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VIAC.OQ - Q2 2021 ViacomCBS Inc Earnings Call

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OVERVIEW:

Co. reported 2Q21 total Co. revenue of $6.6b and adjusted diluted EPS of $0.97.

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PRESENTATION

Operator

Good day, everyone. Welcome to the Viacom Conference Call. Today's call is being recorded. At this time, I'd like to turn the call over to Executive Vice President of Investor Relations, Mr. Anthony DiClemente. Please go ahead, sir.

Anthony Joseph DiClemente - *ViacomCBS Inc. - EVP of IR*

Good morning, everyone. Thank you for taking the time to join us for our Second Quarter 2021 Earnings Call. Joining me for today's discussion are Bob Bakish, our President and CEO; and Naveen Chopra, our CFO. Please note that in addition to our earnings release, we have trending schedules containing supplemental information available on our website.

I want to remind you that certain statements made on this call are forward-looking statements that involve risks and uncertainties. These risks and uncertainties are discussed in more detail in our filings with the SEC. Some of today's financial remarks will focus on adjusted results. Reconciliations of these non-GAAP financial measures can be found in our earnings release or in our trending schedules, which contain supplemental information and, in each case, can be found in the Investor Relations section of our website.

Now I will turn the call over to Bob.

Robert Marc Bakish - *ViacomCBS Inc. - President, CEO & Director*

Good morning, and thank you for joining us today. I'm pleased to report that ViacomCBS once again delivered in the second quarter of 2021. The company's continued momentum is evident, from robust revenue growth in advertising and affiliate sales to a phenomenal content-driven trajectory of our flagship streaming services, Paramount+, Showtime OTT and Pluto TV, which clearly demonstrates that our streaming strategy across pay, premium and free is working, and we expect this momentum to continue in the second half of the year.

On today's call, I'll cover 3 topics. First, I'll briefly discuss ViacomCBS' strong Q2 results, where we reported operating strength and year-over-year revenue improvement. Second, I'll highlight the company's momentum in streaming and the underlying content drivers. And finally, I'll discuss our go-forward global streaming expansion. Then I'll hand it over to Naveen to provide additional financial and operational details before opening it up for Q&A.

Let me start with the company's second quarter results, where we achieved another quarter of solid performance as total company revenue grew 8% year-over-year to $6.6 billion. Here, I want to highlight a few important items from an operating standpoint. In advertising, which, remember, excludes streaming, revenue grew 24%, benefiting from the return of a range of sports programming, a material improvement in the ad market and strong execution. Q2 2021 obviously looks very different than Q2 of 2020, and we were happy with our ability to convert this into strong revenue performance.

Speaking of advertising, I'm pleased to say we saw very strong demand in the upfront, which led to historic levels of linear price increases plus an ability to drive a significant volume towards our premium digital video inventory. The upfront was a perfect platform for ViacomCBS to unlock value from its leadership position, a position underpinned by premium content and a robust client-centric approach to ad solutions, combined with offerings spanning both linear and EyeQ, our premium digital video advertising platform, and the results speak for themselves.

In affiliate, which also excludes streaming, revenue grew 9% for the quarter. And since the close of Q2, we've renewed and expanded multiyear distribution deals with both Charter Communications and Cox Communications. Our recent agreements demonstrate how these affiliate relationships have evolved to become more modernized and include streaming elements as well. These recent deals, along with others ViacomCBS has executed, including DISH, Verizon, YouTube TV and Hulu, further demonstrate the demand for our content and brands and the strength of our company.

And in theatrical, revenue reached $134 million, thanks to theaters reopening and the success of A Quiet Place Part II, which is also now streaming on Paramount+. Speaking of streaming, we saw impressive global growth, with revenue almost doubling year-over-year to nearly $1 billion, with strong performance across all metrics.

Streaming advertising revenue more than doubled year-over-year, reaching $502 million in the second quarter. This growth was led by Pluto TV, where global monthly active users grew to over $52 million and revenue more than doubled year-over-year for the fourth consecutive quarter. The growth is remarkable. And we now, in fact, expect Pluto TV to comfortably generate more than $1 billion in revenue this year.

The power of Pluto TV is unquestionable. More consumers are spending more time with Pluto than ever, enjoying the now over 200,000 hours of content available on the platform in the U.S., which has doubled in the past year. And its integration into our advertising portfolio is compelling to our clients and the agencies that represent them, so it's no surprise Pluto TV continues to be the leading free ad-supported streaming television service in the market.

Streaming subscription revenue also accelerated, growing 82% year-over-year, driven by strong subscriber growth fueled by Paramount+. In the quarter, we added 6.5 million global streaming subscribers, our largest number yet, bringing our total global streaming subscribers to over 42 million. These results further demonstrate the strength of our diverse content portfolio and the universal appeal of Paramount+.

It's clear Paramount+ is resonating with consumers, both in the U.S. and internationally, and that's because it's a differentiated product with real competitive advantages. It has something for everyone, and we saw strong subscriber acquisition and engagement across a variety of different genres. For kids and young adults, we saw tremendous viewership for the new iCarly series, which was a leading acquisition driver in the quarter and which was just renewed for season 2. We also saw continued strength from a range of kid-favorite Nickelodeon franchises, including SpongeBob, Rugrats, PAW Patrol and more.

In film, Infinite, starring Mark Wahlberg, premiered exclusively on Paramount+ in June and was one of the top engagement drivers. Additionally, we saw a nice uptick in overall film engagement with users as we added over 1,000 movies to our extensive film library. In sports and news, the UEFA Champions League was a top acquisition driver, while news, including CBSN, continues to generate meaningful engagement.

In scripted, Why Women Kill, Evil and NCIS drove significant acquisition, engagement and consumption this quarter. NCIS, in particular, continues to perform well, now a top 5 driver of both engagement and consumption on the platform. And finally, unscripted has growing momentum, where shows with strong and devoted fan bases like RuPaul and The Challenge did very well in driving new subscribers and consumption, respectively. Add it up, and you see our strategy of building a multi-genre broad content offering is clearly working.

And as the breadth of content expands, the average age on Paramount+ continues to get younger, decreasing 2 years since last quarter to 35. In fact, this diverse array of content often appeals to multiple people in the same household and can, therefore, be a powerful tool to not only drive subscribers, but also reduce churn over time. In short, by putting the full power of ViacomCBS behind Paramount+, we're beginning to see the massive potential this service has.

Also, in June, we launched the ad-supported Paramount+ Essential plan. This version of Paramount+ has a lower price point of $4.99 a month, appealing to more cost-conscious consumers and thereby increasing the size of Paramount+'s total addressable market. In addition, it provides advertisers with a new option to reach valuable consumers in a high-quality environment, something our recent upfront experience demonstrated was very compelling.

While it's early days, Paramount+ is clearly working, which is why we're continuing to invest to deliver on its promise and potential. To that end, looking ahead, we have amazing content coming to the service, and we will continue to scale volume across the range of genres that together differentiate Paramount+: kids, sports, unscripted, scripted and film. To give you a sense, here are some examples of what's coming to the service between now and the end of the year.

Right now, in film, we're streaming A Quiet Place Part II. This is the first title in our fast follow from theatrical strategy, and it is doing very well. On August 20, PAW Patrol: The Movie will premiere day-and-date in both theaters and on Paramount+. We're excited about a day-and-date strategy for this title and this audience in today's marketplace, and we're supporting it with a robust marketing campaign, which includes our consumer products' presence at retail.

In sports, we're thrilled that a new season of Serie A soccer, our first with the franchise, will begin in late August. And we've also recently added new seasons of compelling reality and docuseries to the service, including Big Brother, Love Island and, just last week, the return of the iconic Behind the Music series. Of course, in September, we have the return of the NFL, and the folks at CBS and Paramount+ are gearing up for some amazing collaboration.

Additionally, we have a great fall lineup on CBS, including the expansion of some key franchises like NCIS: Hawaii, CSI: Vegas and FBI: International, all of which are also streaming on Paramount+. And I'm thrilled to announce that we've extended our deal with Trey Parker and Matt Stone through 2027, bringing South Park to Comedy Central through season 30. In addition, Trey and Matt will be doing 14 South Park original movies exclusively for Paramount+, 2 of which will premiere this year and then 2 more every year through the term of the deal.

And later this year, we have big new scripted series premiering like Taylor Sheridan's Y: 1883, the origin story of the #1 scripted show on cable, Yellowstone, as well as Taylor's newest series, Mayor of Kingstown, and more. From a promotional standpoint, we'll leverage our linear platforms as subscriber acquisition vehicles. For example, Y: 1883 and Mayor of Kingstown will premiere on the Paramount network behind Yellowstone for 2 episodes each, then move over exclusively to Paramount+. We will use the same strategy on CBS with SEAL Team.

Turning to premium streaming. Showtime OTT had another strong quarter, delivering one of the best quarters for sign-ups, while generating its second best quarter ever for streams and hours watched on the service. Viewers were highly engaged, driven by hits like the fourth season of The Chi, the series finale of Shameless and the Floyd Mayweather vs. Logan Paul boxing event, among others. Looking forward, the content lineup for Showtime is strong. We have the premiere of Yellowjackets, a dramatic show that is part psychological horror, part survival story.

We also have the return of Dexter and Billions, both of which will have some creative product and marketing campaigns associated with these next seasons. In fact, Billions' promotional campaign will include availability on Paramount+, where we will have the first 3 seasons. In addition, we'll offer a bundle of Showtime in Paramount+ at a discounted price to expand the reach of both services.

That brings me to my third topic, global expansion. ViacomCBS has long been active outside of the United States, with operations on the ground all around the world. That global orientation now encompasses streaming, where we are leveraging our existing business footprint and relationships to enable rapid expansion of our streaming offerings.

As an example, today, we're pleased to announce a new comprehensive and expanded deal with Sky, covering the U.K., Italy, Ireland, Germany, Switzerland and Austria. This deal includes carriage renewals for our linear services as well as renewals for our existing ad sales representation deals, plus robust launches of our streaming services to their sub base in all the countries in 2022. This is a powerful deal. Not only does it extend important benefits and economics from our legacy business, but it's also a game changer for Paramount+ in these markets by unlocking previously exclusive-to-Sky content for use on Paramount+ and providing Paramount+ with a very significant subscriber base at launch.

In these markets, from a content perspective, Paramount+ will be the exclusive home for new Showtime series and Paramount+ originals. It will be the co-exclusive with Sky, home of Paramount Pay1 movies. This service will also be the exclusive streaming home of our most popular kid franchises, PAW Patrol and SpongeBob Squarepants. And it will have a very substantial library offering from across ViacomCBS.

What excites me is our ability to work with a key partner, supporting both the traditional ecosystem and in transitioning consumers from linear to streaming in a way that is accretive to ARPU. Importantly, the deal preserves our ability to pursue D2C opportunities in these markets. Stepping back to the big picture. With our upcoming launch in Australia and New Zealand, I'm thrilled to report we've reached our goal of expanding Paramount+ into 25 markets in 2021, and we're well on our way to 45 markets by the end of 2022.

Simultaneously, we're continuing to drive Pluto's international growth. We recently launched on [Klara] Android in Brazil, a mobile service with an eligible user base of 32 million users. And in 2022, we expect Pluto TV to launch in additional markets, including the Nordics, Benelux, Canada, Poland and more. We're thrilled with our international streaming progress and momentum in Q2. And we continue to see a massive opportunity to capitalize on our global content capabilities and infrastructure to further capture the global streaming opportunity.

I know from my decade running our international business that every market is different and often requires different strategies and partnerships to succeed. We are executing with that in mind. And for sure, you will see us continue to lean in and allocate capital to what is a very large and high-growth total addressable market in streaming internationally.

With that, I'll hand it over to Naveen to dive into our financials. Naveen?

Naveen Chopra - *ViacomCBS Inc. - Executive VP & CFO*

Thank you, Bob, and good morning, everyone. As Bob mentioned, our second quarter results were highlighted by robust growth in streaming, where we had another quarter of record subscriber additions. Growth rates for both streaming subscription and streaming advertising revenue accelerated from their already strong Q1 levels, taking overall streaming revenue to 92% year-on-year growth. Q2 also benefited from strong performance in advertising and affiliate revenue.

I'll unpack our streaming results by sharing additional color on audience growth, engagement and monetization, starting with our subscription businesses and then moving to our ad-supported services. We added 6.5 million global streaming subscribers in the quarter, taking us to more than 42 million global streaming subscribers.

Showtime OTT enjoyed one of its best quarters ever in terms of new sign-ups, but like last quarter, the significant majority of our new subscribers were from Paramount+, including a mix of both domestic and international subscribers. In fact, we are increasingly bullish about the international market opportunity for Paramount+, as evidenced by our Q2 results, and our newly announced partnership with Sky.

Financially speaking, this type of deal provides a capital-efficient way for us to quickly build scale and awareness in new markets. Bundles with international partners bring low churn and highly efficient acquisition costs. Moreover, as Bob pointed out, ARPUs are meaningfully accretive to the linear affiliate revenue we are replacing.

In addition to strong subscriber growth, we also saw continued improvement in customer engagement and retention as the breadth of our content portfolio continues to expand. For example, for Paramount+, domestic trial-to-pay conversion, monthly hours per active and monthly churn all improved measurably in Q2 on both a sequential basis and year-over-year.

In terms of monetization, we saw healthy streaming subscription ARPU growth of 4% in Q2 versus the Q1 level. The combination of strong subscriber growth and increased engagement powered year-over-year streaming subscription revenue growth of 82% to $481 million.

Moving on to streaming advertising. Here, our growth was led by Pluto TV. As of quarter end, Pluto TV reached more than 52 million global MAUs across 25 countries. Pluto's revenue grew 169% in the quarter. This tremendous expansion of the business has been driven by growth in users, engagement and sell-through.

Domestic watch time per MAU increased 45% year-over-year in Q2, and Pluto TV domestic ARPU more than doubled year-over-year, benefiting from a double-digit percentage increase in effective CPMs and significant improvement in sell-through. This enhanced monetization reflects both strong demand for Pluto TV's high-quality connected TV inventory and efficiency benefits from the Q2 launch of open header bidding.

While Pluto remains the largest component of our EyeQ digital advertising platform, we are optimistic about the growth potential for advertising on Paramount+, and early results are encouraging. In fact, in Q2, Paramount+ domestic advertising revenue more than doubled versus a year ago, benefiting from user growth, along with a high teens percentage increase in streaming advertising ARPU per active sub.

We believe we're just scratching the surface of the Paramount+ advertising opportunity as user and engagement growth, alongside product enhancements, should add supply for this highly valuable digital video inventory. When you put it all together, this quarter, the combination of Pluto TV, Paramount+ and other EyeQ platforms drove streaming advertising revenue to $502 million, representing 102% year-over-year growth.

Advertising revenue, which excludes streaming, grew 24% in Q2 to $2.1 billion, benefiting from both the return of the NCAA men's basketball tournament as well as timing shifts of this year's professional golf tournaments. This quarter's strong growth rate was also a function of improvement in demand and record scatter pricing compared with the COVID-impacted quarter a year ago.

Affiliate revenue, which excludes streaming, grew 9% to $2.1 billion, where we benefited from distribution deals and renewals that provide incremental carriage and improved economics, which more than offset changes in the number of pay television subscribers. Even excluding the impact of incremental distribution deals, we saw modest improvements in subscriber trends in Q2 as we did in Q1.

Licensing and other revenue fell 36% to $1.2 billion as the year-ago period included a significant licensing deal for South Park. Adjusting for the 21 percentage point impact of the South Park deal, licensing and other revenue would have been down about 15%, which reflects COVID-impacted content availability and our ongoing efforts to limit licensing to third-party streaming services.

Total company revenue grew 8% year-over-year to $6.6 billion. Adjusted OIBDA fell 25% to $1.2 billion in the quarter. Again, year-over-year growth rates for revenue and adjusted OIBDA were impacted by the comparison to the year-ago period, which included a significant contribution from the licensing of South Park. Excluding the 9 and 30 percentage point South Park impact, respectively, Q2 revenue growth would have been 17% year-over-year and adjusted OIBDA growth would have been 5% year-over-year, as revenue growth and ongoing cost management more than offset increased investment in streaming.

Adjusted diluted EPS was $0.97 in the quarter and Q2 adjusted free cash flow was $75 million. Moving to the balance sheet. We finished the quarter with $5.4 billion of cash on hand and total long-term debt of $17.7 billion. This translates to a 2.4x net leverage ratio as of June 30. We have significant financial flexibility, which will increase with net proceeds of $2 billion from the sale of Simon & Schuster, which is on track to close in 2021, subject to regulatory approval.

We continue to believe investing in our streaming growth opportunity is our best use of capital, and we are starting to execute across the streaming growth vectors we previously described. As Bob highlighted, we are investing even more in original content for Paramount+. Our long-term

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multi-format deals with Alex Kurtzman, Taylor Sheridan and the creators of South Park exemplify compelling opportunities to bring heavyweight franchise IP with global appeal exclusively to Paramount+.

We are accelerating international expansion, as evidenced by our plan to launch Paramount+ in 45 markets by the end of 2022, and aided by strategic partnerships like the one we announced with Sky today, which will accelerate our growth plans in the U.K., Italy and Germany. And we continue to reduce the amount of original content we make for and license to third-party streamers, instead focusing more of our creative assets on in-house streaming services.

Beyond investing in streaming, we used excess cash to pay our dividend, manage leverage and fund opportunistic M&A, which bolsters our streaming growth ambitions, similar to our 2020 investment in Miramax and our pending acquisition of Chilevisión, which we anticipate closing in Q3. Looking ahead to the third quarter, we expect to see continued strong year-over-year streaming growth in both the subscription and advertising parts of the business.

In Q3, Paramount+ will benefit from the strong content lineup Bob described as well as the rollout of our Showtime Paramount+ bundle. International growth will be aided by our launch of Paramount+ in Australia and the launch of additional distribution partnerships. And we expect Pluto TV to see continued growth in engagement and further improvement in monetization, in addition to MAU growth from international market launches as it continues the march to over $1 billion in revenue for full year 2021.

Advertising in the back half of the year will continue to benefit from a robust market. So year-on-year trends will be compared to the return of demand in Q3 2020 as we ramped out of COVID and benefited from record political spend. Advertising growth will improve when new upfront pricing kicks in for Q4.

We expect affiliate revenue growth in the back half of '21 to slow as we lap the benefit of new distribution from YouTube TV and the timing of other affiliate renewals, which started in Q2 of 2020. We expect to return to growth in content licensing revenue, largely driven by increased licensing of TV content for linear distribution.

Looking further out, our enthusiasm for streaming continues to grow. Streaming revenue and subscriber growth are pacing ahead of our expectations, and streaming will represent close to 15% of total company revenue in 2021 and will become an even bigger share of revenue next year. This momentum tells us that our investment thesis is solid and can unlock significant incremental growth.

In pursuit of this growth, we continue to expect streaming content expense will more than double in 2021 relative to our 2020 spend as we deliberately transition linear content expense to streaming content expense. We are confident the streaming investments we are making will yield compelling ROI. You can see some of the early proof points in this quarter's results, and we are bullish about where we can go from here. Moreover, we are excited about the long-term shareholder value we can create.

With that, let's open the call for questions.

Anthony Joseph DiClemente - *ViacomCBS Inc. - EVP of IR*

Operator, we'll take our first question.

QUESTIONS AND ANSWERS

Operator

(technical difficulty)

Robert Marc Bakish - *ViacomCBS Inc. - President, CEO & Director*

We can't hear the question.

Anthony Joseph DiClemente - *ViacomCBS Inc. - EVP of IR*

Operator?

Robert Marc Bakish - *ViacomCBS Inc. - President, CEO & Director*

Operator -- Brett Feldman, are you live? If so, go ahead with your question.

Anthony Joseph DiClemente - *ViacomCBS Inc. - EVP of IR*

Operator?

Operator, we heard a little bit of noise. Are you there?

Guys, we're trying to resolve a problem -- a technical problem with the operator. So hopefully, you can hear us. The operator is working on it. Just hang with us. Thank you.

Operator

Gentlemen, thank you for standing by. Mr. Feldman, we're going to try Mr. Feldman.

Brett Joseph Feldman - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Great. Can you guys hear me okay?

Robert Marc Bakish - *ViacomCBS Inc. - President, CEO & Director*

Yes.

Anthony Joseph DiClemente - *ViacomCBS Inc. - EVP of IR*

Yes, we can. Sorry about that.

Brett Joseph Feldman - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Outstanding. All right. Two questions, if you don't mind. The first one is for Bob. The sector is obviously seeing continued M&A, and your company has been cited as a potential merger partner in a lot of these media reports. So my first question for you is, do you need more scale? And how do you think about the merits of gaining it via M&A or partnerships?

And then the second question is for Naveen. I was hoping you can give us a little bit of insight on the uptake that you've seen in the new ad-light tier Paramount+. Was it meaningful to the net adds you had in the quarter? And any insight you can give on where the ARPU is trending there would be appreciated.

Robert Marc Bakish - *ViacomCBS Inc. - President, CEO & Director*

Yes, sure, Brett. Let me take the first part. So look, we continue to be extremely excited about the momentum and go-forward potential of our organic strategy as we leverage the assets of ViacomCBS to create value overall. And certainly, with respect to streaming, the Q2 metrics clearly point to this strength and the ongoing potential of our organic approach.

Now the fact is the merger of Viacom and CBS was a transformative transaction, and we continue to successfully create value from it. We believe organic execution continues to be the right path for ViacomCBS and our shareholders. But of course, we will always evaluate any opportunities through our shareholder value creation lens.

Naveen Chopra - *ViacomCBS Inc. - Executive VP & CFO*

Yes. And regarding the Essential plan, we're very excited about being able to launch that this quarter. We think it expands the Paramount+ proposition to an even greater set of different customers. And from our perspective, we're actually very happy for people to sign up for either our Premium or Essential tier. We want them in the plan that's going to be the stickiest for them because, in the long run, we know that we maximize lifetime value based on the expected life of our customers.

It's also important to recognize that the ARPUs between each of those tiers are actually not as different as you might think because of the advertising contribution from the Essential tier. And those ARPUs, actually both the subscription and the combined advertising and subscription in the Essential tier, are growing both domestically and internationally. And we think that they have material future upside potential, both through evolution of pricing and also significant upside in the ad monetization. So we like how Essentials is progressing, and we think it's going to be very additive to our strategy.

Operator

The next analyst is Michael Morris with Guggenheim.

Michael C. Morris - *Guggenheim Securities, LLC, Research Division - MD and Senior Analyst*

I have 2 questions as well. My first, maybe for Bob, is if you could share some more detail on the Sky partnership that was announced. I know there can be a lot of complexity in these agreements. So any additional thoughts on timing within 2022, your promotional plans, affiliate ad mix, things like that to help us understand the go-to-market would be great.

And my second question is for Naveen. Looking for maybe a little more detail on the domestic trends at Paramount+. Curious how churn has trended engagement maybe compared to All Access, just to give us some historical precedent, or anything else you can share there and how you're thinking about the cadence of the drivers for the balance of the year.

Robert Marc Bakish - *ViacomCBS Inc. - President, CEO & Director*

Yes. Sure, Michael. So just to frame it, our streaming strategy overall is to access the largest total addressable market and do so by leveraging the full power of ViacomCBS. That obviously means global. So international is a key component, including critical scale markets like the U.K., Germany and Italy.

The good news is we have a long, mutually productive, value-creating history with Sky. And to that end, we saw a compelling opportunity to use renewals in the U.K., Italy and Germany to both elongate and continue to transform our business and specifically accelerate our streaming strategy.

On streaming, you'll see us launch Paramount+ in 2022 to the subscriber base on the Sky Cinema tier, and then it will be à la carte on top of that in all of those markets, which will be a very meaningful sub catalyst in 2022. And as I said in my prepared remarks, part of this deal was unlocking some previous exclusive to Sky content. So in addition to the distribution boost, it really makes our product even more compelling.

All that said, and I'm not going to comment on real contract specifics, I will tell you we're happy with the economics. We see this deal as a meaningful, predictable Paramount+ subscriber accelerate in all those markets and one with a compelling churn reduction dynamic.

And importantly, the deal does not prevent us from pursuing the broader D2C opportunity in these markets. So this is an awesome deal for us, and it's an example of leveraging the full power of ViacomCBS, including existing relationships to accelerate our streaming business, and that's something we're going to look to continue to do. Naveen?

Naveen Chopra - *ViacomCBS Inc. - Executive VP & CFO*

Yes. And going to the engagement question. As we mentioned on the call, the metrics on that front for Paramount+ are improving very nicely. And I think it's all content-driven as the diversity of content available on the service continues to evolve. And that's been driving, as I highlighted, improvements in conversion, improvements in hours per active, improvements in monthly churn.

And we continue to focus on optimizing all of those going forward, and it will be very much content-driven. We think about our content through 3 different dimensions. We think about what drives acquisition, what drives engagement and what drives consumption, a.k.a. time spent watching.

And different content performs differently. Kids and family content, as an example, is a big acquisition driver. And theatrical movies drive a lot of engagement. And things with large libraries, well-known titles, think something like a Survivor, can be a top consumption driver.

So we're going to continue to press on all of those dimensions. You got to nail acquisition engagement and consumption to have a healthy subscription business. And we think we're in a very strong position to be able to continue doing that. And the metrics from Q2 prove we're moving in the right direction.

Operator

The next question is from Alexia Quadrani with JPMorgan.

Alexia Skouras Quadrani - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

My question is really on your film strategy. Your thoughts on the health of the box office as a profit driver for Paramount longer term, do you still see it as a big driver of growth longer term?

And then sort of staying on your film business. I think you recently made some changes. I think you pulled Clifford from the film site because of the delta variant, I assume, including topics on day-and-date. I guess I'm curious if you see the 45-day [theatrical] window eventually for all your major films, or will it be decided by film-by-film basis? I guess I'm trying to get a sense if this is still COVID-related changes? Or you'll kind of go back and forth longer term depending on what your thoughts on the outlook?

Robert Marc Bakish - *ViacomCBS Inc. - President, CEO & Director*

Yes. Sure, Alexia. So look, the film business is strategically important to ViacomCBS. Movies work well on multiple platforms, including, of course, streaming, where our early experience with Paramount+, and you heard some remarks on that already, is strong. One of the things that we have today is more optionality with how we use films. We have more ways to use them than ever, which better leverages our investment, and you see that in us putting the product to use in a multifaceted way.

Some product like A Quiet Place II with its 45-day window is a fast follow on Paramount+. We like that. Some product is Paramount+ exclusive like what we did with Infinite, and in a lower budget way like what we'll do with the upcoming Paranormal Activity film. Some will be day-and-date with streaming and theatrical like the upcoming PAW Patrol movie.

And it's really this mix of approaches that's intended to optimize the use of our product, including driving both subscribers and box office, and provide learnings, which we can use to continue to shape our future mix. Importantly, as we do all this, we do consider the impact on all constituents as we look at individual to titles.

On your COVID question, look, we obviously track the market very carefully and the situation is a bit fluid. As a general principle, we do like the 45-day fast follow theatrical to Pay1, and that is the overall direction we'd like to go over time. But we got to look at each title in this pandemic and figure out what is the right strategy at this point in time.

And that results in us delaying some titles, moving forward to the traditional theatrical release, doing something exclusively on streaming or doing it day-to-day, and again, there's obviously a lot of considerations on that. But we like films. They're strategically important. We see tremendous value, and we have more levers to pull than ever.

Operator

Next question comes from Ben Swinburne with Morgan Stanley.

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

Two questions. ARPU on streaming was quite strong. As you guys highlighted, it was up nicely Q-on-Q and year-on-year. Can you talk about the outlook there? As you move more international, and it sounded like you're incrementally bullish internationally, does that put any pressure on it? Or are you feeling like ARPU continue to sort of grind higher over time? Just give us a little sense of the drivers there and how you're thinking about it.

And then Naveen, on free cash flow, $1.7 billion first half of the year. I think the expectations out there are that it will be less than that for the full year. Just any update on free cash flow expectations.

Naveen Chopra - *ViacomCBS Inc. - Executive VP & CFO*

Yes, Ben, so I'll start with your question on ARPU and then touch on free cash flow. So as you pointed out, subscription ARPU in Q2 saw some very nice sequential improvement. And I'd point out that, that improvement happened both with respect to domestic ARPU and international ARPU. And I think, going forward, it's important to think about those 2 things somewhat independently because the drivers are a little different.

Domestic ARPU will benefit from continued conversion of trial subs into pay subs. And it will also be influenced by the mix of subs between our Essential and Premium tiers. But as I said earlier, it's important to remember that the real ARPU coming out of our Essential tier includes both subscription and advertising revenues. So in the long term, we think that the Essential tier can actually be accretive to overall ARPUs on Paramount+.

On the international side, the next wave of countries that we're going to be launching, which are primarily in Europe and Australia, are higher ARPU markets than where we've been to date, which has been primarily Latin America. So that should be accretive to ARPU. And in fact, the deal we announced with Sky today is a great example of that. With that deal, we will quickly add millions of subscribers in the U.K. when it launches. And those subs would be accretive to both our current international streaming ARPU and the ARPUs that we generate on the linear affiliate side today.

In terms of free cash flow, I'd say a couple of things. Number one, as we've said before, we are increasing investment -- streaming investment for content. You've heard me mention before that we expect that investment to more than double this year relative to 2020. Again, not all of it is incremental on a total company basis because there's a lot of remixing between linear and streaming, and we've got content that does double duty. But we're also doing well in terms of being ahead of our plan on revenue and subs and continuing to find ways to drive operating leverage out of the business.

So the result of all that, I think, in terms of free cash flow, obviously, that will mean that there is some working capital needs going forward, both to scale that production on the streaming side. And also, just generally, as we transition out of COVID, some of the tailwinds that we've had from a cash flow perspective in 2020 and the first half of this year probably start to dissipate.

Operator

Our next question is from Rich Greenfield with LightShed Partners.

Richard Scott Greenfield - *LightShed Partners - Partner and Media & Technology Analyst*

I guess I just want to follow up on Alexia's question. Just as you think about sort of things like Snake Eyes, which, obviously, you're struggling at the box office just given the health of U.S. box office. I mean even the 2 biggest films to date, I think, have only done domestically $170 million or $175 million sort of looks like the peak. And so it just doesn't seem like box office dollars are there the way they used to.

And I guess, Bob, you sort of alluded to other strategies. But I'm just wondering, you've got 2 other companies, one in Disney doing sort of a $30 day-and-date Premium access, and you've got Warner Bros. sort of throwing them in at no extra cost Netflix-style and HBO Max. We'd just sort of love your view, given that it looks like things are getting worse again rather than better, from an attendance standpoint. Is there one of those that you prefer or one of those that you think makes more sense for Paramount?

And then just, I guess, for Bob, specifically, to me, Nick seems like one of the most important assets when I think about the creation of franchises and what it's doing for your streaming service. I was wondering sort of how you think about the IP creation -- new IP creation at Nickelodeon over the past year and what you see coming over the course of the next year that we should keep our eye on.

Robert Marc Bakish - *ViacomCBS Inc. - President, CEO & Director*

Yes. Sure, Rich. So look, on the film side, I will say, at this point in time, on a macro basis, we think the fast follow from theatrical, the 45-day window, 30- to 45-day window that we did our first implementation with, with A Quiet Place II is the sweet spot of the model because it provides a theatrical opportunity for consumers. It lets us benefit from that market, and then it quickly moves the product to streaming, in this case, Paramount+, to drive subscribers there.

And again, we only have one film we've done it with, and it hasn't gone through the life of the title yet, but we like what we're seeing. So I'd say on a macro level, we like that. That said, to your point, we continue to be in COVID. That situation is a bit fluid. And so we are looking title by title. And it's part of the reason we looked at -- we're doing a day-and-date with PAW Patrol, as we said, for that audience, i.e., families with young children.

Right now, in the middle of COVID, or at least partially still in COVID, we wanted to provide both choices for consumers because that we think gets it to the largest potential consumer base, which is not only good for that movie, but also good for the consumer products business that wraps around it. And by the way, if you've been inside a Walmart or Target or what have you, you'll see strong PAW Patrol: The Movie marketing available in theaters, where Paramount+ or AM Paramount+ as part of that signage. So we really like that strategy for that title. And we'll make decisions title by title going forward as we continue to be in this COVID-influenced market.

Now with respect to Nick and IP, let me start by saying, big picture, we really are big believers in franchises and their associated value. They have broad consumer appeal and awareness. You can do all kinds of things with them creatively. They obviously have commercial potential, including extensibility to things like consumer products, and they tend to play globally. So we like franchises.

Nickelodeon is a great example of franchise, and we're going to continue to optimize and drive that franchise machine. You've seen us do that a bit recently this year, including with Paramount+. Paramount+ really launched with the SpongeBob franchise, taking the SpongeBob Movie and then having the first episodic spinout in Kamp Koral. We're very pleased with that.

In the quarter, iCarly, the reboot of iCarly was a total home run. That's obviously a live action franchise versus an animated franchise that appeals to a little bit older audience. But there's no question that worked.

And in talking to Brian and working with him, Brian Robbins who runs Nickelodeon, we've got a very significant franchise plan ahead of us. One example of that is we've now set up Avatar Studios. That has tremendous potential as an umbrella franchise with all kind of sub-franchises inside of it. Obviously, PAW Patrol: The Movie, which I referenced, and the film side of it, that's another example of franchise growth.

So there's a lot to do there. But I would also say, Rich, it's not just about Nickelodeon. Look what we're doing more broadly, including on Paramount+, whether that's Y: 1883, which is the Yellowstone prequel. That, by the way, stars Faith Hill and Tim McGraw. And that's going to premiere behind Yellowstone for 2 episodes on Paramount Network before moving exclusively to Paramount+. We're doing a bunch of stuff in unscripted. So the franchise play is broad. Certainly, Nickelodeon is the visible and powerful piece, but it goes much beyond that.

And by the way, one thing I'm actually really excited about for next year on Paramount+ is Halo. That's a big game franchise. We're doing a pretty wild live action episodic out of it. I've seen early pieces of it, it looks spectacular. So franchises are key. Yes, Nickelodeon is the core, but it's bigger than that.

Operator

The next question is from Jessica Reif Ehrlich of Bank of America.

Jessica Jean Reif Ehrlich - *BofA Securities, Research Division - MD in Equity Research*

My question is advertising-related, I guess, a couple of parts to it. Given Naveen's comment about ad-light ARPU upside, I'm wondering, why don't you push that more? Or can you push that more? Is there any difference in contribution margin? I mean it just seems like the ARPU from that product could be higher than subscription.

And then on -- more generally, on advertising overall and the historically strong upfront that we just saw, can you give us like deeper color across all of your assets, national and local and international, in terms of where you see advertising going over the next few quarters?

Robert Marc Bakish - *ViacomCBS Inc. - President, CEO & Director*

Yes. Sure, Jessica. Let's do it in reverse order. Let me talk about advertising big picture and then have Naveen add some color around your question of ARPU, et cetera. So to your point, and our remarks, we're very happy with what we're seeing in the ad market. We're clearly benefiting from our leadership position there in. The upfront, as expected, was particularly strong this year. Part of that, of course, was a function of supply and demand at the market level: supply, particularly on linear being tight; and demand is strong, given the outgoing ramp out of COVID.

That obviously set the stage for very strong and, arguably, historic linear prices increases. And those increases were what we delivered and those will largely kick in, in Q4. But it's not just market. There are also real ViacomCBS elements in play here. We obviously benefit from a portfolio, which includes premium content, both in the mass market and targeted spaces, including with young and diverse audiences. We have leadership both on the linear side and with EyeQ on the digital video side.

EyeQ, in particular, on a long-term basis and in this upfront is really important because it provides a large volume of high-quality impressions, which more than offset the linear supply dynamics and drive overall advertising revenue. And critical to all of that is our executing as a single sales organization. That allows clients and their agencies really turnkey access to the portfolio through a single point of contact.

So very pleased with what we're seeing in the ad market. Very pleased with the upfront, really a case study of the strength of ViacomCBS and our ability to differentiate ourselves and grow on an ongoing basis. Naveen?

Naveen Chopra - *ViacomCBS Inc. - Executive VP & CFO*

Yes. So as it relates to the interplay between the Essentials tier and the Premium tier and sort of steering customers to one or the other, I would reiterate that we are focused on maximizing the lifetime value of each of our subscribers. And given what I noted earlier about the fact that the ARPU and the contribution margin of each of those tiers is not that different and likely will converge over time.

Ultimately, what matters in that lifetime value equation is the expected life of our customers. So we want the customer in whichever tier they are going to be the most sticky in. And that's how we're operating those services today.

Operator

The next question is from Vijay Jayant with Evercore.

Vijay A. Jayant - *Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Media, Entertainment, Cable, Satellite & Telecommunication*

So Bob, you talked about the carriage deals you've announced with Charter, Cox and now with Sky. And one of the deals sort of mentioned your deals are sort of the modern era deals. So can you sort of talk about what's the evolution there in terms of economics or flexibility that has to happen to make this sort of a win-win situation? And really, how key is the legacy MVPD relationships to grow Paramount+ going forward?

Robert Marc Bakish - *ViacomCBS Inc. - President, CEO & Director*

Yes. Sure, Vijay. So let me start by saying we're extremely pleased with where we are from an affiliate perspective and see this multi-quarter track record that we've put on the boards of affiliate renewal after affiliate renewal as overwhelming evidence of the strength of ViacomCBS.

ViacomCBS, really, is a cornerstone provider to the distribution community. And yes, that started way back when with the provision of linear feeds, probably 5 or 6 years ago. That expanded to include advanced advertising partnerships, which were mutually beneficial. And now it's incorporating streaming as a fundamental element.

And so we are working with MVPDs to advance our streaming benefit for both of our benefit, and we're doing that across free and pay. We're doing that across set-top box and broadband-only. And the recent examples of that are Charter and Cox, where streaming was certainly additive and mutually beneficial.

And then today's announcement, Sky, same thing. So it really is a modernization, a broadening, making these partnerships even stronger as we, together, transform the benefit and for Viacom -- the business and for ViacomCBS, really, accelerate the growth of our streaming portfolio. So we're feeling great about it, Vijay.

Operator

Next question is from John Janedis with Wolfe Research.

John Janedis - *Wolfe Research, LLC - MD & Senior Media Analyst*

Bob, maybe one for you. With your comments on Paramount+ and coming out of the upfront, can you give us more of an update on your digital advertising strategy? I don't know if you separate the dollars between Paramount+, DTV and Pluto, but maybe, even directionally, what are you targeting for digital as a percent of the total?

And do the CPM increases that CBS provide some form of a tailwind or upside for price increases? Or do you go for volume in the short term? And then maybe a quickie on Pluto. With the growth there still really strong, have you seen any changes in either the economics of the business or content availability?

Robert Marc Bakish - *ViacomCBS Inc. - President, CEO & Director*

Yes, sure. So John, so on the ad side and, in particular, the role of digital, look, we believe it's fundamental. We made that decision at Viacom legacy a number of years ago. Among other things, that drove us to do the Pluto acquisition, which, by the way, has turned out to be a total home run. I would point out that when we acquired Pluto at the beginning of '19, it came off a 2018 revenue base of $70 million. This -- in this third year of owning it, it will do over $1 billion. That sounds like a very robust growth to me. So we're thrilled we have it.

Pluto is part of what we call EyeQ, which is our overall digital video advertising portfolio. It has proven to be a great source of high-quality impressions in high-quality environments. In a world where there's -- I mean that's compelling on a stand-alone basis, but also in a world where there is linear supply constraints, it's really in combination that it has turned out to be extremely powerful.

Over time, the videos -- the digital video side will continue to increase as a percentage of our overall mix. As we package and, in some cases, transition advertisers from scarce, high-priced linear to more available, high-quality digital, but by the way, do it in a way where we're very careful in delivering the right mix of reach and frequency and, among other things, we went to a unified ad server in the last couple of months, which really helps us with that. So very excited about where we are today with the digital video advertising as a component of ViacomCBS and believe it has long legs for growth going forward.

On the Pluto side, let me just briefly say, again, the overall trajectory of Pluto is amazing. We have, as I mentioned, continued to add quality -- high-quality content to Pluto. In the last year, in the U.S., we've doubled the number of hours from 100,000 hours to 200,000 hours. A chunk of that is certainly ViacomCBS, but a bunch of that is third party as well. And the third parties are really seeing the power of the Pluto platform, too, because it is a very effective reach and, importantly, monetization. Because ultimately, people are in it to make money, monetization vehicle for them, which is why you see us continue to add to the product across a full range of genres.

So Pluto TV continues to be on an amazing trajectory, obviously expanding all around the world off of its #1 FAST service in the U.S. position. And that one, too, has a long positive growth road ahead of it.

Operator

That question is from the line of Robert Fishman with MoffettNathanson.

Robert S. Fishman - *MoffettNathanson LLC - Analyst*

Can you expand on how sports at Paramount+ has driven subscriber additions and engagement and whether you think that will impact future sports rights deals going exclusively to streaming? And then just as a quick follow-up on Pluto. Do you see this as a winner-take-all type of market? Or will viewers just jump around to the different services to find the different original and exclusive content?

Robert Marc Bakish - *ViacomCBS Inc. - President, CEO & Director*

Yes. So in that order, so sports are fundamental to Paramount+. Again, we think of Paramount+ as live sports, breaking news and a mountain of entertainment. If you look at our experience in Q1 and Q2, it clearly points to the value of sports. There's no question the NFL makes a difference. And part of our long-term renewal with the NFL some months ago was, of course, ensuring rights for Paramount+. By the way, both the $9.99 and the $4.99 product, $4.99 product doesn't have the linear feed. So we had to do some work with the NFL, and we did.

Soccer is making a difference, and you see us growing our collection there. I'm really looking forward to see what Serie A does very shortly. That will be our first season with that. That's the Italian league. Golf, too, makes a difference. They all contribute to Paramount+. They all broadened its appeal to specific market sectors.

But I think, also, importantly, they work in what we would call a conjoint way with entertainment. There are sports fans out there, and they also love entertainment. And so as we ensure that the product is sticky, as we optimize monetization, having a strong entertainment offering to go with the sports offering is very important. And again, while early days, we're seeing really value -- clear value there. And it's obviously a critical extension of CBS Sports and the modernization of that into the streaming world. So we like that a lot. The Pluto question -- well, sorry, can you just restate your Pluto question, Rob?

Robert S. Fishman - *MoffettNathanson LLC - Analyst*

Of course. Do you see this as a winner-take-all type of market as you're growing really quickly? Or will viewers just kind of jump around to the different services?

Robert Marc Bakish - *ViacomCBS Inc. - President, CEO & Director*

All right. Thank you. Look, we are privileged to be in a leadership position with Pluto. That's partially because we saw the opportunity early and then added, first, Viacom and now ViacomCBS assets and capabilities to it in the form of content, in the form of distribution, in the form of advertising sales. I don't think it's a winner-take-all market. But clearly, having a leadership position is exceptionally valuable. And we are certainly focused on continuing to press the gas pedal there and building a leadership position worldwide.

And I would point out that, as you have this scale, it really is a flywheel. If you talk to Tom Ryan, he'll talk about the Pluto flywheel. And what he means by that is the scale is self-reinforcing because as the platform gets bigger, as you have more MAUs, your monetization increases to the example of $70 million to $1 billion this year. That means that the people who have content on the platform make more money, which in turn means your platform is more attractive, which in turn means you get better content. So the good news is that's the trajectory Pluto's on and, again, we couldn't be happier.

So look, thanks, everyone, for joining. In closing, clearly, I think you can hear it. These are very exciting times at ViacomCBS. We have really strong operating momentum. We have amazing content, and we have a streaming strategy that is really delivering. You see that in our second quarter, and we're feeling great about the outlook for the year ahead.

So thank you for your time and support. We look forward to delivering for all of you on the ViacomCBS growth opportunity. And finally, I'd like to thank all the ViacomCBS employees for all they do every day to drive the company forward. Stay well, everyone, and we'll talk to you soon.

Operator

This concludes today's conference. You may disconnect your lines. Thank you for your participation.