Paramount Global (PARA)

Updated May 27th, 2024 by Felix Martinez

Key Metrics

Current Price:	$12	**5 Year CAGR Estimate:**	4.4%	**Market Cap:**	$8.3 B
Fair Value Price:	$12.50	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	06/17/24
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.9%	**Dividend Payment Date:**	07/01/24
Dividend Yield:	1.7%	**5 Year Price Target**	$14	**Years Of Dividend Growth:**	0
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 $8.3 billion market capitalization company that generated more than $29.6 billion in revenue for 2023.

The company reported first-quarter results for Fiscal Year (FY)2024 on February 28th, 2024. Paramount's Q1 2024 earnings report highlights significant growth and improvement across several key metrics. Paramount+ achieved a remarkable 51% year-over-year increase in revenue, reaching over 71 million global subscribers. Additionally, the direct-to-consumer segment saw its adjusted OIBDA improve year-over-year for the fourth consecutive quarter. Overall, total advertising revenue rose by 17%, contributing to a 6% increase in the company's total revenue.

Financial performance also showed substantial gains, with the company generating $260 million in net operating cash flow and $209 million in free cash flow during the first quarter. Paramount reported an operating loss of $417 million, a significant improvement from the $1.226 billion loss in the same quarter last year. Diluted EPS from continuing operations improved by 51%, from a loss of $1.81 to a loss of $0.88.

In the detailed financial breakdown, revenue from TV Media rose slightly by 1% to $5.231 billion, while the direct-to-consumer segment saw a 24% increase to $1.879 billion. Filmed Entertainment revenue increased by 3% to $605 million. Notably, adjusted OIBDA surged by 80% to $987 million, and adjusted diluted EPS from continuing operations jumped by 589% to $0.62. Simon & Schuster, sold in October 2023, is reported as a discontinued operation in the financial statements.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.96	$3.31	$4.11	$4.40	$5.87	$5.01	$4.20	$3.48	$1.71	$0.52	***$1.25***	***$1.38***
DPS	$0.54	$0.60	$0.66	$0.72	$0.72	$0.78	$0.96	$0.96	$0.96	$0.39	***$0.20***	***$0.20***
Shares[1]	561.0	489.0	448.0	647.0	621.0	617.0	618.0	655.0	650.0	652.0	***652.0***	***652.0***

Over the last decade, Paramount had an earnings compound annual growth rate (CAGR) of (17.6)% and a (24.2)% 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.

The net Margin decreased for FY2023 to -2.05%, compared to an FY2022 net margin of 3.7%. 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

[1] Share count is in millions.

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not expect the company to start growing its dividend over the next five years as the company cut its dividend by 81.1% in May 9th, 2023.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.7	14.2	15.5	13.4	8.4	8.4	8.9	8.7	9.8	28.1	***9.6***	***10.0***
Avg. Yld.	1.0%	1.3%	1.0%	1.2%	1.7%	1.9%	2.6%	3.2%	5.7%	2.6%	***1.7%***	***1.4%***

Over the past decade, Paramount shares have traded with an average P/E of 13.4. However, over the past five years, it has averaged a P/E of 12.8x. We will use a P/E of 10x, given current headwinds for our fair value estimate. This represents a 0.9% upside as the current P/E of 9.6x based on the 2024 EPS estimate of $1.25 per share.

Safety, Quality, Competitive Advantage, & Recession Resiliency

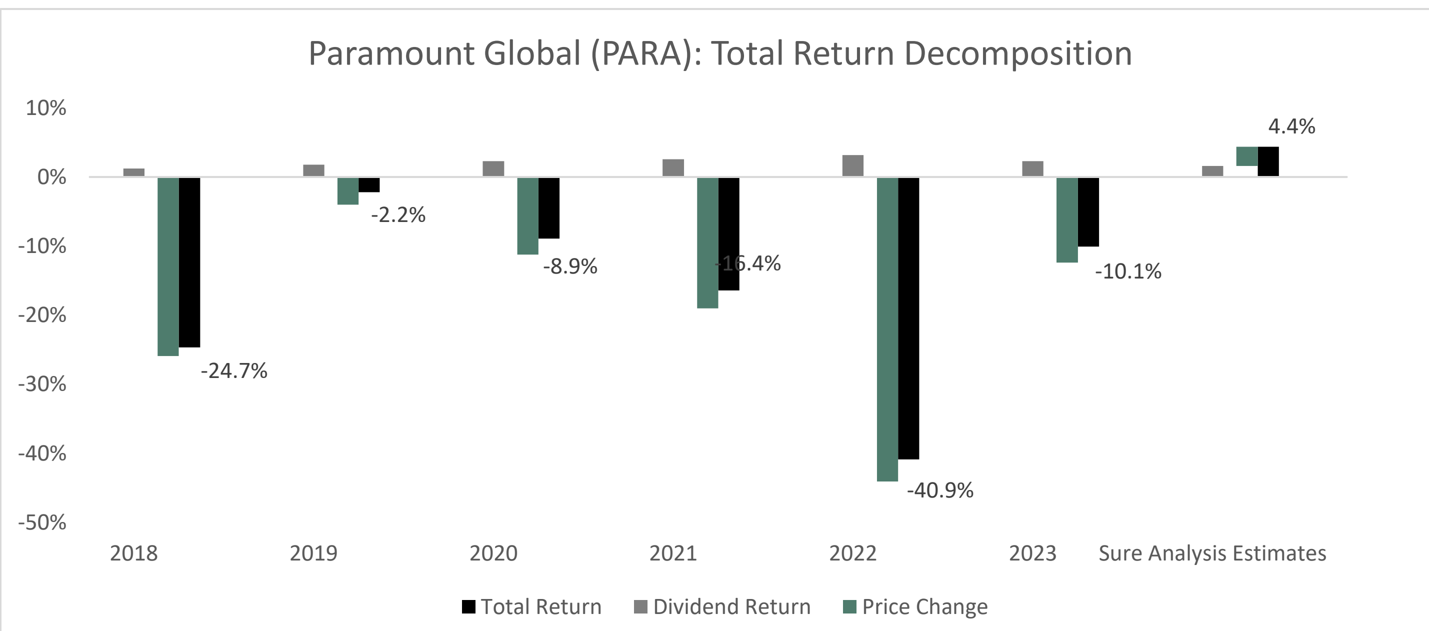
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2023	2029
Payout	18.2%	18.1%	16.1%	16.4%	12.3%	15.6%	22.9%	27.6%	56.1%	75.0%	***16%***	***14%***

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 low, at 16%, based on FY2024 earnings. 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 low projected total return. We forecast 4.4% annualized return for the next five years as the moderate growth and overvaluation make Paramount unattractive at current prices. Thus, we rate PARA as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	$12,519	$12,671	$13,166	$26,535	$27,250	$27,812	$25,285	$28,586	30154	29650
Gross Profit	$4,830	$4,760	$5,210	$11,052	$11,333	$10,589	$10,293	$10,842	10309	7264
Gross Margin	39%	38%	40%	42%	42%	38%	40.7%	37.9%	34.2%	24.5%
SG&A Exp.	$1,971	$1,961	$2,265	$5,508	$5,206	$5,647	$5,389	$6,441	7098	7398
D&A Exp.	$250	$235	$225	$443	$433	$443	$430	$390	405	418
Op. Profit	$2,609	$2,703	$2,729	$5,101	$5,694	$4,499	$4,688	$4,011	2806	-552
Op. Margin	21%	21%	21%	19%	21%	16%	18.5%	14.0%	9.3%	-1.9%
Net Profit	$2,959	$1,413	$1,261	$2,321	$3,455	$3,308	$2,422	$4,543	1104	-608
Net Margin	24%	11%	10%	9%	13%	12%	9.6%	15.9%	3.7%	-2.1%
Free Cash Flow	$1,097	$1,223	$1,489	$2,083	$3,112	$877	$1,970	$599	-139	147
Income Tax	$659	$676	$628	$804	$617	-$9	$535	$646	227	-361

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	$23,935	$23,765	$24,238	$20,843	$44,497	$49,519	$52,663	$58,620	58393	53540
Cash & Equiv.	$428	$317	$598	$285	$856	$632	$2,984	$6,267	2885	2460
Acc. Rec.	$3,459	$3,375	$3,314	$3,697	$7,199	$7,206	$7,017	$6,984	7412	7115
Inventories	$922	$1,270	$1,427	$1,828	$2,785	$2,876	$1,757	$1,504	1342	1414
Goodwill & Int.	$12,706	$7,428	$7,497	$7,557	$19,469	$19,973	$19,438	$19,356	19193	19100
Total Liabilities	$16,965	$18,202	$20,549	$18,865	$33,994	$36,230	$36,607	$35,650	34787	30490
Acc. Pay.	$302	$159	$148	$231	$502	$667	$571	$800	1403	1100
Long-Term Debt	$7,112	$8,448	$9,375	$10,162	$19,113	$18,719	$19,733	$17,709	15846	14600
Book Value	$6,970	$5,563	$3,689	$1,978	$10,449	$13,207	$15,371	$22,402	23036	22530
LTD/E Ratio	1.02	1.52	2.54	5.14	1.83	1.42	1.28	0.79	0.69	0.65

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	11.8%	5.9%	5.3%	10.3%	10.6%	7.0%	4.7%	8.2%	1.9%	-1.1%
Return on Equity	34.9%	22.5%	27.3%	81.9%	55.6%	28.0%	17.0%	24.1%	4.9%	-2.6%
ROIC	19.4%	10.1%	9.3%	18.4%	16.5%	10.7%	7.1%	11.9%	2.8%	-1.6%
Shares Out. (in millions)	561.0	489.0	448.0	647.0	621.0	617.0	618.0	655.0	650.0	652.0
Revenue/Share	$22.32	$25.91	$29.39	$41.01	$43.88	$45.08	$40.91	$43.64	46.4	45.5
FCF/Share	$1.96	$2.50	$3.32	$3.22	$5.01	$1.42	$3.19	$0.91	-0.2	0.23

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