



Paramount Global (PARA)

Updated March 22th, 2023 by Felix Martinez

Key Metrics

Current Price:	\$21	5 Year CAGR Estimate:	-2.7%	Market Cap:	\$13.9 B
Fair Value Price:	\$13	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	03/17/23
% Fair Value:	171%	5 Year Valuation Multiple Estimate:	-10.1%	Dividend Payment Date:	04/03/23
Dividend Yield:	4.5%	5 Year Price Target	\$14	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Sell

Overview & Current Events

ViacomCBS Inc., now called Paramount Global, is an American multinational media conglomerate based in New York City. The corporation was formed via the re-merger of CBS Corporation and Viacom on December 4, 2019, the two created from the split of the original Viacom in 2005. The company's content brands include CBS, Showtime Networks, Paramount Pictures, Nickelodeon, MTV, Comedy Central, BET, and CBS All Access. The company has six different revenue segments, where Advertising, Affiliate, and Content Licensing are the most significant revenue source.

Paramount is an \$13.9 billion market capitalization company that generated more than \$30.2 billion in revenue for 2022.

The company reported fourth-quarter and full year results for Fiscal Year (FY)2022 on February 16th, 2023. For the quarter, the company reported revenues of \$8,131 million vs. \$8,000 million in 4Q22, or a 1% increase year-over-year. This was due to the significant increase in both Direct-to-consumer and Filmed Entertainment segment, which saw revenue increased 30% and 35%, respectively. The operating income reported was \$182 million for the quarter, a significant decrease of (93)% compared to the \$2,664 million the company reported in 4Q21. The company added 9.9 million global streaming subscribers, overwhelmingly led by Paramount+. Paramount+ subscribers grew to over 56M. Paramount+ subscriber growth was partially driven by successful international market launches, including the UK, Ireland and South Korea. The advertising segment saw a revenue increase of 4% for the quarter. Earnings for the quarter was down (99)% compared to 4Q2021 to \$0.01 per share.

For the year, revenue is up 5.5%, while operating income is down (62.8)% due to increase of operation costs. Earnings was also down for the nine months of the year, from \$3.81 per share in the first nine months of 2021, to \$1.60 per share so far. This is a decrease of (51)% year-over-year from \$3.48 per share in FY2021 to \$1.71 per share for FY2022.

Consensus estimates expect the company's earnings-per-share to be \$1.25 for FY2023. This will be a decrease of (26.9)% compared to FY2022. We will use the FY2023 estimate of \$1.25 for our valuation calculation.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.02	\$2.96	\$3.31	\$4.11	\$4.40	\$5.87	\$5.01	\$4.20	\$3.48	\$1.71	\$1.25	\$1.38
DPS	\$0.48	\$0.54	\$0.60	\$0.66	\$0.72	\$0.72	\$0.78	\$0.96	\$0.96	\$0.96	\$0.96	\$0.96
Shares¹	624.0	561.0	489.0	448.0	647.0	621.0	617.0	618.0	655.0	650.0	650.0	650.0

Over the last decade, Paramount had an earnings compound annual growth rate (CAGR) of (6.1)% and a (26.6)% CAGR over the past five years. With Viacom and CBS's merger completed, the company is one of the most significant content producers and providers globally. This allows Paramount to be in a solid position as content demand continues to grow. We estimate a five-year expected growth rate of 2% as management continues to integrate both companies.

The net Margin increased for FY2021 to 15.9%, compared to an FY2020 net margin of 9.6%. The company had to freeze its dividend during 2018 as it was preparing for this merger. Before that, it had a 5-year dividend growth of 7.6%. We do not expect the company to start growing its dividend over the next five years.

¹ Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	21.1	18.7	14.2	15.5	13.4	8.4	8.4	8.9	8.7	9.8	17.1	10.0
Avg. Yld.	0.8%	1.0%	1.3%	1.0%	1.2%	1.7%	1.9%	2.6%	3.2%	5.7%	4.5%	7.0%

Over the past decade, Paramount shares have traded with an average P/E of 12.7. However, over the past five years, it has averaged a P/E of 8.8. We will use a P/E of 10, given current headwinds for our fair value estimate. This represents a (10.1)% downside as the current P/E of PARA is 17.1 based on the 2023 EPS estimate of \$1.25 per share.

Safety, Quality, Competitive Advantage, & Recession Resiliency

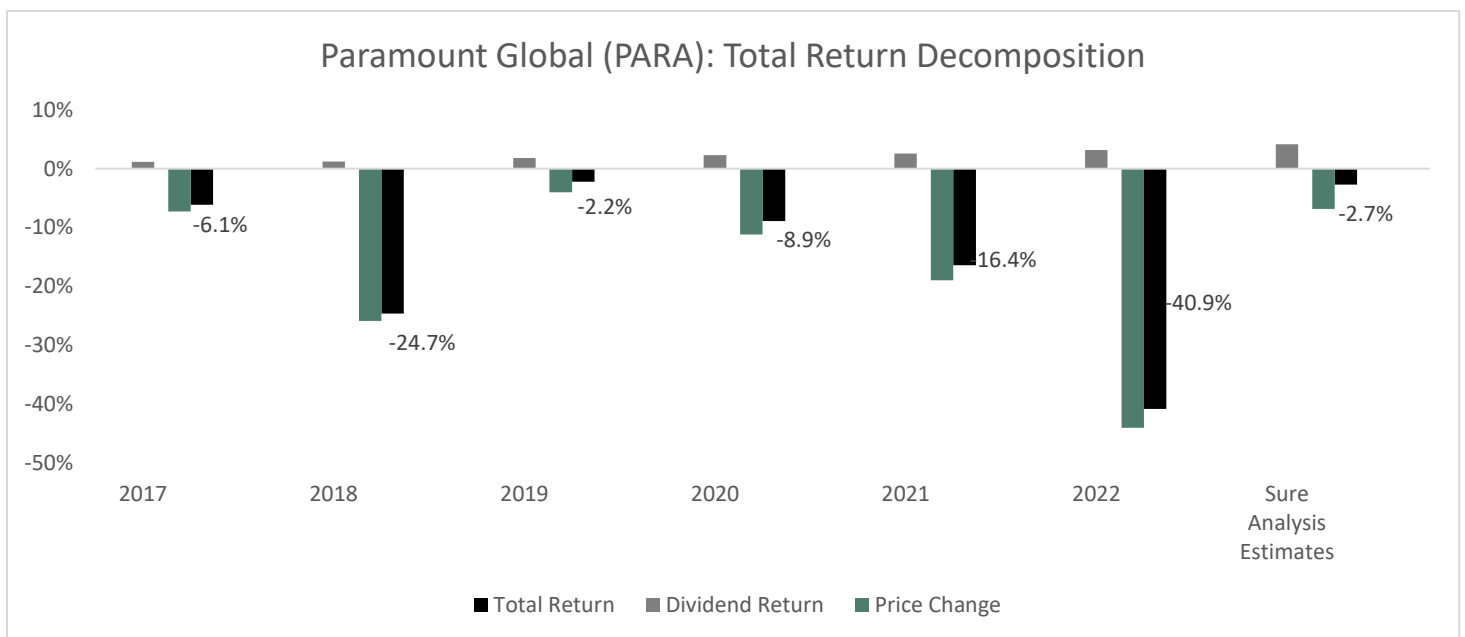
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	15.9%	18.2%	18.1%	16.1%	16.4%	12.3%	15.6%	22.9%	27.6%	56.1%	77%	70%

Paramount's competitive advantage is its valuable content, such as the ones mentioned in the Overview section, and being in a great position to be one of the largest producers of new content in the future. However, this company is not recession resilient as its services and products are a luxury. During the Great recession of 2008-2009, the company's share price lost 83.7% from peak to trough. The company also cut its dividend from \$1.06 per share to \$0.20 per share, an 81.1% dividend cut. Also, the current dividend payout ratio is high, at 77%, based on FY2023 earnings. Consensus estimates that free cash flow (FCF) for FY2023 will be negative, which gives a dividend payout over 100% based on FCF, which is at risk of a cut. The company currently has a debt-to-equity ratio (D/E) of 0.7, which is good. The company also sports a credit rating of BBB.

Final Thoughts & Recommendation

Paramount offers a modest projected total return. We forecast (2.7)% annualized returns for the next five years as the moderate growth and overvaluation make Paramount unattractive at current prices. Thus, we rate PARA as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	\$14,005	\$12,519	\$12,671	\$13,166	\$26,535	\$27,250	\$27,812	\$25,285	\$28,586	30154
Gross Profit	\$5,881	\$4,830	\$4,760	\$5,210	\$11,052	\$11,333	\$10,589	\$10,293	\$10,842	10309
Gross Margin	42%	39%	38%	40%	42%	42%	38%	40.7%	37.9%	34.2%
SG&A Exp.	\$2,546	\$1,971	\$1,961	\$2,265	\$5,508	\$5,206	\$5,647	\$5,389	\$6,441	7098
D&A Exp.	\$290	\$250	\$235	\$225	\$443	\$433	\$443	\$430	\$390	405
Op. Profit	\$3,045	\$2,609	\$2,703	\$2,729	\$5,101	\$5,694	\$4,499	\$4,688	\$4,011	2806
Op. Margin	22%	21%	21%	21%	19%	21%	16%	18.5%	14.0%	9.3%
Net Profit	\$1,879	\$2,959	\$1,413	\$1,261	\$2,321	\$3,455	\$3,308	\$2,422	\$4,543	1104
Net Margin	13%	24%	11%	10%	9%	13%	12%	9.6%	15.9%	3.7%
Free Cash Flow	\$1,661	\$1,097	\$1,223	\$1,489	\$2,083	\$3,112	\$877	\$1,970	\$599	-139
Income Tax	\$878	\$659	\$676	\$628	\$804	\$617	-\$9	\$535	\$646	227

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	\$26,387	\$23,935	\$23,765	\$24,238	\$20,843	\$44,497	\$49,519	\$52,663	\$58,620	58393
Cash & Equiv.	\$368	\$428	\$317	\$598	\$285	\$856	\$632	\$2,984	\$6,267	2885
Acc. Rec.	\$3,234	\$3,459	\$3,375	\$3,314	\$3,697	\$7,199	\$7,206	\$7,017	\$6,984	7412
Inventories	\$772	\$922	\$1,270	\$1,427	\$1,828	\$2,785	\$2,876	\$1,757	\$1,504	1342
Goodwill & Int.	\$12,458	\$12,706	\$7,428	\$7,497	\$7,557	\$19,469	\$19,973	\$19,438	\$19,356	19193
Total Liabilities	\$16,421	\$16,965	\$18,202	\$20,549	\$18,865	\$33,994	\$36,230	\$36,607	\$35,650	34787
Acc. Pay.	\$286	\$302	\$159	\$148	\$231	\$502	\$667	\$571	\$800	1403
Long-Term Debt	\$6,435	\$7,112	\$8,448	\$9,375	\$10,162	\$19,113	\$18,719	\$19,733	\$17,709	15846
Book Value	\$9,966	\$6,970	\$5,563	\$3,689	\$1,978	\$10,449	\$13,207	\$15,371	\$22,402	23036
LTD/E Ratio	0.65	1.02	1.52	2.54	5.14	1.83	1.42	1.28	0.79	0.69

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.1%	11.8%	5.9%	5.3%	10.3%	10.6%	7.0%	4.7%	8.2%	1.9%
Return on Equity	18.6%	34.9%	22.5%	27.3%	81.9%	55.6%	28.0%	17.0%	24.1%	4.9%
ROIC	11.6%	19.4%	10.1%	9.3%	18.4%	16.5%	10.7%	7.1%	11.9%	2.8%
Shares Out. (in millions)	624.0	561.0	489.0	448.0	647.0	621.0	617.0	618.0	655.0	650.0
Revenue/Share	\$22.44	\$22.32	\$25.91	\$29.39	\$41.01	\$43.88	\$45.08	\$40.91	\$43.64	46.4
FCF/Share	\$2.66	\$1.96	\$2.50	\$3.32	\$3.22	\$5.01	\$1.42	\$3.19	\$0.91	-0.2

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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