

Company Name: Perion Network (PERI)
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<<Andrew Marok, Analyst, Raymond James>>

All right. Why don't we go ahead and get started since we're hitting 9:30 or 9:15 here. So hello, everyone, and welcome to the Raymond James TMT and Consumer Conference. I'm Andrew Marok and I cover Digital Media and Advertising Technology here at RJ. And we're thrilled to have Perion Network joining us at this year's event and with us from the company is CEO, Tal Jacobson. Thanks for joining.

<<Tal Jacobson, Chief Executive Officer and Director>>

Thanks for having me.

<<Andrew Marok, Analyst, Raymond James>>

Great. So maybe let's start off at the big picture level. So for those who maybe aren't as familiar with the Perion story, can you give us a quick overview of the company, your various businesses, and where you fit into the digital ad ecosystem?

<<Tal Jacobson, Chief Executive Officer and Director>>

Yeah, absolutely. Our goal is to connect advertisers with consumers through technology and we have different mechanics. We've been doing this since 1999. I've been with the company for five years now. Now the big things that we have are Search Advertising, we have Publisher Solution, we have Advertising Solutions. Within that we cover all the major channels. So we have social, CTV, video, display, high impact, out-of-home. We got the entire thing, right? And everything is based on technology.

We're investing heavily in artificial intelligence and machine learning. Our goal is to create the best experience for the consumers, so the advertiser will be able to interact with the consumer and drive more sales. We just launched - I think a few weeks ago - WAVE, that's the first of its kind AI-driven audio ads at scale. So it's all based on artificial intelligence, generative AI. So as a whole, this is what we do. We've shown growth, constant growth in the past three years, we're very profitable, very consistent with our results, and we're driving that forward.

<<Andrew Marok, Analyst, Raymond James>>

Great. Yeah. And that's a great overview, and I think we'll be touching on a lot of those individual pieces as we go through the conversation here. But maybe one other high level question is that 2023 seems to have been characterized by kind of uncertainty and uneasiness in the macro ad backdrop, but Perion has not.

Perion's remark record through 2023 has been quite consistent. So what sets Perion apart that allows you to be a little bit more insulated from some of those macro fluctuations that we've seen.

<<Tal Jacobson, Chief Executive Officer and Director>>

Right. So first of all, our business model is to be as diverse as possible and we sit – we have a layer on the market and not a specific product. So for example, at our Search Business, we sit on the entire search industry. So for us, it doesn't matter if loans and insurances as industries goes down while travel goes up, as long as the market keeps driving more revenue through it, we'll be fine.

On the other side, video display, high impact, CTV again, we're sitting on the entire market. So some advertisers have lower budgets in Q3, Q4. Others have bigger budgets. That's totally fine. We're not on specific niche. We're not on a specific product. We're very diversified. And we're just moving with the markets and we're basically shifting our activities where the budgets are moving, right? For example, up until Q3, we drove in a lot of video revenue to all our website that we manage. Our algorithm found out in Q3 that display ads are getting higher yields than video. So the algorithm actually moved a lot of the budgets to display and not video. For us, it's totally fine. We're not concentrating on video or anything else. We're concentrating on profitability. So that's how everything works.

<<Andrew Marok, Analyst, Raymond James>>

Great. And then kind of on that theme of profitability, you're running industry-leading margins as a percentage of revenue ex-TAC.

<<Tal Jacobson, Chief Executive Officer and Director>>

Yes.

<<Andrew Marok, Analyst, Raymond James>>

How do you think about dropping revenue upside to the bottom line versus investments in TAC since you have, as you mentioned earlier, kind of such a diversity of opportunities in front of you?

<<Tal Jacobson, Chief Executive Officer and Director>>

Right. So in the long run, we believe that investing in technology will always be more profitable than just adding more and more people. So we're going to stay very efficient. The margin percentage is going to stay high, and we're continuing to invest in technology just as we've invested in the past.

The reason why we're looking to buy more companies is to basically adding more and more technologies, so we can stay at that level of efficiency, right? So we believe that trend is going to continue.

<<Andrew Marok, Analyst, Raymond James>>

I think we'll dig in a little bit on that M&A point, maybe later in the conversation as well. But let's take a look at search. Search is a pretty unique aspect of the Perion story. Not many other public players in the ad tech market have exposure to that format. Tal, you're the perfect person to have sitting here talking about this, having previously led the CodeFuel Unit where Perion Search Business sits. Bing is the key search partnership Microsoft Bing.

<<Tal Jacobson, Chief Executive Officer and Director>>

Yes.

<<Andrew Marok, Analyst, Raymond James>>

So how would you characterize that relationship right now? Can you give us maybe a peek behind the curtain for how contract renewals look, timelines, and kind of things like that, since we might be coming up on another renewal cycle?

<<Tal Jacobson, Chief Executive Officer and Director>>

Yeah. So we've been doing this Search Business with Microsoft and others for 14 years now. Next year is going to be 15 for the Microsoft agreement. Now the Microsoft agreement was always for two or three years. I've renewed the last agreement for four years, which was quite unique. And again, we're going to renew that at the end of next year.

Renewals always happen very close to the date that it needs to happen. That's not going to happen a year before. So if you don't hear anything in the next two, three months, that's fine. That's by design. Now the way it works is, we basically add supply to the Microsoft Network and other networks for search, adding software providers, device manufacturers, and so that they can have Microsoft search engine with the business model attached to it.

Google has the same business model. Google does that directly with software providers. We do that on behalf of Microsoft and others. And it's a pretty straightforward business model. All the search engines on the planet are doing that for over 20 years now. We haven't invented it. We're just the best at it.

<<Andrew Marok, Analyst, Raymond James>>

Very interesting. Yeah. I think that's a good point on the timing of the contract renewals because we do have a couple of other companies in our coverage, obviously, maybe not direct comps, but Spotify, for instance, very dependent on licensing arrangements with the music labels that are kind of always ongoing, whereas yours are kind of closer, more concentrated to when the

renewal date would be. So that's a good thing, I think, for investors to keep in mind as we get into the renewal cycle here.

<<Tal Jacobson, Chief Executive Officer and Director>>

Right. Another thing to remember on the Microsoft agreement or the Microsoft relationship, we do work with Microsoft advertising on so many other aspects, right? We're connected to Xandr through the Vidazoo acquisition that we've done, through Undertone, we're connecting the video, display, CTV again through Xandr and we're connecting a lot of the CodeFuel system into Microsoft. So it's a lot more than just an agreement. It's a very dynamic relationship, a very fruitful relationship that goes on.

<<Andrew Marok, Analyst, Raymond James>>

Very interesting. And then Microsoft pretty clearly signaling ambitions to be bigger in advertising than they are now so, key partnership.

<<Tal Jacobson, Chief Executive Officer and Director>>

And I think they will be.

<<Andrew Marok, Analyst, Raymond James>>

Great. And kind of where do you see the biggest growth opportunities within the Search Business? Is it continued publisher expansions? And if so, what types of publishers maybe are you targeting? Or is there may be a bigger opportunity in partnerships with other search engines?

<<Tal Jacobson, Chief Executive Officer and Director>>

So listen, to be honest, there are not a lot of other search engines out there, right?

<<Andrew Marok, Analyst, Raymond James>>

Pretty limited.

<<Tal Jacobson, Chief Executive Officer and Director>>

On the planet, there are maybe four or five search engines. We're working pretty much with everybody. Adding more publishers, adding more layers to our system in between the publisher and Microsoft, I think are the key to continue to grow. We're working very closely with Microsoft on adding those layers, making integration even deeper and adding more type of publishers going forward.

So we have a full plan with Microsoft. We're meeting with Microsoft. Our teams are meeting with Microsoft almost on a daily basis for the past few years. I've been meeting with Microsoft at least once a quarter to think strategically how do we take this forward. So yeah, we have a lot

of plans on how do we take this forward, how do we grow this faster. We're feeling confident about it.

<<Andrew Marok, Analyst, Raymond James>>

Sounds like quite open lines of communication.

<<Tal Jacobson, Chief Executive Officer and Director>>

Yes.

<<Andrew Marok, Analyst, Raymond James>>

Good. So you touched on high impact earlier, so let's dive into that a little bit. So you talked just a bit at a high level about the high impact, especially CTV formats and what sort of feedback you've been getting from advertisers in terms of how they drive ROI compared to maybe more traditional CTV formats.

<<Tal Jacobson, Chief Executive Officer and Director>>

So the way we work is - in advertising, you have the layer of what we call commodity, right? So ads that you can buy in \$0.50 or \$1 CPM for every 1,000 impressions. And then you have the super premium layer, right? And that's really what we're concentrating on. So even on CTV, you have that layer of like, TV ads, right, like video that you have no interaction with. But then we come with technologies that provide an extra.

So, for example, on live CTV, we have technology that understand exactly where to put that ad within a live event that you can't predict in advance where exactly you're going to have that touchdown or the home run, right? So having the ability to do that, we can charge premium for that ad. We also have dynamic ads for CTV. For example, the Pause Ad. So we've done that for travel companies, like cruise companies, where you can see - actually see the boat coming in. It stays on the TV. It keeps floating. So you would know nothing's got stuck. But you can take your time, take your phone, scan the QR code, and do the sale - do the acquisition through that, right? So all those layers that are all driven by technology can help us drive premium ads and charge premium rates.

<<Andrew Marok, Analyst, Raymond James>>

That's interesting. So I know that advertisers, especially in times like this, when budgets may be a little up and down or maybe not the most risk taking group of people, how do you convince them to take a chance on some of these more innovative formats that in a lot of cases might require some kind of non-standard creative? And is there any way that Perion can help assist with that creative development?

<<Tal Jacobson, Chief Executive Officer and Director>>

Yeah. So a lot of us, what's unique about us and why companies are choosing us to do that is our ability to create creatives that are being generated through AI. I'm saying AI because that's the only way to generate hundreds of thousands of creatives at once and be able to measure them to see what actually works and what's not, right? So the measurement is a key point into that.

And you're absolutely right. In the market condition now, nobody wants to waste any budgets. They want to measure everything. They want to make sure that they're getting the right return on ad spent. And that's the key. So everything that we do is measurable. So it can be digital out-of-home with QR codes, it could be CTV, it could be audio ads, it could be high impact on websites, but everything is measurable. All the interactions with the ads, actual sales, did we drive more people to the actual store? Everything is super measurable, and we're doing the entire 360, right?

<<Andrew Marok, Analyst, Raymond James>>

Great. Interesting. So another one kind of on some of the emerging formats that, that Perion has noted that they're participating and let's talk a little bit about Retail Media, so.

<<Tal Jacobson, Chief Executive Officer and Director>>

Yeah.

<<Andrew Marok, Analyst, Raymond James>>

Pretty hot topic of discussion across the industry and with the announcement of – excuse me, and you've talked about how you're attacking that opportunity. Can you just kind of give a quick overview of some of your retail focused products and what we can expect to see in terms of further innovation in the space?

<<Tal Jacobson, Chief Executive Officer and Director>>

Yes. So with retail, it's quite unique advertising client, because what they have is a huge amount of data, of products, of promotion, and everything is local. So take, for example, Albertson has so many different stores, each store locally has different promotions, right? How do you take all that data? Create all those ads automatically, but that would actually make sense, and do that across video, across audio now, across CTV, across all the channels that we have.

And how do you measure what actually worked? How do you measure that? We actually were able to create an uplift in Avocado sales in New Jersey. That can only happen with data and machine learning, because somebody needs to crunch those numbers and say, okay, I can see that lift or on that specific campaign that didn't do anything change it. And that's really the angle that we're going after for retail media is going to all those retailers with our data capabilities, creative capabilities, measurement capabilities, and getting them into that cycle of starting to run campaigns. Our machine learning is getting better and better by campaign, because it actually learns those products, learns those location, learns those audiences. So that's the angle we're going after with retail.

<<Andrew Marok, Analyst, Raymond James>>

Great. And I know that that is not necessarily a space that you've inorganically added to yet, but we can maybe talk about that in a second. But what have kind of been some of the key internal capabilities or strengths that have allowed you to do what you're talking about in retail media? Is it really just that data focus that you've kind of honed over the years of being a kind of everything platform?

<<Tal Jacobson, Chief Executive Officer and Director>>

I think, historically, we have a few advantages looking back. First of all, with Undertone, the company that we bought about eight or nine years ago, they had all the relationship and within those years, we've built those relationship with retailers. And then about two years ago or maybe a bit more, we've started to do our own AI Lab, right, SORT is one of the products, the first product that we came up out of the lab, WAVE, is another product.

And we actually took that - the retail industry - as a focus. So we said, let's take all our AI efforts, talk with those retailers, customers that we already work with, and see how can we take it further? And that's how organically we've built that. As I said, we're constantly looking for more companies, more capabilities to buy or to partner with, so we can grow that a lot faster.

<<Andrew Marok, Analyst, Raymond James>>

Great. So let's get into WAVE. You guys are really excited about that. I know when you meet with investors, you like to play the ad and say, hey, can you tell this is a digitally created voice and you can't. It sounds quite realistic. But – so with AI being a talking point around the industry, with WAVE coming in, the AI powered digital audio offering kind of what's the early feedback there? And where else do you see AI maybe making the biggest impact across your suite of offerings?

<<Tal Jacobson, Chief Executive Officer and Director>>

AI – a lot of people are asking, are you guys doing anything with AI? Do you think AI is the future? And I always say, AI is just technology. It's the way you use it, the applications are what's going to make the difference, right. So for us being in the advertising industry, how do you use AI in a non-creepy way? So people wouldn't say, well, that sounds like a robot, or that sounds non-human or that's too intrusive, right. So we need to find the right balance between art and science, because the end of the day, marketing is always about the right combination between art and science. And I think WAVE absolutely nailed it.

The reason – the fact that people can't figure out, this is not a human being, gives it that non-creepy element. But then you can do that at scale, right? Let's say, one of our advertisers would have an influencer. We can take a sample of his voice and then do hundreds of thousands of audio ads being read by that actor or influencer, right? But without AI and machine learning, there's no way on the planet that you can do that. You can't create hundreds of thousands of

audio ads without hundreds of - or maybe thousands of recording hours, right? So that's how we're using AI.

We've been using AI for two years now for targeting, which is cookie less targeting. We're now using AI for creative building, audio is one thing, but we've been using that for display as well. And we're working on the video part and we have so many different layers that we're building currently. We're going to release them as soon as we feel that their metrics make sense, just as we did with WAVE. We wanted to play with WAVE, work with a few companies, see the metrics before we launched that publicly. And we do have other products which we're doing the same.

<<Andrew Marok, Analyst, Raymond James>>

Great. We will keep our eyes peeled. Kind of on that topic of SORT, while we're on the AI-enabled products discussion point. So SORT has kind of been, I think, coming to the forefront a little bit more recently, given the pending cookie deprecation in Google Chrome, which actually looks like it's going to happen this time in 1Q 2024. What's the latest on adoption and performance there? And I know you've talked in the past about potentially charging for it on a standalone basis. Is that maybe still in the plans?

<<Tal Jacobson, Chief Executive Officer and Director>>

So SORT, currently, SORT is being used roughly by 90% of our campaigns that are able to run SORT, which are not CTV or out-of-home, but browser based. And we're not thinking – currently, we're not thinking about charging for that. The way we're using it is we're giving that for free. Most of our customers, when they start working with us, we would say, you know what, do half with cookies, half with SORT, see what works best. And then eventually, people see that SORT is actually providing three times better results. And then they would come back with more budgets and ask for SORT, because you can't get SORT anywhere else. So that's how we use SORT, SORT is our secret sauce to getting more budgets.

<<Andrew Marok, Analyst, Raymond James>>

Interesting. And that's just – that's been built up just by the sheer amount of data that you have flowing through your platform that continually kind of refines the segmentation of users.

<<Tal Jacobson, Chief Executive Officer and Director>>

Absolutely. Absolutely.

<<Andrew Marok, Analyst, Raymond James>>

All right. Well, now let's get into M&A finally. We've kind of been hinting at it the whole discussion here, but Perion obviously, historically been an acquisitive company. The last one you did was fairly sizable with Vidazoo about two years ago. So you've built up a strong cash

position since. What's the outlook? Is there anything on the shopping list? And what kind of particularly appeals to you as you're looking for maybe capabilities or TAC in the marketplace?

<<Tal Jacobson, Chief Executive Officer and Director>>

So, listen, our goal is to become one of the biggest companies in their industry. We're not – we haven't come this far, just to stay this far. We need to get a lot bigger, a lot stronger, and continue the momentum that we've built in the past three years. And even though organically, we're growing quite nicely, we want to grow even faster. And that can only happen with M&A. So we're looking for companies that can add more technologies, more segments, more countries, more clients, and we're looking at everything digital advertising that is run by pure technology. That's what we're looking for.

<<Andrew Marok, Analyst, Raymond James>>

Great. So, yeah, again, we will keep our eyes peeled there. It sounds like there's no shortage of opportunities. I guess, maybe, how would you characterize the buying market? I mean, you're going out and presumably looking at companies now, multiples have seemingly come in a little bit, but it seems that anybody who has technology that is worth buying is probably still commanding a fair premium. Is that – I guess, maybe in light of the current situation, how are you taking, like, what's your discipline in your approach to M&A frameworks?

<<Tal Jacobson, Chief Executive Officer and Director>>

Yes. Listen, the market is, even though, publicly traded companies are not at the same valuation they used to be, not Perion, but everybody else touchwood. But when you speak with Founders and CEOs, especially with companies that their stock went down, they're not very happy to sell it at the current market conditions. So they all expect premium, right. This is why we're speaking with and we've spoken with hundreds of companies in the past two years, and we're not going to buy any company that we're not going to feel very confident about at the right price. We're not going to pay premium just to pay premium. We're going to pay the right price.

<<Andrew Marok, Analyst, Raymond James>>

Interesting. And then I guess kind of the last one I had before my wrap up question was on the margin structure of the company. I mean, normally I'd ask Maoz, and Maoz is a pretty capable financial steward, I think, given the numbers. But how are you looking at the trajectory of margins, given your higher incremental margins, but maybe balancing that against the need to invest in TAC and invest in product for all of the opportunities that you have in front of you?

<<Tal Jacobson, Chief Executive Officer and Director>>

I think, again, margin wise, we're feeling very confident about our margin percentage and we're going to continue on that path, adding more companies to our portfolio. We're always looking at their margin percentage, their growth rate. And again, we're going to continue to invest in

technology either by adding more people, but staying at the same level of efficiency or adding more companies. So we're going to stay at the same – pretty much the same levels.

<<Andrew Marok, Analyst, Raymond James>>

Okay. And then the last one I always like to ask our companies before we wrap up, 2024, looks like it's going to be a pretty interesting year, which is definitely a good thing. If you had to pick one thing out of the Perion story that investors either should keep an eye out for or is maybe misunderstood in the story. What is one thing that you would highlight?

<<Tal Jacobson, Chief Executive Officer and Director>>

Listen, in the past four years, we took the company from being a \$3 stock to a \$30 stock, right? So we've proven to the market that we know how to execute, we know how to be efficient, we know how to be consistent. So I think that by now, people understand that part. I think people need to adjust to the fact that we're a technology company, not an advertising company, and look at us as a technology company. The fact that we're using technology for an advertising market is just because we're seeing all the opportunities there. But we're focusing on data, we're focusing on AI, we're focusing on technology. We're not focusing on advertising. Our applications are towards advertising. So people need to understand that investing in us is investing in technology, investing in AI, investing in data. That's what we're all about.

<<Andrew Marok, Analyst, Raymond James>>

Great. Well, we will definitely keep our eyes on the story over the next year, so Perion Network and CEO Tal Jacobson. Thanks for joining us this year.

<<Tal Jacobson, Chief Executive Officer and Director>>

Thank you.

<<Andrew Marok, Analyst, Raymond James>>

Great.