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Perion Network Ltd.

Third Quarter 2022 Earnings Conference Call

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CORPORATE PARTICIPANTS

Doron Gerstel, *Chief Executive Officer*

Maoz Sigron, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Eric Martinuzzi, *Lake Street Capital Markets*

Laura Martin, *Needham & Company*

Andrew Marok, *Raymond James*

Jeff Martin, *ROTH*

Mark Kelley, *Stifel*

Jason Helfstein, *Oppenheimer*

PRESENTATION

Operator

Hello, everybody, and welcome to the Perion Network Third Quarter 2022 Earnings Conference Call.

Today's conference is being recorded. The press release detailing the financial results is available on the Company's website at www.perion.com.

Before we begin, I'd like to read the following Safe Harbor statement. Today's discussion includes forward-looking statements. These statements reflect the Company's current views with respect to future events. These forward-looking statements involve known and unknown risks and uncertainties and other factors, including those discussed under the heading Risk Factors and elsewhere in the Company's annual report on Form 20-F that may cause actual results, performance or achievements to be materially different and any future results, performance or achievements anticipated or implied by these forward-looking statements.

The Company does not undertake to update any forward-looking statements to reflect future events or circumstances. As in prior quarters, the results reported today will be analyzed both on a GAAP and non-GAAP basis. While mentioning EBITDA, we will be referring to Adjusted EBITDA, we have provided a detailed reconciliation of non-GAAP measures to their comparable GAAP measures in our earnings release, which is available on our website and has been filed on Form 6-K.

Hosting the call today are Doron Gerstel, Perion's Chief Executive Officer, and Maoz Sigron, Perion's Chief Financial Officer.

I would now like to turn the call over to Doron Gerstel. Please go ahead.

Doron Gerstel

Thank you very much. Good morning, good afternoon, everyone. Thanks for joining our third quarter earnings call.

Together with me on the call is Maoz Sigron, our CFO.

Before I dive into the quarter results, let's start by looking back to the last eight quarters, taking the "rule of 40" model and applying this to our business. The rule of 40 is used by investors to see the long-term health and sustainability of the business. It can also be used by Management to make long-term predictions and decisions. In my opinion, this is the best way to assess performance through the convergent plan of revenue growth and EBITDA margin. The effect that Perion passes the hurdle of the rule of 40 is remarkable for a healthy company and has done so in the last eight quarters as you can see from the slide. There are things to be viewed through this valuation lens, even though it's applied to a high-growth scalable software company and not, to my knowledge, to our industry.

Now, I want to deal with the elephant in the room. A big elephant, which can be summarized in one question, given our quarterly results: **how can we keep outperforming our peers?** I keep being asked this question, and I think it's more relevant today than ever before. Perion is uniquely able to react and size opportunity based on current trends that might change. But what will not change is our DNA to continue identifying trends and turn them into business opportunities.

Looking at the last eight quarters, our ability to exceed the rule of 40 is not a series of anomaly or a one-off success. Quite the opposite, we are outperforming the industry because we are built on the fundamental recognition that ad tech must be able to respond, underlying response to the trend with ability and agility.

Let's look at the current four trends that we see, and more importantly, how we're able to react to those trends. Advertisers are looking for ways to increase customer engagement to enhance their brand equity, especially these days, moving away from standard ad units. Those that are not investing on brand equity in this difficult economic time, it's proven that they will pay the price. What we will show later on with few use cases is to what extent our high-impact suite for display and CTV, not just keep customer engagement really high, but also allows us to keep our margin really high.

The next one, advertising is shifting direct response budgets from social channels to search and advertising. Our intent to action solution known for search advertising is doing exceptionally well and will bring some figures how this is changing in terms of advertising allocation budget.

Third, advertisers recognize that consumers are voting for brands that protect their privacy. Our reaction, SORT™, is gaining huge momentum, and we will talk about SORT™ and the huge momentum that we experienced in the third quarter.

Last, but not least, advertisers are undergoing margin pressure due to rapid rises in cost of goods. Our iHUB enable us to absorb pressure and maintain our high margin, and the effect of a matter, we increased our margin this quarter.

Diving into our revenue. Our revenue growth demonstrates our ability to continue shifting our business where media budgets are trending. For example, the growth of privacy trend. The growing demand for high-impact CTV, the need for retailers transform their media business, and the fact that advertisers targeting the Z Generation in console game solution that I demonstrated in our last earnings call. These are all reflected in this performance.

These shifts are likely to increase, not decrease in velocity. Therefore, ability to react becomes mandatory to continue outperforming the industry. From an EBITDA standpoint, our iHUB (Intelligent Hub) is a great example of technology innovation that serve our clients and our own financial results, balancing supply and demand yields better efficiency, both for our clients and for Perion.

We also benefit from operational efficiency, utilizing shared resources for all advertising solutions. We believe that the pressure on advertising inventory due to the macroeconomic environment will reinforce our central control system, I have optimizing demand and supply. Media margin increased to 41% compared to 39% in the third quarter last year.

From an advertising revenue standpoint, as I point out, the trend shows the multiple ways in which advertisers are seeking to build brand recognition, make an impact while respecting privacy. The growth of video driven by our Vidazoo acquisition that happened last year demonstrate our ability to identify the right acquisition target and empower entrepreneurs to continue to grow their business.

There are moments when consumer wants to lean into a small stream, and others when they want to lean back and take it in the immersive experience of a large screen. Therefore, our ability to provide cross synchronization is a key factor to capture attention and provide higher return on ad spend to our clients.

I showed you this slide when we made the Vidazoo acquisition. The model has served us well by attracting publishers to have an end-to-end video platform that eliminates the friction of multiple vendors. As you can see, we have nearly doubled the number of new publishers using Vidazoo platform and achieved robust growth in a new spend at the same time. We believe Vidazoo will continue to grow.

I want to take a moment to dig into examples which I think you will find very compelling. It demonstrates the power of two of our core competencies working together. On one hand, the high-impact ad unit, and on the other hand, targeted CTV. We ran a test and this test, we measure effectiveness of conventional standard CTV ad units versus our high-impact CTV suite, as you can see it on the screen.

We did it by tracking the user that landed on clients' website in both cases: as you can see, the high-impact units achieved a 400% increase in site visits and 400% higher conversion rate. Results like this are why advertiser will pay a premium for our high-impact unit. Premium means $32 CPM compared to higher lower teens when it comes to standard ad. That by itself drives another very important KPI for us, which is average deal size, which increased by 10% to $117,000.

High-priced CPM help us maintain and grow our margin. The need for high-impact will grow, since advertisers are constantly looking to increase consumer attention.

We are continually innovating new ways to measure the effectiveness of our high-impact units. Today I'm pleased to unveil our new attention trade measurement. It's a revolutionary way to measure consumer engagement, as you can see on the slide, with our high-impact unity in the real time, let me put this technology innovation in perspective. You may know that for decades the traditional way to measure consumer engagement with an ad unit has been iTrack (phon) that works by following consumer eyes as they interact with an ad unit to measure effectiveness. But our researchers and data scientists were not satisfied with the one dimensional model of measuring attention.

Working with our partner, System 1, we developed a model that includes sound along with sites. We measure the true real-time analysis, then literally place its attention and display as consumer react. This will provide our advertisers with a future validation of their efficacy of our high-impact units and will keep justifying our pricing model, and hence our margin.

We have a number of initiatives inside Perion which provide us with a pipeline of scalable revenue opportunities. One of them is our retail media solution. You probably know that many retailers are building their own media platform as the way to generate value from their first-party data, build and activate loyalty, and compete against the giants like Amazon and Walmart. The breakthrough for us is that this solution enable us to shift our transactional business to an always-on spend which provides their predictability and sustainability we’re always looking for. The excitement of this business is that we're not waiting for the IO, we're not waiting for the campaign; this is a constant month-by-month spend over a course of the year.

As you can see by the prestiges logos on the slide, this is being rapidly adopted by some of the America's most successful retailers. While the revenue contribution is still modest, the growth potential, even the TAM, is huge.

SORT™ is the powerful technology for protecting privacy without storing any personal data. Our SORT™ business has been rapidly growing as a result of privacy trends I mentioned before. In fact, as you may know, the FTC recently requested commentary on their proposed privacy regulation, and Perion submitted a detailed perspective. I'll be happy to share with you our submission. A size of our vision that the future of digital advertising but acknowledge consumer privacy, SORT™ function is effective flywheel that gets even more valuable and more effective as more data flows into it. No matter which metric you looked at versus cookies, versus Google benchmark, versus (inaudible), SORT™ comes out on top.

Lastly, take a look at the quote for Mercedes, they believe privacy is so important that they want to be associated with it and guess what, without compromising on the results. So you're able to see the Mercedes campaign here with 58% CTR lifting SORT™ versus contextual and 53% CTR lift SORT™ versus third party.

Going back to the trend I've mentioned earlier today and our ability to react to them having a central hub is pivotal to increase our profitability and future growth. We cannot predict what will happen on either side of the open web, demand or supply. Those are market forces, but we can be confident that by being in the center and having a two-way visibility, we can optimize the benefits for us and for our clients.

In its first year, iHUB contributes 40% of our year-over-year EBITDA growth, and more importantly, our ability to capture signal from all channel to a central hub, as you can see it on your screen and analyze them is the main factor behind SORT™ superior performance over other conventional targeting methods. The trends where advertiser shift budgets towards direct response continue. Pay attention to what Philipp Schindler, Chief Business Officer of Google, said recently. I will read it for all of us. "In challenging times like this, advertiser are carefully evaluating the effectiveness of their budget. Search advertising tend to do relatively well in such environment, given its strong visibility and focus on delivering ROI. It's also well suited to quickly adjust to changes in consumer behavior."

Us being a strategic partner of Microsoft Bing definitely enjoy this trend. On top of this, the latest change of Apple privacy and Facebook reviews attribution window are causing advertisers to shift budget to search advertising. We are evaluating this shift on both ends. Advertiser looking to pay more on their ads, reflecting a 42% increase in RPM, and hiring intent of searcher increased their CTR ratio by 27%.

With that, I will turn the call to Maoz.

Maoz.

Maoz Sigron

Thank you, Doron.

Good afternoon and good morning to those of you joining us from the U.S. I am happy to be here today to present Perion strong results for the third quarter of 2022.

As you can see, Perion is performing extremely well. We are overperforming our industry in each of the financial networks, consistently improving our results during the last two years despite the global macroeconomic challenges and market volatility. The ad tech industry is not immune to the challenges. We are navigating our way between the market shift thanks to our diversification strategy, our ability to execute, our agile business model, and our innovative solutions.

Giving the sense of our sustainable and predictable business model, which give us good visibility and the actions we have taken to reduce costs and penetrate new fast-growing market segments, we are updating our guidance and are positive about next year. Let's look at the key financial achievements this quarter, reflecting the strength of our business model and our ability to execute our strategy.

Revenue of $158.6 million, reflecting 31% year-over-year growth, the highest quarterly revenue since 2014. Adjusted EBITDA of $33 million, 21% of revenue compared with 15% last year, reflecting 87% year-over-year growth. GAAP net income of $25.6 million, 141% year-over-year growth, the highest quarterly net income since 2014. Non-GAAP diluted earnings per share of $0.61, reflecting 53% year-over-year growth.

Turning now to the quarterly results in more detail.

The third quarter revenue was $158.6 million, an increase of 31% year-over-year. The strong continued revenue growth reflected a CAGR of 38%. Display advertising revenue increased by 26% year-over-year to $86.8 million, 55% of total revenue. Market adoption of our holistic video platform solution continued to rise. Video revenue more than tripled year-over-year, representing 44% of display advertising revenue. The number of video platform publisher increased by 88% year-over-year from 34% to 64%, and the revenue from retained video platform publishers increased by 67% year-over-year.

Perion CTV is also gaining traction, growing by 134% year-over-year, representing 9% of total display advertising revenue. Our unique privacy fair SORT™ solution is seeing more interest from advertisers and agencies who are becoming more aware of the importance of consumer privacy. The number of SORT™ customers rose to 140 this quarter, 11% increase quarter-over-quarter. SORT™ customer spending increased by 25% during that period, now representing 17% of display advertising revenue.

The third quarter sales advertising revenue increased by 38% year-over-year to $71.8 million, in line with the recent trend of advertiser favoring our intent direct respond advertising. The year-over-year increase in revenue was driven by a 42% increase in RPM and a 60% increase in publishers. The 16.9 million daily searches on average, reflects an increase of 15% year-over-year.

Let's look on the revenue mix, which reflects our strategic business diversification.

The third quarter display advertising revenue accounted for 55% of the total revenue compared with 57% in 2021, with search advertising representing 45% of revenue compared with 43% in 2021. We continue to expand into fast-growing video, CTV and retail business, which now accounted for 57% of display advertising compared with 28% in Q3 2021. We are benefiting from the current shift to intend search advertising.

Our media margin continued to improve year-over-year. Revenue, excluding TAC, was $65 million or 41% of revenue compared with $47.4 million in the third quarter of 2021, or 39% of revenue. Over the last year's we have created the intelligence app with several other processes and automation by leveraging data and buying power in order to control and improve cadence, media buying system. This has resulted in better financial term that translate into better selling power, which is reflected in our financial results and more specifically in the media margin.

Third quarter Opex and COGS amounted to $31.7 million or 20% of revenue compared with $33.1 million or 27% of revenue last year. This impressive achievement reflects the execution of our business strategy. Perion DNA and state of mind is growing the business while keeping and improving efficiency. Over the last few years, we invested in media and technology, automation and offshoring part of our business. We have improved budget control and are consistently looking for new initiatives for Perion efficiency.

On a GAAP basis, net income was $25.6 million or $0.53 per diluted share, an increase of 141% compared with $10.6 million or $0.28 per diluted share in the third quarter of 2021. On a non-GAAP basis, net income was $29.9 million or $0.61 per diluted share, an increase of 94% compared with $15.4 million or $0.40 per diluted share in the third quarter of 2021.

Adjusted EBITDA of $33 million, reflecting 94% year-over-year growth, Adjusted EBITDA margin of 21% compared with 15% last year. Adjusted EBITDA to revenue, excluding TAC, increased from 37% in the third quarter of 2021 to 51% during the third quarter of 2022.

Our excellent financial performance is not limited to P&L only. Operating cash flow was $34.7 million compared with $14.2 million in the third quarter of 2021, reflecting 145% year-over-year growth.

As of September 30, 2022, we had cash, cash equivalents and short-term bank deposits of $390 million compared with $322 million as of December 31, 2021. We are continuously generating positive cash flow. The $390 million in cash will serve as a valuable resource to execute both organic and inorganic growth opportunities.

This concludes my financial overview.

Doron, please go ahead.

Doron Gerstel

Okay.

Given our strong performance, in our sustainable and predictable business model and the good visibility into the fourth quarter, we're increasing our guidance for 2022 substantially. More specific, we are calling for $630 million to $640 million in revenue by the end of the year and at least $120 million of EBITDA. That represents 72% year-over-year on the EBITDA growth or 33% year-over-year growth on the revenue side.

Another note here is that our CAGR on the revenue between '20 to 2022 is 39%, and the CAGR on the EBITDA on these three years is 91%.

Ending note. Let me go back to how I started this presentation. Since I became CEO in April of 2017, my mission has been to build the Company of the future for the future. That means the Company the would be strategically diverse and also lightweight and fluent. A future of volatility where new trends would emerge. Others would become less relevant, and we're a successful Company needed to shorten the reaction cycle, or it would be outlined by circumstances beyond its control.

We've built a Company that makes the transact trend, and that's why we are outperforming the market and can continue to do so. In a year, those four trends may change, but it doesn't matter to Perion because we will be able to react immediately to the new trends, gain market share in a high profitability while driving client satisfaction.

I'd like to close this call by thanking my team, because without their ability and agility, we would not be where we are today. And together, we will continue achieving what we do next. Thanks so much.

With that, let's open the line for Q&A.

Operator

Thank you. Our first questions come from the line of Eric Martinuzzi with Lake Street Capital Markets. Please proceed with your questions.

Eric Martinuzzi

Yes. Congratulations on the strong quarter and the good outlook.

Just curious to know, I know you released your prelim Q3 results on October 5. What did you learn during the month of October as far as the trends in the industry different maybe than what you saw in Q3?

Doron Gerstel

I don't think that there are changes in October, but what we're able to see these days is that this is going to be definitely a strong holiday season. Definitely, when it comes to demand for our advertiser on all channels.

Eric Martinuzzi

Okay. As far as your competitors go and just other players in digital marketing, there's definitely been a dramatic deceleration you went through some of the reasons why Perion has not experienced the same decelerations. I know you're not giving guidance on 2023, but the organic growth that you guided to for Q4, I believe we're in the neighborhood of high 20%. What's the sustainability of that beyond Q4?

Doron Gerstel

I must say that that was the heart of our presentation and our ability to keep growing the way we did in the last eight quarters, I think that diversification is definitely something which is important, but our ability to identify those trends and react quickly is giving us a lot of confidence on our ability to maintain and grow our business. The foundation is definitely there.

The foundation from the hub perspective is giving a huge cost leverage and the foundation of our ability to go after new markets, I think that what we are able to achieve with resellers is definitely evident, so retail marketing is one of this. We are investing a lot on developing new high-impact formats, mainly for the CTV.

We have advanced conversation with Microsoft advertising. As far as our ability to leverage our great reputation from the search part of the business into Zender and promote IQ, the two acquisitions that Microsoft advertising, this is all part of 2023.

We are quite optimistic. We are aware of what is going around. It makes us that we need to really work harder than how we performed in the past.

Eric Martinuzzi

Okay. Then lastly, you talked about taking the share in social. Is that anecdotal color that you're getting? I mean, or do you have a view into—your customers are telling you, hey, we're pulling this much out of social and we're shifting it over to search, specifically on that direct response budget shift?

Doron Gerstel

There are two, I think, two major events that happened on social. One has to do with iOS 14 that was kind of a year ago, and second, the fact that the attribution window in Facebook is being reduced from 28 days to seven days. Those are mega events; when it comes to advertisers, they definitely view the effectiveness of social advertising from a targeted set.

We definitely see a shift from social into search because there is nothing to compare to the intent of the consumer that you're able to target in search advertising. We see a rise there. As an evidence of it, we shared the RPM increase and the CTR. This all reflected the advertisers will need to pay more to have their ad associated with the keywords this year or this time compared to last year. If the CTR shows that there are more qualified in respect to high-intent consumer that will be exposed to those ads and being reflected on the CTR.

All in all, definitely a shift and I think it was a part of what we keep saying for a long time that Perion is in a very interesting position that we are able to capitalize on those shifts that is happening, and this is the nature of this industry, because from the eyes of the Chief Digital Officer that need to allocate its budget wisely among those three main pillars. They shift budget because of what's happened. The question is how we will be victim of being a point solution that's not able to do anything when there is different trends, or you are able to divert your offerings and capitalize on those trends. I'm glad that we are on the latter than the former.

Eric Martinuzzi

I am glad as that as well. Thank you for taking my questions.

Doron Gerstel

Thank you, Martz.

Operator

Thank you. Our next questions come from the line of Laura Martin with Needham & Company. Please proceed with your questions.

Laura Martin

Hi, can you hear me okay?

Doron Gerstel

Yes, we can hear you. Hi, Laura.

Laura Martin

Hi. Great numbers. Wow, what a performance, congratulations.

I guess my first question is, as you think about cost next year, one of the things I'm curious about is we have Twitter laying off half of their workforce and Meta today laying off 13% of their workforce. I'm wondering if that—my first question is, does that give you opportunities to pick up some excellent engineers and maybe build your cost but really upgrade and add to your talent base because of some of these talented people getting laid off in the sort of digital ad industry?

Doron Gerstel

Right on, our HR is already all over. They are using LinkedIn, and they are using any other resources because there are some great engineers there, and we have great—Perion is a small community, and I'm glad that Facebook has a huge lay out here. Some of them are unfortunately looking for a new home. I think that we have a huge data scientist team that is working on our iHUB. They're hearing me now that's definitely a good place for them. But we are seeing if there's a great opportunity.

When it comes to Twitter, I must say that there is a very interesting thing that we notice that has to do with privacy, nothing from the employment, and there are some hesitation from advertisers. It's kind of they're on the fence. They're not sure yet what is going on, and we see it immediately when they are shifting budget to other channels. I don't know how long this trend will continue, but I can tell you that advertiser acting quite quickly when they are shifting from channel or within channel, that’s something that we noticed initially after the announcement of the Twitter-Musk acquisition.

Laura Martin

Then on interactive ad units, I'm wondering how important you feel that that is a driver to your 2023 revenue?

Doron Gerstel

You're talking about the interactive ad units? Again, Laura?

Laura Martin

Can you hear me now or no?

Doron Gerstel

Now I can hear you, but I didn't hear the question well. Can you repeat?

Laura Martin

Yes. I was asking about how important our interactive ad units to drive revenue in 2023.

Doron Gerstel

Very good. Interactive ad units, especially on the CTV side, is part of what we call high-impact suite. It is not the pivot of it; it's a feature. There are some that like it, some not. I can tell you that I talked a bit about the laid back type of experience. It is really interesting to know to what extent when you were laid back. The whole performance CTV is very much under kind of the question mark that the interactive forms very well as a way to interact with your TV, make an action. I must say that at this point, the majority of our advertiser is looking at it that the viewer is more passive than we were kind of hoping. It is there, but it's not more than, let's say, 10% to 15% of the overall CTV spend.

Laura Martin

Very helpful. Thank you very much. Congratulations on the great numbers.

Doron Gerstel

Thank you.

Operator

Thank you. Our next questions come from the line of Andrew Marok with Raymond James. Please proceed with your questions.

Andrew Marok

Hi, thanks for taking my questions.

The trends on SORT™ look really encouraging. I guess, what does it take to get SORT™ more involved in more advertisers campaigns? Is it really just an awareness issue right now?

Then secondly, kind of separately, on the search market. I guess, could we drill down a little bit there because your search business is growing well in excess of the total search market. Just to get a little sense of some of the drivers there. We understand the shift towards search in a pressured macro environment, but what particularly are you guys doing well? Thank you.

Doron Gerstel

Great. Thank you.

First on SORT™. There are two drivers behind SORT™, which makes it quite important. I use the word flywheel, but we truly believe that that's the flywheel. First and foremost, from the technology and data standpoint, more SORT™ campaign we're doing the better we are. That's a very important figure. I'm happy that we are able to perform well.

Now, keep in mind that there are two forces here that's pushing SORT™. One is coming from advertisers that they realize that consumer prefer brand that protect their privacy. It's part of a bigger movement, which is the ESG movement and when we're dealing with a premium advertiser, that's a very important argument.

However, at this point, with all the respect to privacy, they said, "Well, we love what you're doing, but we don't want to compromise on performance." All of them with no exception, and we say this was one of them that expecting us to do an ABC benchmark, A, SORT™, B, third-party, and C, contextual targeting in order to benchmark the performance in SORT™.

The other thing which is very interesting is what's happening from a legislation standpoint. That's a very, very interesting movement, even though it will take time, and we have a feeling that this train definitely left the station. That's what makes SORT™ moving. Now to your question, we are working as we speak right now on SORT™ as the service. In other words, currently, SORT™ is being used at Perion with no exception. Our intention is to go beyond Perion and have it as a service. The service that we were able to work with publishers, other DSPs and make it a communion. So far, we've just completed a very, very cautious task.

Keep in mind that we need to be at the very rigid response time, which is less than two milliseconds on this service. It's quite a technology challenge. But so far, definitely, so good, there is a great market reaction to it. For product market stand, definitely, we'll check this box. Then all in all, we are very, very confident on our ability to provide the service, even in the first half of next year.

Now, when it comes to the second question that has to do with what we are doing better when it come to search advertise. What we are doing better very much has to do with our partners, Microsoft advertising. Microsoft identified that there is the time, and they are putting a lot of effort behind it; it has to do with new products that we launched in this quarter, it's called Microsoft Trends.

All in all, there is a huge effort from their side, and what they realized is what's happening with Google or other search, so they're expanding to new countries, they're putting more resources on product, and that's reflected on our number.

Andrew Marok

Great. Thank you.

Doron Gerstel

You're welcome.

Operator

Thank you. Our next questions come from the line of Jeff Martin with ROTH. Please proceed with your questions.

Jeff Martin

Great. Can you hear me?

Doron Gerstel

Yes. Hi, Jeff.

Jeff Martin

Great. Hi. Congrats on a wonderful quarter.

I wanted to drill down a little bit more on the publisher growth within search, up 60% year-over-year. You're obviously expanding into new countries.

I was curious if there's things beyond that, if the high-impact capabilities within search are attracting publishers. Is there anything in particular that is driving that publisher growth? And what your outlook for additional increase in publisher additions over the next 12 to 18 months looks like.

Doron Gerstel

Just a small correction. The high-impact has to be with the display, and search is nothing to do with the high-impact suite that we're doing. But to your questions when it comes to publisher, definitely with the new products that we're launching, we're looking about two parameters. The increase in spend, the existing publisher is doing, and the other one, our ability to attract net new publishers, and that's going very well in both ends.

The fact that we are become bigger and bigger gives us also a better Webshare rate, which we are able to share with our publisher, and makes us even more competitive compared to other partners. That gives us an advantage to attract even more publisher.

Jeff Martin

Great. Then just I was curious if you could give some insight into the potential to continue to grow the average campaign size or average client spend I think, $117,000 in the quarter, and that's up nicely year-over-year. What are some of the factors as we head into 2023 that will enable that to continue to grow?

Doron Gerstel

Absolutely. The main factor, of course, it has to do with the units. The whole notion of going into an high-impact imposed to standard is you spend more. Yes, it all needs to be translated to a higher return on net spend, quite an effort to educate our customers. Don't measure us based on what you spend; measure us based on what you gain out of this campaign, even though you pay premium. And I mentioned the $32 CPM, which is a very, very high number. It has to do with—continue with the high-impact. That's one.

Second, it's very important for us to come with this campaign with multiple screens. I mentioned how important it to having one campaign, the ability to want to multiple screen and ability to synchronize between those screens because it's quite different on price, and it's very effective because the consumer is changing screen in its way to work, at work, at office and you name it. That's another factor.

While we're able to have more screens in a single campaign, that increased dramatically the spend. Now it fits very well, the agency and the brands that are looking more than ever to minimize the number of vendors. When you're coming with holistic solutions that cover all their needs on multiple screens, they are willing to give you more and more business. It's not secret to say that getting $117,000 average deal IO, it's the same effort in getting a name from a self stand point it's the same effort.

Everything is the same effort, because creative is being done, and activation in being done and you need to set the plumbing and you need to do reporting and we need to do everything, that's a net, net, net margin that we're able to get.

This is one of the—I think the most important parameter that we should looked at. We are doing tremendous efforts to increase the spend, but at the same time, it needs to be translated to increase value for the perception of the customer. Otherwise, it cannot be done.

Jeff Martin

Great. Then last question for me, if I could. You've got a pretty sizable cash flow at this point. Could you give us a look under the hood at what M&A might look like in 2023? Are you planning on continuing down that strategic path?

Doron Gerstel

Yes. First of all, I must say that I answered this question beginning of 2022. Honestly, I was kind of thinking that we're able to do. If I remember, I said one and maybe two reasons. The situation is a bit different. I think that we all understand that we worked really hard to be in this position where we have now close to $400 million of net cash and no debt. It gives us a wonderful position.

We are looking for accretive specific targets that we identified. I can tell you that we are definitely focusing on it. The intention, I know I need to be more careful than last year. The intention is definitely doing it in 2023. That's the intention. There are some great opportunities in there for us, and I'm very optimistic.

Jeff Martin

Okay. Thank you.

Doron Gerstel

Thanks.

Operator

Thank you. Our next questions come from the line of Mark Kelley with Stifel. Please proceed with your questions.

Mark Kelley

Great. Thank you very much.

I wanted to ask you about—you called out a strong holiday season as your expectation for this year. Criteo is just one company in particular that called out a lack of an early holiday ramp in ad spend. It sounds like maybe you're not seeing that. I guess, is the shape of the fourth quarter playing out as you would typically expect so far? That's my first question. The second one is, and if you answered this, I apologize, but can you please give us the pro forma growth rate for 3Q with Vidazoo?

Doron Gerstel

Very good. As far as the Q4, so far, November 9, we're definitely—which we're almost in the midst of the quarter, we are definitely not seeing any slowdown. Plan is there were before. It may be changing mix between the different channels, yes, that's definitely something which we couldn't project, but as I mentioned before, the fact that we are diverse, it gives us a way to capitalize on these changes and they overall looks as we planned.

Mark Kelley

Perfect. Thank you. Then on the pro forma growth for 3Q, if you could give us that, that would be great.

Maoz Sigron

Yes. Hi, Mark, thank you for the question.

We are with pro forma above 15% for Q3. Again, this is, as mentioned during the last call, it's difficult for us to measure the exact number due to the synergy that we have between Vidazoo and the rest of the business unit, which is good. But yes, this is more or less the number. Again, as mentioned during the last call, part of the IR benefit is definitely for Vidazoo that joined and contribute a lot to the bottom line to the EBITDA.

Mark Kelley

All right. Thank you. Then 15%: one, five, right? Just to make sure.

Maoz Sigron

(Inaudible).

Mark Kelley

Okay. Thank you very much.

Operator

Thank you. Our next questions come from the line of Jason Helfstein with Oppenheimer. Please proceed with your questions.

Jason Helfstein

I'll ask one. It's very clear as earnings are playing out, obviously, a lot this morning last night that right now, like being a demand-side platform is definitely a more attractive ways to be because you control effectively like the buying decision as opposed to accepting the bids. In addition, being multi-platform is increasingly important. Then you're also seeing significant benefit by having supply-side capabilities on the margin and control inventory. So far, as we've seen companies scale two side of the marketplaces, it's been incredibly difficult. Talk about kind of where you see the kind of plan from here kind of both organically and through M&A continuing to be a two-sided marketplace, which is clearly working in your favor. Thank you.

Doron Gerstel

First of all, Jason, right now, I mean, that's a good description, I think, of why we're able to perform quarter-after-quarter. I can tell you that from organic standpoint, there is a lot that we can grow. I mentioned a few areas. On the display side, we're definitely putting a lot of effort on retail media. I think that definitely, the customers that we're talking with are very much behind on their media business, and they all want to be where Amazon and Walmart and others are today. They have the data. That's the point. The challenge for us is to take them from where they are today to where they need to be, and I'm very happy that we're able to do it even in an only-zone fashion.

It's only the start, but that's definitely an area that we are planning to invest more. That's from a vertical perspective. When it comes to the video, there is quite a very interesting thing that's happening also that those publishers that are joining are very much putting all their video business on our platform, which gives us another very interesting what we call stickiness kind of business, the cost of transitioning or the cost of switching is so high, and we're always looking for those kinds of things that gives us more stability and more predictability on our business. I think that there is a great way organically to grow the business, as I mentioned in the call.

In terms of the acquisition, yes, we identified two areas where we want—the CTV is definitely remain high. We truly believe that there are some very, very interesting companies in this domain. We're going after those companies. Where we are today and what we want to accomplish, this needs to be a company that definitely represents a leadership position in the domain, not less than that. It's not going to be a technology acquisition. It's definitely a business acquisition, which have prominent first-tier agencies and customer. This is what we put and this is the screening that we're doing at this time, and there are some interesting opportunities there.

Other area which is something that we start working and start evaluating it has to do with digital out of home. We think that this is really interesting, especially when we are looking about convergence of digital out of home in retail. Having screens in the retail is very interesting. At least this is something that we are hearing from our retail business. Those are the two areas that at this point we're looking at.

Jason Helfstein

(Audio interference).

Doron Gerstel

Hello? Hello?

Jason Helfstein

I'm okay, have got no other question.

Doron Gerstel

Thank you. (Inaudible).

Operator.

Operator

Thank you. There are no further questions at this time. So I'll hand the call back over to you for any closing comments.

Doron Gerstel

Very good. All right. Guys, thank you very much for joining, and see you next time. Thanks again. Bye, bye.

Maoz Sigron

Bye, bye.

Doron Gerstel

Bye, bye.

Operator

Thank you. This does end today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and enjoy the rest of your day.