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**FQ3 2025 Earnings Call Transcripts**

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**S&P Global Market Intelligence Estimates**

# Call Participants

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President

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*Chief Strategy Officer & Chief Operating Officer*

Andrew C. Warren  
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# Presentation

## Operator

Good afternoon. My name is Nadia, and I'll be the conference operator today. At this time, I would like to welcome everyone to Paramount's Q3 2025 Earnings Conference Call. [Operator Instructions]

At this time, I would now like to turn the call over to Kevin Creighton, Paramount EVP of Investor Relations. You may now begin your conference call.

## Kevin Creighton

*EVP of Corporate Finance & Investor Relations*

Good afternoon, and thank you for taking the time to join us for the Paramount Third Quarter 2025 Earnings Call. I'm Kevin Creighton, EVP of Corporate Finance and Investor Relations. Joining me today is our Chairman and Chief Executive Officer, David Ellison; our President, Jeff Shell; our Interim Chief Financial Officer, Andy Warren; and our Chief Strategy and Operating Officer, Andy Gordon. As a reminder, we will be making forward-looking statements today that involve risks and uncertainties. Our remarks will also include non-GAAP financial measures, and reconciliations of these measures can be found in our earnings letter or in our trending schedules, which contain supplemental information. These can be found on our Investor Relations website. I'll now turn it over to David for a few brief remarks before we take analyst questions.

## David Ellison

*Chairman & CEO*

Good afternoon. Before we get to Q&A, I'd like to take a moment since this is our first earnings call to share some thoughts on what we've accomplished so far and where we're heading. We launched the new Paramount just 96 days ago. And as we approach the 100-day mark, we're encouraged by the meaningful progress we've made in a relatively short time. We moved quickly, laid a strong foundation for what's ahead, and there's a real sense of energy and purpose across the company. Our goal in bringing these 2 companies together was simple, to honor Paramount's incredible legacy of storytelling while taking the necessary steps to transform it for the future. The combination unites an extraordinary and diverse collection of entertainment assets, spanning film, television, animation, interactive games, news and sports, supported by a rich library of celebrated and award-winning content. This powerful portfolio gives us the tools to achieve scale and succeed in today's fiercely competitive media landscape, and we intend to build on this strong foundation, investing the necessary resources and talent to ensure our company is not only well positioned to compete, but to lead in the industry.

Our vision is to transform Paramount into the global home of world-class storytelling, powered by one of entertainment's most storied studios, the leading broadcast network and a scaled global streaming platform that delivers much-watched programming to audiences everywhere. Achieving this vision requires reimagining how we operate, driving greater efficiency, unlocking new opportunities for creativity and positioning the company for sustainable long-term growth. With this in mind, on day 1, we identified our North Star priorities, the areas where we see the greatest opportunity to drive meaningful progress. They are: first, investing in our growth businesses, anchored by our creative engines and exceptional storytelling. Second, scaling our direct-to-consumer business globally; and third, driving efficiency enterprise-wide with a focus on long-term free cash flow generation. Over the past 3 months, as part of a thorough review of our assets and organization, we've taken early but significant steps towards advancing these priorities by making key leadership hires, pursuing high-impact partnerships, expanding our world-class roster of creative talent, reigniting performance across our studios, maximizing the value of our highly profitable CBS portfolio and driving efficiencies across the organization, all while staying true to our mission as a creative company. Storytelling is and always will be the heart and soul of everything we do.

Every effort serves a single purpose to bring the best stories to the broadest possible audience. Thanks to our actions to date, we are now well positioned to align resources with strategic priorities and invest boldly in areas with the greatest long-term potential. Just prior to this call, we issued a letter to shareholders outlining our third and fourth quarter results and expectations, which we encourage you to review. The letter details our 2026 guidance, including total revenue of \$30 billion, driven by strong growth in D2C revenue and global profitability as well as adjusted OIBDA of \$3.5 billion. Additionally, we have increased our run rate efficiency target from \$2 billion to at least \$3 billion. Building on these financial and operational priorities, we're also taking decisive steps to streamline studio operations and elevate performance, particularly at Paramount Pictures. In the near term, this includes adjustments to our film slate. Our plan is to grow theatrical output, targeting at least 15 movies per year over the next few years, beginning in 2026. While this rebuilding will take time, we are confident that our creative direction and business strategy will deliver the quality films that will enable us to engage and expand audiences worldwide.

More broadly, over the next year, we plan to make incremental programming investments in excess of \$1.5 billion across both theatrical and direct-to-consumer platforms. These investments are designed to expand our pipeline of premium films, television, sports, news and gaming content for global audiences. We've clearly demonstrated this commitment through a series of major creative partnerships and long-term deals from South Park and the UFC to the Duffer Brothers, James Mangold and our landmark collaboration with Activision to bring Call of Duty to life on the big screen and much more. Our top priority is our direct-to-consumer business, where we are focused on rapidly and efficiently scaling subscribers, engagement, revenue and profitability. Since 2023, Paramount+ has achieved the largest U.S. subscription growth among all major streamers, excluding bundles, and we aim to aggressively build on that momentum. In Q3, we added 1.4 million new subscribers for a total of 79 million. We are committed to scaling our subscriber base and are pursuing a more balanced year-round programming strategy to drive higher engagement. As we know, this is the single greatest factor in subscriber growth and loyalty. Over the past 12 months, Paramount+ is ranked as one of the top 3 most sought-after sources of preferred content among major streaming services.

We believe we can do even better, and we are fully committed to doing what it takes to become consumers' top choice for great storytelling. Finally, our goal is to accelerate innovation by making technology a core competency of our company. Competitors from Silicon Valley have quickly expanded into media and broader forms of entertainment. And if we want to remain competitive long term, we must strengthen our technology and do what it takes to position ourselves as the industry's most technologically capable media company. Again, I want to stress that technology at Paramount is not and never will be a replacement for human creativity. Rather, it serves as a powerful multiplier, enhancing performance, elevating the consumer experience and equipping our creative teams with the tools that will enable them to tell even better stories more efficiently and effectively. We're excited about several innovation initiatives already underway, and we'll be sharing more details soon. While we're still in the early stages, as I mentioned, this is only day 96, we're energized by the progress we've made and the clear path ahead, and we look forward to answering your questions.

# Question and Answer

## Operator

[Operator Instructions] The first question goes to Robert Fishman of MoffettNathanson.

**Robert S. Fishman**  
*MoffettNathanson LLC*

Can you talk more about your confidence for Paramount+ to gain global scale? And what role does growing your overall content spend play into better competing with the other large SVOD platforms in the future? And then just on a related note, when you think about this global scale, how do you balance growing the overall subscriber base while reducing investments in select international markets that you called out?

**David Ellison**  
*Chairman & CEO*

Yes, absolutely. By the way, David, thank you so much for the question. First, we just highlight, we had a really good quarter as it relates to our DTC business, 75 million total subs. Paramount+ revenue growth was up 24%, and we're up 17% for the segment. So I think we've made really good progress in that arena. To achieve scale, I think we really need to accomplish 2 main priorities.

One is we need to increase our investments, obviously, in content. As you guys know, high-quality storytelling, sports, entertainment, all increase engagement, which drives subscribers. We've been doing that across our business. That we've made the investment in the UFC and Zuffa Boxing, incremental, obviously, storytelling investments as well in addition to bringing over talents like the Duffer Brothers, all of which will be telling stories across our ecosystem and on Paramount plus. We're also making investments on the technology side of our business to really improve the product. We brought over Dana Glasgow, formerly of Meta. And we're really in the process of converging the 3 streaming services that we have now onto one platform.

For clarity, the company currently operates 3 separate streaming services across multiple clouds and multiple stacks. By unifying those all into one platform, we'll be able to significantly improve the user experience. We'll be able to significantly improve our recommendation discovery, obviously, work on platform. That will also improve our capabilities across the ad tech we'll be able to deploy. And we think while improving the content and the tech that's available on platform, that will lead towards incremental subscribers, growth and engagement.

Jeff, anything you want to add to that?

**Jeffrey S. Shell**

Yes. I just -- let me touch -- let me just touch really quickly on the international part of your question. So interestingly, the 2 big things that David just outlined, content investment and platform investment, both are global investments. So let me give you an example. One of the biggest content investments we're making is scaling up our studio output and film studio output, and there's nothing that drives platforms in most markets internationally other than filmed entertainment and good movies, both animated and live action. So that's a perfect example of where our content investment is going to be global, not just domestic. And then obviously, the platform investment that we're making is a global investment.

It's not market by market. And one really important piece of that is that Pluto, which is an asset we don't talk about that much, is a very critical asset in some international markets. which are low ARPU, which could be a weigh in for our DTC business and often a good business on its own. Right now, Pluto is on a separate tech stack, you can't even upgrade somebody from Pluto to Paramount +. So I am very hopeful that once the platform investment is live, we will be able to use that product to start with Pluto in some international markets and over time, use that to scale in markets which are not a high ARPU.

**Operator**

The next question goes to Steven Cahall of Wells Fargo.

**Steven Lee Cahall**  
*Wells Fargo Securities, LLC, Research Division*

So David, if I have maybe an initial conclusion from the shareholder letter, it's that you want more, more originals, more licensing, more sports, news, wide releases, tech and I guess, a lot more efficiency. Is there any way you can help us think about how much

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investment you plan to put into Paramount Skydance over the next several years? I'm guessing it's well in excess of that \$3 billion, and there's a lot of revenue as well.

But just in terms of the size of the company, any way to put this into sort of a big number? And then just on the studio side, with the turnaround you're looking to do and the additional wide releases, what did you learn from your experience at Skydance, especially creatively that you all think you can now apply since the studio, at least financially has kind of underperformed historically?

**David Ellison**  
*Chairman & CEO*

Yes. No, look, I really appreciate the question. Again, everything for us is really going back to driving our North Star principles that we outlined in the letter. We're going to continue to obviously invest in our growth businesses, anchored by our creative engines and superior storytelling and scaling our D2C business is absolutely one of our North Stars. So to your point, we're going to continue to do both of those 2 things. And the company we acquired, we think has an incredible foundation. But we do think that there's obviously more to be done there.

We talked about in the letter the additional \$1.5 billion of content investments that we're going to make. And our goal is to be a global scaled streaming service. So from that standpoint, we are going to obviously invest accordingly. But please note, everything for us as owner and operators of the company the way we think about this is really how do we drive long-term value creation.

And as we're currently the largest shareholders and will continue to be the largest shareholders in the company, we really are looking at this in terms of how do we increase and drive value long term for all of our shareholders. Then I would say one of the things that we've obviously learned on the creative side at Skydance is a lot of our core principles was always quality is the best business plan when it comes to storytelling and a dedication to aiming high and you just don't stop working until you get there. That enabled us theatrically to deliver films like Top Gun: Maverick, and we've always had -- when we were just a stand-alone company at Skydance had an incredible partnership with Paramount. But we've consistently obviously delivered hits on all of the platforms that we've worked.

What we're really doing now is taking everything that we've learned at Skydance and that incredibly powerful creative content engine, partnering it with the phenomenal creative engines at Paramount to really be able to get to scale across all of our growth businesses.

That includes direct-to-consumer, but also for reference on the film side, as you said, the studio was making 8 movies a year roughly when we acquired the business. And we're getting to 15 movies a year minimum starting next year, and we will be -- and that will obviously lead towards increased scale and profitability across all those segments of the business.

**Andrew C. Warren**  
*Executive VP & Interim CFO*

So David, maybe I'll just add, Steve, I think it's important to also understand that every investment we make, we're looking at how it drives value for the entire company and has a proper return on investment. Two, we definitely want to get to investment grade so that we do want to get delever. And three, the goal is to have high cash flow conversion as we get through the initial investment cycle. So all those things should be factored into how we think about investments.

**Operator**

The next question goes to David Karnovsky of JPMorgan.

**David Karnovsky**  
*JPMorgan Chase & Co, Research Division*

With the TV Media segment, just be great to get your updated view on your portfolio of networks. How are you thinking about advertising and cord cutting trends from here and within your 2026 forecast and then within that context, investing into or optimizing these brands?

**David Ellison**  
*Chairman & CEO*

Absolutely, Jeff, why don't you take that?

**Jeffrey S. Shell**

Great. David. So one of the original things that we, as a group, were kind of united on is that people talk about linear as one homogeneous business. It's really very different. And when you start to look at it that way and you look at the disconnect between broadcast and cable, it's pretty stark and growing more stark. And that's why CBS was one of the cornerstone assets that we were excited about when we acquired Paramount. And that -- those trends are continuing since we've owned the company, and we expect them to continue in the future. On the broadcast side, obviously, it's declining. It's a linear asset like any other linear asset, but the declines are very modest compared to the cable side.

And those don't even take into account the fact that the content on the broadcast side is increasingly a huge driver on DTC both in terms of subs and engagement, not just the sports, which is becoming barbell. If you look at where leagues are going, they want reach and they want dollars. The dollars increasingly come from streaming and the reach still comes from broadcast. And we have a perfect company for that barbell with the biggest reach vehicle in CBS, which is the most watched broadcast network for the last 17 years and will be so again this year. It's off to a great start, by the way, in this season. And then the streaming product, which is our North Star to grow and scale globally. So increasingly, we will put investments into the CBS side of the coin, and we see those trends continuing. On the flip side, cable is continuing to decline and each quarter is accelerating decline, not just for us, but for everybody around the media business. And -- it's increasingly clear that streaming, first and foremost, is a replacement for the multichannel cable environment.

We're fortunate, yes, we have cable channels, but we don't have -- they're not as large proportionately for us as for others. So we're really focused on taking those brands and seeing what we can do as far as driving value long term, both in terms of overall and in terms of for our streaming product as it scales. We're not going to spin off cable assets.

This company has a history of spinning assets and it hasn't gone very well for us, and we think for others. So one of the big rationales for spin is that when companies are stand-alone, they can focus on driving the value of the brands that they have in a more specific way. We are going to do that, but we're going to do that within our company, so our shareholders get the value of that. We think we have some pretty good brands on the cable side. Obviously, Nickelodeon is a core kids and family pillar for us, and that's going to be a very important segment for our company, not just in terms of streaming, but in terms of licensing and consumer products. So we just brought in a new leader for that business.

But if you look at music, which is an important category, MTV is the traditional leader there, comedy, where Comedy Central is a great brand and then BET, which has a great position with that audience. So our goal is to look at those brands, see if we can transform those businesses in a digital way to drive value long term and make them increasing pieces of our overall scaled global streaming strategy, which is our core business. So that's our plan.

## **Operator**

The next question goes to Jessica Reif Ehrlich of Bank of America Securities.

**Jessica Jean Reif Ehrlich Cohen**  
*BofA Securities, Research Division*

One of the things that differentiates your narrative from other media and entertainment companies is the focus on entertainment and tech. I'm just wondering, David, can you give us your vision of how tech and entertainment interrelate and how you drive growth? Like can you give us concrete or specific examples or color on how you think about that? And then just one thing in the release, when you talked about your partnership with IPG and Publicis for digital ad sales, what did they bring to the company? Like what tools will they bring to help drive revenue growth?

**David Ellison**  
*Chairman & CEO*

Jessica, great question. I'll take the first part of it, and then I'll pass it off to Jeff to jump into the second part of it. So Again, what I would say is, as we've stated, our goal is to become the most technologically capable media company. And there are several areas where that's going to directly impact our business, and I'll just talk about a couple of initiatives that are underway currently. When we acquired the company, as I said previously, we kind of -- we're operating in 3 streaming services currently, Paramount+, Pluto and BET+. Those are 3 completely independent tech stacks. They operate across 2 different clouds, and there's no connectivity, obviously, between those businesses currently. Convergence is currently underway to basically unite them into one unified platform, which should be done around the middle of next year. Then from there, we have a road map to obviously significantly improve the overall product for Paramount+. And again, when you improve products, you get benefits like you increase engagement, you get -- your recommendation engine obviously improves dramatically. Your ad sale monetization will improve as you improve the ad tech.

So there's several areas where obviously that this is going to impact the direct-to-consumer business. I'd say another bucket is we're currently in the middle of an Oracle Fusion integration. The company when we acquired it, did not have an enterprise solution. We're currently in process of deploying that across the business.

That will lead to significant operational efficiency across the entire company. It will also give better real-time information to managers to be able to think of it kind of like if you're a pilot, do you know I am, instrumentation is important. The better visibility you have in terms of how the company is doing on a day-to-day basis, that improves your decision-making. So we're in the process of deploying that. We also -- artificial intelligence, obviously, is going to have a significant impact across every business, and we do plan to utilize that here. We obviously feel that frontier technology, working with more traditional machine learning is going to really impact how things like search, rec and discovery work on platform.

There will be increased efficiencies across the business by deploying those tools. And we also believe it will have an impact on content creation. But I want to be really clear that when it comes to content creation, we really view AI as a tool for artists to be able to iterate more quickly, to be able to tell better stories and basically create even further accessibility really across the entire content creation pipeline.

So from that standpoint, we think technology is going to impact all aspects of our business, and we want to be a leader in that space. And with that, I will turn it over to Jeff to talk about the second part of your question.

**Jeffrey S. Shell**

Thanks, David. So Jessica, when we signed our deal before we owned the company, one of the things we found in due diligence is that the company hadn't done the traditional media reviews in a long time of their buying relationships with the agencies. So we worked with prior management to do a review. And the initial objective of the review is more traditional, which was we -- the cost by which we were buying marketing were much in excess of what I have seen in my previous employers and we've seen in the market. So the initial objective was try to use this review to lower the cost of buying marketing for our various marketing entities, most notably our streaming and our film divisions, which are the 2 largest buyers of advertising.

Once we got into the process, we realized that the opportunity was significantly bigger than that. And we met with all the top holding companies multiple times, us and previous management, and we ended up doing 2 deals with the 2 largest agencies, Publicis and IPG. And the relationships, the deals that we did were much broader than just buying. On the buying side, we're going to get significant savings in the cost of buying marketing across the company in addition to a lot of more benefit in going with the 2 largest buyers. But the real opportunity here is more 2 other areas. The first is just these agencies, these holding companies are not just buyers of advertisers, but represent all of our sales clients. And as part of the deal, we got significant revenue commitments over 3 years with both Publicis and IPG. As you can imagine, part of the nuance of this was what's incremental. We didn't just want to get advertising buys that we're just replacing current advertising. So we expect to see most of this advertising in the digital area where we need it the most, and that you should see that in our numbers over the next couple of years.

But more broadly, we're now partnered on a broad basis with the 2 biggest agencies as the world transitions from linear to digital. And we see lots of opportunities as we do the things that David talked about in building our platform and building our ad tech and our capabilities to work with the 2 biggest and most forward-looking partners we have.

And as part of that, we brought in a new head of our advertising business, Jay Askinasi, who most notably, he came from Roku, but before that was the Head of Digital for Publicis, who is one of our 2 new big partners. So this is obviously a big micro thing that we did. But on a macro basis, we see a lot of opportunities in the coming years to grow our business in this way.

**Operator**

The next question goes to Ben Swinburne of Morgan Stanley.

**Benjamin Daniel Swinburne**  
*Morgan Stanley, Research Division*

David, I'm guessing you probably can't talk about all the WBD speculation out there in the press. But I was wondering if you could talk a little bit about Paramount S guidance's broader M&A philosophy and just how you think about industry consolidation as something that could benefit the company or benefit overall returns in the industry. Obviously, we've sort of seen kind of rolling M&A through this sector for a number of years.

And I noticed you guys divested some assets, so it would be interesting to hear how you think about just the portfolio broadly going forward. And then just one kind of clarification question from the letter. You guys talked about getting to investment-grade metrics

by 2027. I was just curious if you could talk about what that actually entails in terms of leverage level that you're aiming for to help us think about your balance sheet goals.

**David Ellison**  
*Chairman & CEO*

Yes, Ben, thank you for the question. And so look, first and foremost, we're focused on what we're building at Paramount and transforming the company. And today, 96 days in, we are more confident than ever in terms of our ability to achieve all of our North Star principles that we've discussed in the letter and previously on this call. And so -- and I appreciate that we can't comment on numbers and speculation. So first, I just want to say thank you, honestly, for saying that. Look, what I would also say, as it relates to M&A in terms of our mindset, I think it's important to know that there's no must-haves for us.

We really look at this as buy versus build, and we absolutely have the ability to build to get to where we want to go. We believe we can achieve our goals with our creative content engines. We believe we can achieve our streaming goals and that we can drive enterprise efficiency and create value and long-term free cash flow generation, all through the building standpoint. As it relates to M&A, everything for us is going to tie back to does it accelerate those 3 core principles. And for us, we're fortunate that we have the balance sheet to be able to be opportunistic when we think that M&A will accelerate our goals. But we're also long-term disciplined owner operators. So from that standpoint, we'll always approach things through the lens of how do we maximize value for shareholders. And from an M&A standpoint, it's always going to be how do we accelerate and improve our North Star principles. So that's on that standpoint. Actually, Jeff, do you want to talk about the divestitures?

**Jeffrey S. Shell**

Yes. I mean we -- as I think we mentioned in the letter, we are divesting 2 of our over-the-air businesses in Spanish-speaking Latin America. The company has a lot of different assets. We clearly laid out in the letter, as David just said, our North Star priorities. If there's assets in the company that don't -- aren't critical and aren't essential to our North Star priorities, then we'll look at them case by case and make decisions to divest when they don't -- we have enough to do and invest in without investing in things that are noncore to what's going to get us to global streaming scale. So I think you will periodically see us divest smaller assets.

**Andrew C. Warren**  
*Executive VP & Interim CFO*

Yes. And I would just add on the leverage point, it's Andy, Ben, that we're not sort of investment grade across all the agencies today. So we want to get all 3 remaining agencies to rate us as investment grade. And as you know, there's a numerator and denominator to that equation relative to leverage ratios, and we're going to focus on.

**Operator**

The next question goes to Rich Greenfield of LightShed Partners.

**Richard Scott Greenfield**  
*LightShed Partners, LLC*

I guess from a really high level, David, it would be great to get your view on the UFC strategy. It was obviously by far, the biggest sort of statement you've made since acquiring Paramount. And how do you think about earning a return? You obviously put up a much bigger price than what was being paid before. And so between the subscriber base of Paramount+ getting this included, price increases, you said one is coming, but you didn't specify how much. Like how do we think about how you drive return and how you'll use the UFC assets across Paramount plus, CBS and even maybe some of your cable networks. I'd be curious just how you think about that. And then just for Andy, just a couple of housekeeping points. One, you -- the projections you made, and I realize this transaction took way longer to close than you had expected. But obviously, the projections in the original filings were, I think, like \$3.4 billion and \$4.1 billion for '25 and '26.

Those are now \$3 billion and \$3.5 billion, it looks like. Just would love any color beyond just took longer, but any color on why those came down or major issues to think about? And then you also made a comment about content write-downs that have helped Q3 and will help the go forward. How significant dollar-wise? Is there anything you can give us to quantify those comments would be really helpful as we think about modeling the next 12 months.

**David Ellison**  
*Chairman & CEO*

Yes, Rich, thank you so much for the question. I'll obviously take the first part and then pass it off to Andy. One, we could not be more excited about our partnership with TKO, Dana White and UFC. And look, I'd also loop into that Zuffa Boxing. Those 2 deals obviously makes Paramount plus really the home for combat sports in -- obviously, in the United States, and we also have rights in Latin America and Australia. And when you also look at the UFC, it is the largest sport that is not basically split off across multiple platforms. And so it really is a unicorn sports property, and we think it's going to drive a tremendous amount of value in terms of both subscriber growth and engagement across Paramount plus as well as CBS, where there will be some aspect of the UFC that also lives on CBS. In addition to that, I think when you think about the UFC and the opportunity there, there's 100 million fans in the U.S. alone.

It's grown 25% since 2019 to date. And it's been doing all of that behind the double paywall in its previous home. And so from that standpoint, we think when you eliminate the double pay wall, it's going to become much more accessible, and we think that growth rate will increase. Additionally to that, we think we're offering to our subscribers at Paramount+ really significant value in the fact that for approximately pay-per-view, you basically can access all of the UFC across Paramount plus. And so from that standpoint, we think it's a great value for consumers. And really going back to kind of our North Stars of scaling our direct-to-consumer business, we need to obviously invest into more content. I mean, Rich, you know this, you talk about this all the time. Having an asset like the UFC is going to increase engagement on platform. It's going to drive subscribers, and we're feeling incredibly confident in the investment that we just made.

With that, I'll -- and then look, bridging into the second part of the question, one of the things I would just note before Andy dives into some more of the details here versus kind of the -- where we were in the investor announced round numbers 18 months ago is I think what's important to note there is we are investing significantly more into content than was contemplated at that time. And we're also driving greater efficiencies. And we believe the combination of those 2 things will drive greater long-term value from a company perspective. With that, Andy, I'll let you.

**Andrew C. Warren**  
*Executive VP & Interim CFO*

Yes. I mean I think you kind of hit it, which is when we put the investor deck out there is what we expected at the time of the announcement. And as David just mentioned, we had some really significant opportunity that came to us right around closing, South Park, UFC and all the different talent deals we've done between August 7 and today. You combine that with our increased goal and understanding and now actually confidence in our expense efficiencies going forward. And we think we made the right decision based on where we were last year versus today, i.e., the \$4.1 billion that we put out versus our \$3.5 billion guidance. So we think given those investments, we're making the right choice for the long term. And then I would just say, on the efficiencies, we're going to start '26 with \$1.4 billion of those accomplished and run rate.

By the end of '26, we'll have accomplished most of the \$3 billion plus that we've outlined in our letter. So we feel very good about our ability to hit our projection next year. And then look, on the -- on the content write-downs, I think, as you may know, in transactions like this, there is a review of all the content and all of the libraries, and we made the appropriate economic and accounting adjustments to make sure they're consistent with our strategy and the company going forward.

**Jeffrey S. Shell**

Can I add one thing on UFC?

**David Ellison**  
*Chairman & CEO*

Yes.

**Jeffrey S. Shell**

To go back, Rich, if you don't mind on UFC. If you were going to go design a sport for us, UFC is perfect in so many ways. It just if I want to punctuate what David said, when we started looking at this asset Paramount, we had a real desert of sports that ended at the end of the masters and started again in the NFL, and we saw lots of churn over the summer as people turned off the service and then turned it back on for NFL. And this is a year around sport, which is very unusual for major sports. And then the second thing I'd want to add is the sports are not homogeneous.

They're increasingly bifurcated sports that are kind of regular and sports that are events. You kind of look at the recent NBA deals, there's a lot of regular season and then there's a lot of postseason. And I think everybody who bought those rights would say that post-season NBA is different than regular season NBA. And with the UFC, there is no regular season and postseason. Every one of these numbered events that David talked about coming out from behind the paywall is an event and the ability to have events throughout

the year is exactly where we think sports is going. And then I will add one thing. We talk about CBS under George Chef's incredible leadership. We have huge volume of engagement on DTC and CBS. These tend to be older female. They skew a bit over female all of our procedurals and the shows that are awesome on CBS and ad hoc and Blue Buds and you can go down the list. So having a sports property like this that was available that year-round event-based and drives young male is like perfect. So this was a bit of a unicorn for us and where we were trying to go.

**Operator**

The next question goes to John Hodulik of UBS.

**John Christopher Hodulik**  
*UBS Investment Bank, Research Division*

Two, if I could. First, David, how should we think of the long-term profitability of the D2C business? And what are the major levers to get there? It sounds like from the letter, you think ARPU is one of them where you guys could make some substantial headway in the near term. And then getting back to the comments on the investment, is this a situation where you guys are investing so heavily on the front end that, that free cash flow may turn negative in the near term before the platform scales up? Or how should we think of free cash flow trends over the next couple of years?

**David Ellison**  
*Chairman & CEO*

Yes, Bob, I'm going to turn it over to Andy to take that question, and then I'll fill in after that.

**Andrew C. Warren**  
*Executive VP & Interim CFO*

Sure. Yes. So the -- John, it's Andy. The free cash flow is one of the biggest opportunities that we have and we see going forward. For '26, we are -- we know there's going to be about \$800 million of transactional and transformation costs. So on a reported basis, it will be negative. But on an adjusted basis, taking out those kind of onetime items, it will still be positive.

But I think most importantly, when we look at going forward, it really comes down to our ability to do 2 things. Working capital has been a big negative for this company for many years. It's a real opportunity for us to both get better payable and sales terms, but also one thing David spoke of was our ability to get better systems in place, visibility into accumulating receivables by customer and by area is going to be a big driver of this. The other area I mentioned that's going to, I think, accelerate our free cash flow growth is cash tax rates. Ours is marginal today and will get significantly better over time. One real benefit of having, as you know, a global portfolio of IP is where you domicile that IP has big influences on cash tax rate, and that's something else we're focused on.

David, do you want to answer -- do you want to go back real quick and double-click on D2C profitability?

**David Ellison**  
*Chairman & CEO*

Yes. No, absolutely. Look, I think if you go and it's obviously outlined, the D2C segment, obviously, will be -- it is profitable next year. It will be increasingly profitable in 2026. And so from that standpoint, when we look at the growth rates across the business, we believe that we can grow and scale in service, and we're doing that in a fashion that is profitable.

**Operator**

The final question goes to Kutgun Maral of Evercore.

**Kutgun Maral**  
*Evercore ISI Institutional Equities, Research Division*

I just had a follow-up on the content ROI discussion, maybe away from the UFC specifically and speaking more broadly in the context of the plan to make incremental programming investments in 2026 in excess of \$1.5 billion. What does the \$1.5 billion look like across the various categories or verticals, whether it's between sports, originals, licensing, DTC, theatrical? However way you're able to slice it would be helpful, along with what the total content spend budget looks like in 2025 versus 2026?

And then how are you approaching the decision-making process and ROI analysis of these investments as we move forward and manage the balance between investing for global scale while also anchoring around profitable growth?

**David Ellison**  
*Chairman & CEO*

Yes. No, absolutely, great question. So as we've talked about, really revitalizing our creative content engines is obviously a key driver and goal for us.

So from that standpoint, like a couple of examples to talk through. We've talked about the UFC. We talked about Zuffa Boxing. South Park as an exclusive for -- obviously, for Paramount+ in terms of the streaming rights is another investment that we've obviously made, which has performed incredibly well for us, both in cable as well as on the DTC platform. Having the Duffer Brothers join next year is another area we've obviously invested in the content -- obviously, in the content space. We obviously announced the film with James Mangold and Timothée Chalamet. So we really are investing really across the board in our growth businesses.

I also think everything we do is through the lens of long-term value creation. So whether that's streaming, whether that's sports, whether that's our film business, it really is how do we grow and scale for -- to create long-term value for our shareholders. When you think about Paramount Pictures in particular, that's definitely an area where there was some weakness when we obviously came into the studio.

And so from that standpoint, we are diverting a lot of resources from the combined content engines, Paramount Pictures as well as Skydance to make sure that we can get that studio to scale and get that studio to scale profitably, which we're incredibly confident in our ability to be able to do that, especially with the great leadership under Dana Goldberg and Josh Greenstein. And so that's really kind of how we look at it. Andy, anything you want to add.

**Andrew C. Warren**  
*Executive VP & Interim CFO*

Yes. I would just say also there's a unified review of our big content spending across all the verticals and the segments and corporate finance. And there's definitely buying that we're all trying to do is grow the top line, grow value creation for the company, which means share price appreciation and nothing is done in isolation. We're very careful about that with regard to our big content spend across film, television, DTC and broadcast and cable.

**Unknown Executive**

All right. Sounds good. David, do you have any closing remarks? That's our last question.

**David Ellison**  
*Chairman & CEO*

Just one. I want to just thank everybody for -- who took time to dial into the call today. And just want to reiterate, there's tremendous energy and excitement across the company, and we're really excited for what we're going to get to build in the future. So just thank you.

**Operator**

Thank you. This now concludes today's call. Thank you all for joining, and you may now disconnect your lines.

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