

Company Name: Perion Network (PERI)
Event: 26th Annual Needham Growth Conference
Date: January 18, 2024

<<Analyst, Needham & Company>>

Welcome to the stage, Tal Jacobson. Tal is named Perion's new CEO in February of 2023. And sorry, he was, he's – he transitioned into the CEO role in August of 2023. He joined Perion in 2018 as the General Manager of Codefuel, transforming Perion's Search Advertising from a fledged business unit in decline into a significant driver of Perion's soaring market share and valuation, cementing its strategic relationship with Microsoft, and winning Microsoft's advertising Global Supply Partner of the Year Award. Prior to Perion, Tal was the Chief Revenue Officer at SimilarWeb, and he held positions as VP of Business Development at McCann Erickson and CEO of video collaboration platform Watchitoo. And he was the Director of Business Development at AOL. So, welcome Tal.

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

Thank you.

<<Analyst, Needham & Company>>

Love to have you here. Let's start with leadership. As you know, we track efficiency revenue per employee for all of our companies. You're managing just over 400 employees. Now, my question is culture. When you think about culture, what is the culture you're trying to convey now at Perion? And how do you measure, what are the metrics you use to figure out whether actually the culture you're trying to convey is working in the ranks?

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

Right. First of all, we just – we announced a company that we bought Hivestack, which got us to like 600 employees now...

<<Analyst, Needham & Company>>

Okay.

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

...which became even harder to measure that, right?

<<Analyst, Needham & Company>>

Okay.

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

We have new employees, new location, how do you measure that?

<<Analyst, Needham & Company>>

Okay.

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

So, the culture we're trying to achieve is every person that only comes for a paycheck shouldn't actually come to Perion.

<<Analyst, Needham & Company>>

Okay.

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

We only look for people that want to build careers with us, that want to shine, that want to be entrepreneurs that figure out how do I solve an old issue with a new solution.

<<Analyst, Needham & Company>>

Okay.

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

And that usually comes with technology.

<<Analyst, Needham & Company>>

Okay.

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

So, we would always look for people that have a technical mindsets and innovation mindsets, and the ability to not be afraid of solving big issues with simple solutions.

<<Analyst, Needham & Company>>

Okay.

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

I think, that's always the key.

<<Analyst, Needham & Company>>

Okay.

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

When you look, think about all the issues that we had as a company, and all the companies I've actually been to, most of the issues, the bigger issues have very simple solutions. When you get into a very complicated solution than – usually this is not the right solution.

<<Analyst, Needham & Company>>

Okay.

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

So those are the mindsets we're looking for. And we're measuring people. Every person at Perion is being measured. Everything is measurable.

<<Analyst, Needham & Company>>

Okay.

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

And people that can't shine...

<<Analyst, Needham & Company>>

Okay.

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

...shouldn't be with us.

<<Analyst, Needham & Company>>

Okay.

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

But people that can shine are really feeling that they're growing with us, are really building something out of them.

<<Analyst, Needham & Company>>

It almost sounds like you have that old General Electric every year had a forced policy of firing the bottom 10% every year. Do you actually fire people?

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

Unfortunately, we do.

<<Analyst, Needham & Company>>

Okay, well, not fortunately, it's consistent with what you just said the culture is, so...

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

Yeah. But yes.

<<Analyst, Needham & Company>>

Okay.

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

We actually do. We – and we're trying to be very upfront with our employees about that. If somebody is not really shining, we're going to tell them, listen, maybe this is not the right place for you.

<<Analyst, Needham & Company>>

Okay.

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

Maybe you should find somewhere else. But if you want to be with us at the elite's commander team, you should shine.

<<Analyst, Needham & Company>>

Okay. Okay. Future of work, what's your stated work from home policy versus work in office and what percent of people are not coming in on required work on office days?

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

So, we have three main headquarters. We have Tel Aviv, we have New York, and we have Montreal. And the people that live around those hubs...

<<Analyst, Needham & Company>>

Yeah.

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

...come two to three times a week.

<<Analyst, Needham & Company>>

Okay.

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

And that's, they need to come,

<<Analyst, Needham & Company>>

They – okay.

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

They have to come.

<<Analyst, Needham & Company>>

Okay.

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

Because we see that once they come, we're getting - it's more efficient, we're getting more things done. It's – if Zoom actually worked for efficiency, none of us would meet in person, right? We would stay at home. But there's a reason why all of us are dressing up and getting out of the home, out of the house.

<<Analyst, Needham & Company>>

I don't about dressing up.

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

No, not me.

<<Analyst, Needham & Company>>

I'm not sure this is dressing up. I'm dressing up.

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

No, not me. Not me. You know what, I'm Israeli. So for me, this is dressing up.

<<Analyst, Needham & Company>>

This is dressed up. Okay, fair enough.

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

Yeah. But you can all see that this Zoom works very limitedly.

<<Analyst, Needham & Company>>

Okay.

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

At the same time, COVID drove a lot of people out of the cities. So, it's very hard to ask people to drive five hours each way to go to the office. So, we do have a policy that is work from anywhere, as long as everything is measurable.

<<Analyst, Needham & Company>>

Okay.

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

You can work from the moon as long as we care, as long as you deliver.

<<Analyst, Needham & Company>>

As long as it's measurable.

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

Everything is measurable.

<<Analyst, Needham & Company>>

Okay. But they still have to come into the office two to three times a week, or no, they don't.

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

Only the people that lives around the office.

<<Analyst, Needham & Company>>

Interesting.

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

So, in Israel, everything is small.

<<Analyst, Needham & Company>>

Yeah. Yeah. Everybody comes in.

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

Everybody comes in. Everybody comes in.

<<Analyst, Needham & Company>>

Right.

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

There's no – there are no excuses.

<<Analyst, Needham & Company>>

Okay.

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

In New York, actually, like 20 to 30 people are very near the office. Everybody else actually moved very, very far away.

<<Analyst, Needham & Company>>

Yeah. Okay.

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

We used to have like 200 people there. But everybody moved. And we can't really asked them, okay, you know what, forget about Texas, come here to New York, right?

<<Analyst, Needham & Company>>

Yeah. Okay.

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

So, it is what it is.

<<Analyst, Needham & Company>>

Okay. Let's do goals. So Perion's goals. So sitting here a year from today, what do you'll be your first full year as a CEO, tell me what you want to have accomplished that you're willing for me to write down. So, I'm going to hold up this book and say, okay, Tal, here's what you told me you're going to accomplish in the 12-month period. What do you want to accomplish between now when we're sitting here a year from now?

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

Right. So, as I said, we bought Hivestack, which is our DSP, SSP full stack out-of-home technology. We want to be able to fully integrate that into the hub.

<<Analyst, Needham & Company>>

Okay.

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

We want to be able to, our teams, the reason I'm here in the city is obviously for this conference, but also took all our executives into the office this week and the next week. And they're figuring out how do we combine more technologies together? How do we promote more synergies together? How do we cross-sell between all our products across the world?

<<Analyst, Needham & Company>>

Okay.

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

Because we actually bought a company that the U.S. part of it is smaller while our U.S. part is bigger. So we're going to have - through what we have, we're going to promote them in the U.S. and they're going to promote everything we have everywhere else.

<<Analyst, Needham & Company>>

Okay.

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

So that's the main goal. That's one.

<<Analyst, Needham & Company>>

Okay.

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

The second thing is we are looking for another M&A, which we want to complete before the end of this year.

<<Analyst, Needham & Company>>

Okay.

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

We want to add more technologies, we want to add more capabilities, especially on the retail side. So, it might be like CTV or attribution or fully retail solutions. But we are working on that we're...we have a very big pipeline.

<<Analyst, Needham & Company>>

Okay.

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

So that's another goal for this year.

<<Analyst, Needham & Company>>

Yeah, okay. What about in the core business in terms of operating goals, in terms of Microsoft goals? What about in the, like, core business I would say?

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

Yeah. So, obviously, I think we've discussed this last year, and this has been a very successful year to integrate Microsoft advertising within all our parts of Perion. So, we're working very closely with Xandr. We've added a curated component to our technology so we can drive more campaigns through Xandr.

<<Analyst, Needham & Company>>

Okay.

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

So Netflix and others.

<<Analyst, Needham & Company>>

Okay.

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

And that part is growing very nicely.

<<Analyst, Needham & Company>>

Okay. Okay. So let's stay on the Netflix point. So Netflix is – was selling ads at like \$65, thanks to Netflix. Now they're going to – they're coming back to, into like normal ranges of \$40...

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

Yeah, I think. Yeah.

<<Analyst, Needham & Company>>

...still at the high end, but within normal ranges. Does that benefit you in any way because of the standard integration? Do you benefit somehow more from Netflix doing more ads, or not really?

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

No. So we spend the last six months building curated pipes...

<<Analyst, Needham & Company>>

Okay.

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

...toward all the supply that CTV has, right?

<<Analyst, Needham & Company>>

Okay.

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

So we can buy Samsung ads, Hulu, HBO, Netflix...

<<Analyst, Needham & Company>>

Okay.

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

...Disney, whatever you want.

<<Analyst, Needham & Company>>

Right.

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

And now it all depends on the advertiser. So if the advertiser is willing to pay Netflix, whatever they want, that's great, but if not, we can sell them HBO, we can sell them Hulu that we don't care.

<<Analyst, Needham & Company>>

Okay.

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

As long, our goal is to have happy advertisers that are seeing good results. That's how they're going to get back to us.

<<Analyst, Needham & Company>>

Okay.

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

That's the goal.

<<Analyst, Needham & Company>>

Okay. And with your curated pipes that you can sell anybody's, your indifference as to whether it's Netflix or somebody else?

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

Yeah, absolutely.

<<Analyst, Needham & Company>>

Okay. Okay. Fine. Okay, great. So let's do search revenue. You come from the search side, from Codefuel. So let's talk about where we are on Bing, that deal ends in mid-2025, right?

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

Doesn't end, it renews.

<<Analyst, Needham & Company>>

Oh, okay. That's fair. The current contract terminates in end-2024, and you expect to renew it.

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

Yeah.

<<Analyst, Needham & Company>>

And you've already renewed it five – three times. This will be your fourth renewal, remind me.

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

That's – this is the 15th year with the relationship.

<<Analyst, Needham & Company>>

So, and they're five-year deals. So you've got renewed twice?

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

No, the last year was four – the last deal was four years.

<<Analyst, Needham & Company>>

Okay.

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

The deals before that were three years.

<<Analyst, Needham & Company>>

Okay. And you've had 15 years, so you've actually renewed it like six times or something?

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

Yeah.

<<Analyst, Needham & Company>>

Okay. Okay. So far. Okay. Okay. So you would assume, and upon renewals, like in the TV business, a lot of times you get big step-ups on renewals. Does that work in this business? Or is it, is a renewal just basically same terms, but it just rolls forward another three or four years?

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

Well, last time, we've improved our terms well, like we had...

<<Analyst, Needham & Company>>

Okay. I remember that. I remember you improved your terms.

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

We added more countries where more devices we added it was a longer term.

<<Analyst, Needham & Company>>

Yes.

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

We'll see how it goes this time, but...

<<Analyst, Needham & Company>>

Do you think you'll renew it on better terms again, or you would just be happy with the same terms of the four-year deal you're just ending?

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

Yeah. We'll see, we have pretty good terms, so...

<<Analyst, Needham & Company>>

Okay. Just want to keep those. Okay. All right.

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

Yeah.

<<Analyst, Needham & Company>>

And is there any, like, what are the chances?

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

They're not going to use that for a negotiation. No, we want better terms.

<<Analyst, Needham & Company>>

Okay. Better terms, I insist. I mean, as you get bigger and you become a more like successful partner, don't they want you to sort of have better terms to incent you?

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

Well, I think we're, for the first time at Perion, we're looking at as a holistic relationship.

<<Analyst, Needham & Company>>

Okay.

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

Up until now, we saw that as a search relationship.

<<Analyst, Needham & Company>>

I see.

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

Now we're looking at holistically. So how do we – can we help you guys to promote to do better on your retail part with PromoteIQ? How do we help you do better on CTV, on display, on video, right? So that's how we're approaching it.

<<Analyst, Needham & Company>>

I see. Okay. So, are you using the search anchor tenants in a way to try to leverage it? And does that drive revenue upside also?

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

We actually, yeah, we grew quite nicely on all the other parts.

<<Analyst, Needham & Company>>

But from Microsoft.

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

Yeah.

<<Analyst, Needham & Company>>

So, talk to me about risk mitigation in the enterprise. I mean, Microsoft was already your biggest client, let me call it revenue driver.

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

Yes.

<<Analyst, Needham & Company>>

And now we're going to this holistic, which sounds really smart to have a holistic relationship, but at some point, don't you worry about the risk of having such a major client if something happened?

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

Absolutely. Well, first of all, I think it's a good point. I think on the Xandr part we are working with them, but we build the pipes in a way that we can always shift it.

<<Analyst, Needham & Company>>

Okay.

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

So we're not – the fact that we're working with them doesn't, they don't hold us on that specific segment.

<<Analyst, Needham & Company>>

I see. Okay.

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

And yeah, on search, we're working with other search engines, so even though Microsoft is the biggest one we're trying to diversify there.

<<Analyst, Needham & Company>>

Okay.

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

But we do see Microsoft advertising as a strategic partner. So, we're trying to do more things with them. But you're right. At the same time, we're always thinking how do we, if God forbid anything happens.

<<Analyst, Needham & Company>>

Yeah.

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

We can always switch that, right.

<<Analyst, Needham & Company>>

Okay. All right. Yeah, I mean, it's a horrible thing to wake up and have something have happened to Microsoft and you've lost 30% of your revenue or something.

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

Yeah.

<<Analyst, Needham & Company>>

Okay. Okay. Well, that's interesting. I do like the idea of upselling. You had great relationships there, and that was one of your big goals when you came in as CEO is to work more closely with other aspects of Microsoft that you didn't really have touchpoint with. So, the Xandr work sounds like it's consistent with that strategy, okay? So your – Perion's ad revenues have been growing the fastest in the ad tech industry. Can you talk about Perion's key sources of display ad revenue growth in 2023? And what are, what drives faster growth in 2024 in this part of your business, the display part?

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

CTV is growing very nicely, especially live CTV where we normally don't break that down, but I can tell you that live CTV is pretty good. The retail business, which is, it has its very specific component of working with very large set of data.

<<Analyst, Needham & Company>>

Okay.

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

And generative AI. So those specific solutions can only work with generative AI. And again, the retail part is growing very nicely.

<<Analyst, Needham & Company>>

And it's called retail. Why is it called retail? Because it's calling on like a target or what's retail mean?

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

So retail – there are two parts of it. One, how do you drive people to their website...

<<Analyst, Needham & Company>>

Okay.

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

...which is something we do, but we don't concentrate on.

<<Analyst, Needham & Company>>

Okay.

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

But our goal is to how do we drive people to their physical store?

<<Analyst, Needham & Company>>

I see.

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

So, after COVID, we saw that people actually want to get out of the house, right? They actually want to spend more time in stores. They want to spend more money in physical stores.

<<Analyst, Needham & Company>>

Okay.

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

So our goal is to see how do I get through the entire journey of the user. So, in the morning they can be on social, we'll find them there on their way, they can be on Spotify. We have now – we've released WAVE, which is a generative AI audio ad solution.

<<Analyst, Needham & Company>>

Okay.

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

We just bought Hivestack. So we have the entire journey of out of home – programmatic out of home where you can find him on his way, you can find him in the parking lot. And we actually have a solution for in-store within the store screens, right?

<<Analyst, Needham & Company>>

Okay.

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

So retail solutions mainly on the physical part.

<<Analyst, Needham & Company>>

Okay.

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

That's the sweet spot. And it's growing very nicely.

<<Analyst, Needham & Company>>

Right.

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

And I think that's going to continue to grow.

<<Analyst, Needham & Company>>

Yeah. I don't, I think you're the only company in my coverage out of 12 that has this in the physical stores.

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

Yeah.

<<Analyst, Needham & Company>>

And is that U.S. or is that, Tal, like what country are we talking about here?

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

So U.S. is big, but now that we bought Hivestack, Canada is big. Australia is big.

<<Analyst, Needham & Company>>

Okay.

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

Asia – so many different countries in Asia. We’ve showed amazing campaigns in Hong Kong, Singapore.

<<Analyst, Needham & Company>>

It sort of feels like you’re, especially with Hivestack, specifically, it’s sort of pivoting your focus to non-U.S. Is there a faster growth opportunity offshore than here?

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

I think the – our model was always to diversify.

<<Analyst, Needham & Company>>

Okay.

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

And I think we thought about diversifying through media channels. But now we’re thinking about diversifying through countries as well.

<<Analyst, Needham & Company>>

Okay.

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

We’re seeing that in some countries - like even search, the U.S. RPM, revenue per mille, is higher in the U.S.

<<Analyst, Needham & Company>>

Yeah.

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

But it’s more fluctuating than Europe. Europe is very stable.

<<Analyst, Needham & Company>>

Really? I'm surprised by that.

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

That's strange, right?

<<Analyst, Needham & Company>>

Okay. Yeah.

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

But every channel has different behaviors in different countries. So, when you think about how do I hedge my bets, how do I do a really diverse solution, then countries really play into that.

<<Analyst, Needham & Company>>

Okay. Usually they have lower returns on capital because if you ask, put all your assets in the U.S. and you're only running a U.S. book, it has the highest returns on capital. Whereas when you go to Singapore, Hong Kong, the – you're spending a lot more costs for a much smaller market. So usually international diversification brings down return on invested capital typically. Can you speak to that?

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

Yeah. So, the thing with technology once you built it, well, it doesn't really matter where you work with it, right?

<<Analyst, Needham & Company>>

Okay.

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

It's the same technology. The Hivestack, DSP and SSP are already built.

<<Analyst, Needham & Company>>

Okay.

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

Now to have a reseller in New Zealand...

<<Analyst, Needham & Company>>

I see.

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

...there is no cost to it.

<<Analyst, Needham & Company>>

Okay.

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

It's just an added value to the existing.

<<Analyst, Needham & Company>>

It is the value share.

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

Right.

<<Analyst, Needham & Company>>

Okay.

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

There's added value to existing technology.

<<Analyst, Needham & Company>>

Okay.

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

I think when you look at companies like Salesforce or Adobe, the product is always there. Now you need to figure out how do I spread it around as fast as possible.

<<Analyst, Needham & Company>>

Okay.

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

So it's not about any more and more salespeople across the globe.

<<Analyst, Needham & Company>>

So the – in the retail product, which you said is growing nicely, where you talked about, showing it off in Singapore and Hong Kong and all these new markets, you're saying that isn't particularly capital intensive because it's using tech you already own?

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

Right.

<<Analyst, Needham & Company>>

Okay.

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

I mean, we own the technology that the screen itself runs with that technology.

<<Analyst, Needham & Company>>

Okay.

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

How do you get a screen and make it, add it an ability to run the inventory to have to get ads from all the DSPs.

<<Analyst, Needham & Company>>

Yeah.

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

We're the operating system of the screen, right?

<<Analyst, Needham & Company>>

Yeah.

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

Now what's – I mean, we're on most screens in Japan.

<<Analyst, Needham & Company>>

Okay.

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

We're on so many different screens in so many different countries and it doesn't matter. The technology is still the same technology that we're building in Canada for those screens.

<<Analyst, Needham & Company>>

That's where Hivestack is Canada. Okay. Yeah. It sounds like Hivestack is a pretty big strategic pivot for you.

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

It is.

<<Analyst, Needham & Company>>

Towards out of home, towards global, towards Montreal, which is a new hub for you.

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

Yeah.

<<Analyst, Needham & Company>>

So big strategic pivot. Okay, good. Let's talk about SORT. So SORT is one of the things that I think Perion has talked a lot about being a competitive advantage because you're a DSP, you're an SSP, you have the search data goes in the display data, all of which just makes for, let me call it higher margins or more efficient. Can you talk about one of the things you had talk about, so can you talk about it in your core business, how it sort of accelerates your returns on capital. But also you thought about trying to sell it to third parties and are we still trying to do that or? No, we're not trying to do that. So let's update on SORT?

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

Yeah. So SORT is our way of targeting without cookies, right?

<<Analyst, Needham & Company>>

Right.

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

And that's so highly used within our company. I mean, like over 90% of the campaign that are eligible for SORT are using SORT with us, but we're now working on SORT 2.0.

<<Analyst, Needham & Company>>

Okay.

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

That is going to be a lot heavier on AI. And stay tuned we're going to tell you once it's out.

<<Analyst, Needham & Company>>

So you brought up generative AI now 3 times.

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

Yeah.

<<Analyst, Needham & Company>>

So we need to skip to that question because nobody else has talked on my stage, you're my 10th CEO on stage. No one's mentioned generative AI as proactively as you have. Let's talk about what are you doing with generative AI? How do you think it affects your cost in 2024 specifically?

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

Yeah.

<<Analyst, Needham & Company>>

Costs and how do you think it affects revenue growth? It sounds like you're using it lots of places and I know you're building it on Microsoft Stack, which is the ChatGPT function, because its...

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

An OpenAI.

<<Analyst, Needham & Company>>

Yeah. In OpenAI, fair enough. That's the large language model. Tell me what you're doing with generative AI over at Perion?

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

Right. So let's define AI in general, right? We've been doing machine learning for years now. We've actually built SimilarWeb based on machine learning. We've built most of the logic within Perion on machine learning. Now, the added thing that generative AI enables us now is on so many different layers, but the one interesting layer that we have now is the product we've released WAVE, right?

<<Analyst, Needham & Company>>

Say it again.

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

WAVE.

<<Analyst, Needham & Company>>

W-A-V-E.

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

Yeah.

<<Analyst, Needham & Company>>

I don't know what this is.

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

Okay. So about a month ago we've released a new product called WAVE, that's a generative AI solution for audio ads – audio ads. Now, audio ads, digital audio ads are roughly in 2023, the advertising budget for those ads were \$6.8 billion, it's a huge market and it's growing.

<<Analyst, Needham & Company>>

And that's the global number.

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

That's the U.S. number.

<<Analyst, Needham & Company>>

That's the U.S. number, okay.

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

And it's a big number.

<<Analyst, Needham & Company>>

Doesn't sound very big compared to CTV, but okay.

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

No, that's why it's just one more channel.

<<Analyst, Needham & Company>>

Okay, fair.

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

Right, we're not a single solution, we're...

<<Analyst, Needham & Company>>

Diversifying.

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

Absolutely.

<<Analyst, Needham & Company>>

Okay.

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

So how do we work with that? And why do we do that especially for retail? So, when we work with companies like Target or Albertsons or Kroger, we're getting all their data. So you're going to get all their products, all their promotions locally, right. So you would know at Albertson in Hoboken, New Jersey you can find avocados for \$0.99.

<<Analyst, Needham & Company>>

Okay.

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

And 100,000 more promotions locally, right?

<<Analyst, Needham & Company>>

Okay.

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

Now we have a few components, one is that's going to write a script for an audio ad, like a radio ad.

<<Analyst, Needham & Company>>

So this is now how we're using generative AI for audio ads.

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

Yes.

<<Analyst, Needham & Company>>

Gotcha.

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

Right. So that's going to write hundreds of thousands of scripts and then it's going to read them, and it sounds so human like that it's almost creepy how much it's not creepy. Like you would imagine it would sound like Siri but it doesn't, it sounds very human-like.

<<Analyst, Needham & Company>>

I heard there's like 50 voices from generative AI. Now you can choose from.

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

Yeah. And with that, specifically with WAVE, you can even choose if you want it to sound like a radio ad, you want it to sound like a comedy movie, you want to sound, you can actually have, if the – if the advertiser has...

<<Analyst, Needham & Company>>

Darth Vader. I want the Darth Vader sound.

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

We should definitely do that. So, with the specific advertisers they have influencers. So we can actually...

<<Analyst, Needham & Company>>

That's true.

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

We can actually get a sample. And now the influencer, I don't know what Arnold Schwarzenegger can record – our system would record 200,000 video ads for avocados...

<<Analyst, Needham & Company>>

Audio ads.

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

Audio ads, sorry, audio ads, right.

<<Analyst, Needham & Company>>

It's okay.

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

And then we can distribute that through products like Spotify.

<<Analyst, Needham & Company>>

Okay. So who's – is this a managed service? So you guys are doing this or its just...

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

We're doing so.

<<Analyst, Needham & Company>>

Okay. So I didn't understand the step between the avocados are being sold at Kroger. I didn't understand the step between that and suddenly making one of these WAVE ads for audience. I don't get it.

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

So WAVE is doing all those audio ads automatically and spread them locally. So the avocado ads, let's say we know avocado ads or avocado would be bought mostly by, I don't know what; I'm making this up, right, women at the age of 35 to 55 at 07:00 a.m. to 09:00 a.m. in Hoboken, right. So when we're going to find somebody with Spotify at those hours, at those ages near the store.

<<Analyst, Needham & Company>>

Got it.

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

They're going to get the ad within Spotify.

<<Analyst, Needham & Company>>

Okay.

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

Right.

<<Analyst, Needham & Company>>

And the reason it scaled is because the generative AI, you can serve that ad to ten different territories, and the price of avocado, the generative AI inserts the right number in everyone.

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

Insert the right promotion within the right hours to the right audience locally, right. And you can measure them. Now, the way we work is, so that's just on audio, right. We have the same mechanics for CTV, right?

<<Analyst, Needham & Company>>

Okay.

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

So somebody at Hoboken in New Jersey is going to see at the same time on their screen when he's watching Netflix or whatever it is the same promotion for avocado. But after 10:00 a.m. he's not going to see them anymore. There's going to be promotion for cereals.

<<Analyst, Needham & Company>>

Okay.

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

Right. So how do you manage that scale of data, of creative's locally and actually measure them? Now, when you think about it, avocado is one thing but what about the elections? I mean, you have different messages for different neighborhoods, right.

<<Analyst, Needham & Company>>

Yeah.

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

That also needs to happen with generative AI. I mean, there are so many different messages, so many different locations, so many different channels, you can't do that manually. As opposed to linear TV you have one commercial, you run nationwide. Hope for the best, right. That's not going to happen anymore. So our technology is we build creatives based on data, we generate them and then we can spread them out through social, through CTV, out of home - that's a great way to do election campaigns because election campaigns are super local. What's more local than billboards, right? So, it all goes down to how do we do things that scale? But that would feel personalized, that would feel very local.

<<Analyst, Needham & Company>>

So the – especially in America this year they're talking about record political spending. Do you guys or do you think you'll benefit from the political year this year?

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

So we have a team that goes after political spent, political budget and...

<<Analyst, Needham & Company>>

They must be really bored in the non-election years, these people, but okay.

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

Yeah. We tend to shift them to other things, otherwise they will die.

<<Analyst, Needham & Company>>

Okay.

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

Yeah. But as a whole we saw a statistic that we're forecasting \$10 billion to \$12 billion worth of budget this year.

<<Analyst, Needham & Company>>

Yeah. No. \$17 billion is the new number here.

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

Oh! Okay.

<<Analyst, Needham & Company>>

\$17 billion.

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

So even better.

<<Analyst, Needham & Company>>

Yeah. It keeps growing up, but anyway, but specifically on Perion, what might it mean for your top line? And what for Q4?

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

Yeah. So we didn't break it down that way but we have a team in D.C. that goes specifically after that.

<<Analyst, Needham & Company>>

Okay. Okay. But it's never been big before and you're not saying it's going to be big really this year. You just don't know.

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

No, it's fairly new.

<<Analyst, Needham & Company>>

Okay. Yeah. Yeah. No, brand new. Yeah, I mean, digital should be a good fit but historically they've used Facebook and that's pretty much it, I think.

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

Yeah.

<<Analyst, Needham & Company>>

Interactive ads, is that a focus of yours? I know Doron, your predecessors was very focused on interactive CTV, especially video ads, and now with the QR code, that was really. Is that something you really care about? Are you pursuing interactive?

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

So we have a lot of other interactive formats.

<<Analyst, Needham & Company>>

Yeah.

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

But as I said, our goal is to make advertisers happy and come back with more budgets.

<<Analyst, Needham & Company>>

Okay.

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

Yes, and we're seeing now that advertisers for CTV especially are asking more for live CTV than interactive ads. I mean, if they want interactive ads we have the best technology for that. But we also have the best technology for live CTV, so it all depends on them.

<<Analyst, Needham & Company>>

So, but live TV, you can deliver ads into live TV, but you don't control live TV. Interactive ads were very high end, very high margin, they were unique to you. So you got a closer client relationship when you did those.

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

So live CTV is very technologically focused because within a live event you have no idea when's the best time to cut the event, right, like in the super bowl, right. When's the touchdown? I have no idea. We can't know that in advance, right? So there's an AI algorithm that continues to run with the event, and it knows exactly where to put the commercial without having everybody hate that brand, because if you cut in the wrong place...

<<Analyst, Needham & Company>>

Or he's about to make a pass and you cut into the commercial, people are pissed.

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

Yeah. Now that's the brand that nobody's going to buy anymore, right? So there is a lot of technology there.

<<Analyst, Needham & Company>>

But I don't really get that because I assume if CBS is running a game it figures out where the commercial pod is going to be, and then somebody delivers the ad into that pod of two minutes or something. So I don't understand how Perion...

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

So on linear TV that works out that way.

<<Analyst, Needham & Company>>

Okay.

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

On CTV, there are add-on components that we can use to identify the right moment with the right creative, right.

<<Analyst, Needham & Company>>

Okay. And then you bid more for that. You say you win that slot.

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

Yeah. It's a premium spot anyway.

<<Analyst, Needham & Company>>

Okay.

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

It's not a very standard.

<<Analyst, Needham & Company>>

So you get a higher price, that's interesting. So real time is becoming more important than interactive ads, is what I hear you say?

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

Well, I think it all goes back to the fact that we saw the writer's strike last year with writers. I think content is becoming boring, so people are switching to live events. So...

<<Analyst, Needham & Company>>

Content is becoming boring. Is that what you...

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

Yeah. Well, all shows, you kind of, even if you see a new show it feels like you already saw it with a different actor, right? With live events, you don't get that feeling.

<<Analyst, Needham & Company>>

Okay.

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

So I think people are switching more into live events. People are switching more into social. So it's not like linear TV is going directly just to CTV. People are just switching behavior. So some of the budgets are going to CTV, but some of the budgets are going to social, and we're capitalizing on social ads.

<<Analyst, Needham & Company>>

Okay. Okay. Great. Questions from the audience. Yes, sir.

Q&A

<Q>: I'm sorry, this is a little bit more basic for you, but you have a very low evaluation in the marketplace, right? So if you were to just sum it up, the top three issues is it cookies? CTV? what do you think weighs on investors' minds and what's the strategy [indiscernible] (0:32:20)?

<A – Tal Jacobson>: I don't think it's one thing. I wish it was one thing that investor would say, you know what, if you would fix this that would change the entire story. I think investor needs us to fix the story. I think our company is doing great as a company, but we're having an issue telling that story, explaining that story. There are too many moving parts for people to figure out. Okay, so each part what did you guys actually do there? And it's our job to tell that story in a more coherent way and to give you KPIs that are easier to digest. I think that's what makes our valuation lower than it should be. And I...

<Q>: Do you think it's just complexity? That's there's no technology issue? there's no cookie deprecation? there is no...

<A – Tal Jacobson>: At the end of the day, you look at our numbers; you can see we're taking market share. We're growing faster than the market. So there is no technology issue or business

model issue or growing issue. But there is a way of as analysts, as investors, how do you figure out what are the things that would predict our growth, right? And I think it's our job to provide a better way for investors to understand our company and to get that transparency you need into our growth in the upcoming years, and I think that's what got us to this place.

I think we've done everything needed to get to this place and now we need to think a bit different. Not in terms of our company. The company is doing great. We're continuing to grow, but in terms of how do we tell that new story? How do we, I mean, we're adding more and more components, right? We're adding out of home. We're adding CTV, we're adding retail, we have search, we have WAVE, as a company it makes a lot of sense for us, right? It helps us get to our numbers and beat them. But for investors, I think every time we add a thing, it's just adding more complexity for investors to now figure out. Okay, so how do I know that this actually going to continue to grow, right? I mean, we know and our forecasting actually works and you can see it. But I think, to your question, why aren't we 10 times bigger in terms of valuation...

<Q>: How about 3 times?

<A – Tal Jacobson>: Well we are going to get – on the path to be 10 times we're going to get through three...

But I think that's one of the things. I think that's one of the things. I think the fact that Perion is very well known for investors but for clients they usually know our sub-brands like Undertone or CodeFuel or Vidazoo. We need to figure this out. I think we're doing a lot of work now on combining our offering, it's basically the same clients, and really promoting synergies aggressively. So, it's going to create a flywheel within that, so and every new component that we're going to add is going to push the entire machine faster.

<Q>: In the meantime, the cash you use for acquisitions generate a lot of cash there. Do we need to buy more components? If it's already complex, want do you...

<A – Tal Jacobson>: Well it's not complex to operate. It's complex to explain.

<Q>: Okay.

<A – Tal Jacobson>: So as long as we can operate that and continue to grow, we're going to continue to do that.

<Q>: But are there a lot of acquisitions out there for you? How are you thinking of that?

<A – Tal Jacobson>: Listen, it took us two years to get to Hivestack and we've interviewed 500 companies, so it's a lot of companies. Hopefully, we're not going to interview 500 more to get to the next acquisition, but there are a few interesting companies out there. We're not going to buy..., probably going to buy another company this year but not more than one. We know, PMI-wise, and how do we integrate them, if we'll buy too many companies, even if all of them are successful, that's going to be very unsuccessful to integrate them, right? So we're doing that in a very strict way.

<Q>: Other questions?

<Q>: Can the WAVE technology be used on the video side of the equation where you don't have an actual human being seeing – speaking like you could have a voice from behind whatever the ad is promoting. Can you do that? or is it just like audience?

<A – Tal Jacobson>: Absolutely. Now, so we've spoken with a company that we thought about partnering or buying. They are doing something that is very similar to WAVE, but for video, where they would take – you would do a movie with an actor that says whatever, I can't believe avocado are so cheap now or whatever, and then through generative AI, you can change their lips and sound to become, I can't believe, I don't know, diapers are so cheap now. And so you can create that.

So we've took that technology and went to agencies and brands and said, if we would combine those, would you do that? And I think we're at the stage where brands are at fear that AI would be considered creepy. With wave for audio, you wouldn't even know that it's generative AI. It just sounds like a human being.

But if you would see the same video over and over again saying different things, that would look creepy. So everybody says, you know what, let's start, let's start with audio. Let's see how it works. Let's see how the audience behave, how they react, and then we can move. Technology wise, we can do that today. I think brands would like to see, to get people...

<Q>: Well building on that had the CEO of DoubleVerify their fastest growing product is brands who are paying them to not have any ads show up next to any content that came from generative AI. So the DoubleVerify product identifies generative AI, it doesn't matter how good the content is...

<A – Tal Jacobson>: Yes.

<Q>: Brands say we won't put our ads anywhere near that.

<A – Tal Jacobson>: Right.

<Q>: So she exactly – I think brands today are really fearful of content created by generative AI, even if it's fantastic.

<A – Tal Jacobson>: I agree. I agree. And I think at the end of the time – at the end of the day, marketing is all about creating an emotional connection between a brand and the customer. And you don't want to mess that up. You don't want to have a negative emotional response. So we're in a business of providing tech that can generate positive experience and positive vibe for advertisers. As long as they need it, we'll provide it.

<<Analyst, Needham & Company>>

Okay. I'm going to call it there. That's our time. Our time is up.

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

Thank you.

<<Analyst, Needham & Company>>

Thank you very much. Thank you.