

Viacom Inc.  
Form 10-Q  
February 05, 2019

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-32686

VIACOM INC.  
(Exact name of registrant as specified in its charter)  
DELAWARE 20-3515052  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

1515 Broadway  
New York, NY 10036  
(212) 258-6000  
(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

| Class of Stock                                    | Shares Outstanding<br>as of January 31,<br>2019 |
|---|---|
| Class A common stock, par value \$0.001 per share | 49,430,901                                      |
| Class B common stock, par value \$0.001 per share | 353,639,515                                     |

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## PART I – FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements (Unaudited).

## VIACOM INC.

## CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

| (in millions, except per share amounts)                               | Quarter Ended |              |
|---|---------------|--------------|
|   | December 31,  | December 31, |
|   | 2018          | 2017         |
| Revenues  | \$3,090       | \$3,073      |
| Expenses:   |               |              |
| Operating   | 1,683         | 1,563        |
| Selling, general and administrative                                   | 684           | 739          |
| Depreciation and amortization   | 50            | 53           |
| Restructuring and related costs                                       | 71            | —            |
| Total expenses  | 2,488         | 2,355        |
| Operating income  | 602           | 718          |
| Interest expense, net   | (127 )        | (147 )       |
| Equity in net earnings of investee companies                          | 1             | 1            |
| Loss on marketable securities   | (46 )         | —            |
| Gain on extinguishment of debt  | 18            | 25           |
| Other items, net  | (7 )          | (4 )         |
| Earnings from continuing operations before provision for income taxes | 441           | 593          |
| Provision for income taxes  | (110 )        | (42 )        |
| Net earnings from continuing operations                               | 331           | 551          |
| Discontinued operations, net of tax                                   | 3             | 2            |
| Net earnings (Viacom and noncontrolling interests)                    | 334           | 553          |
| Net earnings attributable to noncontrolling interests                 | (13 )         | (16 )        |
| Net earnings attributable to Viacom                                   | \$321         | \$537        |
| Amounts attributable to Viacom:                                       |               |              |
| Net earnings from continuing operations                               | \$318         | \$535        |
| Discontinued operations, net of tax                                   | 3             | 2            |
| Net earnings attributable to Viacom                                   | \$321         | \$537        |
| Basic earnings per share attributable to Viacom:                      |               |              |
| Continuing operations   | \$0.79        | \$1.33       |
| Discontinued operations   | 0.01          | —            |
| Net earnings  | \$0.80        | \$1.33       |
| Diluted earnings per share attributable to Viacom:                    |               |              |
| Continuing operations   | \$0.79        | \$1.33       |
| Discontinued operations   | 0.01          | —            |
| Net earnings  | \$0.80        | \$1.33       |
| Weighted average number of common shares outstanding:                 |               |              |
| Basic   | 403.1         | 402.5        |
| Diluted   | 403.5         | 402.6        |

See accompanying notes to Consolidated Financial Statements

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VIACOM INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

|   | Quarter<br>Ended<br>December<br>31, |       |
|---|-------------------------------------|-------|
| (in millions)   | 2018                                | 2017  |
| Net earnings (Viacom and noncontrolling interests)                      | \$334                               | \$553 |
| Other comprehensive income/(loss), net of tax:                          |                                     |       |
| Foreign currency translation adjustments                                | (54 )                               | 9     |
| Defined benefit pension plans   | 1                                   | 2     |
| Cash flow hedges  | 2                                   | 1     |
| Available-for-sale securities   | —                                   | 30    |
| Other comprehensive income/(loss) (Viacom and noncontrolling interests) | (51 )                               | 42    |
| Comprehensive income  | 283                                 | 595   |
| Less: Comprehensive income attributable to noncontrolling interest      | 10                                  | 16    |
| Comprehensive income attributable to Viacom                             | \$273                               | \$579 |

See accompanying notes to Consolidated Financial Statements

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VIACOM INC.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

| (in millions, except par value)  | December 31,<br>2018 | September 30,<br>2018 |
|--|----------------------|-----------------------|
| <b>ASSETS</b>  |                      |                       |
| Current assets:  |                      |                       |
| Cash and cash equivalents  | \$ 534               | \$ 1,557              |
| Receivables, net   | 3,205                | 3,141                 |
| Inventory, net   | 829                  | 896                   |
| Prepaid and other assets   | 468                  | 482                   |
| Total current assets   | 5,036                | 6,076                 |
| Property and equipment, net  | 893                  | 919                   |
| Inventory, net   | 3,930                | 3,848                 |
| Goodwill   | 11,606               | 11,609                |
| Intangibles, net   | 305                  | 313                   |
| Other assets   | 974                  | 1,018                 |
| Total assets   | \$ 22,744            | \$ 23,783             |
| <b>LIABILITIES AND EQUITY</b>  |                      |                       |
| Current liabilities:   |                      |                       |
| Accounts payable   | \$ 305               | \$ 433                |
| Accrued expenses   | 732                  | 848                   |
| Participants' share and residuals  | 707                  | 719                   |
| Program obligations  | 729                  | 662                   |
| Deferred revenue   | 424                  | 398                   |
| Current portion of debt  | 326                  | 567                   |
| Other liabilities  | 610                  | 427                   |
| Total current liabilities  | 3,833                | 4,054                 |
| Noncurrent portion of debt   | 8,635                | 9,515                 |
| Participants' share and residuals  | 428                  | 523                   |
| Program obligations  | 437                  | 498                   |
| Deferred tax liabilities, net  | 274                  | 296                   |
| Other liabilities  | 1,174                | 1,186                 |
| Redeemable noncontrolling interest   | 239                  | 246                   |
| Commitments and contingencies (Note 6)   |                      |                       |
| Viacom stockholders' equity:   |                      |                       |
| Class A common stock, par value \$0.001, 375.0 authorized; 49.4 and 49.4 outstanding, respectively     | —                    | —                     |
| Class B common stock, par value \$0.001, 5,000.0 authorized; 353.7 and 353.7 outstanding, respectively | —                    | —                     |
| Additional paid-in capital   | 10,154               | 10,145                |
| Treasury stock, 393.1 and 393.1 common shares held in treasury, respectively                           | (20,561)             | (20,562)              |
| Retained earnings  | 18,916               | 18,561                |
| Accumulated other comprehensive loss   | (839)                | (737)                 |
| Total Viacom stockholders' equity  | 7,670                | 7,407                 |
| Noncontrolling interests   | 54                   | 58                    |
| Total equity   | 7,724                | 7,465                 |
| Total liabilities and equity   | \$ 22,744            | \$ 23,783             |

See accompanying notes to Consolidated Financial Statements

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VIACOM INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

|  | Quarter<br>Ended<br>December<br>31, |          |
|--|-------------------------------------|----------|
| (in millions)  | 2018                                | 2017     |
| <b>OPERATING ACTIVITIES</b>                                      |                                     |          |
| Net earnings (Viacom and noncontrolling interests)               | \$334                               | \$553    |
| Discontinued operations, net of tax                              | (3 )                                | (2 )     |
| Net earnings from continuing operations                          | 331                                 | 551      |
| Reconciling items:   |                                     |          |
| Depreciation and amortization                                    | 50                                  | 53       |
| Feature film and program amortization                            | 1,082                               | 1,047    |
| Equity-based compensation  | 9                                   | 14       |
| Equity in net earnings and distributions from investee companies | 2                                   | 4        |
| Deferred income taxes  | (36 )                               | (91 )    |
| Loss on marketable securities                                    | 46                                  | —        |
| Operating assets and liabilities, net of acquisitions:           |                                     |          |
| Receivables  | (12 )                               | (93 )    |
| Production and programming                                       | (1,125 )                            | (1,191 ) |
| Accounts payable and other current liabilities                   | (78 )                               | (232 )   |
| Other, net   | (41 )                               | (50 )    |
| Net cash provided by operating activities                        | 228                                 | 12       |
| <b>INVESTING ACTIVITIES</b>                                      |                                     |          |
| Acquisitions and investments, net                                | (14 )                               | (2 )     |
| Capital expenditures   | (37 )                               | (28 )    |
| Proceeds received from asset sales                               | 5                                   | 23       |
| Grantor trust proceeds   | 2                                   | 2        |
| Net cash used in investing activities                            | (44 )                               | (5 )     |
| <b>FINANCING ACTIVITIES</b>                                      |                                     |          |
| Debt repayments  | (1,100 )                            | (1,000 ) |
| Commercial paper   | —                                   | 100      |
| Dividends paid   | (81 )                               | (80 )    |
| Other, net   | (21 )                               | (22 )    |
| Net cash used in financing activities                            | (1,202 )                            | (1,002 ) |
| Effect of exchange rate changes on cash and cash equivalents     | (5 )                                | —        |
| Net change in cash and cash equivalents                          | (1,023 )                            | (995 )   |
| Cash and cash equivalents at beginning of period                 | 1,557                               | 1,389    |
| Cash and cash equivalents at end of period                       | \$534                               | \$394    |

See accompanying notes to Consolidated Financial Statements



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VIACOM INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Unaudited)

| (in millions, except per share amounts)                       | Quarter Ended<br>December 31, 2017 |  |                   |                   |                      |                             |                                 |                             |                 |
|---|------------------------------------|--|-------------------|-------------------|----------------------|-----------------------------|---------------------------------|-----------------------------|-----------------|
|   | Common<br>Stock/                   |  |                   | Treasury<br>Stock | Retained<br>Earnings | Accumulated                 |                                 | Noncontrolling<br>Interests | Total<br>Equity |
|   | Comm<br>Stock<br>(shares)          | Stock/<br>Additional<br>Paid-In<br>Capital | Treasury<br>Stock |                   |                      | Other<br>Comprehens<br>Loss | Viacom<br>Stockholder<br>Equity |                             |                 |
| September 30, 2017  | 402.4                              | \$ 10,119                                  | \$(20,590)        | \$17,124          | \$ (618 )            | \$ 6,035                    | \$ 84                           | \$6,119                     |                 |
| Net earnings  | —                                  | —  | —                 | 537               | —                    | 537                         | 16                              | 553                         |                 |
| Other comprehensive income, net of income tax expense of \$18 | —                                  | —  | —                 | —                 | 42                   | 42                          | —                               | 42                          |                 |
| Noncontrolling interests                                      | —                                  | —  | —                 | 2                 | —                    | 2                           | (19 )                           | (17 )                       |                 |
| Dividends declared (\$0.20 per share for both Class A and B)  | —                                  | —  | —                 | (81 )             | —                    | (81 )                       | —                               | (81 )                       |                 |
| Equity-based compensation and other                           | 0.1                                | 10   | 5                 | —                 | —                    | 15                          | —                               | 15                          |                 |
| December 31, 2017   | 402.5                              | \$ 10,129                                  | \$(20,585)        | \$17,582          | \$ (576 )            | \$ 6,550                    | \$ 81                           | \$6,631                     |                 |
|   | Quarter Ended<br>December 31, 2018 |  |                   |                   |                      |                             |                                 |                             |                 |
| (in millions, except per share amounts)                       | Common<br>Stock/                   |  |                   | Treasury<br>Stock | Retained<br>Earnings | Accumulated                 |                                 | Noncontrolling<br>Interests | Total<br>Equity |
|   | Comm<br>Stock<br>(shares)          | Stock/<br>Additional<br>Paid-In<br>Capital | Treasury<br>Stock |                   |                      | Other<br>Comprehens<br>Loss | Viacom<br>Stockholder<br>Equity |                             |                 |
| September 30, 2018  | 403.1                              | \$ 10,145                                  | \$(20,562)        | \$18,561          | \$ (737 )            | \$ 7,407                    | \$ 58                           | \$7,465                     |                 |
| Adoption of New Accounting Pronouncements <sup>(1)</sup>      | —                                  | —  | —                 | 113               | (54 )                | 59                          | —                               | 59                          |                 |
| Adjusted beginning balance, October 1, 2018                   | 403.1                              | 10,145                                     | (20,562 )         | 18,674            | (791 )               | 7,466                       | 58                              | 7,524                       |                 |
| Net earnings  | —                                  | —  | —                 | 321               | —                    | 321                         | 13                              | 334                         |                 |
| Other comprehensive loss, net of income tax expense of \$1    | —                                  | —  | —                 | —                 | (48 )                | (48 )                       | (3 )                            | (51 )                       |                 |
| Noncontrolling interests                                      | —                                  | —  | —                 | 1                 | —                    | 1                           | (14 )                           | (13 )                       |                 |
| Dividends declared (\$0.20 per share for both Class A and B)  | —                                  | —  | —                 | (81 )             | —                    | (81 )                       | —                               | (81 )                       |                 |
| Equity-based compensation and other                           | —                                  | 9  | 1                 | 1                 | —                    | 11                          | —                               | 11                          |                 |
| December 31, 2018   | 403.1                              | \$ 10,154                                  | \$(20,561)        | \$18,916          | \$ (839 )            | \$ 7,670                    | \$ 54                           | \$7,724                     |                 |

(1) Represents the adoption of Accounting Standards Codification (“ASC”) 606 - Revenue from Contracts with Customers, Accounting Standards Update (“ASU”) 2016-16 - Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory and ASU 2016-01 - Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. See Note 1 of the Consolidated Financial Statements for details.

See accompanying notes to Consolidated Financial Statements



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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Description of Business

Viacom creates entertainment experiences that drive conversation and culture around the world. Through television, film, digital media, live events, merchandise and solutions, our brands connect with diverse, young and young at heart audiences in more than 180 countries. Viacom operates through two reportable segments: Media Networks and Filmed Entertainment. The Media Networks segment provides entertainment content, services and related branded products for consumers in targeted demographics attractive to advertisers, content distributors and retailers through our global media brands including flagship brands Nickelodeon, MTV, BET, Comedy Central and Paramount Network. The Filmed Entertainment segment develops, produces, finances, acquires and distributes films, television programming and other entertainment content through its Paramount Pictures, Paramount Players, Paramount Animation and Paramount Television divisions, in various markets and media worldwide, for itself and for third parties. It partners on various projects with key Viacom brands, including Nickelodeon Movies, MTV Films and BET Films. References in this document to “Viacom,” “Company,” “we,” “us” and “our” mean Viacom Inc. and our consolidated subsidiaries, unless the context requires otherwise.

Unaudited Interim Financial Statements

The accompanying unaudited consolidated quarterly financial statements have been prepared on a basis consistent with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and pursuant to the rules of the Securities and Exchange Commission (“SEC”). In the opinion of management, the accompanying unaudited financial statements reflect all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of our results of operations, financial position and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results expected for the fiscal year ending September 30, 2019 (“fiscal 2019”) or any future period. These financial statements should be read in conjunction with our Form 10-K for the year ended September 30, 2018, as filed with the SEC on November 16, 2018 (the “2018 Form 10-K”).

Use of Estimates

Preparing financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the dates presented and the reported amounts of revenues and expenses during the periods presented. Significant estimates inherent in the preparation of the accompanying Consolidated Financial Statements include estimates of film ultimate revenues, product returns, potential outcome of uncertain tax positions, fair value of acquired assets and liabilities, fair value of equity-based compensation and pension benefit assumptions. Estimates are based on past experience and other considerations reasonable under the circumstances. Actual results may differ from these estimates.

Revenue Recognition

We recognize revenue when control of a good or service is transferred to a customer. We consider control to be transferred when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits of that good or service. Significant judgments in the determination of the amount and timing of revenue from contracts with customers include the identification of distinct performance obligations in contracts containing bundled advertising sales and content licenses and the allocation of the consideration among individual performance obligations within these arrangements based on their relative standalone selling prices.

Advertising Revenues: Revenue from the sale of advertising earned by the Media Networks segment is recognized when the advertisement is aired. Advertising revenues are principally generated from the sale of advertising campaigns comprised of multiple commercial units. In contracts with guaranteed impressions, we have identified the overall advertising campaign as the performance obligation to be satisfied over time, and impressions delivered against the satisfaction of our guarantee as the measure of progress. To the extent amounts billed exceed the amount

of revenue recognized by applying the measure of progress, such amounts are deferred until the impression guarantee has been satisfied. For arrangements that do not include impression guarantees, the individual spots are the performance obligation, and consideration is allocated among the individual advertising spots based on relative standalone selling prices.

Affiliate Revenues: In the Media Networks segment, content is primarily distributed through its live network feeds via content license arrangements with affiliate partners, including cable television operators, direct-to-home satellite operators and mobile networks.

We also license our content through television, subscription video-on-demand (“SVOD”) and over-the-top (“OTT”) distributors, syndication and transactional video-on-demand. As discussed further in the Filmed Entertainment Revenues section below, revenue associated with these arrangements is recognized upon a transfer of control, which occurs upon delivery and availability for airing by the licensee.

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Affiliate revenues from cable television operators, direct-to-home satellite television operators and mobile networks are recognized by the Media Networks segment as the live feeds are provided to the distributor, representing a transfer of control. The performance obligation under such affiliate agreements is a license to our content via the continuous delivery of live linear feeds, and may also include a license to programming for video-on-demand (“VOD”) viewing. Both performance obligations are satisfied ratably over the term of the agreement. The majority of our affiliate revenues relate to sales-based royalties for which we receive a contractual rate per subscriber. Revenue for these contracts is recognized when the sale to the end customer occurs, which is generally concurrent with the delivery of the linear feeds based on the number of subscribers the customer has at the time of delivery.

Consumer Products, Recreation and Live Events Revenues: Revenue associated with consumer products, recreation and live event contracts is typically recognized utilizing contractual royalty rates applied to sales amounts reported by licensees. When consumer products and recreation agreements include minimum guaranteed consideration, revenue is recognized as sales occur by the licensee or ratably if the sales-based consideration is not expected to exceed a minimum guaranteed amount of consideration. For live events, we recognize revenue when the event is held.

Filmed Entertainment Revenues: In the Filmed Entertainment segment, we license our content through theatrical releases, television, SVOD and OTT distributors, and through transactional video-on-demand. We also distribute our films through DVD and Blu-ray sales through wholesale and retail partners.

Revenue from the licensing of film and television exhibition rights, including broadcast and cable television networks, SVOD and other OTT services, is recognized upon a transfer of control, which occurs upon delivery and availability for airing by the licensee. Each individual title delivered represents a separate performance obligation. For renewals or extensions of licensing arrangements, revenue related to the renewal or extension is recognized upon the start of the renewal or extension period to the extent the content has been delivered to the customer. SVOD and other OTT arrangements include content made available to distributors on one or more dates for a fixed fee. Consideration for such arrangements is allocated among the titles and episodes based on relative standalone selling prices. Estimation of standalone selling prices requires judgment, which can impact the timing and amount of revenue that we recognize. In determining the transaction price of a contract, an adjustment is made if payment from our customer occurs either significantly before or after performance, resulting in a significant financing component. Applying a practical expedient in the new standard, we do not assess whether a significant financing component exists if the period between when we perform our obligations under the contract and when the customer pays is one year or less.

In transactional video-on-demand and similar arrangements, our performance obligation is to provide the content to our distribution customers that provide our content to end users. These contracts provide for sales-based royalties based on the number of underlying transactions with end users. Revenue for transactional video-on-demand and similar arrangements is recognized as the content is exhibited based on end-customer purchases as reported by distributors. Similarly, revenue from licensing of our content through electronic sell-through means is recognized as each title is downloaded by the end customer, as the customer is able to use the license immediately upon download. For sales of DVDs and Blu-ray discs to wholesalers and retailers, revenue is recognized upon the later of physical delivery to the customer or the date that restrictions on sales by the retailers are lifted.

Theatrical revenue is recognized from theatrical distribution of films during the exhibition period. These agreements take the form of sales-based royalties and revenue is recognized when the sale to the end customer occurs.

Revenue Allowances: We record a provision for sales returns and allowances at the time of sale based upon an estimate of future returns, rebates and other incentives (“estimated returns”). In determining estimated returns, we consider numerous sources of qualitative and quantitative evidence including forecasted sales data, customers’ rights of return, units shipped and units remaining at retail, historical return rates for similar product, current economic trends, competitive environment, promotions and sales strategies. Reserves for sales returns and allowances are recorded as a liability in the Consolidated Balance Sheet. Reserves for accounts receivable are based on amounts estimated to be uncollectible and are recorded as a contra-receivable.

Gross versus Net Revenue: We earn and recognize revenues under certain third-party distribution and outsourced advertising sales agreements. In such cases, determining whether revenue should be reported on a gross or net basis is based on management's assessment of which party controls the good or service being transferred to the customer.

#### Recently Adopted Accounting Pronouncements

##### Revenue Recognition

On October 1, 2018, we adopted ASC Topic 606 - Revenue from Contracts with Customers, a comprehensive revenue recognition model that supersedes the previous revenue recognition requirements. The guidance provides a five step framework to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration it

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VIACOM INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

expects to be entitled to in exchange for those goods or services. The new standard impacts the timing of revenue recognition for renewals and extensions of existing licensing agreements for intellectual property, which are now recognized as revenue when the renewal term begins rather than when the agreement is extended or renewed under previous guidance. We adopted the standard using the modified retrospective method for all contracts not completed as of the date of adoption, which resulted in a cumulative effect adjustment of \$106 million to decrease the opening retained earnings balance for our 2019 fiscal year, substantially all related to television license arrangements in our Filmed Entertainment segment.

The following tables present the amount each applicable financial statement line item on our Consolidated Statement of Earnings and Consolidated Balance Sheet would have increased/(decreased) if renewals and extensions of existing licensing agreements for intellectual property were recognized under previous accounting guidance:

| Consolidated Statement of Earnings Impact<br>(in millions, except per share amounts) | Quarter                       |
|--|-------------------------------|
|  | Ended<br>December<br>31, 2018 |
| Revenues   | \$ (11 )                      |
| Operating expenses   | (4 )                          |
| Operating income   | (7 )                          |
| Provision for income taxes   | (2 )                          |
| Net earnings from continuing operations  | \$ (5 )                       |
| Net earnings (Viacom and noncontrolling interests)                                   | \$ (5 )                       |
| Net earnings attributable to Viacom  | \$ (5 )                       |
| Basic EPS from continuing operations   | \$ (0.01 )                    |
| Diluted EPS from continuing operations   | \$ (0.01 )                    |

| Consolidated Balance Sheet Impact<br>(in millions) | December<br>31, 2018 |
|--|----------------------|
| <b>ASSETS</b>                                      |                      |
| Receivables, net                                   | \$ 7                 |
| Inventory, net                                     | (15 )                |
| Prepaid and other assets                           | (2 )                 |
| Other assets                                       | 112                  |
| <b>LIABILITIES AND EQUITY</b>                      |                      |
| Accrued expenses                                   | \$ 10                |
| Participants' share and residuals (current)        | 32                   |
| Other liabilities (current)                        | (70 )                |
| Deferred revenue                                   | (4 )                 |
| Participants' share and residuals (noncurrent)     | 56                   |
| Other liabilities (noncurrent)                     | (23 )                |
| Retained earnings                                  | 101                  |

In addition, the adoption of ASC 606 resulted in a classification change on the Consolidated Balance Sheet in which reserves related to sales returns and allowances were reclassified to Other Liabilities - current. Such amount, which was \$70 million as of December 31, 2018, was previously presented as a reduction to Receivables, net.

**Income Taxes**

On October 1, 2018, we adopted ASU 2016-16 - Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory. ASU 2016-16 requires the tax effects of intercompany transactions, other than sales of inventory, to be

recognized currently, eliminating an exception under the previous GAAP in which the tax effects of intra-entity asset transfers were deferred until the transferred asset was sold to a third party or otherwise recovered through use. Under the modified retrospective method, we recorded a net cumulative adjustment of \$165 million to increase the opening retained earnings balance for our 2019 fiscal year, principally related to deferred tax assets that will be amortized over the next 12 to 15 years.

#### Financial Instruments

On October 1, 2018, we adopted ASU 2016-01 - Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects of recognition, measurement, presentation and disclosure of certain financial instruments. Among other provisions, the new guidance requires the fair value measurement of equity



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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investments. For equity investments without readily determinable fair values, entities have the option to either measure these investments at fair value or to apply a measurement alternative at cost adjusted for changes in observable prices minus impairment. All changes in measurement are recognized in net income. We adopted the standard for our marketable securities using the modified retrospective method, which resulted in a transition adjustment to reclassify \$54 million, net of tax, of accumulated other comprehensive income related to our marketable securities to increase the opening retained earnings balance. For our investments without readily determinable fair values, or non-marketable securities, we have adopted the standard prospectively and elected to apply the measurement alternative described above. Gains and losses resulting from the movements in fair value of equity investments are recorded in the Consolidated Statements of Earnings.

Statement of Cash Flows

On October 1, 2018, we adopted ASU 2016-15 - Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The new standard impacts our Consolidated Statements of Cash Flows by increasing cash flow from operating activities and decreasing cash flow from financing activities in periods when debt prepayment or debt extinguishment costs are paid. We adopted the standard retrospectively.

Pension Benefits

On October 1, 2018, we adopted ASU 2017-07 - Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires the service cost component of net periodic cost to be presented in the income statement with other current compensation costs for related employees. The other components of net periodic cost are required to be presented in the income statement outside of operating income. We adopted the standard retrospectively, which resulted in \$1 million of other components of net period costs in the quarter ended December 31, 2017 to be reclassified from Selling, general and administrative to Other items, net in the Consolidated Statements of Earnings. As a practical expedient, we used amounts previously disclosed in the prior comparative period's interim consolidated financial statements as the adjustments that were applied retrospectively.

Accounting Pronouncements Not Yet Adopted

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12 - Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities. Among other provisions, ASU 2017-12 expands the eligibility of hedging strategies that qualify for hedge accounting, changes the assessment of hedge effectiveness and modifies the presentation and disclosure of hedging activities. The guidance will be effective for the first interim period of our 2020 fiscal year, with early adoption permitted. We are currently evaluating the impact of the new standard on our consolidated financial statements.

Financial Instruments

In June 2016, the FASB issued ASU 2016-13 - Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments. Subsequently, ASU 2018-19 has been issued that amends and/or clarifies the application of ASU 2016-13. Among other provisions, the ASU introduces a new impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a forward-looking "expected loss" model that will replace the current "incurred loss" model and generally will result in earlier recognition of allowances for losses. The guidance will be effective for the first interim period of our 2021 fiscal year, with early adoption in fiscal year 2020 permitted. We are currently evaluating the impact of the new standard.

Leases

In February 2016, the FASB issued ASU 2016-02 - Leases. Subsequent ASUs have also been issued that amend and/or clarify the application of ASU 2016-02. ASU 2016-02 requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet for most leases. For income statement purposes, leases will be classified as either

operating or finance, generally resulting in straight-line expense recognition for operating leases (similar to current operating leases) and accelerated expense recognition for financing leases (similar to current capital leases). The guidance will be effective for the first interim period of our 2020 fiscal year, with early adoption permitted. The guidance provides an option to either (1) adopt retrospectively and recognize a cumulative-effect adjustment at the beginning of the earliest period presented in the financial statements or (2) recognize a cumulative-effect adjustment at the beginning of the period of adoption. We are evaluating the adoption methodology and the impact of the new guidance on our consolidated financial statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## NOTE 2. INVENTORY

| Inventory<br>(in millions)                   | December 31,<br>2018 | September 30,<br>2018 |
|--|----------------------|-----------------------|
| Film inventory:                              |                      |                       |
| Released, net of amortization                | \$ 575               | \$ 454                |
| Completed, not yet released                  | 31                   | 11                    |
| In process and other                         | 653                  | 713                   |
|  | 1,259                | 1,178                 |
| Television productions:                      |                      |                       |
| Released, net of amortization                | 4                    | 6                     |
| In process and other                         | 224                  | 201                   |
|  | 228                  | 207                   |
| Original programming:                        |                      |                       |
| Released, net of amortization                | 1,032                | 1,124                 |
| In process and other                         | 875                  | 757                   |
|  | 1,907                | 1,881                 |
| Acquired program rights, net of amortization | 1,301                | 1,411                 |
| Home entertainment inventory                 | 64                   | 67                    |
| Total inventory, net                         | 4,759                | 4,744                 |
| Less current portion                         | 829                  | 896                   |
| Noncurrent portion                           | \$ 3,930             | \$ 3,848              |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## NOTE 3. DEBT

Our total debt consists of the following:

| Debt<br>(in millions)                                    | December 31,<br>2018 | September 30,<br>2018 |
|--|----------------------|-----------------------|
| Senior Notes and Debentures:                             |                      |                       |
| Senior notes due September 2019, 5.625%                  | \$ 221               | \$ 550                |
| Senior notes due December 2019, 2.750%                   | 90                   | 252                   |
| Senior notes due March 2021, 4.500%                      | 498                  | 497                   |
| Senior notes due December 2021, 3.875%                   | 596                  | 596                   |
| Senior notes due February 2022, 2.250%                   | 49                   | 102                   |
| Senior notes due June 2022, 3.125%                       | 194                  | 194                   |
| Senior notes due March 2023, 3.250%                      | 181                  | 181                   |
| Senior notes due September 2023, 4.250%                  | 1,240                | 1,239                 |
| Senior notes due April 2024, 3.875%                      | 489                  | 488                   |
| Senior notes due October 2026, 3.450%                    | 123                  | 474                   |
| Senior debentures due December 2034, 4.850%              | 86                   | 281                   |
| Senior debentures due April 2036, 6.875%                 | 1,068                | 1,068                 |
| Senior debentures due October 2037, 6.750%               | 75                   | 75                    |
| Senior debentures due February 2042, 4.500%              | 45                   | 62                    |
| Senior debentures due March 2043, 4.375%                 | 1,103                | 1,102                 |
| Senior debentures due June 2043, 4.875%                  | 18                   | 32                    |
| Senior debentures due September 2043, 5.850%             | 1,230                | 1,230                 |
| Senior debentures due April 2044, 5.250%                 | 345                  | 345                   |
| Junior Debentures:                                       |                      |                       |
| Junior subordinated debentures due February 2057, 5.875% | 642                  | 642                   |
| Junior subordinated debentures due February 2057, 6.250% | 642                  | 642                   |
| Capital lease and other obligations                      | 26                   | 30                    |
| Total debt   | 8,961                | 10,082                |
| Less current portion                                     | 326                  | 567                   |
| Noncurrent portion                                       | \$ 8,635             | \$ 9,515              |

In the quarter ended December 31, 2018, we redeemed \$1.128 billion of senior notes and debentures for a redemption price of \$1.100 billion. As a result, we recognized a pre-tax extinguishment gain of \$18 million, net of \$10 million of unamortized debt costs and transaction fees.

Our 5.875% Junior subordinated debentures due February 2057 and 6.250% Junior subordinated debentures due February 2057 accrue interest at the stated fixed rates until February 28, 2022 and February 28, 2027, respectively, on which dates the rates will switch to floating rates based on three-month LIBOR plus 3.895% and 3.899%, respectively, reset quarterly. These debentures can be called by us at any time after the expiration of the fixed-rate period.

The total unamortized discount and issuance fees and expenses related to our notes and debentures outstanding was \$419 million and \$431 million as of December 31, 2018 and September 30, 2018, respectively.

Credit Facility

As of December 31, 2018, there were no amounts outstanding under our \$2.5 billion revolving credit facility due November 2019. The credit facility is used for general corporate purposes and to support commercial paper outstanding. The credit facility has one principal financial covenant that requires our interest coverage for the most recent four consecutive fiscal quarters to be at least 3.0x, which we met as of December 31, 2018.



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VIACOM INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## NOTE 4. PENSION BENEFITS

The components of net periodic benefit cost for our defined benefit pension plans, which are currently frozen to future benefit accruals, are set forth below. Net periodic benefit cost, other than service cost, if any, is presented in the Consolidated Statements of Earnings within Other items, net.

| Net Periodic Benefit Cost<br>(in millions) | Quarter<br>Ended<br>December<br>31, |       |
|--|-------------------------------------|-------|
|  | 2018                                | 2017  |
| Interest cost                              | \$ 10                               | \$ 9  |
| Expected return on plan assets             | (10 )                               | (10 ) |
| Recognized actuarial loss                  | 1                                   | 2     |
| Net periodic benefit cost                  | \$ 1                                | \$ 1  |

## NOTE 5. REDEEMABLE NONCONTROLLING INTEREST

We are subject to a redeemable put option, payable in a foreign currency, with respect to an international subsidiary. The put option expires in December 2022 and is classified as Redeemable noncontrolling interest in the Consolidated Balance Sheets. The activity reflected within redeemable noncontrolling interest is as follows:

| Redeemable Noncontrolling Interest<br>(in millions) | Quarter<br>Ended<br>December<br>31, |       |
|---|-------------------------------------|-------|
|   | 2018                                | 2017  |
| Beginning balance                                   | \$246                               | \$248 |
| Net earnings  | 5                                   | 7     |
| Distributions                                       | (5 )                                | (6 )  |
| Translation adjustment                              | (6 )                                | 2     |
| Redemption value adjustment                         | (1 )                                | (2 )  |
| Ending Balance                                      | \$239                               | \$249 |

## NOTE 6. COMMITMENTS AND CONTINGENCIES

## Commitments

As more fully described in Note 11 of the 2018 Form 10-K, our commitments primarily consist of programming and talent commitments, operating and capital lease arrangements, and purchase obligations for goods and services. These arrangements result from our normal course of business and represent obligations that may be payable over several years.

## Contingencies

We have certain indemnification obligations with respect to leases primarily associated with the previously discontinued operations of Famous Players Inc. ("Famous Players"). In addition, we have certain indemnities provided by the acquirer of Famous Players. These lease commitments amounted to approximately \$137 million and are recorded as a liability as of December 31, 2018. The amount of lease commitments varies over time depending on expiration or termination of individual underlying leases, or of the related indemnification obligation, and foreign exchange rates, among other things. We may also have exposure for certain other expenses related to the leases, such as property taxes and common area maintenance. We believe our accrual is sufficient to meet any future obligations based on our consideration of available financial information, the lessees' historical performance in meeting their lease obligations and the underlying economic factors impacting the lessees' business models.

NOTE 7. REVENUES

Contract Balances

The timing of revenue recognition, billings and cash collections results in receivables and contract liabilities in the Consolidated Balance Sheets.

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VIACOM INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Current receivables were \$3.205 billion and \$3.117 billion as of December 31, 2018 and October 1, 2018, respectively. Noncurrent receivables are principally related to long-term television license arrangements at Filmed Entertainment and SVOD and other OTT arrangements at Media Networks. Noncurrent receivables, included within Other assets - noncurrent in our Consolidated Balance Sheets, were \$326 million and \$380 million as of December 31, 2018 and October 1, 2018, respectively. Such amounts are due in accordance with the underlying terms of the respective agreements. We have determined that credit loss allowances are generally not considered necessary for these amounts.

When consideration is received from a customer prior to satisfying, or partially satisfying, a performance obligation under the terms of a contract, a contract liability is recorded. Contract liabilities are recognized as revenue when control of the products or services is transferred to the customer. Our contract liabilities primarily relate to advertising sales arrangements where revenues have been deferred due to impression guarantees, consumer products arrangements with minimum guarantees and advance payments under content licensing arrangements. Contract liabilities are primarily short term and shown as Deferred revenue in our Consolidated Balance Sheets. Current deferred revenue was \$424 million and \$402 million as of December 31, 2018 and October 1, 2018, respectively. Noncurrent deferred revenue, included within Other liabilities in our Consolidated Balance Sheets, was \$62 million and \$67 million as of December 31, 2018 and October 1, 2018, respectively. Revenue recognized in the quarter ended December 31, 2018 relating to contract liabilities as of September 30, 2018 was \$136 million.

**Performance Obligations Satisfied in Previous Periods**

Under certain contracts we provide licenses to functional intellectual property that is recognized based on sales to the end customer. These types of contracts can result in recognition of revenue in a period subsequent to the period in which our performance obligation is satisfied, and are primarily entered into by our Filmed Entertainment reporting segment. We recognized approximately \$51 million of revenue during the quarter ended December 31, 2018 from performance obligations satisfied, or partially satisfied, prior to September 30, 2018. These revenues were primarily related to the distribution of film and television content through transactional electronic sell-through and VOD.

**Future Performance Obligations**

As of December 31, 2018, unrecognized revenues attributable to performance obligations not yet satisfied under various long-term contracts were approximately \$3.3 billion. This revenue is generally expected to be recognized over a period of up to 10 years, but the majority will be recognized over the next three years. Our most significant remaining performance obligations relate to film and television content licensing arrangements, as well as affiliate and other arrangements that contain minimum guarantees. The amount disclosed does not include: (i) revenues related to performance obligations that are part of a contract that have an original expected duration of one year or less and (ii) content license contracts for which variable consideration is determined based on the customer's subsequent sale or usage.

**NOTE 8. RESTRUCTURING, RELATED COSTS AND PROGRAMMING CHARGES**

During fiscal 2018, we launched a program of cost transformation initiatives to improve our margins. We recognized pre-tax charges of \$148 million in the quarter ended December 31, 2018 associated with continuing initiatives primarily related to recent management changes and reorganization at Media Networks, comprised of \$71 million of restructuring and related costs and \$77 million of programming charges. The charges, as detailed in the table below, included severance charges, exit costs principally resulting from vacating certain leased properties, related costs comprised of third-party professional services and programming charges. The programming charges resulted from decisions by management newly in place, as part of our 2018 restructuring activities, to cease the use of certain programming, and are included within Operating expenses in the Consolidated Statement of Earnings.

| Restructuring, Related Costs<br>and Programming Charges<br>(in millions) | Quarter Ended<br>December 31, 2018 | Corporate Total |
|--|------------------------------------|-----------------|
|--|------------------------------------|-----------------|



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|                                 | Media | Filmed | Network | Entertainment |
|---------------------------------|-------|--------|---------|---------------|
| Severance <sup>(1)</sup>        | \$23  | \$ 14  | \$ 4    | \$41          |
| Exit costs                      | 27    | —      | —       | 27            |
| Other related costs             | —     | —      | 3       | 3             |
| Restructuring and related costs | 50    | 14     | 7       | 71            |
| Programming                     | 74    | 3      | —       | 77            |
| Total                           | \$124 | \$ 17  | \$ 7    | \$148         |

(1) Includes equity-based compensation expense of \$1 million in the quarter ended December 31, 2018.

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VIACOM INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Our severance liability by reportable segment is as follows:

| Severance Liability<br>(in millions) | Media<br>Networks | Filmed<br>Entertainment | Corporate | Total  |
|--------------------------------------|-------------------|-------------------------|-----------|--------|
| September 30, 2018                   | \$ 149            | \$ 23                   | \$ 23     | \$ 195 |
| Accruals                             | 22                | 14                      | 4         | 40     |
| Severance payments                   | (37 )             | (15 )                   | (11 )     | (63 )  |
| December 31, 2018                    | \$ 134            | \$ 22                   | \$ 16     | \$ 172 |

As of December 31, 2018, of the remaining \$172 million liability, \$124 million was classified within Other liabilities – current in the Consolidated Balance Sheets, with the remaining \$48 million classified within Other liabilities – noncurrent. We expect to complete these restructuring actions in fiscal 2019. Amounts classified as noncurrent are expected to be substantially paid through 2021, in accordance with applicable contractual terms. In addition, we made payments related to exit costs of \$6 million in the quarter ended December 31, 2018.

**NOTE 9. INCOME TAXES**

As of December 31, 2018, all relevant provisions of the Tax Cuts and Jobs Act (the “Act”), enacted on December 22, 2017, became applicable to us. Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, provided a measurement period of one year from the date of enactment for which provisional amounts could be recorded. As of one year from enactment, we completed our analysis with regard to the Act and therefore do not have any remaining provisional amounts recorded in the Consolidated Balance Sheet. As guidance regarding the Act continues to be forthcoming, the application of such guidance may result in additional charges to our income tax provision. We have also elected to account for the effects of global intangible low tax income as a component of income tax expense in the period the tax arises.

Our effective income tax rate was 24.9% in the quarter ended December 31, 2018. A net discrete tax benefit on the restructuring and related costs, programming charges, loss on marketable securities and gain on extinguishment of debt, increased the effective income tax rate by 0.4 percentage points in the quarter.

Our effective income tax rate was 7.1% in the quarter ended December 31, 2017, which included a net discrete tax benefit of \$103 million, consisting of \$101 million related to the U.S. enactment of the Act and \$2 million of other net discrete tax items. When taken together with the discrete tax impact of the gain on debt extinguishment, the effective income tax rate was reduced by 17.4 percentage points.

**NOTE 10. EARNINGS PER SHARE**

Basic earnings per common share is computed by dividing Net earnings attributable to Viacom by the weighted average number of common shares outstanding during the period. The determination of diluted earnings per common share includes the weighted average number of common shares plus the dilutive effect of equity awards based upon the application of the treasury stock method. Anti-dilutive common shares were excluded from the calculation of diluted earnings per common share.

The following table sets forth the weighted average number of common shares outstanding used in determining basic and diluted earnings per common share and anti-dilutive shares:

| Weighted Average Number of Common Shares Outstanding and<br>Anti-dilutive Common Shares<br>(in millions) | Quarter<br>Ended<br>December<br>31, |       |
|--|-------------------------------------|-------|
|  | 2018                                | 2017  |
| Weighted average number of common shares outstanding, basic  | 403.1                               | 402.5 |
| Dilutive effect of equity awards   | 0.4                                 | 0.1   |
| Weighted average number of common shares outstanding, diluted  | 403.5                               | 402.6 |

Anti-dilutive common shares

19.8 19.1

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## NOTE 11. SUPPLEMENTAL CASH FLOW AND OTHER INFORMATION

Our supplemental cash flow information is as follows:

| Supplemental Cash Flow Information<br>(in millions) | Quarter<br>Ended<br>December<br>31, |        |
|---|-------------------------------------|--------|
|   | 2018                                | 2017   |
| Cash paid for interest                              | \$ 104                              | \$ 123 |
| Cash paid for income taxes                          | \$ 36                               | \$ 24  |
| Equity Awards                                       |                                     |        |

During the quarter ended December 31, 2018, we granted 2.9 million stock options and 2.0 million performance and restricted share units to employees with a weighted average grant date fair value of \$7.31 and \$31.15 per share, respectively.

## Variable Interest Entities

In the normal course of business, we enter into joint ventures or make investments with business partners that support our underlying business strategy and provide us the ability to enter new markets to expand the reach of our brands, develop new programming and/or distribute our existing content. In certain instances, an entity in which we make an investment may qualify as a variable interest entity (“VIE”). In determining whether we are the primary beneficiary of a VIE, we assess whether we have the power to direct matters that most significantly impact the activities of the VIE and have the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Our Consolidated Balance Sheets include amounts related to consolidated VIEs totaling \$63 million in assets and \$4 million in liabilities as of December 31, 2018, and \$72 million in assets and \$5 million in liabilities as of September 30, 2018. The consolidated VIEs’ revenues, expenses and operating income were not significant for all periods presented.

## NOTE 12. FAIR VALUE MEASUREMENTS

The fair value of our marketable securities was \$34 million and \$80 million as of December 31, 2018 and September 30, 2018, respectively, which is included within Other assets, noncurrent on our Consolidated Balance Sheets, as determined utilizing a market approach based on quoted market prices in active markets at period end (Level 1 in the fair value hierarchy). The carrying value of non-marketable equity investments was \$89 million as of December 31, 2018.

The fair value of our notes and debentures outstanding was approximately \$8.9 billion and \$10.5 billion as of December 31, 2018 and September 30, 2018, respectively. The valuation of our publicly traded debt is based on quoted prices in active markets (Level 1 in the fair value hierarchy).

The fair value of our foreign exchange contracts was a liability of \$11 million and \$8 million as of December 31, 2018 and September 30, 2018, respectively, as determined utilizing a market-based approach (Level 2 in the fair value hierarchy).

The notional value of all foreign exchange contracts was \$670 million and \$642 million as of December 31, 2018 and September 30, 2018, respectively. As of December 31, 2018, \$455 million related to future production costs and \$215 million related to our foreign currency balances. As of September 30, 2018, \$345 million related to future production costs and \$297 million related to our foreign currency balances.

## NOTE 13. REPORTABLE SEGMENTS

The following tables set forth our financial performance by reportable segment. Our reportable segments have been determined in accordance with our internal management structure. We manage our operations through two reportable segments: (i) Media Networks and (ii) Filmed Entertainment. Typical intersegment transactions include the purchase of advertising by the Filmed Entertainment segment on Media Networks’ properties and the licensing of Filmed

Entertainment's feature film and television content by Media Networks. The elimination of such intercompany transactions in the Consolidated Financial Statements is included within eliminations in the tables below.

Our measure of segment performance is adjusted operating income. Adjusted operating income is defined as operating income, before equity-based compensation and certain other items identified as affecting comparability, when applicable.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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| Revenues by Segment<br>(in millions) | Quarter Ended<br>December 31, |         |
|--------------------------------------|-------------------------------|---------|
|                                      | 2018                          | 2017    |
| Media Networks                       | \$2,498                       | \$2,560 |
| Filmed Entertainment                 | 621                           | 544     |
| Eliminations                         | (29 )                         | (31 )   |
| Total revenues                       | \$3,090                       | \$3,073 |

| Adjusted Operating Income/(Loss)<br>(in millions)                     | Quarter<br>Ended<br>December<br>31, |        |
|---|-------------------------------------|--------|
|   | 2018                                | 2017   |
| Media Networks  | \$913                               | \$914  |
| Filmed Entertainment  | (90 )                               | (130 ) |
| Corporate expenses  | (60 )                               | (55 )  |
| Eliminations  | (4 )                                | 3      |
| Equity-based compensation   | (9 )                                | (14 )  |
| Restructuring, related costs and programming charges <sup>(1)</sup>   | (148 )                              | —      |
| Operating income  | 602                                 | 718    |
| Interest expense, net   | (127 )                              | (147 ) |
| Equity in net earnings of investee companies                          | 1                                   | 1      |
| Loss on marketable securities   | (46 )                               | —      |
| Gain on extinguishment of debt  | 18                                  | 25     |
| Other items, net  | (7 )                                | (4 )   |
| Earnings from continuing operations before provision for income taxes | \$441                               | \$593  |

(1) Includes equity-based compensation expense of \$1 million in the quarter ended December 31, 2018.

| Total Assets<br>(in millions) | December 31, September 30, |           |
|-------------------------------|----------------------------|-----------|
|                               | 2018                       | 2018      |
| Media Networks                | \$ 17,464                  | \$ 17,576 |
| Filmed Entertainment          | 5,427                      | 5,297     |
| Corporate/Eliminations        | (147 )                     | 910       |
| Total assets                  | \$ 22,744                  | \$ 23,783 |

During the first quarter of fiscal 2019, we changed our presentation of revenues by component to better align the revenue classification to the inherent nature of the underlying revenue transactions. Amounts previously reported as ancillary revenues in Media Networks were renamed to consumer products, recreation and live events. Further, certain components of Media Networks revenue, including syndication and download-to-own revenues, previously reported within ancillary revenues were reclassified to affiliate revenues. Amounts previously reported as feature film revenues in Filmed Entertainment were disaggregated among (i) theatrical, (ii) home entertainment and (iii) licensing. Prior period amounts have been recast to conform to the current presentation.



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| Revenues by Component<br>(in millions)        | Quarter Ended<br>December 31, |         |
|---|-------------------------------|---------|
|   | 2018                          | 2017    |
| Media Networks                                |                               |         |
| Advertising                                   | \$1,230                       | \$1,308 |
| Affiliate                                     | 1,169                         | 1,139   |
| Consumer products, recreation and live events | 99                            | 113     |
| Filmed Entertainment                          |                               |         |
| Theatrical                                    | 149                           | 100     |
| Home entertainment                            | 178                           | 183     |
| Licensing                                     | 220                           | 213     |
| Ancillary                                     | 74                            | 48      |
| Eliminations                                  | (29 )                         | (31 )   |
| Total revenues                                | \$3,090                       | \$3,073 |

## NOTE 14. RELATED PARTY TRANSACTIONS

National Amusements, Inc. (“National Amusements”), directly and indirectly, is the controlling stockholder of both Viacom and CBS Corporation (“CBS”). National Amusements owns shares in Viacom representing approximately 79.8% of the voting interest in Viacom and approximately 10% of Viacom’s combined common stock. National Amusements is controlled by Sumner M. Redstone, our Chairman Emeritus, who is the Chairman and Chief Executive Officer of National Amusements, through the Sumner M. Redstone National Amusements Trust (the “SMR Trust”), which owns shares in National Amusements representing 80% of the voting interest of National Amusements. The shares representing the other 20% of the voting interest of National Amusements are held through a trust controlled by Shari E. Redstone, who is Mr. Redstone’s daughter, the non-executive Vice Chair of Viacom’s Board of Directors, the non-executive Vice Chair of CBS’s board of directors, and the President and a member of the Board of Directors of National Amusements. The shares of National Amusements held by the SMR Trust are voted solely by Mr. Redstone until such time as his incapacity or death. Upon Mr. Redstone’s incapacity or death, Ms. Redstone will also become a trustee of the SMR Trust and the shares of National Amusements held by the SMR Trust will be voted by the trustees of the SMR Trust. The current trustees include Mr. Redstone and David R. Andelman, both of whom are also members of the Board of Directors of National Amusements. In addition, Mr. Redstone serves as Chairman Emeritus of CBS.

Transactions between Viacom and related parties are overseen by our Governance and Nominating Committee.

## Viacom and National Amusements Related Party Transactions

National Amusements licenses films in the ordinary course of business for its movie theaters from all major studios, including Paramount. During the quarters ended December 31, 2018 and 2017, Paramount earned revenues from National Amusements in connection with these licenses in the aggregate amount of approximately \$1 million in both periods.

## Viacom and CBS Corporation Related Party Transactions

In the ordinary course of business, we are involved in transactions with CBS and its various businesses that result in the recognition of revenues and expenses by us. Transactions with CBS are settled in cash.

Our Filmed Entertainment segment earns revenues and recognizes expenses associated with its distribution of certain television products into the home entertainment market on behalf of CBS. Pursuant to its agreement with CBS, Paramount distributes CBS’s library of television and other content on DVD and Blu-ray disc on a worldwide basis. Under the terms of the agreement, Paramount is entitled to retain a fee based on a percentage of gross receipts and is generally responsible for all out-of-pocket costs, which are recoupable prior to any participation amounts paid. Paramount also earns revenues from CBS through leasing of studio space and licensing of certain film products.



Our Media Networks segment recognizes advertising revenues and purchases television programming from CBS. The cost of the programming purchases is initially recorded as acquired program rights inventory and amortized over the estimated period that revenues will be generated.

Both of our segments recognize advertising expenses related to the placement of advertisements with CBS.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The following table summarizes the transactions with CBS as included in our Consolidated Financial Statements:

| CBS Related Party Transactions<br>(in millions) | Quarter Ended<br>December 31, |        |
|---|-------------------------------|--------|
|   | 2018                          | 2017   |
| Consolidated Statements of Earnings             |                               |        |
| Revenues  | \$ 35                         | \$ 44  |
| Operating expenses                              | \$ 36                         | \$ 52  |
|   | December 31, September 30,    |        |
|   | 2018                          | 2018   |
| Consolidated Balance Sheets                     |                               |        |
| Accounts receivable                             | \$ 5                          | \$ 7   |
| Accounts payable                                | \$ 1                          | \$ —   |
| Participants' share and residuals, current      | 59                            | 58     |
| Program obligations, current                    | 25                            | 38     |
| Program obligations, noncurrent                 | 34                            | 32     |
| Other liabilities                               | 1                             | 2      |
| Total due to CBS                                | \$ 120                        | \$ 130 |

## Other Related Party Transactions

In the ordinary course of business, we are involved in related party transactions with equity investees. These related party transactions primarily relate to the provision of advertising services, licensing of film and programming content and distribution of films, for which the impact on our Consolidated Financial Statements is as follows:

| Other Related Party Transactions<br>(in millions) | Quarter Ended<br>December 31, |       |
|---|-------------------------------|-------|
|   | 2018                          | 2017  |
| Consolidated Statements of Earnings               |                               |       |
| Revenues  | \$ 15                         | \$ 4  |
| Operating expenses                                | \$ 3                          | \$ 2  |
|   | December 31, September 30,    |       |
|   | 2018                          | 2018  |
| Consolidated Balance Sheets                       |                               |       |
| Accounts receivable                               | \$ 46                         | \$ 43 |
| Other assets                                      | 3                             | 3     |
| Total due from other related parties              | \$ 49                         | \$ 46 |
| Accounts payable                                  | \$ 8                          | \$ 7  |
| Participants' share and residuals, current        | 1                             | —     |
| Other liabilities                                 | —                             | 2     |
| Total due to other related parties                | \$ 9                          | \$ 9  |

All other related party transactions were not material in the periods presented.

NOTE 15. SUBSEQUENT EVENT

On January 22, 2019, we announced that we entered into a definitive agreement to acquire Pluto TV, a free streaming television service in the U.S., for \$340 million in cash. The transaction is subject to customary closing conditions and regulatory approval and expected to close in the quarter ended March 31, 2019.

Item 2. Management’s Discussion and Analysis of Results of Operations and Financial Condition.

Management’s discussion and analysis of results of operations and financial condition is provided as a supplement to and should be read in conjunction with the unaudited consolidated financial statements and related notes to enhance the understanding of our results of operations, financial condition and cash flows. Additional context can also be found in our Form 10-K for the fiscal year ended September 30, 2018, as filed with the Securities and Exchange Commission (“SEC”) on November 16, 2018 (the “2018 Form 10-K”). References in this document to “Viacom,” “Company,” “we,” “us” and “our” mean Viacom Inc. and our consolidated subsidiaries, unless the context requires otherwise. Significant components of management’s discussion and analysis of results of operations and financial condition include:

**Overview:** The overview section provides a summary of our business.

**Results of Operations:** The results of operations section provides an analysis of our results on a consolidated and reportable segment basis for the quarter ended December 31, 2018, compared with the quarter ended December 31, 2017. In addition, we provide a discussion of items that affect the comparability of our results of operations.

**Liquidity and Capital Resources:** The liquidity and capital resources section provides a discussion of our cash flows for the quarter ended December 31, 2018, compared with the quarter ended December 31, 2017, and of our outstanding debt, commitments and contingencies existing as of December 31, 2018.

**OVERVIEW**

**Summary**

Viacom creates entertainment experiences that drive conversation and culture around the world. Through television, film, digital media, live events, merchandise and solutions, our brands connect with diverse, young and young at heart audiences in more than 180 countries.

We operate through two reportable segments: Media Networks and Filmed Entertainment. Our measure of segment performance is adjusted operating income. We define adjusted operating income for our segments as operating income, before equity-based compensation and certain other items identified as affecting comparability, when applicable. Equity-based compensation is excluded from our segment measure of performance since it is set and approved by the Compensation Committee of Viacom’s Board of Directors in consultation with corporate executive management, and is included as a component of consolidated adjusted operating income.

Our Media Networks segment provides entertainment content, services and related branded products for consumers in targeted demographics attractive to advertisers, content distributors and retailers. We create, acquire, distribute and sell programming and other content for our audiences worldwide, distributed through cable, satellite and broadband services, on linear, streaming, on-demand and transactional bases, for viewing on a wide range of devices such as televisions, PCs, tablets, smartphones and other connected devices. The Media Networks segment also delivers advertising and marketing services, including under our advanced marketing solutions portfolio, which both utilizes advanced addressable video inventory to allow dynamic ad insertion and advanced targeting, and provides our marketing partners with a variety of consulting and creative services and associated activations. The Media Networks segment also licenses its brands and properties for consumer products and recreation experiences, produces live events and creates original programming for third-party distributors.

Globally, our Media Networks segment reaches approximately 4.4 billion cumulative television subscribers in more than 180 countries and 46 languages, via 314 locally programmed and operated television channels, including our multimedia brands Nickelodeon, MTV, BET, Comedy Central, Paramount Network, Nick Jr., VH1, TV Land, CMT and Logo. Outside of the United States (the “U.S.”), Viacom International Media Networks (“VIMN”) operates the international extensions of our multimedia brands and our program services created specifically for international audiences, such as British public service broadcaster Channel 5 and Milkshake! in the United Kingdom (“UK”), Televisión Federal S.A. (“Telefe”) in Argentina, Colors in India and Paramount Channel. “Cumulative television subscribers” is an aggregation of the total subscribers to (or viewers of, in the case of our free-to-air channels) each Viacom owned-and-operated, joint venture and licensee channel.

Our Filmed Entertainment segment develops, produces, finances, acquires and distributes films, television programming and other entertainment content through its Paramount Pictures, Paramount Players, Paramount Animation and Paramount Television divisions, in various markets and media worldwide. It partners on various projects with key Viacom brands, including Nickelodeon Movies, MTV Films and BET Films.

Media Networks

Our Media Networks segment generates revenues in three categories: (i) the sale of advertising and marketing services, (ii) affiliate fees from distributors of our programming and program services and (iii) consumer products, recreation and live events.

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(continued)

Media Networks segment expenses consist of operating expenses, selling, general and administrative ("SG&A") expenses and depreciation and amortization. Operating expenses are comprised of costs related to original and acquired programming, including programming amortization, expenses associated with the distribution of home entertainment products and consumer products licensing, participations and residuals, royalties, marketing services expenses and other costs of sales. SG&A expenses consist primarily of employee compensation, marketing, research and professional service fees and facility and occupancy costs. Depreciation and amortization expenses reflect depreciation of fixed assets, including transponders financed under capital leases, and amortization of finite-lived intangible assets.

## Filmed Entertainment

Our Filmed Entertainment segment generates revenues in four categories: (i) the release and/or distribution of films theatrically, (ii) the release and/or distribution of film and television product through home entertainment, (iii) the licensing of film and television product to television and digital platforms and (iv) other ancillary activities.

Filmed Entertainment segment expenses consist of operating expenses, SG&A expenses and depreciation and amortization. Operating expenses principally include the amortization of costs of our released feature films and television programming (including participations and residuals), print and advertising expenses and other distribution costs. SG&A expenses include employee compensation, facility and occupancy costs, professional service fees and other overhead costs. Depreciation and amortization expense principally consists of depreciation of fixed assets.

## RESULTS OF OPERATIONS

## Summary Consolidated Results of Operations

| (in millions, except per share amounts)                                 | Quarter Ended |         | Better/(Worse) |       |
|---|---------------|---------|----------------|-------|
|   | December 31,  |         | \$             | %     |
|   | 2018          | 2017    |                |       |
| <b>GAAP</b>   |               |         |                |       |
| Revenues  | \$3,090       | \$3,073 | \$ 17          | 1 %   |
| Operating income  | 602           | 718     | (116)          | (16 ) |
| Net earnings from continuing operations attributable to Viacom          | 318           | 535     | (217)          | (41 ) |
| Diluted earnings per share from continuing operations                   | 0.79          | 1.33    | (0.54)         | (41 ) |
| <b>Non-GAAP*</b>  |               |         |                |       |
| Adjusted operating income   | \$750         | \$718   | \$ 32          | 4 %   |
| Adjusted net earnings from continuing operations attributable to Viacom | 453           | 413     | 40             | 10    |
| Adjusted diluted earnings per share from continuing operations          | 1.12          | 1.03    | 0.09           | 9     |

\* See "Factors Affecting Comparability" section below for a reconciliation of our reported results to our adjusted results, which are calculated on a non-GAAP basis.

## Factors Affecting Comparability

The Consolidated Financial Statements reflect our results of operations, financial position and cash flows reported in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Our results have been affected by certain items identified as affecting comparability. Accordingly, when applicable, we use non-GAAP measures such as consolidated adjusted operating income, adjusted earnings from continuing operations before provision for income taxes, adjusted provision for income taxes, adjusted net earnings from continuing operations attributable to Viacom and adjusted diluted earnings per share ("EPS") from continuing operations, among other measures, to evaluate our actual operating performance and for planning and forecasting of future periods. In addition, because foreign currency headwinds can be significant and unpredictable and are outside of our control, we are providing certain financial information excluding the impact of currency fluctuations in order to provide a clearer

view of our operating performance. We believe that these adjusted measures provide relevant and useful information for investors because they clarify our actual operating performance, make it easier to compare our results with those of other companies and allow investors to review performance in the same way as our management. Since these are not measures of performance calculated in accordance with GAAP, they should not be considered in isolation of, or as a substitute for, operating income, earnings from continuing operations before provision for income taxes, provision for income taxes, net earnings from continuing operations attributable to Viacom and diluted EPS from continuing operations as indicators of operating performance and they may not be comparable to similarly titled measures employed by other companies.

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The following tables reconcile our reported results (GAAP) to our adjusted results (non-GAAP) for the quarters ended December 31, 2018 and 2017. The tax impacts included in the tables below have been calculated using the rates applicable to the adjustments presented.

(in millions, except per share amounts)

|  | Quarter Ended<br>December 31, 2018           |  |                                     |   |   |
|--|--|--|-------------------------------------|---|---|
|  | Earnings<br>from<br>Continuing<br>Operations |  | Provision<br>for<br>Income<br>Taxes | Net Earnings<br>from<br>Continuing<br>Operations<br>Attributable to<br>Viacom | Diluted<br>EPS from<br>Continuing<br>Operations |
|  | Operating<br>Income                          | Before<br>Provision<br>for Income<br>Taxes |                                     |   |   |
| Reported results (GAAP)                              | \$602  | \$ 441                                     | \$ 110                              | \$ 318  | \$ 0.79   |
| Factors Affecting Comparability:                     |  |  |                                     |   |   |
| Restructuring, related costs and programming charges | 148  | 148  | 34                                  | 114   | 0.28  |
| Gain on extinguishment of debt                       | —  | (18)                                       | (4)                                 | (14)  | (0.03)  |
| Loss on marketable securities                        | —  | 46   | 11                                  | 35  | 0.08  |
| Adjusted results (Non-GAAP)                          | \$750  | \$ 617                                     | \$ 151                              | \$ 453  | \$ 1.12   |

(in millions, except per share amounts)

|                                  | Quarter Ended<br>December 31, 2017           |  |                                     |   |   |
|----------------------------------|--|--|-------------------------------------|---|---|
|                                  | Earnings<br>from<br>Continuing<br>Operations |  | Provision<br>for<br>Income<br>Taxes | Net Earnings<br>from<br>Continuing<br>Operations<br>Attributable to<br>Viacom | Diluted<br>EPS from<br>Continuing<br>Operations |
|                                  | Operating<br>Income                          | Before<br>Provision<br>for Income<br>Taxes |                                     |   |   |
| Reported results (GAAP)          | \$718  | \$ 593                                     | \$ 42                               | \$ 535  | \$ 1.33   |
| Factors Affecting Comparability: |  |  |                                     |   |   |
| Gain on extinguishment of debt   | —  | (25)                                       | (6)                                 | (19)  | (0.05)  |
| Discrete tax benefit             | —  | —  | 103                                 | (103)   | (0.25)  |
| Adjusted results (Non-GAAP)      | \$718  | \$ 568                                     | \$ 139                              | \$ 413  | \$ 1.03   |

Restructuring, related costs and programming charges: During fiscal 2018, we launched a program of cost transformation initiatives to improve our margins. We recognized pre-tax charges of \$148 million in the quarter ended December 31, 2018 associated with continuing initiatives primarily related to recent management changes and reorganization at Media Networks, comprised of \$71 million of restructuring and related costs and \$77 million of programming charges. The programming charges resulted from decisions by management newly in place, as part of our 2018 restructuring activities, to cease the use of certain programming, and are included within Operating expenses in the Consolidated Statements of Earnings.



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Our cost transformation initiatives are expected to give rise to over \$300 million of run-rate savings, the benefit of which will be phased in through fiscal 2020. In connection with completing our cost transformation initiatives, we expect to incur additional exit costs in the second quarter of 2019 of approximately \$20 million.

| Restructuring, Related Costs<br>and Programming Charges<br>(in millions) | Quarter Ended<br>December 31, 2018 |                         |           |       |
|--|------------------------------------|-------------------------|-----------|-------|
|  | Media<br>Network                   | Filmed<br>Entertainment | Corporate | Total |
| Severance  | \$23                               | \$ 14                   | \$ 4      | \$41  |
| Exit costs   | 27                                 | —                       | —         | 27    |
| Other related costs  | —                                  | —                       | 3         | 3     |
| Restructuring and related costs  | 50                                 | 14                      | 7         | 71    |
| Programming  | 74                                 | 3                       | —         | 77    |
| Total  | \$124                              | \$ 17                   | \$ 7      | \$148 |

Gain on extinguishment of debt: We redeemed senior notes and debentures totaling \$1.128 billion in the quarter ended December 31, 2018. As a result, we recognized a pre-tax extinguishment gain of \$18 million in the Consolidated Statements of Earnings.

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We redeemed senior notes and debentures totaling \$1.039 billion in the quarter ended December 31, 2017. As a result of these transactions, we recognized a pre-tax extinguishment gain of \$25 million in the Consolidated Statements of Earnings.

Loss on marketable securities: In the quarter ended December 31, 2018, we recorded a non-operating loss on marketable securities of \$46 million in the Consolidated Statements of Earnings pursuant to our adoption of Accounting Standards Update 2016-01, which requires the changes in fair value measurement of marketable securities to be recognized in the Consolidated Statements of Earnings.

Discrete taxes: Discrete tax benefits for the quarter ended December 31, 2017 were principally related to the U.S. enactment of the Tax Cuts and Jobs Act.

Consolidated Results of Operations

The consolidated results discussed below should be read in conjunction with the "Segment Results of Operations" section.

Revenues

Worldwide revenues increased \$17 million, or 1%, to \$3.090 billion in the quarter ended December 31, 2018. Filmed Entertainment revenues increased \$77 million, or 14%, reflecting the number and mix of theatrical releases and increased ancillary revenues. Media Networks revenues decreased \$62 million, or 2%, principally driven by the unfavorable impact of foreign exchange on our international revenues. Domestic revenues were substantially flat, with higher affiliate revenues substantially offset by lower revenues from advertising and consumer products, recreation and live events.

Expenses

Total expenses increased \$133 million, or 6%, to \$2.488 billion in the quarter ended December 31, 2018, primarily related to restructuring, related costs and programming charges of \$148 million, as described in more detail in "Factors Affecting Comparability". Filmed Entertainment expenses increased \$37 million, or 5%, primarily reflecting higher theatrical distribution costs to support our current quarter releases. Media Networks expenses decreased \$61 million, or 4%, principally driven by lower SG&A expenses.

Operating

Operating expenses increased \$120 million, or 8%, to \$1.683 billion in the quarter. Consolidated operating expenses included programming charges of \$77 million, as described in more detail in "Factors Affecting Comparability". Filmed Entertainment operating expenses increased \$40 million, or 7%. Media Networks operating expenses were substantially flat.

Selling, General and Administrative

SG&A expenses decreased \$55 million, or 7%, to \$684 million in the quarter. SG&A expenses include a 4-percentage point benefit of cost savings from our restructuring activities. Media Networks SG&A expenses decreased \$55 million, or 9%. Filmed Entertainment SG&A expenses decreased \$2 million, or 2%.

Restructuring and Related Costs

Restructuring and related costs of \$71 million were recognized in the quarter, as described in more detail in "Factors Affecting Comparability".

Operating Income

Operating income decreased \$116 million, or 16%, to \$602 million in the quarter ended December 31, 2018, reflecting the operating results discussed above. Excluding the items discussed in "Factors Affecting Comparability", adjusted operating income increased \$32 million, or 4%, to \$750 million, including a 2-percentage point unfavorable impact of foreign exchange. Filmed Entertainment adjusted operating results improved by \$40 million, or 31%. Media Networks adjusted operating income was substantially flat at \$913 million.

Income Taxes

As of December 31, 2018, all relevant provisions of the Tax Cuts and Jobs Act (the “Act”), enacted on December 22, 2017, became applicable to us. Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, provided a measurement period of one year from the date of enactment for which provisional amounts could be recorded. As of one year from enactment, we completed our analysis with regard to the Act and therefore do not have any remaining provisional amounts recorded in the Consolidated Balance Sheet. As guidance regarding the Act continues to be forthcoming, the application of such guidance may result in additional charges to our income tax provision. We have also elected to account for the effects of global intangible low tax income as a component of income tax expense in the period the tax arises.

Our effective income tax rate was 24.9% in the quarter ended December 31, 2018. The net discrete tax benefit of the items discussed in “Factors Affecting Comparability” increased the effective income tax rate by 0.4 percentage points in the quarter.

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Our effective income tax rate was 7.1% in the quarter ended December 31, 2017, which included a net discrete tax benefit of \$103 million, consisting of \$101 million related to the U.S. enactment of the Act and \$2 million of other net discrete tax items. When taken together with the discrete tax impact of the items discussed in "Factors Affecting Comparability", the effective income tax rate was reduced by 17.4 percentage points.

Excluding the impact of discrete items, our adjusted effective income tax rate was 24.5% in both periods.

Net Earnings from Continuing Operations Attributable to Viacom

Net earnings from continuing operations attributable to Viacom decreased \$217 million, or 41%, to \$318 million in the quarter ended December 31, 2018, primarily due to the after-tax impact of the programming charges, restructuring and related costs and loss on marketable securities in the quarter, as well as lapping the discrete tax benefit in the prior year from enactment of the Act. Excluding the items discussed in "Factors Affecting Comparability", adjusted net earnings from continuing operations attributable to Viacom increased \$40 million, or 10%, to \$453 million, reflecting the operating results discussed above, as well as a reduction in interest expense.

Diluted Earnings Per Share from Continuing Operations

Diluted EPS from continuing operations decreased \$0.54 per diluted share to \$0.79 in the quarter, reflecting the impact of net earnings. Excluding the items discussed in "Factors Affecting Comparability", adjusted diluted EPS from continuing operations increased \$0.09 per diluted share to \$1.12, including a \$0.04 unfavorable impact of foreign exchange.

Segment Results of Operations

Transactions between reportable segments are accounted for as third-party arrangements for the purposes of presenting segment results of operations. Typical intersegment transactions include the purchase of advertising by the Filmed Entertainment segment on Media Networks' properties and the licensing of Filmed Entertainment's feature film and television content by Media Networks.

During the first quarter of fiscal 2019, we changed our presentation of revenues by component to better align the revenue classification to the inherent nature of the underlying revenue transactions. Amounts previously reported as ancillary revenues in Media Networks were renamed to consumer products, recreation and live events. Further, certain components of Media Networks revenue, including syndication and download-to-own revenues, previously reported within ancillary revenues were reclassified to affiliate revenues. Prior period amounts have been recast to conform to the current presentation.

Media Networks

| (in millions)                                 | Quarter Ended |         | Better/(Worse) |      |
|---|---------------|---------|----------------|------|
|   | 2018          | 2017    | \$             | %    |
| Revenues by Component                         |               |         |                |      |
| Advertising                                   | \$1,230       | \$1,308 | \$(78)         | (6)% |
| Affiliate                                     | 1,169         | 1,139   | 30             | 3    |
| Consumer products, recreation and live events | 99            | 113     | (14)           | (12) |
| Total revenues by component                   | 2,498         | 2,560   | (62)           | (2)  |
| Expenses                                      |               |         |                |      |
| Operating                                     | 1,008         | 1,013   | 5              | —    |
| Selling, general and administrative           | 537           | 592     | 55             | 9    |
| Depreciation and amortization                 | 40            | 41      | 1              | 2    |
| Total expenses                                | 1,585         | 1,646   | 61             | 4    |
| Adjusted Operating Income                     | \$913         | \$914   | \$(1)          | —%   |

Revenues

Worldwide revenues decreased \$62 million, or 2%, to \$2.498 billion in the quarter ended December 31, 2018, including a 2-percentage point unfavorable impact of foreign exchange. Domestic revenues remained substantially flat at \$1.933 billion, due to increased affiliate revenues that were offset by lower advertising and consumer products, recreation and live events revenues. International revenues decreased \$66 million, or 10%, to \$565 million, driven by the unfavorable impact of foreign exchange. Excluding a 10-percentage point unfavorable impact from foreign exchange, international revenues were substantially flat.

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## Advertising

Worldwide advertising revenues decreased \$78 million, or 6%, to \$1.230 billion in the quarter. Worldwide advertising revenues include a 4-percentage point unfavorable impact from foreign exchange in the quarter. Domestic advertising revenues decreased \$30 million, or 3%, to \$907 million, principally reflecting lower linear impressions, partially offset by higher pricing and growth in revenues from advanced marketing solutions, which increased 54%.

International advertising revenues decreased \$48 million, or 13%, to \$323 million. Excluding a 13-percentage point unfavorable impact from foreign exchange, international advertising revenues were substantially flat.

## Affiliate

Worldwide affiliate revenues increased \$30 million, or 3%, to \$1.169 billion in the quarter. Worldwide affiliate revenues include a 1-percentage point unfavorable impact from foreign exchange. Domestic affiliate revenues increased \$44 million, or 5%, to \$969 million, primarily driven by contractual rate increases, partially offset by subscriber declines, as well as increased over-the-top and studio production revenues. International affiliate revenues decreased \$14 million, or 7%, to \$200 million. Excluding a 7-percentage point unfavorable impact from foreign exchange, international affiliate revenues were substantially flat.

## Consumer Products, Recreation and Live Events

Worldwide consumer products, recreation and live events revenues decreased \$14 million, or 12%, to \$99 million in the quarter as the prior year benefited from the release of the South Park: The Fractured But Whole video game.

Worldwide consumer products, recreation and live events revenues include a 2-percentage point unfavorable impact from foreign exchange. Domestic consumer products, recreation and live events revenues decreased \$10 million, or 15%, to \$57 million, while international decreased \$4 million, or 9%, to \$42 million. Excluding a 7-percentage point unfavorable impact from foreign exchange, international consumer products, recreation and live events revenues decreased 2%.

## Expenses

Media Networks segment expenses decreased \$61 million, or 4%, to \$1.585 billion in the quarter ended December 31, 2018.

## Operating

Operating expenses were substantially flat at \$1.008 billion in the quarter. Production and programming costs decreased \$21 million, or 2%, to \$880 million, impacted by the timing of original programming premieres.

Distribution and other expenses increased \$16 million, or 14%, primarily driven by costs related to growth initiatives.

## Selling, General and Administrative

SG&A expenses decreased \$55 million, or 9%, to \$537 million in the quarter, primarily driven by lower advertising and promotion expenses and cost savings from our restructuring initiatives. SG&A expenses include a 5-percentage point benefit of savings from our cost transformation initiatives implemented in fiscal year 2018.

## Adjusted Operating Income

Adjusted operating income was substantially flat at \$913 million in the quarter ended December 31, 2018, including a 2-percentage point unfavorable impact of foreign exchange, reflecting the operating results discussed above.

## Filmed Entertainment

| (in millions)         | Quarter |        | Better/(Worse) |      |
|-----------------------|---------|--------|----------------|------|
|                       | Ended   | Ended  | \$             | %    |
| Revenues by Component | 2018    | 2017   |                |      |
| Theatrical            | \$ 149  | \$ 100 | \$ 49          | 49 % |
| Home entertainment    | 178     | 183    | (5 )           | (3 ) |
| Licensing             | 220     | 213    | 7              | 3    |

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|                                     |         |         |       |      |
|-------------------------------------|---------|---------|-------|------|
| Ancillary                           | 74      | 48      | 26    | 54   |
| Total revenues by component         | 621     | 544     | 77    | 14   |
| Expenses                            |         |         |       |      |
| Operating                           | 623     | 583     | (40 ) | (7 ) |
| Selling, general and administrative | 79      | 81      | 2     | 2    |
| Depreciation and amortization       | 9       | 10      | 1     | 10   |
| Total expenses                      | 711     | 674     | (37 ) | (5 ) |
| Adjusted Operating Loss             | \$(90 ) | \$(130) | \$ 40 | 31 % |

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Revenues

Worldwide revenues increased \$77 million, or 14%, to \$621 million in the quarter ended December 31, 2018.

Domestic revenues increased \$96 million, or 36%, to \$366 million, primarily due to increased licensing, theatrical and home entertainment revenues. International revenues decreased \$19 million, or 7% to \$255 million, primarily due to lower licensing and home entertainment revenues, partially offset by increased theatrical and ancillary revenues.

Foreign exchange had a 4-percentage point unfavorable impact on international revenues.

Theatrical

Worldwide theatrical revenues increased \$49 million, or 49%, to \$149 million in the quarter, principally driven by the release of Bumblebee, Instant Family, Overlord and Nobody's Fool, compared with Daddy's Home 2 and Downsizing in the prior year. Worldwide theatrical revenues include a 4-percentage point unfavorable impact from foreign exchange. Domestic and international theatrical revenues increased \$27 million, or 44%, and \$22 million, or 58%, respectively, reflecting the strong performance of current quarter releases. Foreign exchange had a 10-percentage point unfavorable impact on international theatrical revenues.

Home Entertainment

Worldwide home entertainment revenues decreased \$5 million, or 3%, to \$178 million in the quarter, primarily reflecting a decrease in the sales of our DVDs and Blu-ray discs, partially offset by an increase in download-to-own and electronic video-on-demand sales. Worldwide home entertainment revenues include a 2-percentage point unfavorable impact from foreign exchange. Significant current quarter releases include Mission: Impossible - Fallout compared with carryover revenues from Transformers: The Last Knight and Baywatch in the prior year. Domestic home entertainment revenues increased \$12 million, or 12%, to \$111 million, reflecting strong performance from Mission: Impossible - Fallout, while international home entertainment revenues decreased \$17 million, or 20%, to \$67 million. Foreign exchange had a 3-percentage point unfavorable impact on international home entertainment revenues.

Licensing

Worldwide licensing revenues increased \$7 million, or 3%, to \$220 million in the quarter. Worldwide licensing revenues include a 2-percentage point unfavorable impact from foreign exchange. Domestic licensing revenues increased \$53 million, or 71%, to \$128 million, primarily driven by the current quarter release of The Haunting of Hill House. International licensing revenues decreased \$46 million, or 33%, to \$92 million, due to the mix of titles available in each market. Foreign exchange had a 2-percentage point unfavorable impact on international licensing revenues.

Ancillary

Worldwide ancillary revenues increased \$26 million, or 54%, to \$74 million in the quarter, substantially driven by higher international theme park revenues. Domestic and international ancillary revenues increased \$4 million, or 12%, and \$22 million, or 157%, respectively.

Expenses

Filmed Entertainment segment expenses increased \$37 million, or 5%, to \$711 million in the quarter ended December 31, 2018.

Operating

Operating expenses increased \$40 million, or 7%, to \$623 million in the quarter. Distribution and other costs, principally advertising and print expenses, increased \$66 million, or 25%, primarily driven by higher theatrical distribution costs to support our current quarter releases. Film costs decreased \$26 million, or 8%.

Selling, General and Administrative

SG&A expenses decreased \$2 million, or 2%, to \$79 million in the quarter, driven by lower incentive compensation costs.

Adjusted Operating Loss



Adjusted operating loss was \$90 million in the quarter ended December 31, 2018 compared with \$130 million in the prior year, an improvement of \$40 million, or 31%, reflecting the operating results discussed above. Operating losses reflect the recognition of advertising and print expenses incurred in the period, generally before and throughout the theatrical release of a film, while revenues for the respective film are recognized as earned through its theatrical exhibition and subsequent distribution windows.

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## LIQUIDITY AND CAPITAL RESOURCES

## Liquidity

## Sources and Uses of Cash

Our primary source of liquidity is cash provided through the operations of our businesses. We have access to external financing sources such as our revolving credit facility and the capital markets. Our principal uses of cash from operations include the creation of new programming and film content, acquisitions of third-party content, and interest and income tax payments. We also use cash for the repayment of debt, quarterly cash dividends, capital expenditures and acquisitions of businesses.

We believe that our cash flows from operating activities together with our credit facility provide us with adequate resources to fund our anticipated ongoing cash requirements. We anticipate that future debt maturities will be funded with cash and cash equivalents, cash flows from operating activities and future access to capital markets, including our credit facility.

We may continue to access external financing from time to time depending on our cash requirements, assessments of current and anticipated market conditions and after-tax cost of capital. Our access to capital markets can be impacted by factors outside our control, including economic conditions; however, we believe that our strong cash flows and balance sheet, our credit facility and our credit rating will provide us with adequate access to funding given our expected cash needs. Any new borrowing cost would be affected by market conditions and short and long-term debt ratings assigned by independent rating agencies, and there can be no assurance that we will be able to access capital markets on terms and conditions that will be favorable to us.

## Cash Flows

Cash and cash equivalents were \$534 million as of December 31, 2018, which decreased \$1.023 billion compared with September 30, 2018. The following tables include information driving the change in cash and cash equivalents and a reconciliation of net cash provided by operating activities (GAAP) to free cash flow (non-GAAP). We define free cash flow as net cash provided by operating activities minus capital expenditures. Free cash flow is a non-GAAP measure. Management believes the use of this measure provides investors with an important perspective on our liquidity, including our ability to service debt and make investments in our businesses.

| Change in cash and cash equivalents<br>(in millions)                             | Quarter Ended        |         | Better/(Worse) |
|--|----------------------|---------|----------------|
|  | December 31,<br>2018 | 2017    |                |
| Net cash provided by operating activities  | \$228                | \$12    | \$ 216         |
| Net cash used in investing activities  | (44 )                | (5 )    | (39 )          |
| Net cash used in financing activities  | (1,202 )             | (1,002) | (200 )         |
| Effect of exchange rate changes on cash and cash equivalents                     | (5 )                 | —       | (5 )           |
| Decrease in cash and cash equivalents  | \$(1,023)            | \$(995) | \$ (28 )       |
| Reconciliation of net cash provided by operating activities<br>to free cash flow |                      |         |                |
| Net cash provided by operating activities (GAAP)                                 | \$228                | \$12    | \$ 216         |
| Capital expenditures   | (37 )                | (28 )   | (9 )           |
| Free cash flow (Non-GAAP)  | \$191                | \$(16 ) | \$ 207         |

## Operating Activities

Cash provided by operating activities increased \$216 million for the quarter ended December 31, 2018, primarily reflecting the impact of favorable working capital requirements.

## Investing Activities

Cash used in investing activities increased \$39 million for the quarter ended December 31, 2018, principally reflecting higher acquisition and investment activity, capital expenditures, and a decrease in proceeds received from asset sales.

Financing Activities

Cash used in financing activities increased \$200 million for the quarter ended December 31, 2018, primarily reflecting the impact of the current and prior year debt transactions.

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Management's Discussion and Analysis  
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(continued)

Capital Resources

Capital Structure and Debt

Total debt was \$8.961 billion as of December 31, 2018, a decrease of \$1.121 billion from \$10.082 billion as of September 30, 2018.

In the quarter ended December 31, 2018, we redeemed \$1.128 billion of senior notes and debentures for a redemption price of \$1.100 billion. As a result, we recognized a pre-tax extinguishment gain of \$18 million, net of \$10 million of unamortized debt costs and transaction fees.

Our 5.875% Junior subordinated debentures due February 2057 and 6.250% Junior subordinated debentures due February 2057 accrue interest at the stated fixed rates until February 28, 2022 and February 28, 2027, respectively, on which dates the rates will switch to floating rates based on three-month LIBOR plus 3.895% and 3.899%, respectively, reset quarterly. These debentures can be called by us at any time after the expiration of the fixed-rate period.

The subordination, interest deferral option and extended term of the junior subordinated debentures provide significant credit protection measures for senior creditors and as a result of these features, the debentures received a 50% equity credit by S&P and Fitch, and a 25% equity credit by Moody's.

Credit Facility

As of December 31, 2018, there were no amounts outstanding under our \$2.5 billion revolving credit facility due November 2019. See Note 3 to the Consolidated Financial Statements for further information.

Commitments and Contingencies

See Note 6 to the Consolidated Financial Statements for information regarding our commitments and contingencies.

OTHER MATTERS

Related Parties

In the ordinary course of business, we enter into transactions with related parties, including National Amusements, Inc., CBS Corporation, their respective subsidiaries and affiliates, and companies that we account for under the equity method of accounting. For additional information, see Note 14 to the Consolidated Financial Statements.

Recent Pronouncements and Adoption of New Accounting Standards

See Note 1 to the Consolidated Financial Statements for further information on recently issued and adopted accounting and reporting standards.

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Management's Discussion and Analysis  
of Results of Operations and Financial Condition  
(continued)

**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

This quarterly report on Form 10-Q, including "Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition," contains both historical and forward-looking statements. All statements that are not statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements reflect our current expectations concerning future results, objectives, plans and goals, and involve known and unknown risks, uncertainties and other factors that are difficult to predict and which may cause future results, performance or achievements to differ. These risks, uncertainties and other factors include, among others: technological developments, alternative content offerings and their effects in our markets and on consumer behavior; competition for content, audiences, advertising and distribution in a swiftly consolidating industry; the public acceptance of our brands, programs, films and other entertainment content on the various platforms on which they are distributed; the impact on our advertising revenues of declines in linear television viewing, deficiencies in audience measurement and advertising market conditions; the potential for loss of carriage or other reduction in the distribution of our content; evolving cybersecurity and similar risks; the failure, destruction or breach of our critical satellites or facilities; content theft; increased costs for programming, films and other rights; the loss of key talent; domestic and global political, economic and/or regulatory factors affecting our businesses generally; volatility in capital markets or a decrease in our debt ratings; a potential inability to realize the anticipated goals underlying our ongoing investments in new businesses, products, services and technologies; fluctuations in our results due to the timing, mix, number and availability of our films and other programming; potential conflicts of interest arising from our ownership structure with a controlling stockholder; and other factors described in our news releases and filings with the Securities and Exchange Commission, including but not limited to our 2018 Form 10-K and reports on Form 10-Q and Form 8-K. The forward-looking statements included in this document are made only as of the date of this document, and we do not have any obligation to publicly update any forward-looking statements to reflect subsequent events or circumstances.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

We are exposed to market risk related to foreign currency exchange rates and interest rates. In the ordinary course of business, we may employ established and prudent policies and procedures to manage our exposure principally to changes in interest rates and foreign exchange risks. The objective of such policies and procedures is to manage exposure to market risks in order to minimize the impact on earnings and cash flows. In accordance with our policy, we do not use derivative instruments unless there is an underlying exposure, and we do not hold or enter into financial instruments for speculative trading purposes.

**Item 4. Controls and Procedures.**

Our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act")) were effective, based on the evaluation of these controls and procedures required by Rule 13a-15(b) or 15d-15(b) of the Exchange Act.

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

Since our 2018 Form 10-K, there have been no material developments in the material legal proceedings in which we are involved.

Item 1A. Risk Factors.

A wide range of risks may affect our business and financial results, now and in the future. We consider the risks described in our 2018 Form 10-K to be the most significant. There may be other currently unknown or unpredictable economic, business, competitive, regulatory or other factors that could have material adverse effects on our future results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

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Item 6. Exhibits.

Exhibit No. Description of Exhibit

|          |  |
|----------|--|
| 10.1*    | <u>Viacom Inc. 2016 Long-Term Management Incentive Plan: 2019 Terms and Conditions to the Performance Share Units Certificate.**</u>   |
| 31.1*    | <u>Certification of the Chief Executive Officer of Viacom Inc. pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>      |
| 31.2*    | <u>Certification of the Chief Financial Officer of Viacom Inc. pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>      |
| 32.1*    | <u>Certification of the Chief Executive Officer of Viacom Inc. furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 32.2*    | <u>Certification of the Chief Financial Officer of Viacom Inc. furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 101.INS* | XBRL Instance Document.  |
| 101.SCH* | XBRL Taxonomy Extension Schema Document.   |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document.   |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document.  |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document.   |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document.  |

\* Filed herewith

\*\*Represents a management contract or compensatory plan or arrangement required to be filed as an exhibit.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VIACOM INC.

Date: February 5, 2019 By: /s/ WADE DAVIS  
Wade Davis  
Executive Vice President,  
Chief Financial Officer

Date: February 5, 2019 By: /s/ KATHERINE GILL-CHAREST  
Katherine Gill-Charest  
Senior Vice President, Controller and  
Chief Accounting Officer