

Paramount Skydance (Nasdaq: PSKY)

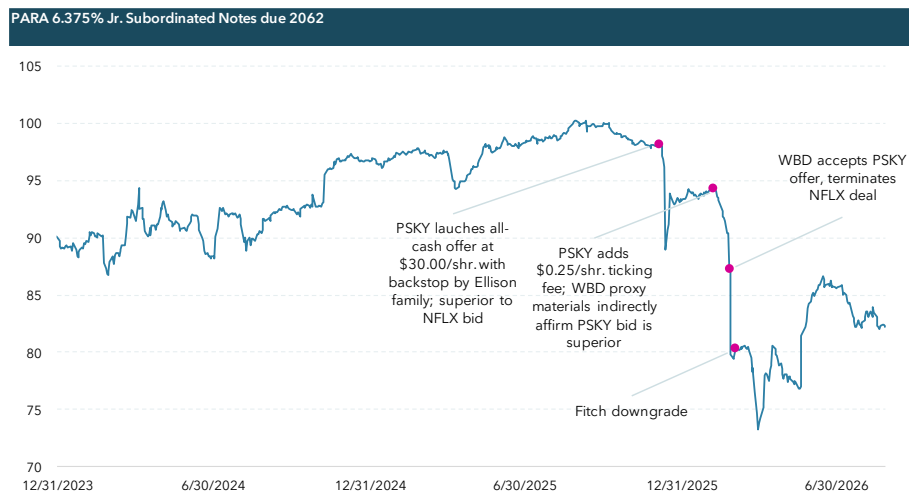
PARA 6.375% Jr. Subordinated Notes due 2062 ("PARA Hybrids") have a coupon reset to 5YR UST + 3.999% on March 30, 2027; at the current 5YR that's an 8.5% coupon and at the current price of 81.25, that's a 10.5% current yield and an 11.4% ytw. Yes, you're sitting at the bottom of what will be an \$85bn+ debt stack, but you're also sitting on top of what will be a \$55bn pro forma market cap and the market is mispricing the Ellison backstop for controlling this media asset. Risk of default is minimal. 100bps of tightening provides a 20% return in 1 year. Right tail the WBD deal is terminated and bonds go back to par for a 30% return.

SITUATION OVERVIEW

On February 27, 2026, Paramount Skydance Corp. ("PSKY" or the "Company") effectively wrestled Warner Bros Discovery ("WBD") away from Netflix with a prevailing \$31.00 all-cash bid + \$0.25/shr. quarterly ticking fee after September 30, 2026. The saga started months earlier in mid-2025 when David Ellison approached WBD about a merger shortly after Skydance acquired Paramount and WBD announced plans to separate into two companies - Warner Bros. (studios, HBO, HBO Max) and Discovery Global (networks). Ellison was rebuffed. He didn't stop. WBD ran a process. Netflix won. Ellison kept going. It's fun to speculate about the behind-the-scenes political maneuvering, but ultimately we know how the story ends.

As the bidding war played out, Paramount's debt ratings, which were previously investment grade, came under pressure. The WBD deal had to be all-cash and that meant an LBO. S&P had already cut PSKY to BB+ in 2024 because of declining earnings and industry headwinds, but it generally takes two out of the three agencies (S&P, Moody's, Fitch) to matter for index inclusion and rules/ratings-based investors. The impact downgrade came from Fitch upon signing of the definitive merger agreement at the end of February 2026.

You can see the response in the PARA Hybrids when it became clear PSKY was going to win the WBD bid and a full downgrade to junk was on the horizon.



Focus

PARA 6 3/8 03/30/62

Report Type

► Trade Idea

Info Piece

Update

KEY METRICS - PSKY

Current Price	81.25
52-wk Range	73 - 100
Market Cap	\$12.2bn
Gross Debt	\$16.4bn
Net Debt	\$14.8bn
TEV	\$27.0bn
Sec. Lev. Ratio	0.0x
Total Lev. Ratio	4.4x
Gross LTV	61%
TTM Adj. EBITDA	\$3.7bn

KEY METRICS - PSKY + WBD PF

52-wk Range	
Market Cap	\$56.0bn
Gross Debt	\$88.6bn
Net Debt	\$83.6bn
TEV	\$139.8bn
Sec. Lev. Ratio	3.1x
Total Lev. Ratio	4.9x
Gross LTV	63%
TTM Adj. EBITDA	\$18.1bn

Jeremy Skrezyna

jskrezyna@canyonriveradvisors.com

office: (646) 839-5584

mobile: (917) 370-9424

Victor Khong

vkhang@canyonriveradvisors.com

office: (646) 839-0065

mobile: (510) 701-7628



Paramount Skydance Capitalization (\$ in millions)	Borrower / Issuer	Previous 12/31/2025	3/31/2026	Current 6/30/2026	Pro Forma	PF Ex. Warrant	Composite Rating	Rate/ Coupon	Price	Maturity	Yield	Annual Interest
Cash		\$3,274	\$1,941	\$1,627	\$5,000	\$5,000						
Revolver		3,500	1,350	3,200	7,200	7,200						
Liquidity		\$6,774	\$3,291	\$4,827	\$12,200	\$12,200						
PSKY revolver (\$5bn)		--	--	--	\$1,800	\$1,800		S + 2.500%		Jan 2028		\$128
WBD revolver (\$4.0bn)		--	--	--	--	--						--
Miramax bank facility (\$50m)		--	--	--	--	--				Nov 2027		--
New TL A-1		--	--	--	2,500	2,500	BBB-	S + 2.500%	100.00	Apr 2029	6.8%	156
New TL A-2		--	--	--	2,500	2,500	BBB-	S + 2.500%	100.00	Apr 2031	6.8%	156
Facility to takeout WBD bridge financing		--	--	--	14,708	14,708	BBB-	S + 2.500%	100.00	Apr 2031	6.8%	918
Other secured financing		--	--	--	37,192	37,192	BBB-	S + 2.500%	100.00	Apr 2031	6.8%	2,322
Total 1L debt		--	--	--	\$58,700	\$58,700		6.270%			6.8%	\$3,680
WBD jr. lien exchange notes		--	--	--	\$12,801	\$12,801	TBD	4.528%		Various	6.5%	\$580
Total secured debt		--	--	--	\$71,501	\$71,501		5.958%			6.7%	\$4,260
WBD assumed notes		--	--	--	\$2,449	\$2,449		4.657%			6.5%	\$114
PSKY unsecured revolver (\$5bn)		--	2,150	1,800	--	--		S + 2.500%		Jan 2028		--
4.000% sr. notes due 2026		350	--	--	--	--		4.000%				--
3.700% sr. notes due 2026	PARAMOUNT GLOBAL	86	86	86	86	86	BB+	3.700%	99.81	Oct 2026	6.2%	3
2.900% sr. notes due 2027	PARAMOUNT GLOBAL	584	584	584	584	584	BB+	2.900%	99.22	Jan 2027	5.1%	17
3.375% sr. notes due 2028	PARAMOUNT GLOBAL	500	500	500	500	500	BB+	3.375%	97.56	Feb 2028	5.2%	17
3.700% sr. notes due 2028	PARAMOUNT GLOBAL	500	500	500	500	500	BB+	3.700%	97.23	Jun 2028	5.4%	19
4.200% sr. notes due 2029	PARAMOUNT GLOBAL	500	500	500	500	500	BB+	4.200%	95.77	Jun 2029	5.9%	21
7.875% sr. debentures due 2030	PARAMOUNT GLOBAL	827	827	827	827	827	BB+	7.875%	104.97	Jul 2030	6.4%	65
4.950% sr. notes due 2031	PARAMOUNT GLOBAL	1,250	1,250	1,250	1,250	1,250	BB+	4.950%	92.72	Jan 2031	6.9%	62
4.200% sr. notes due 2032	PARAMOUNT GLOBAL	1,000	1,000	1,000	1,000	1,000	BB+	4.200%	86.62	May 2032	7.1%	42
5.500% sr. debentures due 2033	PARAMOUNT GLOBAL	431	431	431	431	431	BB+	5.500%	88.83	May 2033	7.7%	24
4.850% sr. debentures due 2034	PARAMOUNT GLOBAL	87	87	87	87	87	BB+	4.850%	75.77	Dec 2034	9.1%	4
6.875% sr. debentures due 2036	PARAMOUNT GLOBAL	1,080	1,080	1,080	1,080	1,080	BB+	6.875%	92.51	Apr 2036	8.0%	74
6.750% sr. notes due 2037	PARAMOUNT GLOBAL	76	76	76	76	76	BB+	6.750%	84.71	Oct 2037	9.0%	5
5.900% sr. notes due 2040	PARAMOUNT GLOBAL	300	300	300	300	300	BB+	5.900%	74.64	Oct 2040	9.1%	18
4.500% sr. debentures due 2042	PARAMOUNT GLOBAL	46	46	46	46	46	BB+	4.500%	60.41	Feb 2042	9.4%	2
4.850% sr. notes due 2042	PARAMOUNT GLOBAL	500	500	500	500	500	BB+	4.850%	66.06	Jul 2042	8.9%	24
4.375% sr. debentures due 2043	PARAMOUNT GLOBAL	1,446	1,446	1,446	1,446	1,446	BB+	4.375%	63.12	Mar 2043	8.6%	63
4.875% sr. debentures due 2043	PARAMOUNT GLOBAL	18	18	18	18	18	BB+	4.875%	61.62	Jun 2043	9.5%	1
5.850% sr. debentures due 2043	PARAMOUNT GLOBAL	1,250	1,250	1,250	1,250	1,250	BB+	5.850%	72.72	Sep 2043	9.0%	73
5.250% sr. notes due 2044	PARAMOUNT GLOBAL	348	348	348	348	348	BB+	5.250%	66.07	Apr 2044	9.2%	18
4.900% sr. notes due 2044	PARAMOUNT GLOBAL	550	550	550	550	550	BB+	4.900%	63.67	Aug 2044	9.0%	27
4.600% sr. notes due 2045	PARAMOUNT GLOBAL	600	600	600	600	600	BB+	4.600%	62.01	Jan 2045	8.8%	28
4.950% sr. notes due 2050	PARAMOUNT GLOBAL	1,000	1,000	1,000	1,000	1,000	BB+	4.950%	62.21	May 2050	8.8%	50
Total senior debt		\$13,329	\$15,129	\$14,779	\$86,929	\$86,929		5.787%			6.9%	\$5,030
6.250% jr. subordinated debentures due 2057	PARAMOUNT GLOBAL	\$650	\$650	\$650	\$650	\$650	BB-	6.250%	77.16	Feb 2057	11.1%	\$41
6.375% jr. subordinated debentures due 2062	PARAMOUNT GLOBAL	1,000	1,000	1,000	1,000	1,000	BB-	6.375%	81.25	Mar 2062	11.4%	\$4
Other debt		3	2	2	2	2						--
Total debt		\$14,982	\$16,781	\$16,431	\$88,581	\$88,581		5.797%			6.9%	\$5,135
Net debt		11,708	14,840	14,804	83,581	83,581						
Class B shares		1,080	1,088	1,090	5,146	5,146						
Class A shares		32	32	32	32	32						
Total common shares		1,112	1,119	1,122	5,178	5,178						
Shares price	PSKY US Equity	\$11.36	\$10.11	\$10.86	\$10.86	\$7.35						
Equity value		\$12,629	\$11,315	\$12,184	\$56,232	\$38,048						
Enterprise value		24,337	26,155	26,988	139,813	121,629						
TTM adj. EBITDA		\$3,076	\$3,505	\$3,741	\$18,100	\$18,100						
Gross secured leverage ratio		--	--	--	3.2x	3.2x						\$0.05
Gross senior leverage ratio		4.3x	4.3x	4.0x	4.8x	4.8x						\$1,029
Gross total leverage ratio		4.9x	4.8x	4.4x	4.9x	4.9x						3.53x
Gross total LTV		62%	64%	61%	63%	73%						(EBITDA - capex) / interest
EV / EBITDA		7.9x	7.5x	7.2x	7.7x	6.7x						3.21x
												PSKY capex
												\$300
												WBD capex
												\$1,300
												1M SOFR
												3.74%
												5yr SOFR Swap
												4.27%

HYBRID BONDS

There are a few dynamics at play here worth highlighting. First, hybrid bonds get their name because the rating agencies treat them as 50% debt and 50% equity. Why? Because when the bonds are issued, they have far out maturities, they are contractually subordinated to senior debt, they generally have negligible covenants, and if things get bad, the issuer can defer the interest payments for five years at a time (interest accrues and compounds, blocks equity dividends and stock buybacks). Hybrids are also hard to model. The coupons have resets. The workout dates are uncertain (typical to be called before coupon reset or loss of equity treatment). That's a lot to dislike for a traditional HF credit investor.

Second, because of the above, hybrids have an atypical institutional investor base and generally a large retail presence. Both are ratings sensitive. When PARA got cut to junk, we're told \$200m of supply came out - that was a nasty technical that brought the bonds to their lows. It also left them orphaned. **Herein lies the opportunity.**

WARNER BROS. DISCOVERY ACQUISITION

PSKY is acquiring WBD for an approximate \$80bn equity consideration and an EV near \$110bn, which is about 13.0x consensus EBITDA for 2026. Unquestionably, they are overpaying. DIS is the crown jewel in the content/media sector and it trades at about 10.0x. The rest of the set trades closer to 7.0x, and that's where WBD traded before rumors swirled it could be a takeover target. PSKY is targeting \$6bn of synergies over three years and if you give them full credit, it takes the purchase

multiple down to 7.5x. We generally don't like to give companies the benefit of the doubt for their full aspirations, but we make an exception in this case. Upon the Skydance/Paramount merger (announced July 2024, closed August 2025), the plan called for \$2bn of synergies over 3 years but within one quarter of closing was raised to \$3bn and as of the Q2'26 earnings release PSKY was on track to deliver \$2.7bn by the end of this year. So David Ellison and his team have built some credibility on this front. And make no mistake, this is a transformative M&A deal that will create the second largest U.S. content/media firm behind DIS, and this will give the new PSKY more resources to navigate and compete in the changing media landscape.

The deal was set to be funded with \$39bn of new debt, \$29bn of refinancing/assumed WBD debt and a \$47bn PIPE entailing new PSKY Class B shares backstopped by the Ellison family and RedBird Capital (titan in sports/media/entertainment PE) at \$16.02. Considering PSKY shares were trading at \$10.16 at the time, this was a nice confidence booster for the markets. However, in April 2026, the backstop changed to a pre-closing 20-day VWAP with a \$12.00 floor and \$16.02 ceiling ("Syndication Purchase Price"). With PSKY shares currently trading below \$11.00, we assume the \$12.00 floor for our share dilution analysis. But this change also came with a very interesting kicker - each existing PSKY shareholder, excluding Ellison and RedBird, is set to receive one 10-year warrant per share struck at the Syndication Purchase Price. From what we can tell, the market is completely overlooking this value. **Please see our separate report on PSKY US Equity.**

(\$ in millions)			
Sources		Uses	
Equity contribution	\$46,970	WBD equity purchase price	\$77,841
New acquisition debt	51,900	Payment of replacement awards	1,083
Secured 3-yr TL A-1	2,500	Refinance WBD bridge facility	14,708
Secured 5-yr TL A-2	2,500	Cash tender for WBD bonds	2,444
\$5bn secured revolver	--	Exchange WBD bonds into junior lien bonds	12,801
Exchanged / assumed WBD debt	15,250	Assumption of WBD bonds	2,449
Cash from both B/S's	4,996	WBD/NFLX break fee	2,800
		Minimum cash to B/S	5,000
		Fees / other	4,990
Total sources	\$124,116	Total uses	\$124,116

A few more things to highlight about the debt structure. First, on June 9, 2025, in connection with its announcement to separate into two companies, WBD astutely reduced its debt from \$40bn to \$33m by capturing \$7bn of discount through cash tender offers, using proceeds from a \$17bn secured bridge term loan. The tender offers were for \$15bn of WBD's \$40bn note stack, required consent solicitations, and gave consenting and tendering bonds that were not repurchased (due to purchase caps) a future right to either exchange into junior lien debt or receive a 10pt fee the earlier of 5 days after completion of the separation or 18 months after the close of the tender offer (June 24, 2025). Largely as a function of this obligation, and perhaps in an effort to scramble the egg as much as possible, in May 2026, PSKY launched an exchange offer for the \$12.8bn applicable WBD bonds, swapping like-for-like coupons and maturities from unsecured WBD paper to secured second lien PSKY paper.

Second, treatment of the existing WBD debt varies. Of WBD's \$32bn gross debt, the WBD secured bridge (\$15bn outstanding) will be taken out with new secured debt. \$12.8bn existing WBD unsecured bonds will roll into \$12.8bn 2L PSKY bonds. \$2.4bn WBD unsecured bonds will be assumed by PSKY and stay unsecured bonds (some retail, some with covenants that presented no obstacles to the WBD split or PSKY acquisition). And \$2.4bn near-dated WBD bonds are being tendered for with cash by PSKY as part of the May 2026 offer.

Third, Paramount is seeking to structure the deal debt as split between secured, IG-rated, and unsecured, HY-rated, as captured in the pro forma cap table on Page 2.

And finally, its worth noting in what will be an \$88bn pro forma debt structure with \$5bn of annual interest against \$12bn of pre-synergy EBITDA that the existing debt has very low coupons and the spread between the trading yields and the coupons is meaningful enough such that as debt needs to be refinanced, cash interest will tick up - we estimate close to \$1bn incremental interest if the entire stack was refinanced at market yields today.

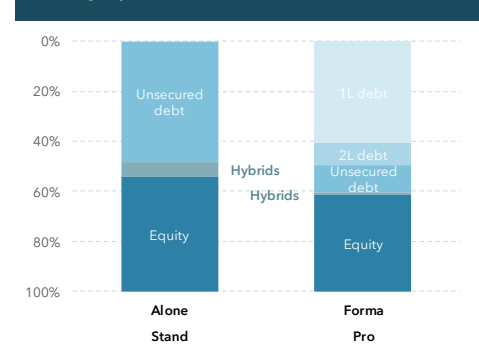
Warner Bros. Discovery Capitalization (\$ in millions)	Borrower / Issuer	Treatment	Targeted Amount	Residual Amount	Previous		Current 6/30/2026	Pro Forma	Composite Rating	Rate/ Coupon	Price	Maturity	Yield	Annual Interest
					12/31/2024	12/31/2025								
Cash					\$5,312	\$4,566	\$3,369	\$3,369						
Revolver					4,000	4,000	4,000	4,000						
Liquidity					\$9,312	\$8,566	\$7,369	\$7,369						
Bridge loan (USD)	DISCOVERY HOLDINGS INC	Refinance	13,000	--	--	\$15,000	\$13,000	\$13,000	BBB-	S + 2.500%		Jun 2033		\$812
Bridge loan (1.717bn EUR)	DISCOVERY HOLDINGS INC	Refinance	1,708	--	--	--	1,708	1,708	BBB-	S + 2.500%		Jun 2033		107
3.450% sr. notes due 2025	DISCOVERY COMMUNICATIONS	Matured	--	--	282	--	--	--		3.450%		Mar 2025		--
3.788% sr. notes due 2025	WARNER MEDIA LLC	Matured	--	--	408	--	--	--		3.788%		Mar 2025		--
3.638% sr. notes due 2025	WARNER MEDIA LLC	Matured	--	--	1,475	--	--	--		3.638%		Mar 2025		--
3.950% sr. notes due 2025	DISCOVERY COMMUNICATIONS	Matured	--	--	475	--	--	--		3.950%		Jun 2025		--
3.950% sr. notes due 2025	SCRIPPS NETWORKS	Matured	--	--	11	--	--	--		3.950%		Jun 2025		--
3.600% sr. notes due 2025	WARNER MEDIA LLC	Matured	--	--	97	--	--	--		3.600%		Jul 2025		--
6.850% sr. notes due 2026	HISTORIC TV INC	Matured	--	--	17	2	--	--	NR	6.850%		Jan 2026		--
3.875% sr. notes due 2026	WARNER MEDIA LLC	Matured	--	--	30	20	--	--	NR	3.875%		Jan 2026		--
4.900% sr. notes due 2026	DISCOVERY COMMUNICATIONS	Matured	--	--	650	102	--	--	NR	4.900%		Mar 2026		--
6.412% sr. notes due 2026	WARNER MEDIA HOLDINGS INC	Matured	--	--	1,500	--	--	--	NR	6.412%		Mar 2026		--
2.950% sr. notes due 2026	WARNER MEDIA LLC	Matured	--	16	43	16	16		NR	2.950%		Jul 2026		--
3.800% sr. notes due 2027	WARNER MEDIA LLC	Assumed	--	33	54	33	33		BB	3.800%	98.61	Feb 2027	7.0%	1
3.755% sr. notes due 2027	DISCOVERY HOLDINGS INC	Cash tender	1,195	155	4,000	1,350	1,350	1,350	BB	3.755%	99.58	Mar 2027	4.6%	51
1.900% sr. notes due 2027	DISCOVERY COMMUNICATIONS	Assumed	--	96	623	99	96	96	BB	1.900%	97.83	Mar 2027	6.1%	2
6.950% sr. notes due 2028	HISTORIC TV INC	Assumed	--	19	67	19	19	19	BB	6.950%	98.79	Jan 2028	7.9%	1
3.950% sr. notes due 2028	DISCOVERY COMMUNICATIONS	Cash tender	1,249	140	1,700	1,389	1,389	1,389	BB	3.950%	98.97	Mar 2028	4.6%	55
4.054% sr. notes due 2029	DISCOVERY HOLDINGS INC	Exchange	1,365	135	1,500	1,500	1,500	1,500	BB	4.054%	99.07	Mar 2029	4.4%	61
4.125% sr. notes due 2029	DISCOVERY COMMUNICATIONS	Exchange	662	88	750	750	750	750	NR	4.125%	98.00	May 2029	4.9%	31
6.625% sr. notes due 2029	HISTORIC TV INC	Assumed	--	24	62	24	24	24	BB	6.625%	98.41	May 2029	7.3%	2
4.302% sr. notes due 2030	DISCOVERY HOLDINGS INC	Exchange	279	64	675	354	343	343	NR	4.302%	101.13	Jan 2030	3.9%	15
3.625% sr. notes due 2030	DISCOVERY COMMUNICATIONS	Exchange	918	82	1,000	1,000	1,000	1,000	NR	3.625%	93.53	May 2030	5.6%	36
7.625% sr. notes due 2031	WARNER MEDIA LLC	Assumed	--	21	155	21	21	21	BB	7.625%	97.51	Apr 2031	8.3%	2
4.279% sr. notes due 2032	DISCOVERY HOLDINGS INC	Exchange	2,702	310	5,000	3,012	3,012	3,012	BB	4.279%	91.30	Mar 2032	6.2%	129
7.700% sr. notes due 2032	WARNER MEDIA LLC	Assumed	--	11	139	11	11	11	BB	7.700%	99.57	May 2032	7.8%	1
4.693% sr. notes due 2033	DISCOVERY HOLDINGS INC	Exchange	376	75	883	465	451	451	NR	4.693%	95.25	May 2033	5.6%	21
8.300% sr. notes due 2036	HISTORIC TV INC	Assumed	--	7	156	7	7	7	BB	8.300%	97.55	Jan 2036	8.7%	1
6.500% sr. notes due 2036	WARNER MEDIA LLC	Assumed	--	6	15	6	6	6	BB	6.500%	87.86	Nov 2036	8.3%	0
5.000% sr. notes due 2037	DISCOVERY COMMUNICATIONS	Exchange	455	93	548	548	548	548	BB	5.000%	77.78	Sep 2037	8.1%	27
6.200% sr. notes due 2040	WARNER MEDIA LLC	Assumed	--	2	24	2	2	2	BB	6.200%	73.09	Mar 2040	9.8%	0
6.350% sr. notes due 2040	DISCOVERY COMMUNICATIONS	Exchange	444	214	664	658	658	658	NR	6.350%	81.86	Jun 2040	8.6%	42
6.100% sr. notes due 2040	WARNER MEDIA LLC	Assumed	--	6	39	6	6	6	BB	6.100%	69.55	Jul 2040	10.3%	0
6.250% sr. notes due 2041	WARNER MEDIA LLC	Assumed	--	1	68	1	1	1	BB	6.250%	79.65	Mar 2041	8.7%	0
5.375% sr. notes due 2041	WARNER MEDIA LLC	Assumed	--	4	13	4	4	4	BB	5.375%	51.55	Oct 2041	12.6%	0
5.050% sr. notes due 2042	DISCOVERY HOLDINGS INC	Exchange	4,122	179	4,301	4,301	4,301	4,301	BB	5.050%	72.82	Mar 2042	8.2%	217
4.950% sr. notes due 2042	DISCOVERY COMMUNICATIONS	Exchange	131	88	226	219	219	219	NR	4.950%	69.00	May 2042	8.6%	11
4.900% sr. notes due 2042	WARNER MEDIA LLC	Assumed	--	4	19	4	4	4	BB	4.900%	68.25	Jun 2042	8.6%	0
4.875% sr. notes due 2043	DISCOVERY COMMUNICATIONS	Exchange	142	73	220	215	215	215	NR	4.875%		Apr 2043		10
5.350% sr. notes due 2043	WARNER MEDIA LLC	Assumed	--	8	30	8	8	8	BB	5.350%	50.53	Dec 2043	12.3%	0
4.650% sr. notes due 2044	WARNER MEDIA LLC	Assumed	--	4	11	4	4	4	BB	4.650%	49.32	Jun 2044	11.3%	0
4.850% sr. notes due 2045	WARNER MEDIA LLC	Assumed	--	3	5	3	3	3	BB	4.850%	41.90	Jul 2045	13.3%	0
5.200% sr. notes due 2047	DISCOVERY COMMUNICATIONS	Exchange	4	148	605	152	152	152	NR	5.200%	56.07	Sep 2047	10.4%	8
5.300% sr. notes due 2049	DISCOVERY COMMUNICATIONS	Exchange	248	31	279	279	279	279	NR	5.300%	63.68	May 2049	9.1%	15
4.650% sr. notes due 2050	DISCOVERY COMMUNICATIONS	Assumed	--	31	303	31	31	31	BB	4.650%	50.86	May 2050	10.2%	1
5.141% sr. notes due 2052	DISCOVERY HOLDINGS INC	Exchange	954	127	7,000	1,081	1,081	1,081	BB	5.141%	67.08	Mar 2052	8.3%	56
4.000% sr. notes due 2055	DISCOVERY COMMUNICATIONS	Assumed	--	82	405	82	82	82	BB	4.000%	46.42	Sep 2055	9.4%	3
5.391% sr. notes due 2062	DISCOVERY HOLDINGS INC	Assumed	--	66	3,000	66	66	66	BB	5.391%	53.62	Mar 2062	10.3%	4
Total debt			\$29,954	\$2,449	\$39,527	\$32,846	\$32,402	\$32,386		4.547%			6.5%	\$1,722
Net debt					34,215	28,280	29,033	29,017						
Shares					2,454	2,480	2,511	2,511						
Shares price	WBD US Equity				\$10.73	\$28.50	\$27.99	\$31.00						
Equity value					\$26,331	\$70,678	\$70,275	\$77,832						
Enterprise value					60,546	98,958	99,308	106,849						
TTM adj. EBITDA					\$9,032	\$8,744	\$8,568	\$8,181						
Gross secured leverage ratio					--	1.7x	1.7x	1.8x				Interest coverage ratio		4.75x
Gross senior leverage ratio					4.4x	3.8x	3.8x	4.0x				(EBITDA - capex) / interest		4.00x
Gross total leverage ratio					4.4x	3.8x	3.8x	4.0x				Capex		\$1,300
Gross total LTV					65%	33%	33%	30%				1M SOFR		3.74%
EV / EBITDA					6.7x	11.3x	11.6x	13.1x				5yr SOFR Swap		4.27%

INVESTMENT THESIS

First, the selloff was more technical than fundamental, and when that's the case, it's often a good buying opportunity. The PARA Hybrids have always been a thin layer between senior debt and equity. There are only two tranches: \$650m 6.250% jr. sub. notes due 2057 and \$1bn 6.375% jr. sub. notes due 2062. Through the hybrids, on a gross and net basis, LTV is going from 62% to 63%, and from 50% to 60%, respectively, assuming the market is correctly pricing the pro forma equity, and now you're part of a much more substantial enterprise with a \$50bn equity cushion vs. a \$12bn equity cushion. That change doesn't warrant the severity of the selloff - from par to the low-80s.

Second, on an absolute basis, we believe the PARA hybrids are mispriced. The 6.375% hybrids currently have a nearly 700bps OAS and an 11.4% ytw. Assuming a 5% probability of default and a 90% loss-given-default (so 10pts of nuisance value which is a \$165m bone for the two hybrid tranches), this should equate to a 9.50% ytw. For these bonds to be impaired, \$40bn - \$50bn of equity will have to be wiped out and we simply don't see that as a realistic scenario.

LTV Through Hybrids



Third, on a relative basis, at 11.4%, the hybrids, rated BB-, are offering closer to CCC yields (13.2%) than single-B yields (7.3%), and we believe these will ultimately be single-B risk.

Fourth, we believe the market is mispricing the Ellison backstop of the entire business – Skydance merging with Paramount was a high-profile deal, with important implications for controlling various media and news properties such as CBS and we do not see the Ellisons letting this business fail, full stop. We'll go out on a limb and say the probability of default is actually lower than 5%.

Fifth, the 6.375% hybrids have an attractive reset structure whereby the coupon will adjust every five years to the 5YR UST + 3.999%, then +4.249%, then +4.999%, starting in March 2027. With the 5YR UST currently at about 4.50%, the new coupon would be 8.50%, and the current yield, at a price of 81.25, would be 10.5%, which we believe many fixed income investors will find very attractive once the noise around the WBD merger subsides and the final structure is in place. Further, assuming most of our clients have long-biased portfolios that are negatively exposed to rising rates, and in the current environment with upward pressure on the front end of the curve, we like the added benefit of an instrument that benefits from higher rates.

Finally, albeit a right-tail event, we like the exposure to the potential the WBD deal doesn't close – which was the impetus for the junk downgrade and selloff in the hybrids to begin with. While not identical situations, The Nexstar/Tenga deal remains in limbo despite the DOJ and FCC both approving it; this is because a federal judge issued a TRO (temporary restraining order) in response to lawsuits filed by DirecTV and numerous state attorneys general. At present, California and several other states pose a threat to the PSKY/WBD deal through antitrust litigation and should they prevail, the 6.375% hybrids would have a clear line-of-sight back near par. In addition, and admittedly this is a stretch, but the WBD deal requires a significant amount of debt and if the capital markets shut down / yields blow out and this deal becomes unfinanceable, it either breaks or requires a more significant equity contribution, and the PARA Hybrids would be the most significant net beneficiary in either case.

Putting all this into the mixer, we see a highly favorable, asymmetric trade setup for these bonds (assumes 1 year trade horizon):

Trade Horizon = ~12 Months, to 9/4/2027													
	BB ID	Rate	BBG Composite Rating	Face Value / Contracts	Start Price / Premium	Strike	Start Yield	Left Tail	Downside	Status Quo	Upside	Right Tail	Payoff Skew
PARA 6 3/8 03/30/62	BV5210661	6.375%	BB-	\$10,000	81.25		11.43%	57.18 16.43%	70.07 13.43%	82.33 11.43%	90.10 10.43%	99.99 9.37%	
P&L \$ - credit								(\$1.666)	(\$0.376)	\$0.849	\$1.626	\$2.615	4.32x
P&L \$ - options								--	--	--	--	--	
P&L \$ - linear								--	--	--	--	--	
P&L \$ - total, gross								(\$1.666)	(\$0.376)	\$0.849	\$1.626	\$2.615	4.32x
								(20.5%)	(4.6%)	10.5%	20.0%	32.2%	
								(20.5%)	(4.6%)	10.5%	20.0%	32.2%	4.32x

RIGHT TAIL. WBD deal is terminated, PSKY has shot at going back to IG.

UPSIDE. WBD deal closes, final structure is set, market wakes up to reality the debt is mispriced especially in the context of the Ellison backing. Achieve 100bps tightening.

DOWNSIDE. WBD deal closes, any combination of market and economic weakness drives 200bps yield widening, through the lows of the junk downgrade technical selloff.

LEFT TAIL. WBD deal closes, PSKY shuts off the coupon, business performs poorly, markets in bad shape, yield widens 500bps.

IDIOSYNCRATIC RISKS

PRO FORMA LTV. A large part of our thesis is the implied equity cushion in the pro forma PSKY/WBD cap stack and this relies on an assumption about how the market is pricing the PSKY stock today. As we discuss in our separate report regarding the

PSKY warrants to be issued, we don't believe the market is pricing PSKY stock as a package of stock + warrant. If the market is assigning a ~\$3.50/shr. value to the warrant, implying a mid-\$7.00 for the common stock and a pro forma market capitalization of \$38bn (so the \$12bn pre-deal market cap + \$46bn being put in is being lit on fire), then our LTV assumption is wrong, the riskiness of the PARA Hybrids is higher and corresponding absolute yield is higher than our 9.50% bogey. This valuation would correspond to a pro forma TEV/EBITDA (assuming \$6bn synergy) of 6.7x, which is low, but not egregious. See the second pro forma column in the cap table on Pg. 2. That said, we see no evidence the market is pricing the stock this way - no mention of this in sellside reports, price targets on the stock in many cases remain unchanged from pre-warrant announcement, and the stock movement itself has not reacted in a manner that suggests it has repriced to factor in warrant value.

COUPON SHUTOFF. Let's face it, David Ellison & Co. won't care about these hybrids the way an IG issuer might. The Company has mentioned getting back to IG credit metrics, but we're skeptical that will be a top priority, so we assign little value to the threat of loss of equity treatment. PSKY currently pays a \$0.20 annual dividend, and on 5bn pro forma shares, that's \$1bn per year - we suspect that gets cut or suspended, so the dividend blocker from deferring the coupon payment is probably moot. The PARA Hybrids currently pay a combined \$100m of annual interest and this will step up to \$135m/year at prevailing rates. So while it's fairly rare for a company to go this route, we certainly would not rule it out in this situation. If the dividend gets suspended, we would get nervous.

BULL STEEPENER. On paper, the PARA Hybrids should perform well in an inverted 5/30 yield curve where the coupon gets restruck with the benefit of a higher UST 5YR rate, and the long duration benefits from the lower UST 30YR rate. The reverse, bull steepener, would hurt, where the economy hits the skids and front-end rates price in steep cuts while the 30YR yield comes down only modestly.

NEAR-TERM TIMING. The last few weeks in the U.S. treasury market have seen a meaningful move up in yields - it feels like we're redlining it a bit right now and it might make sense to see if the rates market gets some near-term relief before stepping into this trade.

CHALLENGED FUNDAMENTALS. We haven't focused much on fundamentals here, but it's worth noting the media industry is a bit of a mess. Legacy media companies have been ceding share in numerous areas. Cord cutting is driving subscriber losses in broadcast and cable networks, advertising dollars are being allocated away from mass media to more targeted and traceable formats like social media and paid search, content is proliferating with barriers to entry for distribution crumbling (podcasts, YouTube), and the streaming wars remain intense. This leads to declining revenue and increased spending to combat competitive pressures, and for PSKY/WBD, that means thin cash flow. Adding more leverage exacerbates the problem. On \$12bn EBITDA (before any synergy realization), \$5bn pro forma cash interest, \$1.5bn capex, and call it \$1bn non-recurring, restructuring and integration cash outlays, there should be sufficient cash flow here out of the gates, but the pressure surrounding the business is plain to see and a factor that weighs on industry multiples and cost of capital.

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