

Company Name: Perion Network Ltd. (PERI)
Event: Raymond James 44th Annual Institutional Investors Conference
Date: March 6, 2023

<<Andrew Marok, Analyst, Raymond James>>

For those of you who I haven't spoken with before, my name is Andrew Marok and I cover Online Advertising and Digital Media here at Raymond James. And we're thrilled to welcome Perion Network and CFO, Maoz Sigron, here to IIC. Maoz is going to go through a quick presentation to give everybody some background on Perion before we head into the Q&A.

So, Maoz, take it away.

<<Maoz Sigron, Chief Financial Officer>>

Thank you. Thank you very much. Good morning everybody. Happy to be here today. Just got here today, morning. So still some jet lag. So let's go directly to the numbers. We don't have much time, and I want to try to cover as much as we can.

So we ended the year with \$640 million revenue, 34% year-over-year growth, Q4 with \$210 million, with 33% year-over-year growth. Very good quarter, very good year. Just to say Q4, we did acquisition in 2021 October 3. So Q4 is apples to apples and the 33% that we have here is all organic.

Moving to the EBITDA, we are not only growing the business very nice, we are also improving the EBITDA quarter-over-quarter. We ended the year with \$133 million EBITDA with 90% year-over-year growth and Q4 with 48 with – sorry, 67% year-over-year growth.

The media margin increased by – the media margin increased by 2% from 40% in 2021 to 42% in 2022. The iHUB is the main contributor. We'll talk about this later.

Diving more into our business, starting with the display advertising in Q4 that increased from \$100 million last year in Q4 to \$123 million in Q4 2022, 24% year-over-year growth. The main drivers are on the right video that increased by 33%, mainly derived with the acquisition of Vidazoo that we did in Q3 2021. We are a 75% video platform publisher, 75% year-over-year growth. Video today is 42% from the business and another 10% of the business is the CTV that also grew very nicely by 42%.

And SORT, which is our private solution for the day after cookie is the cookieless solution increased by 82%, quarter-over-quarter, increased very nice on a quarterly basis. Today reflect 21% from the business. So all in all, on the advertising – on the Display Advertising, very successful quarter.

Moving to the Search, 49% year-over-year growth. The main reason is first, the RPM, that increased very nice by 13%, the number of publishers that increased by 37%. We are now with 155 publishers. And the number of searches that increased 26% year-over-year.

This slide reflects, I think, most our sustainable growth on the revenue and also on the EBITDA. You can see that trend quarter-over-quarter we are moving up, eliminating here the seasonality of our business and really showing the progress that we are doing on both sides. So if you look carefully on the revenue, this is around, let's say between 8% to 10%. During the last two years on the EBITDA, we achieved the 21% in the last quarter. The LTM very strong numbers.

The way we structure the business is we exploit and explore. The left is explore and the right is the exploit. They explore is the area when we are developing new businesses. And one option is to kill and the second option is to move it to the exploit. This is a successful business. And the exploit is the core business that we are running that are successful, and we want to make sure that they are performing well.

The first exploit, the first one is Vidazoo that again, as mentioned before, acquired in 2021, very successful year. We have the quotes from investing.com about the performance of Vidazoo and what we are doing together. And as you can see the number, the numbers talk by themselves. And we are very happy with this acquisition.

Second is the SORT that I also mentioned in the previous conference and different calls. This is a product that we launched in September, 2021. The product that we are not using any personal data. We are not storing any data, and we are still, with the technology that we developed, we're getting resolved that are better from other solution like cookies. We have a technology that based on AI know to predict our user will react to different ads. And based on that, we are running the campaign with group of people. And as you can see here, the CTR increased to 1.3% total customer 191, new customers 76 and the average deal is 137% – 137,000, 33% increase year-over-year.

Moving to the other side of the business to the Search, which reflect 45% from our business. You can see, we ended here with 22 million search average in Q4, started the year with 26 million. The search is very much aligned with the trend of shifting budget from social to search to direct response in the last few quarters, it started in the third quarter. And as you can see the number again, talk by themselves. And we see the good progress we did in 2022 and the good start in 2023.

Moving to the explore, so today on the explore, we have the CTV, retail and the ChatGPT that just started. During 2022, we generated \$64 million revenue and \$26 million media margin. In 2023, we are expecting to generate \$110 million revenue and \$45 million media margin. So we are still investing a lot on the explore, and we expect to generate huge amount during this year.

We have here a very – one of the example of our unique proposition Live CTV. The Live CTV is part of our CTV solution, or part of the solution for advertiser. We have here 42%

lift and the number of the CTV has all increased dramatically year-over-year, 109% year-over-year growth in 2022 on CTV.

Retail media is a new segment. We started retail media in 2021. We did it before, but not as a vertical that managed separately, we generated in 2022, \$23 million, we are expecting to have \$30 million in 2023. This is a very exciting and unique product. We are working here with Albertsons in the last year to build product together to build technology together. They have their unique data that nobody has, and we have a technology for advertiser. We did a partnership and we working together in order to build a solution, in-house solution for Albertsons that they have in getting all our capabilities. They are getting the technology, they are getting the creative, they are getting the formats that we have and together we are running with different campaigns and this is different from other business that we are running, that we are getting paid based on CPM. Here we are having a monthly fees that we are getting from Albertsons. And this is a model that we're going to implement with a few other customers.

ChatGPT, as all of you know, is a new direction that Bing is taking as mentioned during their last call, at the beginning of February, it was – they mentioned that every percent that will move from Google to Microsoft was \$2 billion, we see a huge opportunity from this change. The fact that – and based on what we understand and the way how we are analyzing the situation, more and more user will move to Microsoft Bing. I think there is no question about this and the demand will increase accordingly. It means that on the one side we will have more user that see Bing as a popular search engine that is valuable. And on the other side, we'll have advertiser that as the budget will shift from Google to Microsoft, we see more demand that will go to Microsoft Bing, and we will benefit from these two directions. One is more user that will spend more time with Microsoft, Bing, and second increased demand.

So, very positive news for us. We didn't yet reflect it in our numbers, in our guidance for 2023, but definitely see it as a very positive.

I will end with the guidance for the year. So, 2022 was a great year with a very good momentum, we are expecting this momentum to continue in 2023. We are expecting to end the year with – between 720 to 740, on the revenue, and EBITDA between \$1.49 million to \$1.53 million [ph] (0:11:00), reflecting 40% growth on revenue and EBITDA. We are expecting the profitability to remain the same 21% EBITDA to revenue and EBITDA to revenue excluding TAC at 50%.

<<Andrew Marok, Analyst, Raymond James>>

Great. Thanks Maoz for the presentation. So we do have a couple of questions maybe digging in a little bit on some of the aspects of the business. So, why don't we start on Search? I've been getting a lot of questions from investors on the Search segment recently. Having exposure to Search is pretty unique among ad tech companies. How did that relationship with Microsoft start? And what is it about the relationship that keeps them happy enough to keep renewing that deal every three to four years?

<<Maoz Sigron, Chief Financial Officer>>

So Search is here from – we are working with Microsoft from 2010. This is the fifth time we are renewing the contract. This time, the contract renewed for four years. In a normal contract, it was three years. We get award for Microsoft Bing Partner of the Year for 2021 at the beginning of 2022, which reflects the close relationship we have with Microsoft Bing, we are working together. We see our self as a real partner of Microsoft Bing and vice versa.

They are very happy with what we are doing. We are very happy with the fact that we are working together with them for many, many years. And the publisher that's working with us very closely, I think, is benefiting from that. And the reason why the number of publishers increased dramatically is directly correlated to that. Tal, which is expected to be replaced in October 1 is the one that's responsible of building and improving the relationship with the Microsoft Bing.

And all in all, with the ChatGPT and the deal they did with the Netflix and the other efforts around Microsoft Advertising and the focus of Microsoft around Microsoft Advertising is very positive for us because, as you know, we are not only running a search business, we are running also advertising business. And there are many opportunities also on the other side. So the good relationship we have is definitely a good start for us in order to start and develop a business on the other side with Microsoft Advertising.

<<Andrew Marok, Analyst, Raymond James>>

Great. And then obviously you raised it in your presentation, but we've had a ton of interest on Microsoft's pending integration of OpenAI tech and ChatGPT into Bing. To the extent that they have talked about being able to boost monetization per query, even – or per action in search, how does that then affect your search business and how does this, the integration of ChatGPT in general, really drive forward the Perion relationship?

<<Maoz Sigron, Chief Financial Officer>>

So we need to – the change with AI is first and foremost new functionality we have. So, if I'm user of Search – of Microsoft Bing, I have now a new functionality that is very exciting. This is very exciting, this is very unique to them. Now, yes, Google has also a solution, but this is something new that they have. And it means that I will spend more time and I will be more open to use Microsoft Bing.

Now there are many thinking around the way to do monetization, they invest \$10 billion and they need to find a way to justify this investment. One option is to go to query and to have to charge based on that, one is to do just the normal monetization, to have it as a another functionality on the search result. And as you will have a search result, you can

grow and to talk with the – to interact with the chatbot, but you will have it as a functionality.

The question is still open: how they are going to monetize it? They are also talking about integrate the chat and the AI with office, with Word, Excel and other elements. So this is all still in process. We are talking with Microsoft Bing and they are still exploring as we are exploring and try to understand how it's going to integrate. What I can say for sure that the user, we have the 25 million search that more or less that searches daily searcher that we have today they will have new functionality. They will have another way to interact with Microsoft Bing, and this is good for us as they will spend more time with Microsoft Bing, and also new user that will see Microsoft Bing as a search. They will be more open to it because again, the awareness today for Microsoft Bing increased dramatically, so they will be more willing to use Microsoft Bing.

And we believe as well that from the other sides, from the demand, the RPM will increase because the demand will increase, it mean that the RPM will increase as well, which also will be very, very good for us. So all in all we are seeing a huge opportunity. Of course, we cannot be passive. We need to be active. We need to have the call and discussion with Microsoft Bing but I believe this is great opportunity for Microsoft Bing. This is great opportunity for Perion, and generally if I'm talking about the other side of the business, there are, we did hackathon before two weeks. There are so many things that are potentially going to change; it's unbelievable what you can do with that. So this is as the crypto and the blockchain that at some point we understand that this is not only currency, this is a technology also here. This is not a search solution. This is not only relevant for search. This is a new technology. And we'll find out now how it's going to translate to our life, but I believe this is not only search.

<<Andrew Marok, Analyst, Raymond James>>

Yeah. Lots of possibilities for sure. Let's talk about a little bit about CTV, which you touched on in the presentation. So first, can you just give us a quick overview of some of what you call your high impact CTV formats? And then in the CTV landscape where it seems like every ad tech company is trying to take a piece of the pie, what makes Perion different and stand out?

<<Maoz Sigron, Chief Financial Officer>>

So first, what we are doing in our business. In our business, mainly on the advertising side, we are trying to get the attention of the user. And any way to get the attention of the user is fine, and it can be interactive CTV, it can be interactive display, it can be video, any way to get your attention is important. iCTV, the interactive CTV, the combination between big screen, the combination with the fact that you can interact with the ads with your remote control is what make it so exciting, because at the end you are sitting and not only watching. I am as the advertiser know that you all really interact with the ad, and this is different interaction and different engagement.

And with this engagement we're able to charge more than a standard ad unit. The iCTV, CPM is one of let's say between \$30 to \$50 depend on the use case. So this is very unique and I will say more to come as we are always looking for new way to get the user attention as I mentioned at the beginning. The reason why Perion is different from others and why when I'm talking about 10% CTV, 10% from our advertising business is CTV is the fact that we are not only running CTV. The CTV is part of the solution that we are selling to the advertiser. We are – when we're running a campaign we are looking on the big picture. What you would like to achieve as advertiser and CTV is part of it. We are not a point solution. We are not a CTV company, and we will not be a CTV company. Yes, maybe the portion of the CTV will increase slowly, but it'll always be part of the business and not the entire business.

<<Andrew Marok, Analyst, Raymond James>>

Great. And let's also talk quickly about SORT, the cookieless targeting technology that you mentioned in the presentation. How have you been able to drive those strong results for your customers so far? And how could that become a revenue driver maybe for Perion as the cookie deprecation deadline approaches?

<<Maoz Sigron, Chief Financial Officer>>

So SORT is I think one of the most exciting products we ever developed. This is the first time; I said in the last two years that we developed something that changed the company dramatically. Nobody is really waiting for Google to announce the end of cookies. Everybody is looking for a solution. There are different solution in the market; SORT is one of them. Our ability to get a result of – better result on the CTR is the 1.3% that I have mentioned before versus below half percent of Google is all about this number. Advertiser are caring about the CTR and with our CTR without using any cookies is something that is unbelievable. And we need to understand that this is not – this is not relevant today what Google is going to do. This is about us, about the user.

We as a user are not willing to give access to our personal data anymore. We are giving high preference and high credit to companies that care about privacy and that they are not collecting any personal data. And based on that with the combination between advertiser that understand that the consumer expecting from them to keep their privacy. And the combination of a good result with the CTR, as I mentioned before is a good combination of something that is a market fit, is a product fit and this is why the number of customer is increasing. The average deal size is increasing and more to come. And the next phase I will say of product is definitely taking into – changing it from the product today that is more focused on the advertiser, more moving or not moving actually adding the publisher as a potential customer. The publisher is also looking for a solution to have embedded solution, and so definitely can be a good solution for them. This is still under POC too early to talk about the business model, and how we're going to price it, but this is the next step.

<<Andrew Marok, Analyst, Raymond James>>

Great. And then quickly on retail media. Retail media's been an emerging topic of discussion all across the ad tech space and advertising space. So I guess can you talk a bit about exactly how Perion is looking to attack that opportunity in that space? And again what kind of sets you guys apart?

<<Maoz Sigron, Chief Financial Officer>>

So retail media is something that as I mentioned before is relatively new, but not small. Retail media in 2023 expected to generate 120 billion, a huge amount, the potential is really endless. The reason why this is so interesting related also to what I mentioned before about privacy. With the challenge around privacy and with also the fact that everybody is looking out to create marketplace that belong to him and that other will not enjoy from the data that they have. This is exactly what readers understand. We did as I mentioned before, the POC with Albertsons and what we did together is actually to build a solution together that will take the advantage of the data that they have and will first give the CPG the access to this data and that they will be able to run campaigns within the marketplace of Albertsons that is very accurate because the data that you have as retail is very lucrative data and very much can help any advertiser to know exactly who you are and what you're looking for.

And now taking to the next level, and now you can expose the data without sharing any personal information to others is exactly what Amazon did. Amazon numbers, Amazon advertising revenue is 9% from the entire business from zero. It was zero. So what Albertsons, again, in this example I would like to do is exactly the Amazon case. It's not different to take the data that they have and to leverage it in order to have incremental dollars from advertising. So we did it with Albertsons and it worked very well. We're doing it now with others. The way of this model as I mentioned before is working is not a CPM is more, I will not call it a subscription because this is not – this is not right. It's more a monthly fees that we're getting, that it's not related to the level of activity we are running through the platform.

<<Andrew Marok, Analyst, Raymond James>>

Got it. And then moving over to metrics maybe for a bit, wanted to touch on the guidance for 2023. So coming off of a quite strong 2022, some investors we talked to were maybe a bit surprised to see the scale of the deceleration and growth expectations. So I guess what assumptions are going into your guide framework as we look out into 2023?

<<Maoz Sigron, Chief Financial Officer>>

So when we are running with our model at the beginning of the year, it was at the beginning of February exactly a month ago. We are taking all the information that we have internally. We're taking all the macro data that we have. What happened around our space, what we expected to see with video and what we see – what we're expecting to see on the search, CTV and any vertical that we are running, what is – what we have

internally and what is the market trend. They are combining everything together, taking of course some risk factor into the model and getting into a number. We want to make sure that the number that we are giving to Street is number, that is a number that we are sure that we're going to deliver, and we are going to execute based on that.

And this is our model. The model is the 14% revenue and 14% EBITDA, and we started the year very strong and we are very optimistic about 2023. But we want to make sure that the number that we are giving is a number that is that we are meeting. And I will just say that without the concern about 2023 and without all the challenge around the economics, definitely this number can be different. But with the combination of where we are and what we did and the macro, the 14% this number that we are feeling very comfortable with and want to make sure that we're delivering this number.

<<Andrew Marok, Analyst, Raymond James>>

Great. And then on capital allocation, you've historically been a pretty acquisitive company and been successful in integrating those acquisitions. So we're now \$400 million in cash and equivalence on the balance sheet. Are there any areas of the business that you're looking to enhance?

<<Maoz Sigron, Chief Financial Officer>>

So M&A is still a part of our day-to-day. I would just say that I believe 30% of my time is going to M&A because this is, I believe the next big things that we are definitely going to do, and this is required a lot of work looking on different companies, different opportunity and making sure that we're getting the right decision. There is no rush. We'll not close a deal if we are not feeling comfortable with the deal. The area that we are focused on as we mentioned during the last earning call is retail, media, digital out-of-home, and the CTV. These are the area that are interesting and can be synergetic to what we are doing today, and the potential there is really endless. So this is still on our plate. I will say this is high priority on our list. And I believe just a matter of time when we will close the deal. We say that we're going to close the deal in 2022, but again we are not here in order to just close, because we said we're going to close a deal. We want to make sure that we're getting the right one. Once we'll have the right transaction we'll of course announce and we'll let you know.

<<Andrew Marok, Analyst, Raymond James>>

Great. And with about 45 seconds left, if I could squeeze one in; so you announced earlier on your last quarterly call undergoing a CEO transition with Tal Jacobson taking over from Doron. How does Tal era Perion differ from a Doron era Perion?

<<Maoz Sigron, Chief Financial Officer>>

So it is very much different. There is a lot of similarity, but also a lot of difference from style, and you will know Tal well, I will just say that Tal is here from 2018, know the

company very well. Doron build a very match the executive under his vision and his personality. And Tal was part of the journey in the last few years. I believe he will be at least good as Doron and will take Perion to the next level. He know the business very well. He know the search business very well, and also the other part as any decision, any important decision is executive decision, and he was part of it. And I think I cannot think about better timing, and Tal is slowly will take the position and from August 1st will replace the Doron. Doron will stay at the Board and will be involved also after the date of transition.

<<Andrew Marok, Analyst, Raymond James>>

Great. Maoz Sigron, CFO, Perion Network. Thank you for joining us.

<<Maoz Sigron, Chief Financial Officer>>

Thank you.