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<<Laura Martin, Analyst, Needham and Co.>>

Fantastic. Good afternoon. I'm Laura Martin, the Senior Media Internet analyst at Needham and Company. And I'm here to welcome Tal Jacobson, who's the Chief Executive Officer of Perion. So, Tal, nice to see you in Israel from New York.

<<Tal Jacobson, Chief Executive Officer>>

Thanks for having me.

<<Laura Martin, Analyst, Needham and Co.>>

Sure. Let's start with like, maybe a level set and tell people who aren't as familiar with Perion as I am. The two revenue streams you have and how fast they're growing and where you see growth drivers in your two big revenue streams, advertising and search.

<<Tal Jacobson, Chief Executive Officer>>

Yeah, absolutely. Thank you. So, our goal is always to provide the best technology between advertisers and consumers. We have two major revenue streams. One is search advertising, which we're a supply provider for search engines such as Microsoft Bing. And on the other side, we have multiple technologies that we provide to advertisers. We just acquired Hivestack, which is the most sophisticated SSP and DSP for programmatic out-of-home, which means that we're revolutionizing out-of-home advertisement through data, AI, and programmatic infrastructures. And this is a worldwide spread. That company has a worldwide spread in terms of advertisers and screens.

We just launched our AI generated WAVE, which is AI-based audio ads. It's fully generated AI. We have SORT 2.0, we just launched that. That's an audience segmentation based on AI, which is now also available for CTV. And we do demand and supply, but everything is around technology. So that's our goal. We know that advertisers currently are swamped with the amount of channels, with the amount of technologies. We want to make it simple. We want to say, no matter what strategy you have as a brand, we can work with that. You want social, we can do that. You want CTV, you want audio, you want out-of-home, you want high impact, you want video - we have the technology that connects everything together. Let us do this for you so you can concentrate on your audience, you can concentrate on your messages. This is how we work with large media marketing agencies and the hold groups.

<<Laura Martin, Analyst, Needham and Co.>>

So let's talk about – let's start with like, the good news. The three growth drivers, talk about CTV, digital out-of-home and retail, which are like, each one grew like 100% or more in the most recent quarter. So let's talk about your three big growth drivers. Let's start with that.

<<Tal Jacobson, Chief Executive Officer>>

Right. So the first one is CTV, we grew – let me just open it here, so CTV technology is pure organic. We built that in-house. We grew that from zero. We haven't bought it. We grew this quarter year-over-year, 108%, and we actually offered a lot of formats for advertisers. And we buy through all the inventory out there, right. So we have live CTV, which is very heavily based on technology, to understand where exactly to put that [ad] within the event. We have Pause Ads, which is on DirecTV. When you pause the series, you would see our ad there. So we have different formats and that grew significantly, and as I said, it's a pure organic solution that we're developing.

Now, our Retail Media solution, which is basically how we work with retailers across most of the U.S., where they have a lot of data, right, they have a lot of physical stores, and everything is based on their database, right. We have all their products, all their promotions, all the audience that will buy those type of promotions.

And then we're taking all of that. Everything is based on AI. We're generating audio ads through that, video ads, display ads, and we distribute that across all channels. And that's our Retail Media. We just bought a company called Hivestack, which does out-of-home, but out-of-home also includes Retail Media. So all-in-all, we grew 134% year-over-year, and our out-of-home, which is an increasingly growing market, we grew 25%, but that's on a pro forma base, because last year we haven't – we didn't have out-of-home, but we bought a company, so we're taking their number, and it actually grew 25% year-over-year.

<<Laura Martin, Analyst, Needham and Co.>>

And out-of-home really is your Hivestack acquisition. So let's talk about Hivestack, what synergies, talk about its relation to retail, because it is digital out-of-home. But you just tied it in your last commentary to retail. So let's connect that more explicitly. And then also the gross prospects for Hivestack?

<<Tal Jacobson, Chief Executive Officer>>

You're absolutely right. So out-of-home works perfectly with physical retailers, right. We have screens within stores, we have screens near stores, right, within malls, on parking lots, on trains. And a lot of retailers actually use that to push people back to the stores. We had a fantastic campaign with Estée Lauder in Hong Kong, and we saw 300% increase in people walking back to the store and asking about the product that we've promoted out-of-home. I think we know that ever since the coronavirus went down, people tend to buy more at physical stores.

So it's really important to help retailers push more people to go back to the physical stores. People are looking for that, they're looking for that real experience and not necessarily online. So that's a perfect example of how we can take technology and push people back to buying at physical stores.

<<Laura Martin, Analyst, Needham and Co.>>

Can you talk about synergies with Hivestack to your core business, like to the ad business and/or the search business, like the two big pieces of your core business, too?

<<Tal Jacobson, Chief Executive Officer>>

Yeah, absolutely. So we're using Hivestack to push, obviously, our goal is to go to all those major marketing agencies like GroupM, Publicis, Havas, and say, what do you guys need to do better with technology, right? So one of the business units that we have that is doing that is Undertone, very well known in the U.S., and they're talking with all the major holding companies. And a lot of those companies say, if we have that super advanced out-of-home technology based on data with attribution, that would help us show the retailers and advertisers that we can push more actual results through out-of-home.

Now, when you think about it, out-of-home exists for 200 years now, but now with all the advanced technologies within that, you can actually measure that. You can actually know if that works or not, and that helps us gain more and more campaigns through our systems. So it's fully synergetic. We just bought that in December. Only one quarter went by and we already see the synergies. So it's very synergetic.

<<Laura Martin, Analyst, Needham and Co.>>

And so it just – I don't get that, actually. So if you have outside billboards, like in Times Square, I think that's where some of Hivestack billboard does. Tell me how that's a performance medium. I don't understand how you would be able to tell how many people saw it or what impact it had. Can you close that loop for me?

<<Tal Jacobson, Chief Executive Officer>>

Yeah, absolutely. So, first of all, it's all based on data, right? So we've had a campaign for Uber, again, in Hong Kong for this example, and we placed that signage on all the bus stations. Now, every time it rains, the campaign changes, the creative changes to a woman with an umbrella saying: “stop standing in the rain, order an Uber”, right? When traffic jams fired up, it says “the bus is not going to come on time, order an Uber” and so on. So everything is based on real time events – environmental events.

Now, we can also know, anonymously, obviously, but we can also know the amount of devices around it. We don’t know the exact person, but we know how many people are around it. And that’s how we build our multiplier. That’s the reason why you would pay more for an impression in Times Square as opposed to in an elevator, right? Because we kind of know what’s the approximate amount of devices around it. And that’s how we know how many people were exposed to it.

And then we're working with the retailer data set to say, okay, so we've promoted that product at those areas. What's the uplift that you saw in sales in that specific product? So we can make the connection. So we promoted for Estée Lauder, for example, we promoted one specific product and then we've asked those stores, did you see a lift? And we saw a 300% lift. So we're making the connection saying, out of home it's basically a – we tend to think about it as a brand awareness media, but it's actually, you can convert it into a performance media, especially for retailers.

<<Laura Martin, Analyst, Needham and Co.>>

Yeah, I had no idea. That's fantastic. Okay, so Hivestack, super important. Seems like it's sort of your pivoting everything towards that Hivestack like integrated out of home and I think of out of home as the high end – like a high end of the funnel that you're saying you can really drive it to retail, which is the low end of the funnel.

<<Tal Jacobson, Chief Executive Officer>>

Yeah.

<<Laura Martin, Analyst, Needham and Co.>>

Okay, so let's move briefly to search. We had an event post the first quarter. Your first quarter was quite strong, I think 9% revenue growth, which was any over delivered estimates. But then sort of subsequent to the first quarter, we had this hiccup where Microsoft sort of changed the deal mid quarter on what you got paid. And I think we took $100 million out of our estimates for Perion this year for 2024. So can you talk about what happened with Microsoft? And could it happen again to Perion? And are they just getting out of search business strategically? Is that what's happening or are they – like, tell me what's happening with Microsoft and why it won't continue to be a drag on Perion's financial results.

<<Tal Jacobson, Chief Executive Officer>>

Right, that's an excellent question. So the way we work with Microsoft is they're in charge of advertisers and we're in charge of inventory. We provide supply, right? Now, the supply didn't change. In fact, the amount of supply, the amount of inventory that we've provided actually grew. But unfortunately, Microsoft decided to change their pricing algorithm.

Now that didn't change our deal with them. We always work on a rev-share basis and the rev-share stayed the same. But they've charged – decided to charge less from the advertiser for that inventory. Not just our inventory, all their distribution partners, right? So we're just one of them. But there's more. And they've decided to charge less from the advertiser.

They've provided discounts, heavy discounts, right? So that's what changed. It has nothing to do with Perion specifically, it has - big ad tech companies unfortunately every few years tend to change their algorithm, right? This is the first time we experienced that. But if you look at other companies you can see that Google sometimes change their SEO algorithm, Meta might change their pricing algorithm. Those things happen, especially for big ad tech companies. Unfortunately, we didn't expect that and unfortunately – luckily we haven't experienced that in the past and we truly hope never to experience that in the future.

Even though it was a big event for us and we're not happy about it at all. I can't say the good thing, but I can say Microsoft has become less big for us, right? The only positive thing I can find about this event, less dependency.

<<Laura Martin, Analyst, Needham and Co.>>

So what I hear you saying is you had a contract with Microsoft, it's the same. Let's say you're getting 10% to make up a number of ad revenue. But when they lowered the price to the advertiser of the Bing inventory, then your 10% of that number also went down because the 10% stayed the same, but the overall number went down by the price cut, which looks like it was like 25% given how much your revenue went down.

So – and is the reason like, so a big price cut like that once for Microsoft is sort of a weird tactical decision from my point of view because if they're doing it to maintain share – growth share compared to Google Search, it feels like they shouldn't have just done it at once. They should have been doing little like a 5% discount then a 10% discount. It's sort of weird to just do this huge step drop off. I guess, does that have any implications in your mind for their likelihood to ever do this again? Like could we get another one of these or the fact they made it one really, really big one. You think they've now overcorrected and we're going to have this rate, if you will, the same for two or three years? Like are we safe at Perion not to have another cut? What's your point of view?

<<Tal Jacobson, Chief Executive Officer>>

Right, listen, we've done – we've been working with Microsoft over 10 years now. We never saw anything even close to that. That's – I personally believe that – I don't see how this can go any lower. But again, we don't have any control of it and we always said that we do not control how much Microsoft are charging their advertisers. The only thing we can control is the amount of searches, the amount of publishers and even that now that Microsoft went down, some of the publishers actually left. They said, you know what, this doesn't make sense anymore. I might as well move to Google, right? And we've calculated that. I mean our new guidance already that's in the model. We've lost a few publishers, we have less searches because it actually didn't make any more sense for some of them.

Again, I don't see how this would go lower. I'm not promising anything, right? I have no control over it. But then again, I've been with Perion for almost six years now. If you look six years back, it's a whole different company. Back then we had made search. If that would happen six years ago, there was no company now, right? Back then we had no cash, we had a big debt and our stock was at $3. Now know that we have almost $0.5 billion in cash. We're generating good amount of cash where we just – we announced a buyback of up to $75 million. We're not as dependent on Microsoft as we were six years ago and we're making good progress.

Again, this event is painful, but it’s not - this will not kill the company. I mean we have big things that we’re working on. We constantly launch new products, new technologies, we add more customers, we add more verticals, we add more channels. We’re very optimistic about the future.

<<Laura Martin, Analyst, Needham and Co.>>

And just one more on Google. Do you get the sense that Microsoft is trying to pivot away from search business in favor of ChatGPT and OpenAI? Do you think that could be what’s going on here strategically for – at the Microsoft end?

<<Tal Jacobson, Chief Executive Officer>>

I think they definitely need to see how they use, I mean they spend a lot of money on OpenAI. They definitely need to see how they would actually use that. I mean, I just saw that they've added it to most LinkedIn post-trade. So they're trying to figure out how do I add this now the cost of AI is so expensive, I think until they can figure out how to implement ads within the results, that's going to be very complicated. So at the beginning they put ChatGPT on all the results. Then they did it just for people on edge. Then they put it just for people on edge that were registered. So they shrink the amount of people that can actually use it because it's expensive. So, I'm not sure that there's a connection between the two. Between the two events.

<<Laura Martin, Analyst, Needham and Co.>>

That's interesting. Okay, let's go back to advertising. So in the pieces of advertising, the advertising revenue that has been growing not quite as fast as the 103%, 150%, 25%. We leave those aside, video has actually been shrinking, which is what pulled the year-over-year advertising revenue growth down single digits in the first quarter. Can you talk about what's happening in the video advertising piece of your business right now?

<<Tal Jacobson, Chief Executive Officer>>

Absolutely. So some part of video actually went up, right, like CTV, but other parts. Q1, Q2, last year we have a video player that's set on a lot of websites, a lot of content websites. And Q1, Q2, last year were amazing. In Q3 we saw less and less demand coming to our video player, so we changed that into a display unit. So basically a banner. Right? And we made more money through that as opposed to just leave it as a video player.

So as a format, you're absolutely right, we saw a major decline year-over-year as a format. And that actually, we saw a decline in that segment as advertising. And you're right, the other parts grew, but not as much. Now our focus, our strategic focus is to grow all the other parts, right? Not the search. If we can squeeze the search advertising forever, we would be more than happy. It generates a lot of cash. But that's not the strategic part.

When I sit at meetings with companies like GroupM and Havas , what do you guys need more? How do you guys grow? How do I help you to grow? It's never about search, it's always about AI technology, it's always about CTV and out-of-home and audio. Those are the exciting parts and those are the growing parts. So we're focusing on that.

<<Laura Martin, Analyst, Needham and Co.>>

So let's talk about audio. We haven't, I don't think we've talked about audio yet. We did retail, digital out of home and CTV. Let's talk about audio. So really, it's like, come out of, it's a dark horse. A lot of ad tech companies are growing audio triple digits right now. So, let's talk about what's happening in audio for you guys.

<<Tal Jacobson, Chief Executive Officer>>

Yeah, absolutely. So we've released, I think six months ago, we released a product called WAVE. It's fully generative AI, which, as I said, we take the database of retailers, all the promotions, and then record audio ads. It might be 100,000 audio ads with generative AI. Now it sounds very much human. You wouldn't notice that it's not human. We can add, the pace, female, male [voices], do you want to sound like comedy, thriller, whatever you want. Right? And there's no way to do that without generative AI. And now that's a big market.

In 2023, I think that was six point – almost $8 billion just in the U.S. for digital audio ads, $6.8 billion. It's a huge market again, we just launched it six months ago. This quarter we released a new version, which also includes Spanish, which is even a bigger market. You have other countries. And we've implemented that into the inventory of iHeart, Spotify. So we're fully connected on both parts and advertiser loves it. And now we're thinking, okay, so how do we add that to retail stores? Right. Within the stores themselves and within malls. Right. So it's endless possibilities.

<<Laura Martin, Analyst, Needham and Co.>>

It feels to me – tell me if this is wrong. It feels to me these are different segments of advertisers. Isn't audio advertising sort of different from retail, which is different from digital out-of-home, or am I wrong about that?

<<Tal Jacobson, Chief Executive Officer>>

No, it might be, but we're focusing on retailers. Right? Like, for example, and that's just an example. Let's say we work with a company like Albertsons or Target or Macy's or whatever it is, they want to push people back to the stores. So, we're going to do the promotions on - I have no idea - say stakesat $9.99 just now, Right? And people on Spotify at the age group that they say that would work, would hear that at those hours that are near the store. Right. So they're going to hear that on Spotify on their way to work, they're going to see it out-of-home, when they're going to come back to the house, they're going to put streaming TV with their favorite show and they're going to see a customized CTV ad, so we can go from all angles to push people back to the store to buy that. And that's the goal, Right? How do we get - Because consumer journey - it used to be simple, now everybody has a different journey. I'm using Spotify, somebody else would, might use, I don't know what, TikTok or Facebook or CTV or just mobile apps. We can work on all screens because it's all generative AI. We can adjust the creative, we can adjust the messaging based on the audience. And that's a very effective tool for retailers.

<<Laura Martin, Analyst, Needham and Co.>>

Okay. Would you – is it fair to say that you feel like you're pivoting the Perion business to more bottom of funnel? Because retailers says to me, bottom of funnel performance based. Is that fair to think of you guys as pivoting towards more attribution, accountability, conversion, more bottom of funnel performance metrics?

<<Tal Jacobson, Chief Executive Officer>>

That's, that's absolutely it. No, we've started - you're absolutely right - we started from upper funnel. Right? Brand awareness. And now we're doing this as well, we're not leaving that apart, but we're getting more and more into performance, more and more into pushing people back to the stores, back to sell, to buy things back to physical stores. Right? So, we're adding all those layers to be able to do both parts, but, and we're going to continue to add more layers to do more and more performance, which is fully, that's really needed now, especially for physical retailers.

<<Laura Martin, Analyst, Needham and Co.>>

Okay. Are the CPMs higher for you? Is the pivot because the advertisers are demanding it? Are the CPMs higher? Like, why is the pivot better for returns on capital to be more bottom of funnel?

<<Tal Jacobson, Chief Executive Officer>>

Right. Well, it's an interesting thing that we saw, and from all my conversation with - even the Hold Cos - everybody says if you look two years back, everybody's doing brand awareness. Now, most campaigns are totally performance. Everybody wants to see faster ROI. If you can get them the ROI, you're going to get more and more and more budget. It's kind of an endless budget as long as you can get them the ROI. And that's why we're investing in that part.

<<Laura Martin, Analyst, Needham and Co.>>

Okay, perfect. That makes a lot of sense, actually. So let's talk about one of the things you guys have been very early on is you work with GenAI and through Microsoft, your close relationship with Microsoft to bring generative AI capabilities into your in-house processes and procedures and into your products. Can you walk us through how you're using GenAI and GenAI today, internally and externally, please?

<<Tal Jacobson, Chief Executive Officer>>

Yeah, absolutely. So we have two parts. One is how do we, since all our technologies are for advertising, so how do we do amazing creatives with generative AI, Right? So we’ve spoken about audio, right? We’ve started from display, like images, and that actually took a lot of time to figure out how do we create. I mean, creating beautiful images is easy, but then creating the layer of brand safety, that’s harder. How do you not skew the product? How do you make sure that everything is perfectly safe for the brand? And that was a big part.

Audience segmentation: since we want to make sure that we’re focusing on privacy, but we do want to push ROI, we want to make sure that I meet the right customer without knowing that it’s the right customer, right? So generative AI is - we’re using that to identify segments. So that’s why SORT, and now SORT 2.0, which is also for CTV audience segmentation. And then we have a layer of AI for making our day-to-day work more efficient. How do I make more things, more operational task without any more and more people, right? How do I become more and more efficient? So we actually have a task force that works just on that, on becoming more and more efficient. So those are the two parts.

<<Laura Martin, Analyst, Needham and Co.>>

What’s your best guess about how much cost savings you can get on the efficiency aspect of generative AI task force?

<<Tal Jacobson, Chief Executive Officer>>

So, we’ve added, I think six or seven months ago, our Chief Product Officer for PubMatic, Kenny Lau. He has pretty awesome excel files. And he constantly shows us, say, I need one developer to have five less people in operation. And that’s how we constantly think about it. That’s the negotiation. Give me one developer, you need five less operational people. And I say, okay, I’ll give you five, can I get more than that? Can I use multipliers? And that’s the constant discussion that we have with them. But we’re already seeing that. We’re already seeing that he is adding more and more technologies, and we actually, we don’t need to add more and more people, even though revenue goes up. So that’s really awesome.

<<Laura Martin, Analyst, Needham and Co.>>

Is that really the ratio one developer buys you five employees?

<<Tal Jacobson, Chief Executive Officer>>

I know – I don’t know. And maybe he is just a good negotiator. I don’t know, but so far it looks good.

<<Laura Martin, Analyst, Needham and Co.>>

Pretty soon he is going to have a 100 employees and they’re going to be the only ones in the enterprise, this is going to be his 100 people and no one else.

<<Tal Jacobson, Chief Executive Officer>>

Yeah. I don't know, early days, but so far I think it does actually make sense.

<<Laura Martin, Analyst, Needham and Co.>>

When you think, does – has it changed your way of thinking about coding new products and how your new product development cycle is for on the external side using generative AI?

<<Tal Jacobson, Chief Executive Officer>>

Yeah, absolutely. I mean, as a general rule, we tend to think, how do we do more with AI as opposed to just writing code and – which is, I would say legacy code, like old school code. So the more we can do with AI and machine learning, the more we're going to do that. And even at the companies we're looking to buy, we're thinking, we always ask, what's your AI component? How much can you grow this part?

<<Laura Martin, Analyst, Needham and Co.>>

Does it, is it your feeling that you can – rather than acquire, can you do more internally by accelerating your new product roadmap using generative AI, which might save you from having to buy something? Or are they not really substitutable?

<<Tal Jacobson, Chief Executive Officer>>

So when we think about our growth in the future, we definitely think about how much growth can we provide for through our organic development. So we don't think as – and we looked at it, I think half, almost half of our growth in the past few years was organic through the things we've developed in-house. I mean, even products though, we bought Vidazoo 2.5 years ago, but then a lot of the growth that they made was actually product that we've developed after we bought them, right?

So I think we became more better and better at that, developing in-house products. And a lot of times we actually buy a company and we say, we want to make sure that you guys have the talents to continue to innovate. I don't want to buy you guys, because in advertising and technology, things get old very, very fast. I want to make sure that you're keeping the cycle, keep developing, do adding more versions, adding more features and that's part of it.

<<Laura Martin, Analyst, Needham and Co.>>

Let's move to capital allocation. So when you think about how to allocate capital, how do you think about the mix between buy new shares, the investing – doing acquisitions, investing in the business, tell us how you prioritize your free cash flow generation?

<<Tal Jacobson, Chief Executive Officer>>

So we've just announced as I said, up to $75 million of buyback. So that's one part. The other parts is investing in our own technology. So we have our R&D teams that, and we actually bought Hivestack part of it is buying a very talented R&D team to continue to develop our SSP, DSP parts. And we think, like any other Adtech company like Meta or Google or even TikTok, they all grew with M&A, right? It's almost impossible to grow without buying more growth engines, more talented people, more technologies. So we definitely look into buying more companies. At the same time, I would say, we're not looking to do a mega M&A. We're looking to buy things that will help us grow faster on what we do, and we would definitely look at companies that are already profitable. We're not going to buy a company that is not making positive EBITDA.

<<Laura Martin, Analyst, Needham and Co.>>

Okay. That's interesting. Yeah, I will be interested to see whether generative AI slows acquisitions because it replaces so many people. So when you think about growth drivers, what do you think about the mix between acquiring growth drivers versus building growth drivers from in-house? What do you think that mix is?

<<Tal Jacobson, Chief Executive Officer>>

Well, it's an interesting question. I haven't thought about it that way.

<<Laura Martin, Analyst, Needham and Co.>>

Yeah. Because you were saying CTV is an in-house.

<<Tal Jacobson, Chief Executive Officer>>

Right.

<<Laura Martin, Analyst, Needham and Co.>>

But then DOOH, out of home and retail are really Hivestack, which was an acquisition. So that sort of brought you those two pieces. So it's interesting how much of the growth is acquired versus organically growing.

<<Tal Jacobson, Chief Executive Officer>>

Right. But even CTV that it all grew in-house. If you find a great CTV technology or a very talented team, we would be happy to look at them, right? Retail, right? If we can have add-ons to our existing solutions, we would love to. At the end of the day, we're looking for companies that can help us grow way faster than what we can grow with our current solution or with our current development. So it's always about how do I boost what I can do organically. That's the only reason.

<<Laura Martin, Analyst, Needham and Co.>>

Okay. So when you think about size and scale, one of the things, we got an announcement yesterday on Netflix upfront that they were tying in directly to Google's DSP and Trade Desk's DSP. So my general framework of question is, is this a market where the big are getting bigger through these automatic tie-ins, through clear path for Magnite and OpenPath? Or I guess clear line for Magnite and OpenPath for Trade Desk? Are there increasing benefits to size and scale to sort of leave people like companies like Perion behind? Or would you push back at that? So talk about size and scale as a competitive advantage or not in the ad-tech business over the next two years?

<<Tal Jacobson, Chief Executive Officer>>

Yeah, I think, if you look at history, it's always, the biggers are going get bigger. But at the end of the day, we offer something that nobody else offers. We offer the ability for an advertiser to say, we know your consumers are constantly moving. It's impossible with Trade Desk, okay, you're going to buy Open Web, right? With Google, you're going to buy YouTube and Google.com, and with Meta, you're going to buy Facebook and Instagram, with TikTok, you're going to buy this, and with-of-home, you're going to buy this, and with Magnite, you're going to buy Netflix. That's great. But then you need an army to operate that.

Now, we tend to tell people, listen, if you think about the strategy as an advertiser or an agency, let us be the wizard behind the curtain. We're going to do the heavy lift. We're going to do the technology. We're going to do all the connectivity between the channels. We're going to do the entire thing because, guess what? Publicis and GroupM and Target and Macy's, they don't need to concentrate on technology. That's what we do. You guys concentrate on, having great deals, having discounts, having great customer experience, and that's, at the end of the day, Trade Desk or Magnite, which are great companies, they're not concentrating on those. They have their own solutions. But Trade Desk will never sell you social, right? And when you think about it, most of the inventory out there is social, right? Reddit, LinkedIn, Facebook, Pinterest, it's almost, most of the inventory is user generated and they're not doing it right. So, it's a huge Ocean and it's getting bigger and bigger. And for the advertiser, they need Perion to execute. That's what we're here.

<<Laura Martin, Analyst, Needham and Co.>>

So that raises a question I'm sure I've never asked you, because I never thought of it before. I have a couple companies that are do ad-tech companies that are doing integrations like Keystone, which you probably know from Outbrain or digital transformation is what Stagwell calls it. I guess my question is, if you want to be the tech stack for this incredibly complicated ad business, is that a SaaS kind of revenue model you guys would diversify into sort of becoming more of a backbone technology stack for some of your clients and take more of a SaaS revenue stream instead of a percent of advertising? What's your comment about that?

<<Tal Jacobson, Chief Executive Officer>>

So, I think you're absolutely right when you think about us as a technology stack. But I think for advertisers and for agencies, it's easier for them to pay us a percentage of media instead of paying us a SaaS fee. And since we're always going to be evolving into more channels and more technologies and more solutions, it's just going to be easier to say, you know what, we're just like the Adobe Cloud, right? Adobe Cloud has so many solutions. Choose whatever you want, pay for whatever you use. And that's how we think about it. Right.

If you use our solution, it works great for you, great, come back. And we're always going to pick a fee out of the media, and that's why they keep coming back. So, we're going to stay at the same model. But you're absolutely right about the way you're thinking about it.

<<Laura Martin, Analyst, Needham and Co.>>

Okay, well, I love the percent of, I love the rev share model. I vastly prefer it to SaaS myself. So I'm happy to hear you're not going to change the business model from this ad share revenue share. I didn't know it was easy for them to pay it that way, but I love it because it really does benefit from the upside cyclicality of advertising. I mean, it hurts you on the downside, but on the upside, you end up with lots of earnings over delivery. So, I'm happy you're staying with that revenue model.

Okay, so it sounds like you're going to buy things. Do you feel you have enough critical mass and size to compete? Going back to the size question and the benefits of scale, do you feel you are big enough to compete in the three year from now world, or do you need to get bought or merge with a company about your size to get bigger, faster over the next three years? What's your point of view of that?

<<Tal Jacobson, Chief Executive Officer>>

Yeah. So we definitely think we're at a stage where we're adding more and more EBITDA, so more and more cash, and we'll be able to buy more and more solutions and we're going to grow through that. So, I think we're at the right path.

<<Laura Martin, Analyst, Needham and Co.>>

And you think it sounds like your acquisitions are like retail, like things you're already in, like the retail solution or the out-of-home synergy with the retail solution. It sounds like it's a little more bottom of funnel is where you'll be looking, not connected television, which you've grown organically, but it's sort of a top of funnel idea. Do I have that right?

<<Tal Jacobson, Chief Executive Officer>>

So even through, even through CTV, we're getting performance campaigns. Right, so that's why we have pause ads, which like for cruise lines, we tend to use QR codes. And then people said, you know, the ad just go so fast until I can find my phone, the ad is over on TV. And we said, you know what? We're going to do pause ads, you're going to see the cruise line comes in, just going to float there, and you're going to have - it's going to say if you want to move through your show, just click on your remote or you can look for your phone, get the QR code and get more information on that cruise line. And we saw a great uplift in leads from that.

So we can actually use CTV ads for performance, which is great. Again, a lot of the advertisers are pushing more and more into performance. They want to see faster ROI, and that's where you have pretty much endless revenue because as long as it makes sense, as long as it gets more and more customers, then it's great. So we want to see how do we use all our channels to push even more performance.

<<Laura Martin, Analyst, Needham and Co.>>

And when we think about cost growth and margin expansion, do you have it as a strategic goal to expand margins and grow costs slower than revenue growth?

<<Tal Jacobson, Chief Executive Officer>>

Yeah, absolutely. We're thinking about how do we add more formats with higher margins and obviously with cost - as I said with AI - we want to not increase our OpEx dramatically as we grow our revenues.

<<Laura Martin, Analyst, Needham and Co.>>

So, I should expect, your shareholders should expect margin expansion. That's what you're saying? Yeah.

<<Tal Jacobson, Chief Executive Officer>>

Yes, eventually

<<Laura Martin, Analyst, Needham and Co.>>

Absolutely. That word I don't like so much, but immediately, that's a word I like.

<<Tal Jacobson, Chief Executive Officer>>

But we are working this. We’re definitely working on it.

<<Laura Martin, Analyst, Needham and Co.>>

Okay. Well the operator is telling me we are over time so it sounds like we're out of time. So thank you Tal, for your very – for your time and thank you everybody for joining us. Bye-bye. Thanks.

<<Tal Jacobson, Chief Executive Officer>>

Thank you. Bye-bye.