	(1,076)	(802)	(905)	(916)	(850)
Pre-tax income	\$3,263	\$5,206	\$1,266	(\$1,253)	(\$5,398)	\$1,748	\$2,054
Income Tax Benefit (expense)	(560)	(646)	(227)	361	207	(402)	(472)
Effective tax rate	17.2%	12.4%	17.9%	28.8%	3.8%	23.0%	23.0%
Equity in loss of investee companies, net of tax	(268)	(105)	(94)	(366)	(334)	(400)	(500)
Net income	\$2,435	\$4,455	\$937	(\$1,258)	(\$5,525)	\$946	\$1,081
GAAP EPS - diluted	\$3.94	\$6.90	\$1.44	(\$1.93)	(\$8.30)	\$1.41	\$1.62
Yr. - Yr. Pct. Change	-24.7%	74.9%	-79.1%	-233.9%	330.1%	-117.0%	0.0%
Adjusted net income	\$2,595	\$2,292	\$1,171	\$400	\$1,227	\$946	\$1,081
Non GAAP EPS	\$4.20	\$3.48	\$1.71	\$0.55	\$1.82	\$1.41	\$1.62
Yr. - Yr. Pct. Change	-14.9%	-17.2%	-50.9%	-67.8%	230.9%	-22.3%	14.3%
Diluted shares	618	646	651	652	666	669	669
Free Cash Flow							
OIBDA	5,132	4,444	3,276	2,390	3,298	3,104	3,404
Cash taxes	(560)	(646)	(227)	361	207	(402)	(472)
Cash interest and other income	(1,185)	(1,091)	(1,076)	(802)	(905)	(916)	(950)
Capital Expenditures	(327)	(354)	(358)	(328)	(202)	(300)	(325)
Change in Working Capital	(545)	(1,575)	(2,071)	(1,565)	(1,865)	(850)	(750)
Free Cash Flow	\$2,515	\$778	(\$500)	\$56	\$533	\$636	\$906
Free Cash Flow per diluted share	\$4.07	\$1.20	(\$0.77)	\$0.09	\$0.80	\$0.95	\$0.00
Yr. - Yr. Pct. Change	185.9%	-70.4%	-163.8%	-111.2%	832.5%	18.7%	0.0%

Source: Company reports and The Benchmark Company

Proforma Paramount - Income Statement, 2024E					
(\$ in millions, except per share data)					
Fiscal Year Ending June 30	1Q	2Q	3Q	4QE	2024E
Total Net revenue	\$7,685	\$6,813	\$6,731	\$8,002	\$29,231
<i>Yr. - Yr. Pct. Change</i>	5.8%	-10.5%	-5.6%	4.8%	-1.4%
Adjusted OIBDA	\$987	\$867	\$858	\$586	\$3,298
<i>Yr. - Yr. Pct. Change</i>	80.1%	43.1%	19.8%	12.7%	38.0%
<i>Adjusted OIBDA margin</i>	12.8%	12.7%	12.7%	7.3%	11.3%
Operating income	(\$417)	(\$5,318)	\$757	\$485	(\$4,493)
<i>Yr. - Yr. Pct. Change</i>	-66.0%	2027.2%	21.9%	20.1%	896.2%
<i>Operating income margin</i>	-5.4%	-78.1%	11.2%	6.1%	-15.4%
Other/Interest income (expense)	(218)	(229)	(229)	(229)	(905)
Pre-tax income	(\$635)	(\$5,547)	\$528	\$256	(\$5,398)
Income Tax Benefit (expense)	172	215	(121)	(59)	207
<i>Effective tax rate</i>	27.1%	23.0%	23.0%	23.0%	3.8%
Equity in loss of investee companies, net of tax	(91)	(81)	(81)	(81)	(334)
Net income	(\$554)	(\$5,413)	\$326	\$116	(\$5,525)
EPS - diluted	(\$0.84)	(\$8.09)	\$0.49	\$0.17	(\$8.30)
<i>Yr. - Yr. Pct. Change</i>	-52.7%	1353.3%	21.6%	1521.9%	330.1%
Adjusted net income	\$424	\$361	\$326	\$116	\$1,227
Non GAAP EPS	\$0.62	\$0.54	\$0.49	\$0.17	\$1.82
<i>Yr. - Yr. Pct. Change</i>	588.9%	439.6%	52.1%	334.7%	230.9%
Diluted shares	657	669	669	669	666
Free Cash Flow					
OIBDA	987	867	858	586	3,298
Cash taxes	172	215	(121)	(59)	207
Cash interest and other income	(221)	(229)	(229)	(229)	(905)
Capital Expenditures	(51)	(49)	(51)	(51)	(202)
Change in Working Capital	(678)	(794)	(243)	(150)	(1,865)
Free Cash Flow	\$209	\$10	\$214	\$97	\$533
Free Cash Flow per diluted share	\$0.32	\$0.01	\$0.32	\$0.15	\$0.80
<i>Yr. - Yr. Pct. Change</i>	-137.4%	-104.6%	-44.7%	-78.6%	832.5%

Source: Company reports and The Benchmark Company

Proforma Paramount - Income Statement, 2025E					
(\$ in millions, except per share data)					
Fiscal Year Ending June 30	1QE	2QE	3QE	4QE	2025E
Total Net revenue	\$7,389	\$7,032	\$6,793	\$7,707	\$28,921
<i>Yr. - Yr. Pct. Change</i>	-3.9%	3.2%	0.9%	-3.7%	-1.1%
Adjusted OIBDA	\$731	\$845	\$862	\$666	\$3,104
<i>Yr. - Yr. Pct. Change</i>	-25.9%	-2.5%	0.5%	13.5%	-5.9%
<i>Adjusted OIBDA margin</i>	9.9%	12.0%	12.7%	8.6%	10.7%
Operating income	\$621	\$735	\$752	\$556	\$2,664
<i>Yr. - Yr. Pct. Change</i>	-249.0%	-113.8%	-0.7%	14.5%	-159.3%
<i>Operating income margin</i>	8.4%	10.5%	11.1%	7.2%	9.2%
Other/Interest income (expense)	(229)	(229)	(229)	(229)	(916)
Pre-tax income	\$392	\$506	\$523	\$327	\$1,748
Income Tax Benefit (expense)	(90)	(116)	(120)	(75)	(402)
<i>Effective tax rate</i>	23.0%	23.0%	23.0%	23.0%	23.0%
Equity in loss of investee companies, net of tax	(100)	(100)	(100)	(100)	(400)
Net income	\$202	\$290	\$303	\$151	\$946
EPS - diluted	\$0.30	\$0.43	\$0.45	\$0.23	\$1.41
<i>Yr. - Yr. Pct. Change</i>	-135.8%	-105.4%	-7.0%	30.2%	-117.0%
Adjusted net income	\$202	\$290	\$303	\$151	\$946
Non GAAP EPS	\$0.30	\$0.43	\$0.45	\$0.23	\$1.41
<i>Yr. - Yr. Pct. Change</i>	-51.3%	-19.7%	-7.0%	30.2%	-22.3%
Diluted shares	669	669	669	669	669
Free Cash Flow					
OIBDA	731	845	862	666	3,104
Cash taxes	(90)	(116)	(120)	(75)	(402)
Cash interest and other income	(229)	(229)	(229)	(229)	(916)
Capital Expenditures	(75)	(75)	(75)	(75)	(300)
Change in Working Capital	(500)	(200)	(100)	(50)	(850)
Free Cash Flow	(\$163)	\$225	\$338	\$236	\$636
Free Cash Flow per diluted share	(\$0.24)	\$0.34	\$0.50	\$0.35	\$0.95
<i>Yr. - Yr. Pct. Change</i>	-176.5%	2147.6%	57.8%	142.9%	18.7%

Source: Company reports and The Benchmark Company

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Equity Research Ratings System

Firm-Wide Stock Ratings Distribution

As of September 30, 2024

	All Covered Companies		Investment Banking Clients	
Buy	281	71.8%	49	12.5%
Hold	78	20.0%	4	1.0%
Speculative Buy	26	6.7%	15	3.8%
Sell	6	1.5%	0	0.0%

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Buy: Stock is expected to outperform the analyst's defined Sector/Industry Index* over the following 6 to 12 months.

Speculative Buy: The stock has a market value below \$100M and/or a higher financial risk profile. It is expected to outperform the analyst's defined sector/industry index over the following 6 to 12 months.

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Benchmark Disclosures as of December 18, 2024

Company	Disclosure
Paramount Global Class B	

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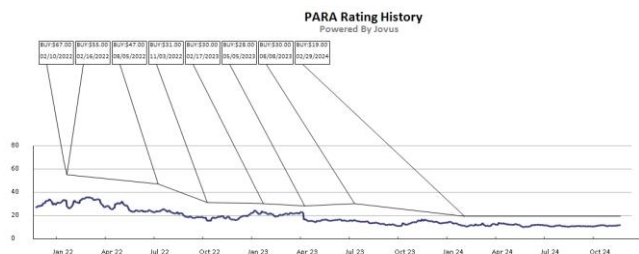
Paramount faces economic risks associated with overall advertising spending. Traditionally during economic slowdowns, advertising and marketing budgets are cut to align expenses with weaker business prospects. In addition to a potential economic slowdown, traditional advertising media are facing increased competition from the Internet and other new media alternatives. Paramount also faces headwinds from family ownership restrictions and uncertainty around the forward outlook from both a management and M&A perspective.

Valuation Methodology

We are assigning a 6x cable multiple to Paramount's blended 2023/2024E OIBDA, ascribing some value to the underlying cash flow supporting the ramping streaming segment, which we value at 1x 2024E revenue, to arrive at our \$19 per share price target.

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