

**David Zaslav**, President and Chief Executive Officer of Discovery said, "We made great strides in the quarter operationally, financially and creatively. The team drove solid momentum in our direct-to-consumer business, which we grew to 20 million paid subscribers at quarter end on the strength of our global brands and fan-favorite content, including the Summer Olympic Games and Shark Week. Additionally, we delivered double-digit growth in both advertising and distribution revenues, as we doubled next generation revenues year over year. This strong performance once again drove very healthy cash flows during the quarter, further strengthening our balance sheet and financial profile. We are very excited about our pending merger with WarnerMedia and the opportunity to bring these two companies together, combining iconic and globally cherished franchises and brands, and positioning us to more efficiently drive global scale across the combined portfolio."

### **Third-Quarter 2021 Financial Highlights**

- Total revenues of \$3,150 million increased 23%, as reported and ex-FX<sup>(1)</sup>, compared to the prior year quarter.
  - U.S. advertising revenues increased 5% and distribution revenues increased 21%; and
  - International advertising revenues increased 28%, or 26% ex-FX, and distribution revenues increased 7%, or 6% ex-FX.
- Net income available to Discovery, Inc. was \$156 million and diluted earnings per share was \$0.24.
- Total Adjusted OIBDA<sup>(2)</sup> was \$726 million.
- Cash provided by operating activities was \$811 million and free cash flow<sup>(3)</sup> was \$705 million.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021	2020	% Change	Ex-FX <sup>(1)</sup>	2021	2020	% Change	Ex-FX <sup>(1)</sup>
<i>Dollars in millions, except per share amounts</i>								
<b>Total revenue</b>	<b>\$ 3,150</b>	<b>\$ 2,561</b>	<b>23 %</b>	<b>23 %</b>	<b>\$ 9,004</b>	<b>\$ 7,785</b>	<b>16 %</b>	<b>14 %</b>
<b>Net income available to Discovery, Inc.</b>	<b>\$ 156</b>	<b>\$ 300</b>	<b>(48)%</b>		<b>\$ 968</b>	<b>\$ 948</b>	<b>2 %</b>	
U.S. Networks Adjusted OIBDA	963	951	1 %		2,836	3,029	(6) %	
International Networks Adjusted OIBDA	(79)	127	NM	NM	287	527	(46) %	(43) %
<b>Total Adjusted OIBDA<sup>(4)</sup></b>	<b>\$ 726</b>	<b>\$ 954</b>	<b>(24)%</b>	<b>(24)%</b>	<b>\$ 2,680</b>	<b>\$ 3,194</b>	<b>(16)%</b>	<b>(16)%</b>
Diluted earnings per share	\$ 0.24	\$ 0.44	(45) %		\$ 1.46	\$ 1.40	4 %	
Cash provided by operating activities	\$ 811	\$ 860	(6) %		\$ 1,914	\$ 2,186	(12) %	
Free cash flow	\$ 705	\$ 787	(10) %		\$ 1,641	\$ 1,896	(13) %	

### **Operational Highlights**

- Ended Q3 with 20 million DTC Subscribers<sup>(5)</sup>, an increase of 3 million subscribers since the end of Q2.
- Generated \$425 million of Next Generation Revenues, growth of approximately 100% versus the prior year quarter.<sup>(5)</sup>
- Recently launched discovery+ in Canada and the Philippines; the app is also now available on Cox Contour TV and Contour Stream Player.
- Finalized multi-year U.S. distribution agreements with DirecTV and Verizon.
- Successfully broadcast the Tokyo 2020 Summer Olympic Games, which reached over 372 million people in Europe across TV and digital platforms, and delivered 1.3 billion minutes of Olympics content on our streaming services.

## Segment Results

### U.S. Networks

<i>Dollars in millions</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Advertising	\$ 991	\$ 941	5 %	\$ 3,090	\$ 2,964	4 %
Distribution	841	696	21 %	2,465	2,143	15 %
Other	26	22	18 %	82	64	28 %
Total revenues	\$ 1,858	\$ 1,659	12 %	\$ 5,637	\$ 5,171	9 %
Costs of revenues, excluding depreciation & amortization	459	445	3 %	1,339	1,334	— %
Selling, general & administrative <sup>(6)</sup>	436	263	66 %	1,462	808	81 %
Adjusted OIBDA	\$ 963	\$ 951	1 %	\$ 2,836	\$ 3,029	(6)%

### International Networks

<i>Dollars in millions</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021	2020	% Change	Ex-FX	2021	2020	% Change	Ex-FX
Advertising	\$ 467	\$ 365	28 %	26 %	\$ 1,420	\$ 1,017	40 %	32 %
Distribution	538	503	7 %	6 %	1,592	1,504	6 %	4 %
Other	290	34	NM	NM	363	87	NM	NM
Total revenues	\$ 1,295	\$ 902	44 %	43 %	\$ 3,375	\$ 2,608	29 %	25 %
Costs of revenues, excluding depreciation & amortization	1,072	554	94 %	92 %	2,218	1,389	60 %	52 %
Selling, general & administrative <sup>(6)</sup>	302	221	37 %	32 %	870	692	26 %	19 %
Adjusted OIBDA	\$ (79)	\$ 127	NM	NM	\$ 287	\$ 527	(46)%	(43)%

## Other

### Interest Rate Derivative Contracts

In anticipation of the proposed transaction with WarnerMedia, the Company executed various interest rate derivative contracts with a total notional value of \$15 billion during the third quarter. The objective of these contracts is to partially mitigate interest rate risk associated with the expected issuance of future debt to finance the cash portion of the proposed WarnerMedia transaction. The contracts did not receive hedging designation for accounting purposes. As such, changes in the fair value of the derivative contracts are recognized in "Other income (expense), net" in the consolidated statements of operations, which could create volatility in "Net income" in the coming quarters until the closing of the proposed transaction with WarnerMedia. The financial impact during the third quarter was \$106 million.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Revenues:</b>				
Advertising	\$ 1,458	\$ 1,306	\$ 4,510	\$ 3,981
Distribution	1,379	1,199	4,057	3,647
Other	313	56	437	157
<b>Total revenues</b>	<b>3,150</b>	<b>2,561</b>	<b>9,004</b>	<b>7,785</b>
<b>Costs and expenses:</b>				
Costs of revenues, excluding depreciation and amortization	1,529	1,003	3,553	2,731
Selling, general and administrative	944	633	2,947	1,913
Depreciation and amortization	341	341	1,043	1,001
Impairment of goodwill and other intangible assets	—	—	—	38
Restructuring and other charges	7	53	29	75
Gain on disposition	—	—	(72)	—
<b>Total costs and expenses</b>	<b>2,821</b>	<b>2,030</b>	<b>7,500</b>	<b>5,758</b>
Operating income	329	531	1,504	2,027
Interest expense, net	(159)	(161)	(479)	(485)
Loss on extinguishment of debt	(6)	(5)	(10)	(76)
Loss from equity investees, net	(9)	(18)	(20)	(62)
Other income (expense), net	78	(28)	255	(92)
<b>Income before income taxes</b>	<b>233</b>	<b>319</b>	<b>1,250</b>	<b>1,312</b>
Income tax (expense) benefit	(36)	11	(144)	(275)
<b>Net income</b>	<b>197</b>	<b>330</b>	<b>1,106</b>	<b>1,037</b>
Net income attributable to noncontrolling interests	(32)	(29)	(116)	(82)
Net income attributable to redeemable noncontrolling interests	(9)	(1)	(22)	(7)
<b>Net income available to Discovery, Inc.</b>	<b>\$ 156</b>	<b>\$ 300</b>	<b>\$ 968</b>	<b>\$ 948</b>
<b>Net income per share available to Discovery, Inc. Series A, B and C common stockholders:</b>				
Basic	\$ 0.24	\$ 0.44	\$ 1.47	\$ 1.40
Diluted	\$ 0.24	\$ 0.44	\$ 1.46	\$ 1.40
<b>Weighted average shares outstanding:</b>				
Basic	506	505	503	510
Diluted	663	672	665	677

(continued) in millions, except per share

	September 30, 2021	December 31, 2020
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 3,116	\$ 2,091
Receivables, net	2,462	2,537
Content rights and prepaid license fees, net	254	532
Prepaid expenses and other current assets	824	970
<b>Total current assets</b>	<b>6,656</b>	<b>6,130</b>
Noncurrent content rights, net	3,688	3,439
Property and equipment, net	1,310	1,206
Goodwill	12,957	13,070
Intangible assets, net	6,784	7,640
Other noncurrent assets	2,923	2,602
<b>Total assets</b>	<b>\$ 34,318</b>	<b>\$ 34,087</b>

<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,361	\$ 2,190
Deferred revenues	625	557
Current portion of debt	349	335
<b>Total current liabilities</b>	<b>3,335</b>	<b>3,082</b>
Noncurrent portion of debt	14,436	15,069
Deferred income taxes	1,248	1,534
Other noncurrent liabilities	1,901	2,019
<b>Total liabilities</b>	<b>20,920</b>	<b>21,704</b>
Commitments and contingencies		
Redeemable noncontrolling interests	358	383
Equity:		
Discovery, Inc. stockholders' equity:		
Series A-1 convertible preferred stock: \$0.01 par value; 8 shares authorized, issued and outstanding	—	—
Series C-1 convertible preferred stock: \$0.01 par value; 6 shares authorized; 4 and 5 shares issued and outstanding	—	—
Series A common stock: \$0.01 par value; 1,700 shares authorized; 170 and 163 shares issued; and 169 and 162 shares outstanding	2	2
Series B convertible common stock: \$0.01 par value; 100 shares authorized; 7 shares issued and outstanding	—	—
Series C common stock: \$0.01 par value; 2,000 shares authorized; 559 and 547 shares issued; and 330 and 318 shares outstanding	5	5
Additional paid-in capital	11,043	10,809
Treasury stock, at cost: 230 shares	(8,244)	(8,244)
Retained earnings	9,522	8,543
Accumulated other comprehensive loss	(717)	(651)
<b>Total Discovery, Inc. stockholders' equity</b>	<b>11,611</b>	<b>10,464</b>
Noncontrolling interests	1,429	1,536
<b>Total equity</b>	<b>13,040</b>	<b>12,000</b>
<b>Total liabilities and equity</b>	<b>\$ 34,318</b>	<b>\$ 34,087</b>

	<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>
<b>Operating Activities</b>		
Net income	\$ 1,106	\$ 1,037
Adjustments to reconcile net income to cash provided by operating activities:		
Content rights amortization and impairment	2,735	2,118
Depreciation and amortization	1,043	1,001
Deferred income taxes	(502)	(198)
Share-based compensation expense	134	62
Gain on disposition	(72)	—
Equity in losses of equity method investee companies, including cash distributions	57	96
Gain on sale of investments	(20)	—
Loss on extinguishment of debt	10	76
Impairment of goodwill and other intangible assets	—	38
Other, net	(147)	34
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Receivables, net	44	156
Content rights and payables, net	(2,578)	(2,100)
Accounts payable, accrued liabilities, deferred revenues and other noncurrent liabilities	124	(166)
Foreign currency, prepaid expenses and other assets, net	(20)	32
Cash provided by operating activities	<u>1,914</u>	<u>2,186</u>
<b>Investing Activities</b>		
Purchases of property and equipment	(273)	(290)
Proceeds from sales and maturities of investments and dissolution of joint venture	498	67
Investments in and advances to equity investments	(137)	(141)
(Payments for) proceeds from derivative instruments, net	(102)	85
Purchases of investments	(103)	(250)
Business acquisitions, net of cash acquired	—	(26)
Other investing activities, net	87	5
Cash used in investing activities	<u>(30)</u>	<u>(550)</u>
<b>Financing Activities</b>		
Principal repayments of debt, including premiums to par value and discount payment	(574)	(2,193)
Borrowings from debt, net of discount and issuance costs	—	1,979
Distributions to noncontrolling interests and redeemable noncontrolling interests	(231)	(216)
Purchase of redeemable noncontrolling interests	(31)	—
Repurchases of stock	—	(741)
Principal repayments of revolving credit facility	—	(500)
Borrowings under revolving credit facility	—	500
Other financing activities, net	25	(101)
Cash used in financing activities	<u>(811)</u>	<u>(1,272)</u>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(69)	40
Net change in cash, cash equivalents, and restricted cash	1,004	404
Cash, cash equivalents, and restricted cash, beginning of period	2,122	1,552
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 3,126</u>	<u>\$ 1,956</u>

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021	2020	\$ Change	% Change	2021	2020	\$ Change	% Change
Cash provided by operating activities	\$ 811	\$ 860	\$ (49)	(6)%	\$ 1,914	\$ 2,186	\$ (272)	(12)%
Purchases of property and equipment	(106)	(73)	(33)	(45)%	(273)	(290)	17	6 %
Free cash flow	\$ 705	\$ 787	\$ (82)	(10)%	\$ 1,641	\$ 1,896	\$ (255)	(13)%