



# Paramount Global (PARA)

Updated November 18<sup>th</sup>, 2023 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$13	<b>5 Year CAGR Estimate:</b>	-10.0%	<b>Market Cap:</b>	\$8.5 B
<b>Fair Value Price:</b>	\$5.30	<b>5 Year Growth Estimate:</b>	2.0%	<b>Ex-Dividend Date:</b>	12/14/23
<b>% Fair Value:</b>	249%	<b>5 Year Valuation Multiple Estimate:</b>	-16.7%	<b>Dividend Payment Date:</b>	01/02/24
<b>Dividend Yield:</b>	1.5%	<b>5 Year Price Target</b>	\$6	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	F	<b>Rating:</b>	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 \$8.5 billion market capitalization company that generated more than \$30.2 billion in revenue for 2022. The company reported third-quarter results for Fiscal Year (FY)2023 on November 2<sup>nd</sup>, 2023. Paramount's Q3 2023 earnings report reveals substantial growth, with Paramount+ leading the way. The streaming service experienced a remarkable 61% increase in revenue, surpassing 63 million global subscribers. Additionally, global Average Revenue Per User (ARPU) expanded by 16%, and combined viewing hours on Paramount+ and Pluto TV grew by 46%. Paramount's Direct-to-Consumer (DTC) Adjusted Operating Income Before Depreciation and Amortization (OIBDA) improved by 31%, with the company projecting a peak in DTC losses in 2022.

The company's overall revenue for the quarter reached \$7.133 billion, marking a 3% increase. Paramount+ played a pivotal role in this growth, contributing to a 38% year-over-year rise in subscription revenue, totaling \$1.3 billion. Advertising revenue also saw an 18% increase, driven by the success of Paramount+ and Pluto TV. While TV Media revenue declined by 8%, Direct-to-Consumer revenue surged by an impressive 38%. Despite these gains, the company reported a net operating income of \$(855) million.

In terms of earnings per share, diluted EPS from continuing operations attributable to Paramount increased by 71% to \$0.36. However, the non-GAAP Adjusted OIBDA saw a 9% decrease, amounting to \$716 million, reflecting certain challenges. Adjusted diluted EPS from continuing operations attributable to Paramount also declined by 23%, reaching \$0.30. Paramount's Q3 2023 financials highlight notable successes in key areas, such as revenue, subscribers, and operating income, while also acknowledging challenges in specific segments.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$3.02	\$2.96	\$3.31	\$4.11	\$4.40	\$5.87	\$5.01	\$4.20	\$3.48	\$1.71	<b>\$0.53</b>	<b>\$0.59</b>
<b>DPS</b>	\$0.48	\$0.54	\$0.60	\$0.66	\$0.72	\$0.72	\$0.78	\$0.96	\$0.96	\$0.96	<b>\$0.39</b>	<b>\$0.39</b>
<b>Shares<sup>1</sup></b>	624.0	561.0	489.0	448.0	647.0	621.0	617.0	618.0	655.0	650.0	<b>650.0</b>	<b>650.0</b>

Over the last decade, Paramount had an earnings compound annual growth rate (CAGR) of (6.1)% and a (38.2)% 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.

<sup>1</sup> Share count is in millions.

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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 as the company cut its dividend by 79% in May 9<sup>th</sup>, 2023.

## 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	24.9	10.0
Avg. Yld.	0.8%	1.0%	1.3%	1.0%	1.2%	1.7%	1.9%	2.6%	3.2%	5.7%	1.5%	6.7%

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 8.8x. We will use a P/E of 10x, given current headwinds for our fair value estimate. This represents a (16.7)% downside as the current P/E of 24.9x based on the 2023 EPS estimate of \$0.53 per share.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

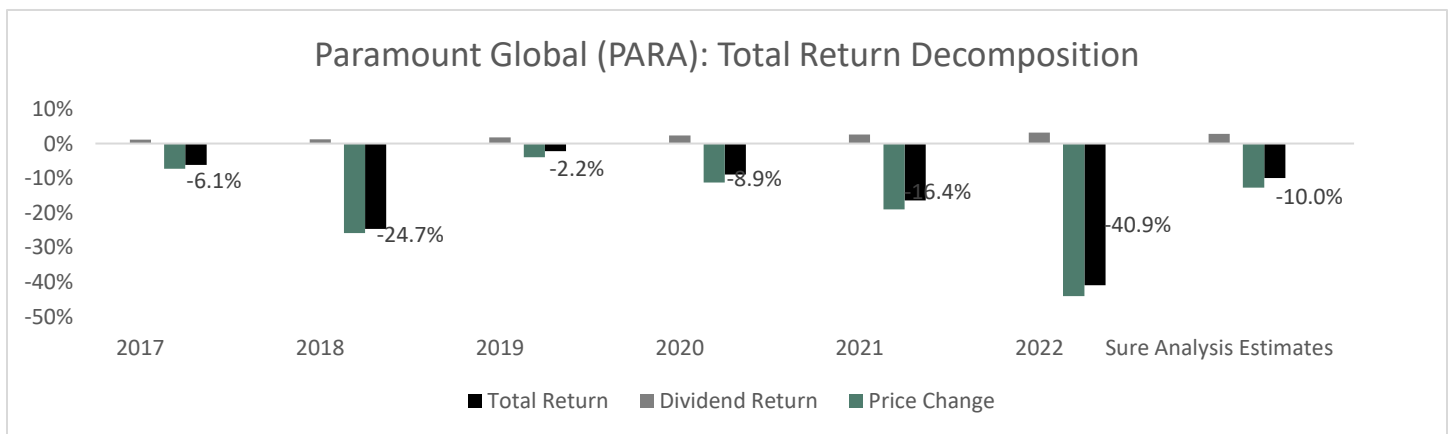
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	15.9%	18.2%	18.1%	16.1%	16.4%	12.3%	15.6%	22.9%	27.6%	56.1%	74%	67%

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 74%, 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 force the company to cut its dividend. The company currently has a debt-to-equity ratio (D/E) of 0.8, which is good. The company also sports a credit rating of BBB-.

## Final Thoughts & Recommendation

Paramount offers a negative projected total return. We forecast (10.0)% annualized negative 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
<b>Revenue</b>	\$14,005	\$12,519	\$12,671	\$13,166	\$26,535	\$27,250	\$27,812	\$25,285	\$28,586	30154
<b>Gross Profit</b>	\$5,881	\$4,830	\$4,760	\$5,210	\$11,052	\$11,333	\$10,589	\$10,293	\$10,842	10309
<b>Gross Margin</b>	42%	39%	38%	40%	42%	42%	38%	40.7%	37.9%	34.2%
<b>SG&amp;A Exp.</b>	\$2,546	\$1,971	\$1,961	\$2,265	\$5,508	\$5,206	\$5,647	\$5,389	\$6,441	7098
<b>D&amp;A Exp.</b>	\$290	\$250	\$235	\$225	\$443	\$433	\$443	\$430	\$390	405
<b>Op. Profit</b>	\$3,045	\$2,609	\$2,703	\$2,729	\$5,101	\$5,694	\$4,499	\$4,688	\$4,011	2806
<b>Op. Margin</b>	22%	21%	21%	21%	19%	21%	16%	18.5%	14.0%	9.3%
<b>Net Profit</b>	\$1,879	\$2,959	\$1,413	\$1,261	\$2,321	\$3,455	\$3,308	\$2,422	\$4,543	1104
<b>Net Margin</b>	13%	24%	11%	10%	9%	13%	12%	9.6%	15.9%	3.7%
<b>Free Cash Flow</b>	\$1,661	\$1,097	\$1,223	\$1,489	\$2,083	\$3,112	\$877	\$1,970	\$599	-139
<b>Income Tax</b>	\$878	\$659	\$676	\$628	\$804	\$617	-\$9	\$535	\$646	227

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	\$26,387	\$23,935	\$23,765	\$24,238	\$20,843	\$44,497	\$49,519	\$52,663	\$58,620	58393
<b>Cash &amp; Equiv.</b>	\$368	\$428	\$317	\$598	\$285	\$856	\$632	\$2,984	\$6,267	2885
<b>Acc. Rec.</b>	\$3,234	\$3,459	\$3,375	\$3,314	\$3,697	\$7,199	\$7,206	\$7,017	\$6,984	7412
<b>Inventories</b>	\$772	\$922	\$1,270	\$1,427	\$1,828	\$2,785	\$2,876	\$1,757	\$1,504	1342
<b>Goodwill &amp; Int.</b>	\$12,458	\$12,706	\$7,428	\$7,497	\$7,557	\$19,469	\$19,973	\$19,438	\$19,356	19193
<b>Total Liabilities</b>	\$16,421	\$16,965	\$18,202	\$20,549	\$18,865	\$33,994	\$36,230	\$36,607	\$35,650	34787
<b>Acc. Pay.</b>	\$286	\$302	\$159	\$148	\$231	\$502	\$667	\$571	\$800	1403
<b>Long-Term Debt</b>	\$6,435	\$7,112	\$8,448	\$9,375	\$10,162	\$19,113	\$18,719	\$19,733	\$17,709	15846
<b>Book Value</b>	\$9,966	\$6,970	\$5,563	\$3,689	\$1,978	\$10,449	\$13,207	\$15,371	\$22,402	23036
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	7.1%	11.8%	5.9%	5.3%	10.3%	10.6%	7.0%	4.7%	8.2%	1.9%
<b>Return on Equity</b>	18.6%	34.9%	22.5%	27.3%	81.9%	55.6%	28.0%	17.0%	24.1%	4.9%
<b>ROIC</b>	11.6%	19.4%	10.1%	9.3%	18.4%	16.5%	10.7%	7.1%	11.9%	2.8%
<b>Shares Out. (in millions)</b>	624.0	561.0	489.0	448.0	647.0	621.0	617.0	618.0	655.0	650.0
<b>Revenue/Share</b>	\$22.44	\$22.32	\$25.91	\$29.39	\$41.01	\$43.88	\$45.08	\$40.91	\$43.64	46.4
<b>FCF/Share</b>	\$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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