

Paramount Skydance Corporation

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Company Conference Presentation

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Call Participants

EXECUTIVES

Dennis K. Cinelli
Chief Financial Officer

ANALYSTS

Robert S. Fishman
MoffettNathanson LLC

Robert S. Fishman
MoffettNathanson LLC

All right. Thank you, everyone, for being here again. I hope everyone enjoyed lunch. So we are very excited to have Dennis Cinelli, CFO of Paramount Skydance here. Dennis, thank you so much for being here.

Dennis K. Cinelli
Chief Financial Officer

Thank you for having me.

Robert S. Fishman
MoffettNathanson LLC

Making your Investor Conference debut. We are excited to host you for that.

Robert S. Fishman
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All right. Thank you, everyone, for being here again. I hope everyone enjoyed lunch. So we are very excited to have Dennis Cinelli, CFO of Paramount Skydance here. Dennis, thank you so much for being here.

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So before we jump into Paramount Skydance, can you tell us about how you experience? It's a nice wide-ranging experience that you have Ventures, Uber and then Scale AI. How did that help position you for the CFO role at Paramount Skydance. And maybe what attracted you to the role after you did join the Paramount Board back in September?

Dennis K. Cinelli
Chief Financial Officer

Yes. So it's been a journey. So let's see, I grew up in New Jersey. So not too far from here in University of Maryland. I thought I'd be more of an entrepreneur. I started a small business I studied finance and entrepreneurship at University of Maryland. And so I joined GE out of college, thinking I'd be there for a few years and end up spending 11 years, 13 cities -- I was at GE for 11 years, 13 cities, 7 or 8 businesses, everything from locomotives and power equipment to -- I did a brief stint actually at NBCUniversal, which is my first education in the media business. I helped lead a team when we sold NBC to Comcast.

I then went on and did -- I was at lighting, I was at health care. And my last -- I knew I wanted to get to tech. And so my last job at GE was kind of my bridge in the Silicon Valley. I was the CFO for GE Ventures. And then from there, I got lucky, it was the middle of 2016. I joined Uber in 2016 when Uber was primarily a rides business. And Travis Kalanick was still the CEO, and we're on a journey. I spent 6 years at Uber. I went on to take on all the finance teams over the first 4 years or so. I was in that seat and we took the company public in 2019 as we went through the crazy ridesharing award days.

We burned \$20 billion during my time at Uber. So let's come back to sort of like operational efficiency and analytical rigor. And then I got a chance in my career to step out of finance and be more of an operational GM. So I ran the U.S. and Canada rides business as the GM, which was an interesting time coming out of COVID. And then I also ran the jump in bike and scooter business.

And in the middle of 2022, I kind of followed with which is a very sort of cliché business track in Silicon Valley, which is at some point, go earlier stage. And so I joined a company called Scale AI, and this was pre-ChatGPT. This was in the middle of 2022, Scale AI was a very different company than it is today. And really, over the last 3.5, 4 years, got to see the AI evolution from a front row seat, right? ChatGPT launched in November, December of 2022. Scale AI revenue went vertical at a smaller scale, but like NVIDIA. And our largest customers were all the model builders, OpenAI, Anthropic, Google, et cetera.

And it really got -- and then I played a broad role. I was able to run finance and parts of operations and data science analytics. And it really sort of helped me sort of stay both at an operationally complex companies, but also at the front edge of technology. And so I did have an opportunity to join the Board of Paramount in September. And I thought this would be like a quarterly board gig. We meet quarterly.

And then when David Ellison called me to join, he's like, well, at your first Board meeting, we're going to annit you and then we're going to start bidding on Warner Bros. And it went from a quarterly board gig to nearly daily. And long story short, I'm excited to be here. And the reason why I think -- it's hard to talk about yourself a lot. But the reason why I think I'm uniquely positioned in the state of this company is I have this experience, having spent a lot of time at GE in operationally complex large organizations, right, and sort of getting my teeth in finance at those places where we'd run around chasing pennies at the quarter end, but spent really the bulk of my career in technology, right, and sort of bringing technology in to transform businesses, whether that was growing Uber or scale.

And now we're really excited about what we can do here at Paramount...

Robert S. Fishman
MoffettNathanson LLC

Awesome. All right. So that's a great setup in terms of where we're going to be going with all this. So you guys just obviously gave us your first quarter earnings update. So maybe just taking a step back, there's the 3 North Stars priorities that you guys have laid out for Paramount. Talk to us about your confidence level of achieving these priorities. And we understand it's early days, obviously, to your point. But how you feel about what the path ahead is on executing upon them?

Dennis K. Cinelli
Chief Financial Officer

Yes. We really feel like Q1 was about building momentum, building momentum as Paramount Skydance, but also building momentum into what we want to when we combine with Warner Bros. Discovery. So our priorities for the business were accelerate our content engine, scale streaming and do it efficiently. And we really feel like Q1 goes to show you we did those things, right?

So number one, we've seen the content engine start to scale. We've talked about how at Paramount, last year, we released 8 films. This year, we're on track for 15 films. *Scream 7* came out in the first quarter, exceeded our expectations, \$200 million of worldwide box office. We're going to produce over 100 titles this year across both internal and external consumption.

We -- on the streaming business, Paramount+ grew 17% year-on-year. Growth is accelerating as we both realize the benefits from a lot of the content investment we're making. So this is UFC, a lot of the new shows. *Landman* was the #1 show on Paramount+. We've seen great pickup on *Marshall's*, which is both CBS and on Paramount+. And we're doing the things around in Paramount+ on monetization.

We're starting to see our digital ads investment come through and seeing growth in digital, and we expect that to accelerate. And on TV Media, which is our broadcast and linear business, we said, hey, we would manage the structural declines in that business by driving stable to improving margins. And in Q1, revenue was down 6% in that segment, and we drove up 5 points of margin year-on-year.

And so we feel like we're building momentum going into the deal. We talked a lot about the synergies on stand-alone Skydance, which is when we announced the deal, we said we'd do \$2 billion in synergies. We now said we get to through \$2.5 billion this year and exceed overall \$3 billion as our stand-alone Paramount Skydance merger, let alone what we're going to do combined.

And so we just feel like Q1 was a good momentum driver, right? And we have -- and we have reaffirmed our guidance. So still early in the year, but feeling good about where we're going to perform. And then on the deal side, right, we continue to build momentum towards close. We expect to close the deal in Q3, and we announced some milestones along the way.

We have the shareholder vote in April where the Warner Bros. Discovery shareholders approved the deal. We've announced a portion of the equity has been syndicated to strategic investors. And we've also made progress along in our debt financing, where we put in place \$10 billion of permanent capital, and we've syndicated out the rest of the bridge to about 18 banks.

And we've talked about going forward, as we go to place that debt, the mix we're going to have. So we're going to have a mix of investment-grade debt as well as high yield. And so overall, we feel good about the momentum we have going into Paramount guidance and what we've laid out to execute and then feel good about closing the deal and starting to execute on that as well.

Robert S. Fishman
MoffettNathanson LLC

Okay. So clearly, there's lots going on at the company right now. Let's try to talk about the Warner Bros. deal as much as possible. I understand there's limitations in terms of how much you can share given the pending deal. But help us understand, and you've started to allude to it, how much Warner Bros. Discovery can really help accelerate some of these priorities and especially what we focus on is the global streaming scale, but even in terms of all of the linear assets that you bought as well.

Dennis K. Cinelli
Chief Financial Officer

Yes. We've always talked about M&A, and obviously, this is big M&A as an accelerant to our strategy. And we really feel like it does just that, right? Overall, this deal creates a more competitive offering for the consumer, for creators. We also think it's very good for the market. But you have to sort of take the pieces of the deal.

So the first, right, we combined with Warner Bros. Discovery, 200 years of right? The core of this company is storytelling and creative. And you're talking about a company that will combine the Harry Potter and Game of Thrones, the Landman universe, the rest of the Taylor Sheridan universe. We just read the Dutton Ranch Premiere last night. It's going to be amazing new launch in Paramount+ on Friday.

You're talking about in Kids & Family, Nickelodeon and PAW Patrol with Looney Tunes. So we just feel we're really excited about the compelling IP and portfolio we combine together and it's very complementary as well as what we're going to drive.

Number two, we get to scale in streaming immediately, right? You're talking about a company that has about 200 million subs immediately, and then we can continue to scale and grow from there. We'll talk about that. And then a global reach linear portfolio that we've taken a clear eye view on what that portfolio will do, and we can talk about that.

But you're talking about you bring together CBS, CNN, the cable nets around Discovery, TNT, TBS, Food Network, HGTV Network, right, and the ability to leverage those profits to reinvest in our North Star priorities to really grow the studios and streaming business.

And so when we put this together, we feel like we get to a very scaled business very quickly. It accelerates our North Star priorities. And we're going to do this by marrying -- we talked about a next-generation media company by marrying art and technology. And you see this expression from our leadership team, right? You have an amazing executives that have storied careers in Hollywood, coupled with those of us from -- coming from Silicon Valley, our Chief Product Officer and the people he's bringing in, I've spent a lot of time there, our Chief Product Officer.

And so you really get this combination of art and technology that I don't think the market has really seen, and we're really excited about what they can deliver, and we'll talk about what that can deliver financially since the CFO and the finance guys, we'll get through it.

Robert S. Fishman
MoffettNathanson LLC

Okay. We will get there. Another part of large media M&A that I think many in this room are very familiar with is where the expected revenues and cost synergies are promised and then fail to come to fruition. So talk to us from the CFO's perspective, how you approach the deal math and why this time will be different?

Dennis K. Cinelli
Chief Financial Officer

Yes. So we are clear. This is a big undertaking, right? But we're -- we've been planning for it. So I think number one, just sort of the culture around this is very different than prior mergers. You're talking about a company that's owner-operator led. -- right? The CEO is the largest shareholder in the company that permeates and the leadership team is incentivized suit. It's very much like the mindset in Silicon Valley, right, where everyone is an owner in that company.

And so that is a different lens than prior media mergers, but it's not the only thing. As we think about this, the way we've done this is, given that lens, we also have thought about the model conservatively. What we put out in terms of our financial guidance, and I want to walk through the pieces is what we believe is a conservative model that recognizes the challenges ahead in the business as well as the opportunity.

So if you think about the business, right, so what we've said is on the revenue side, we can drive growth in the business mid-single digits. We do that through a couple of ways. Number one is through streaming, right? You combine the scaled streaming platform. We'll talk about unifying the platform under one service. You get all the benefits of that in terms of like technology and the compelling content portfolio, and that will really drive growth over time.

That will also be complemented by our studio business. So on studios, we're marrying Warner Bros. film and TV studios with Paramount. Warner Bros., we're assuming that effectively they continue on their trajectory. But a lot of what growth is driven in the Studio segment is us completing the rebuild on the Paramount side that we've been on, right, moving from 8 films last year to 15, executing on our TV studio strategy, which was really the Skydance team coming in and what their strategy was. And so when you combine on the Studios business, this is 30 theatrical films a year. That 30 theatrical films is very complementary. If you think about it, 30 films a year means every 11 days, we're landing a new film on the streaming platform and the benefits there and as well as continue to ramp our TV slate.

So the growth engines will be definitely streaming and studio. And then we've taken a clear-eyed view on the revenue decline for linear. We are not assuming any revenue synergies even though there could be some as we put these portfolios together. But we are assuming that the structural decline in the pay TV sub universe will continue. But that being said, we can still use these highly profitable assets as a cash flow generation to fund and reinvest in the business.

And so that's on the revenue side. And then on the synergy side, you're talking about -- we talked about the \$6 billion-plus number. So \$6 billion to put into context, it's about 11% of the combined company cost structure. So on a pro forma basis, when you put Warner Bros. and Paramount together, it's about a \$50 billion-plus cost base. So \$6 billion is, we think, a very approachable and achievable number that will fall through the bottom line, and this is net of our reinvestments because you're putting 2 complementary businesses together and you can really drive efficiency.

You think about marketing spend, right? Today, we have 2 teams marketing to similar audiences in some ways, right? We can reduce that efficiency. I realize that efficiency. You're talking about a technology stack that has many different systems that we can streamline, right? And today's AI tools like to get that even faster. And then you're talking about corporate functions and procurement efficiencies that you can really drive across the organization.

And so we put the business together, we really see why it's different is because you can drive growth, we can execute on the synergies. We're going to do that. We're ramping up our integration efforts. And the result is you have a business that even if we just get to peer level margins,

this is mid-20% EBITDA margins, generating -- excuse me, \$10 billion of free cash flow by 2030, which allows us to both reinvest in the business and continue to pay down the debt.

Robert S. Fishman
MoffettNathanson LLC

Okay. So you talked a lot about reinvesting as part of that answer. So we've gotten a lot of questions and our focus, too, is how the combined company or even stand-alone Paramount Skydance today balances the content spending increases and that reinvestment that you're talking about with the elevated debt levels, again, pre or post deal.

So help us think about the sustainability of the current content spending as stand-alone PSKI. And anything you can comment on the combined very significant \$30-plus billion of combined content spending as part of the pro forma deal?

Dennis K. Cinelli
Chief Financial Officer

Yes. So I think it's helpful on content. We view content IP, our storytelling as our growth driver. And so my job is to make sure we deliver -- we spend that content money to deliver the most -- the best long-term value, but it truly is the lifeblood of this business, right? It truly is what will drive growth.

I have a saying, which is I think the best companies walk and chew gum. The best companies grow and make money. So this deal is not just about cutting for the sake of cutting. It is about we need to grow and we need to make money, and we're going to balance both those things.

And so the content budget we have, to your point, is \$30-plus billion pro forma. For example, Netflix has announced about \$20 billion in cash content spend. Disney is at \$24 billion. We think it's a healthy number to help us continue to grow. And in our model, we expect content spend to continue to increase and continue to grow as we realize the benefit of that, right? That's a growth driver for us.

But you're right, like there are ways for us to continue to be efficient. And you have to kind of piece out the content spend, right? In our Studios business, content is both an internal deliveries as well as external deliveries. And so part of that content spend is truly driving third-party deliveries and growth and profitability.

In the streaming business, we'll have opportunities for us to sort of look at that portfolio and make sure it's the most efficient portfolio. I mean we use a lot of analytics around this to think about what drives the most subs growth, user growth and engagement over time, and we can optimize that portfolio.

And on the linear side of the business in broadcast, we have our strong sports portfolio. But we also have the ability, and this is the playbook we had we have at Paramount is to leverage our library and leverage our broadcast studio capability to really drive efficient content and high-quality content in the cable nets, but doing that at the right level.

So overall, we kind of view as we have the tools with the pro forma company to make sure we are growing content and growing the business, doing that efficiently while also hitting our financial...

Robert S. Fishman
MoffettNathanson LLC

Okay. You talked about sports. So I need to go there. Understanding that there might be only a limited amount that you can say on the NFL potential negotiations. But anything you can share with us just in terms of how you see this playing out? Clearly, adding an extra late season prime time game to the lineup should be viewed positively.

But maybe just talk to us about the relationship with the NFL, the potential negotiation and maybe more broadly, how you see that fitting in within your overall sports portfolio?

Dennis K. Cinelli
Chief Financial Officer

I get asked this question a lot.

Robert S. Fishman
MoffettNathanson LLC

Yes, I think so.

Dennis K. Cinelli
Chief Financial Officer

And mostly, I can say what we've said externally already, which is we have a great partnership with the NFL to put it into context, right? So last season on CBS was the most successful broadcast season in NFL history for us. Viewership continues to grow. And so CBS and the Paramount ecosystem, including Paramount+, are a broad reach engine to drive fandom for the NFL.

So there's a lot of value for them as well as us. We expect to be in business with the NFL for a long period of time. I also think they-- I can't really speak for them, but I hope and I assume that they're the same, just given the value we're driving. I have a relationship. There's a lot of active dialogue around this.

We're planning now for the next season, right? That schedule is already coming out. So we're moving forward. So that's hopefully a good signal for everyone like this relationship continues to remain healthy and active. And we'll have more to say if there's more to say on the NFL.

But I would also take the point of -- we have a broad sports portfolio, both at Paramount and as well as what we get when we combine with Paramount and Warner Bros., right? So just in Paramount, we made a big investment in UFC. This is performing really well on Paramount+, 10 million viewers, 100 million cumulative hours. These are users that are coming in and engaging in more content. They're generally younger viewers.

The UFC is also helpful because it's a year-round sport. We have fights continuously. So it drives that engagement you want, whereas other sports are more seasonal. We complement that with UEFA and the Champions League.

And then as you think about what we get when we merge with Warner Bros., -- we have NASCAR. We have the TNT Sports. We have Olympics in Europe. We have MLB. So we just feel really good about sports being a compelling offering in the company -- for the combined company. And so we think sports will be a key driver, not just the NFL, but the overall portfolio.

Robert S. Fishman
MoffettNathanson LLC

Okay. I imagine sports is also going to play a big part in the combined streaming offering, too. So let's go to streaming for a second. When we think about -- and we talked about it at the beginning already, but the combined scale that you will get with putting these 2 services together, how do you think about the future of the streaming business, both in the U.S. and I'd say maybe even more importantly, as we think about global scale, which is, I think, the defined priority, thinking about the international growth of putting those 2 services together.

Dennis K. Cinelli
Chief Financial Officer

Yes. So as we talked about, when we combine these 2 services, and we've talked about that we want to unify the service, and I think we'll get into technology. But you have just this amazing compelling offering, we're putting 2 premium content portfolios together, right, the HBO content portfolio, the Paramount+ content portfolio. So it's really premium lined up in terms of general entertainment. And we think one of the most compelling general entertainment portfolios out there.

Then you couple that with the broad new -- sorry, sports portfolio that we talked about, right, and news when you have CBS News and CNN. So we just view the capability, the content portfolio and the IP portfolio as one of the most compelling in the market.

You couple that with what we're going to do on tech. We talked a little bit about like tech and art coming together. And so as we realize the benefits of converging our platform, unifying the service, you start to get the benefits of user growth, retention, engagement and we start going through that.

So ultimately, the streaming platform comes together, and we view it as 2 engines. The way we see it is the streaming business will power the growth of the business in the future, and we can do that profitably. And we'll do that through a mix of continuing in the domestic, to your point, and there is tremendous growth internationally.

And as we think about international, you're seeing us really make sure we can leverage both the global portfolio of content we have, sports being a good one, all the premium content also is really interesting, like the CBS procedurals are really good in international markets. But we'll add in local where needed, right? One of the reasons why we really feel good about the competitive nature of the deal is we're going to be another local buyer in these markets for creators. And they're really excited about that.

And so we can complement that. And then we have sports rights. UFC and Latin America is performing really well. In Europe, we'll have the Olympics and the Champions League that really drive acquisition and growth for the overall stream business.

And so I think we feel like as you put that portfolio together, it's a compelling portfolio and a really big growth driver for us...

Robert S. Fishman
MoffettNathanson LLC

Okay. Maybe as a follow-up to what you alluded to, anything you can share about how quickly we should expect? I think there's a big question on timing around this as you think about bringing these different services together and maybe any financial expectations that you can share around that, too, would be helpful.

Dennis K. Cinelli
Chief Financial Officer

Sure. So it's helpful context on what we've been doing at Paramount to instruct what you might be able to infer as we execute the platform convergence in the combined company. So if you remember, Paramount had 3 different tech stacks Paramount+, BET+, Pluto, running not just a separate tech stack but siloed.

So we've been on a journey, and we'll complete that journey this summer, where we're converging all of those services into one service, one tech stack underlying tech stack, and we'll be able to launch -- relaunch Pluto in the summer under that new tech stack.

And what does that give you, right? It's the benefits of what you get at tech companies, right? You have the ability to put all your users, all your data into one container into one box and be able to deliver a better end-user experience, more features in the app, better search, better recommendation, better discovery.

At the same time, you're able to drive efficiencies in how you operate the technical operations. So given the learnings from the conversions in Paramount, as we think about unifying the back end between Paramount and Warner Bros., we do think we can do it faster -- and our expectation is we can do it in half the time.

And that's not -- I think a lot of people -- I get a lot of questions around what the brand is going to be and what the name of the service is going to be.

Robert S. Fishman
MoffettNathanson LLC

I can make an announcement here.

Dennis K. Cinelli
Chief Financial Officer

That's not -- I can tell you that we have an amazing marketing team that's studying that and make sure we honor the legacy of both studios when it comes out. But the real -- what I'm really concerned about is the substance behind it, right? Like what do you have in terms of the substance of the content portfolio? And then how do you think about the experience and the ability for us to get the leverage of monetization up.

And so that's what we're talking about, which is when you merge the platforms together, you get all the user, all the data in one spot. It allows you now at scale, right? And so this is where I think we have -- we want to continue to articulate the value of scale. When you have that scale, you have more data, more users, more content, all your levers get better, right? Our growth engine gets better to acquire new users. Our engagement levers get better. Our retention levers get better, right? They feed on themselves. And so that's what we're really excited about as we put them together.

And given the learnings we have, given the tech team investment we have, we really feel like we can do that very quickly combined.

Robert S. Fishman
MoffettNathanson LLC

That's very helpful. But when thinking about pricing as part of this monetization lever, Paramount+ just put through a price increase, I believe, in January. So if you can talk about how that's performing, I think you've mentioned some initial data points, at least on the earnings call.

But when thinking about the lessons learned from that, maybe help us think how that gets applied when thinking about putting these services together as well.

Dennis K. Cinelli
Chief Financial Officer

Yes. It's a great example of our owner-operator mentality coming through thinking long term. So we made -- we came in, I've been here 3 months, the rest of the leadership team, 9 months, 9 months into this journey. We came in and recognized we needed to invest in the content on the platform. So we've been greenlighting -- we greenlight 20 TV shows since we've been here. We made investment in key sports content with UFC.

And so we realized there's the ability when you deliver value to a consumer, you can monetize that. And one of the ways we monetize that is through the price adjustment we announced in January. And as I talked about on the earnings call, it's performing at expectations, right? You naturally saw a little bit of a churn increase when you announce it and execute it, and we've seen that moderate, and we're delivering the value through in terms of revenue. ARPU was up 14% in Q1.

So that is sort of a microcosm of how we think about long-term value pricing, bundling for the service going forward. We first start with do we have a good compelling offering. We talked about the IP and the storytelling and what we can deliver. Do we have a good user experience.

And then over time, we will be open to, and this is the Silicon Valley mindset of experimenting and iterating on what's the best way to price and bundle it, irrespective of the brand conversation, but like how you monetize it over time.

And I think it's worth also noting and sometimes I find in this market, everyone really thinks about subscriptions and price, and that's your revenue driver. But what we are about is not -- that's not the only lever, right? We're investing in Pluto, which is an ad-supported model, right? And that's a lever. We have an ad tier in Paramount+. We have launched new features. We have Eclipse, which is early days.

And so our goal is to drive more monetization levers, right? It's not just subs and sub revenue. It is about really using the leverage of the art technology to make sure we monetize different levers over time.

Robert S. Fishman
MoffettNathanson LLC

So you've alluded to this through a lot of your answers, but I think the terms that you guys have self-described is building a tech hybrid or a next-generation media and entertainment company.

So maybe just putting all that innovation and focus on the tech side together with the content side, maybe help us understand how does that change the trajectory or what we're used to seeing from traditional media? Why should we be thinking about this differently?

Dennis K. Cinelli
Chief Financial Officer

For sure. I think first and foremost, it is very much we're powered by storytelling, accelerated by technology. This is a storytelling company, first and foremost. And this is coming from a person who's spent the last 4 years at the forefront of AI. The reason why I'm here is I believe it, right?

The human creativity, the talent you can bring, and we want to be the #1 attractor of talent, you start there, right? The creativity is that power is the engine. That being said, David has been very clear, Hollywood has really been pushed in. The tech companies have really pushed into Hollywood, and they're becoming more and more media companies.

We fundamentally believe, based on what we're building, we can have a high-quality creative storytelling company, a media company push back because we can bring in the appropriate technology talent. And how I've seen this evolution is you're going from -- you have a couple of layers, right? The first is team.

You're going from media companies, and we have a lot of great people in the team, but have been primarily IT organizations, and we are retooling how they think, their stature in the company, the quality of the talent in the company for them to be much more Silicon Valley product-led and a mindset shift in how we execute. And that's quality, that's mindset, et cetera.

And that goes as we've elevated our leader, our Chief Product Officer and Technology Officer, to the leadership level, right? He's not buried in the organization. He is a member of the leadership team. So that's first and foremost.

Number two, you started to see us build momentum. In technology, these things start to build momentum, right? And so you're kind of seeing that. We've talked about convergence of the tech stack. We've talked about what we're doing in terms of features and clips launched on the app that came out from idea to the first iteration in a few months.

We talked about improving our ad tech. So Precision Plus is a tool that we're using for advertisers to help them target more effectively. And so what you'll start to see as you get through convergence, better ML tools for search and recommendation. So as we get the better tech stack, we put everything in the box, that becomes the flywheel for technology organizations to really deliver on the...

Robert S. Fishman
MoffettNathanson LLC

Okay. So clearly, storytelling, as you've mentioned, plays a big piece of that. So let's go to the studio side. You've talked about this 30-plus theatrical release slate and been very clear about the 45-day window commitment after acquiring Warner Bros. and even building towards that today.

Maybe help us understand how does the performance of that slate dictate what it looks like in the future? Is that going to be based on specific ROI or the whole slate and how you reevaluate that commitment over time?

Dennis K. Cinelli
Chief Financial Officer

Yes. So we've been very clear. The combined company will produce 30-plus films theatrically. They will be -- have a full 45-day theatrical window before they move on to transactional and SVOD. That's not just a good for creators in the Hollywood industry. It's actually good for business.

So 30 films, sometimes we get some skepticism around, but it's just basic math. Paramount is doing about 15 films this year. WarnerBros. do about 15 films this year. We're going to add the 2 studios together, and we're going to continue the output, right? So there's not anything special about 30 other than that we are committed to continue the output of both studios side by side. So that's number one.

Number two, the output is good not just for theatrical, but it's good for our streaming business. So what does that mean? So we have 30 films a year. So that's a film dropping on our streaming business every 11 days. They are -- films are -- and these films are coming in full theatrical release, full marketing budget, right?

If you want to generate IP that's going to last forever that you can monetize over many years and generations, you're not doing that on made for streaming movies, right? This is the challenge that other platforms have, which is they spend a lot of money on films, but they're not generating IP.

So we have films that are full marketing budgets, right, which is an amazing marketing team we have, full theatrical, and they're coming into our platform, and our platform doesn't have to pay the full cost. It's being underwritten by a full ultimate windowing strategy, theatrical plus others.

And so not only are they the best user and engagement drivers, user acquisition engagement drivers, but they're also coming into our platform cheaper than they would otherwise with the full marketing behind it. And so we just see the studio, especially the film side as this amazing flywheel.

And so it's not just about sort of this creative commitment. It is very much good for business. And that's on the film side. On the other side, which is our TV studios, right? And our TV studios are generating some of the most iconic TV on Paramount TV studios and then think about HBO.

And so when you put those 2 together and you start to generate both for the streaming business as well as for external, we see this overall studio being a growth driver for us. And as you get to scale, generating really healthy margins. And Warner Bros. already put out there that they expect their studio business on its own to generate \$3 billion in adjusted EBITDA.

And so we feel really good about what we get when we combine the 2 services together.

Robert S. Fishman
MoffettNathanson LLC

Okay. Let's go to linear because that is still an important part of the current cash flow. So think about the cord-cutting trends we all know actually saw some improvement over the past couple of quarters. Maybe just help us think about the stability of the core linear network cash flow? And how does skinny bundles play into this?

Dennis K. Cinelli
Chief Financial Officer

Yes. So it's good to make sure we separate linear into 2 pieces, right? You have broadcast, CBS, which is a stable asset, right? This is-- we talked about for the NFL, our prime time lineup, we have 13 of the top 20 TV shows in prime time, 4 of the top 4 new TV shows in broadcast.

So you have an asset here that's performing really well for us. That being said, we are, as I talked about, very clear eyed on the secular declines, especially on cable. And so we've modeled that conservatively going forward.

But we do think there's a playbook, and we've seen that -- we've executed that playbook here at Paramount is that you can drive cost savings and the synergies and efficiencies when you put these portfolios together and you can do it across the P&L, more marketing efficiency we delivered in our TV Media segment, more content efficiency, all the other costs.

And so this will allow us to sort of ride the secular decline, but also generate healthy profits. to overall fund the business. And we're going to go through that shift, right? If you look out the next 3 years, majority of our business by 2030 will be studios and streaming, right?

And so we're going through that business model shift that a lot of other industries have gone through, and we're going to leverage this linear asset to help us fund that next generation.

Robert S. Fishman
MoffettNathanson LLC

Okay. We did talk about the debt at the beginning, but let's go maybe bigger picture, think about the overall capital allocation for this combined company. Maybe just help us think about the priorities in terms of deleveraging versus the organic reinvestment that we talked about and even potential portfolio actions.

Maybe think about how important investment grade is within all of this, you guys have been very clear about the target to get there.

Dennis K. Cinelli
Chief Financial Officer

Yes. I mean we understand the challenge ahead. We think we have a really compelling company as we talked about. And the financials, it's my key job is to deliver. And so we think about capital allocation, one, you do start with a very scaled company. This is a pro forma company, \$70 billion of combined revenue.

Our capital allocation priorities are: number one, we're going to invest owner-operator mentality to generate long-term growth. We're going to bring more analytical rigor around making sure those investments are paying off.

Number two, we are accelerating our priorities through M&A, big M&A transaction with Warner Bros.. And then the third one is just delivering on our commitment to get towards investment-grade metrics in the next 3 years. We've talked about that being about 3x net leverage by 2030. And we think we have the plan, our plan A to do that.

That being said, we realize this is a challenge. And so there is plan B and there's plan C, right? We have a lot of levers in the company of this magnitude to be able to execute to make sure we stay on track towards our overall growth goals and deliver on the deleveraging that we've talked about.

Robert S. Fishman
MoffettNathanson LLC

Okay. A big piece of that is going to be the free cash flow conversion. Clearly, there's a lot of working capital dynamics as part of running this business. So maybe just help us think about the levers on that free cash flow conversion over the next couple of years.

Dennis K. Cinelli
Chief Financial Officer

Yes. I mean the first step is getting -- and we've talked about is getting the business up to peer set margins, adjusted EBITDA margins. We'll do that through executing on our synergy program, which we talked about \$6 billion in synergies, only 11% of the cost base. So we're lining up to execute that.

And so as you get the business overall to mid-20s percent adjusted EBITDA margins, then our model is to get to about peer set, which is about 50% free cash flow generation conversion through that. And there's a lot of levers, right? We will have levers around driving working capital improvements. We have levers on the synergies. We'll start to see some of the content investment realizing growth.

And so we feel good about this business by 2030, generating \$10 billion plus of free cash flow.

Robert S. Fishman
MoffettNathanson LLC

Okay. So I think we're almost out of time, but maybe out of time. But just to wrap everything up, hopefully, when you're sitting here a year from now, maybe help us understand the most significant surprise or shift to the Paramount Skydance business or maybe even the overall media landscape as we're trying to think about how all these pieces land.

Dennis K. Cinelli
Chief Financial Officer

Yes. So we're 9 months in. I'm 3 months in. We're 9 months as a new leadership team. I think overall, I hope and I expect this will happen. You will be amazed at what we can accomplish in 12 months. We will have closed the deal. We will be well on our way to executing on our synergy targets. We will have a unified platform that's delivering one of the most compelling content and experience content portfolios and experiences in streaming. And lastly, we'll be hitting our financial goals, right? Our goal is to make sure we deliver for our consumers as well as make sure we hit our goals. And I hope to come back next year and talk you through it.

Robert S. Fishman
MoffettNathanson LLC

Awesome.

Dennis K. Cinelli
Chief Financial Officer

Thank you to you there.

Robert S. Fishman
MoffettNathanson LLC

Thank you.

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