



Perion

Third Quarter 2023 Earnings Conference Call

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CORPORATE PARTICIPANTS

Tal Jacobson, *Chief Executive Officer*

Maoz Sigron, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Laura Martin, *Needham & Co.*

Andrew Marok, *Raymond James*

Mark Kelley, *Stifel*

Jason Helfstein, *Oppenheimer*

Jeff Martin, *Roth Capital*

Max Michaelis, *Lake Street Capital*

PRESENTATION

Operator

Hello everybody, and welcome to the Perion Network Third Quarter 2023 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, 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 also been filed on Form 6-K.

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

I would now like to turn the call over to Tal Jacobson. Please go ahead.

Tal Jacobson

Hello everyone and welcome to Perion's third quarter of 2023 earnings. Joining me today is Moaz Sigron, our CFO.

I would like to begin by extending our most profound sympathy and support to all our employees and their families and our friends and colleagues in Israel who are facing challenging times. As I recently said in an interview on CNBC, Israelis are the most resilient people on earth. Under extreme situations of uncertainty, Israelis thrive, come together and overcome any difficulties. Hence, Perion's operations and business activities remain strong.

Perion is a global company, predominantly serving the U.S. market, where the vast majority of our revenue is generated. The huge support we are receiving, including from many of you on this call, is so appreciated. Perion is built on the hard work and execution abilities of our amazing team and on the long-lasting support and belief of our investors. I want to thank you all for being an integral part of our journey. We will continue to serve our country while delivering value to our clients, partners and stakeholders.

The headline news of the third quarter of 2023 is similar to every quarter over the last three years. Our financial results reflect Perion's ability to deliver continuous profitable growth, even under macroeconomic headwinds. Our profitability remains among the highest in the industry.

The three main factors that enabled another quarter of growth and strong profitability are Perion's diversified business model, focus on technology and innovation, and disciplined execution.

We achieved growth in key financial parameters, including year-over-year growth in Revenue, Contribution ex-TAC and Adjusted EBITDA. This impressive double-digit growth represents a continuous trend that has been ongoing for the past three years. Our ability to execute and deliver consistent profitable growth proves, once again, that our business model is effective and strong.

Perion is a technology company. Two of our strongest growth drivers are Retail Media and CTV, and they are expected to drive significant growth going forward. Our year-to-date CTV revenue has grown an impressive 48% over the same period last year, well ahead of the market. Our diversified portfolio allows us to be agile and shift our solutions to align with our advertisers' budget allocation trends. During the writers' strike, CTV budgets shifted to live events versus on-demand content. We at Perion were able to capitalize on this and move our CTV solutions to meet this demand.

Our Retail Media solutions are also showing tremendous growth with year-to-year revenue up 81% over the same period last year, and dramatically ahead of expected U.S. Retail Media growth of less than 20% in 2023. At the beginning of 2023, we expected our Retail Media revenue to reach an aggressive goal of \$30 million by the end of the year. I'm happy to share that we've already achieved our initial annual goal. These strong results across both CTV and Retail are due to our ability to decipher trends ahead of time and move fast to capture those opportunities.

As a technology-forward company, we harness technology to effectively penetrate new markets and create high margin growth engines. Our growth is driven by our deep commitment to technological innovation. We offer many unique solutions both on the supply and the demand side of the market. We at Perion offer our advertisers a suite of technological multi-channel solutions. Our solutions are optimized to achieve the highest business results for our advertisers, all under one roof.

Firstly, we generate for our advertisers high impact, creative formats for all media channels. Our goal is to connect advertisers with their consumers at every touch point in an easy and efficient manner. Our creatives are based on advanced data and AI capabilities to personalize the right message to the right audience. Using our SORT technology, we target audience segmentation across channels. Our ads and campaigns are distributed across premium publishers and channels such as CTV, display, video, social, digital out-of-home, and audio.

The final and very important piece of this puzzle is our ability to measure the impact of each campaign at each channel and optimize based on the results.

Live CTV is one of the fastest growing, high impact advertising solutions. Here you can see our immersive ad unit integrated into live CTV sports programming, at the peak of excitement and the highest attention level. Here, we created an ad for AT&T that ran during a FIFA soccer game. The algorithm identifies a lull in the action, and at that exact moment, it places the ad alongside the live event. This powerful placement solves commercial avoidance, and also known as “bathroom breaks”.

Another great example of the high impact live CTV is our sponsorship with home runs, the most exciting moment in baseball. Here, you can see the “stay live” experience we created for the New York Yankees for both CTV and OTT. As FanDuel delivers its message at the right moment during the broadcast, viewers’ attention to the thrill of the home run extends to the commercial message itself. By turning an un-missable moment into an un-missable advertising opportunity, we help our advertisers break through the clutter.

This ability to command attention has helped Perion to attract world-class advertisers from a large range of categories, from AT&T to Mazda, Mercedes, Kroger, and many others.

I’m happy to announce WAVE, our new advertising solution for dynamic audio ads driven by generative AI. WAVE stands for Waveform Audio Voice Engine. WAVE generates hundreds of thousands of audio ads based on retail data of product and promotion. This groundbreaking solution delivers tailored audio messages to listeners, adapting in real time to various factors, including context, behavioral, geographic, demographics and others. Utilizing sophisticated algorithms of artificial intelligence, WAVE generates audio ads that create a personal, immersive audio experience, enhancing engagement and impact.

We at Perion are now present with sight, sound and motion. We combine technology and creativity to allow retailers to deliver a deep, meaningful, and full sensory consumer experience.

The U.S. digital audio ad market is rapidly expanding. Advertising budgets are projected to reach an impressive figure of nearly \$6.8 billion in 2023. In this growing market, WAVE, our new solution, is designed to help advertisers offer enhanced personalization and engagement at each touch point on the consumer journey.

One of the first WAVE adopters is Albertsons, the second largest supermarket chain in the U.S. Albertsons has seamlessly integrated WAVE into several successful campaigns and is now scaling the WAVE solution. Here is an example of a WAVE technology in action:

(Audio)

Our results are strong. Our operational discipline and innovative technology allow a business model that is unique, competitive and high performing. We are intensely reviewing M&A opportunities that could further accelerate growth and diversification. Those opportunities may include areas or technologies that complement our existing portfolio.

With that, I will hand over the stage to Moaz to discuss the financial results in more detail.

Maaz Sigron

Thank you, Tal. Good afternoon and good morning to those of you joining us from the U.S. It is no secret that Israel is experiencing challenging times. Despite the war situation, it is very important for me to share with you that almost 100% of Perion's revenue is generated outside of Israel and only 40% of our cash and cash equivalents is held in Israel. At the same time, we are monitoring the situation closely and are diversifying our cash allocation to mitigate any risks. To be clear, the conflict has not and is not expected to significantly impact our business or financial strength.

Turning to the business, in the face of the continuous macroeconomic state of affairs, in the third quarter we delivered strong financial results with continued profitable growth. Once again, we demonstrated the power and the resilience of our agile and diversified business model. Let's review the financial highlights for the third quarter.

Revenue increased by 17% year-over-year to \$185.3 million. Contribution excluding TAC increased by 90% year-over-year to \$77.3 million, delivering a 42% margin. Adjusted EBITDA increased by 29% year-over-year to \$42.7 million. GAAP net income increased by 28% year-over-year to \$32.8 million, and non-GAAP diluted earnings per share increased by 38% year-over-year to \$0.84 per diluted share.

Let's review the financial results in more detail. The revenue for the third quarter was \$185.3 million, an increase of 17% year-over-year. Our strong and consistent growth resulted in a two-year CAGR of 24%. These results demonstrate that our ability to execute on our diversification strategy, combined with innovation and business agility, drives strong results despite the volatility in the ad tech industry and the macroeconomic headwinds.

Display advertising revenue for the third quarter increased by 14% year-over-year to \$99.2 million, accounting for 54% of total revenue. Over the last three years, we have diversified our display advertising business, adding new components to our portfolio and revenue stream, such as CTV and Retail Media, to become a one-stop shop platform for advertisers.

Our Retail Media revenue more than doubled, increasing by 112% year-over-year, and accounting for 13% of display advertising revenue, compared with 7% in the same period last year. These results were driven by new customers and increased spending of existing customers. We are experiencing strong and rapid growth in Retail Media. As Tal mentioned, we will exceed our expectation for 2023.

Our CTV business continued to expand, growing 39% year-over-year, representing 8% of Display Advertising revenue, compared with 7% last year. Video revenue decreased by 16% year-over-year due to our decision to shift part of our inventory from video to display to gain higher profit.

Our Search business continued to be a driver of our sustained performance. Search Advertising revenue increased by 20% year-over-year while the U.S. Search Advertising spending is expected to grow by 8.3% in 2023, according to eMarketer. During the quarter, Average Daily Searches increase by 86% over the same period last year, and the number of publishers grew by 16% year-over-year.

Our third quarter Media Margin continued to improve, increasing to 42% compared with 41% in the third quarter last year, and 39% in 2021. This continuous improvement is attributable to our focus on improved product mix and media buying optimization through our platform.

In addition to our top line growth, especially given the macroeconomic headwinds, we are very proud of our ability to successfully direct resources to high growth areas with higher margins, along with our focus on operational efficiency, translating to a 29% year-over-year growth in Adjusted EBITDA to \$42.7 million. Adjusted EBITDA margin in the third quarter increased to 23%, up from 21% in the third quarter of 2022 and 15% in the third quarter of 2021. Finally, Adjusted EBITDA to contribution excluding TAC increased to 55%, up from 51% in the third quarter of 2022 and 37% in the third quarter of 2021.

On a GAAP basis, third quarter net income increased by 28% to \$32.8 million or \$0.65 per diluted share, compared with \$25.6 million or \$0.53 per diluted share in the third quarter of 2022. On a non-GAAP basis, net income increased by 42% to \$42.4 million or \$0.84 per diluted share for the third quarter, compared with \$29.9 million or \$0.61 per diluted share last year. We delivered an impressive two-year CAGR of 76% for GAAP net income and 66% for non-GAAP net income, despite the global macro instability. This is testimony to the strength of our diversification strategy, our efficient operations, and to our strict cost control measures.

Over the past three years, we have consistently improved our productivity and successfully executed cost efficiencies. Our third quarter non-GAAP OpEx and COGS decreased to 19% from revenue compared with 20% in the same period last year. Our productivity, measured by Adjusted EBITDA per FTE, increased to 84.1 thousand from 66 thousand in the third quarter of last year.

Operating cash flow for third quarter was \$40.1 million compared with \$34.7 million in the same period last year. As of September 30, 2023, our net cash, including cash, cash equivalents, short term deposits and marketable securities, was \$523.6 million. This is an increase from \$483.3 million at the end of the second quarter of 2023. The increase in cash and cash equivalents was the result of the strong operating cash flow generated in the quarter.

We are reiterating our full year 2023 guidance that confirms Perion's confidence in achieving strong year-over-year revenue and Adjusted EBITDA growth.

This concludes my financial overview, and now we will open the line for questions.

Operator

Thank you. We will now be conducting a question-and-answer session. (Operator instructions)

Our first question is coming from Laura Martin from Needham & Company. Your line is now live.

Laura Martin

Great. Just a couple things. This retail media network is really fantastic. Is that driven by new customers, higher spending levels, what's going on with pricing? Could you start with retail media strength, please?

Tal Jacobson

Yes, absolutely. Thanks for joining.

Retail is also new customers, but it's deepening the relationship with the retail customers that we already have with more and more technologies, such as WAVE, the new product we just released, so both new customers and existing customers deepening their relationships.

Laura Martin

Okay, great. Then I'm curious as to the juxtaposition here, Tal - we had CTV revenues up 39% but video advertising down 16%. I would have guessed that CTV was inside videos, so what's falling off a cliff in video if CTV's doing so well?

Tal Jacobson

CTV and video are separated, also in our historical numbers. The reason why video, as we said, is decreasing is related to different priorities internally we did. We shifted part of the inventory to the display just in terms of what is the potential of each one of them, and in terms of the bottom line, what we can get - we can get more dollars from display versus video.

Laura Martin

Okay, thanks guys.

Tal Jacobson

Thank you.

Operator

Thank you. Our next question today is coming from Andrew Marok. Your line is now live.

Andrew Marok

Great, thanks for taking my questions. I kind of wanted to dig in on the metrics that you gave around the search business, with the really, really strong growth in queries on top of 16% growth in publishers. That seems to imply a really, really strong growth in queries per publisher. Can you give any color as to what's behind that?

Tal Jacobson

What's behind the more searches per publisher?

Andrew Marok

Correct. Is there anything specific that's driving a big uptick in searches per publisher?

Tal Jacobson

No. I think, first of all, a lot of the searches are generated from the existing publishers and also from new publishers. Since we don't really control the searches, we can only add more customers, it's really up to them; and for the market trends, if people are searching more or not, it's up to them. Our business is to add more and more publishers, qualified publishers that can attract new customers of their own.

Andrew Marok

Okay, and then on the WAVE product, I know you have a lot of emerging and earlier stage efforts in front of you. Can you just give us a little bit of background as to what advertiser feedback, or anything specific that you heard that really led you to develop this product and get it out into the market? Thank you.

Tal Jacobson

Yes, absolutely. First of all, we're doubling down on generative AI. We think, we believe this is the future of advertising. Everything—generative AI is definitely the future and we have a lab here just for that.

One of the things we've heard from our advertisers is they're looking for more creative and immersive formats to be generated on a huge scale in a personalized manner, so this is why we've used generative AI to, first of all, create all those trillions of scripts, so it would take the data of the product, the promotion, the location, and then through that - it actually writes its own script for different variations. Then we're using a very smart algorithm that can actually read that and it actually sounds like a real person, and we spread that around to different channels - podcasts, radios, and then we get the attribution to actually see what gains, how do people interact with that, do people actually skip it or not. It's a whole thing.

We just released that. We have a few customers with that. We're getting very positive feedback and they actually want to add more and more campaigns using that technology, and we're feeling very optimistic and positive about the whole trend of generative AI within Perion.

Operator

Thank you. The next question is coming from Mark Kelley from Stifel. Your line is now live

Mark Kelley

Great, thanks very much. I have two quick ones.

First on CTV, we've been hearing about CPMs continuing to come down across the industry. I know you guys have different types of creative units that garner a higher CPM. I'm just curious if you're seeing any pressure on CPMs there - that's the first question.

Then just on the WAVE product, can you expand just a little bit on that? I guess, are all the intense signals coming from the retail media network, and then I guess, will you book that revenue as part of retail media? A little more color there would be great. Thanks guys.

Tal Jacobson

Let me start with the WAVE thing, because we already started that, and then Moaz can talk a bit more on KPIs with CTV.

Yes, first of all, WAVE is basically data driven advertising at scale - that's why we need machine learning in generative AI, and the easiest and more natural place for that is going to be Retail. Now, we're starting with Retail, which is obviously part of the Retail Media effort we have, but we are going to add it to more and more vectors and verticals, such as travel, automotive and others, but Retail, since we get—through our relationships with the retailers, we get so much data, it just—it makes so much sense to start with that.

Now as for the CTV...

Moaz Sigron

So CTV, as you know, our CTV is not the standard CTV. We're talking about the high impact CTV with different formats we are using. We are charging the same CPM, we are not seeing any drop or any change in the trends. We are able to keep the historical CPM, and this is what we're also expecting for this quarter. We don't see any weakness on our CPM around CTV.

Mark Kelly

Okay, great. Thank you both.

Tal Jacobson

Thank you.

Operator

Thank you. The next question today is coming from Jason Helfstein from Oppenheimer. Your line is now live.

Jason Helfstein

Hey everybody. First, I want to offer my sympathies and support for all the Israeli Perion employees.

A few questions. On the mix away from video, how much of it is media quality reasons, or is it just solely profitability and efficiency on your side? That's question one. Then question two, Moaz, can you elaborate on the third quarter macro headwinds you cited? Were there any specific verticals that you wanted to call out as weak and kind of maybe areas you thought were strong, or was that just a broad comment? Then just on the weaker—I mean, I think we all know CTV CPMs have been coming down, given the explosion of inventory. Isn't that a positive for you because it drives higher ROI, and then if you could show higher ROI, you can get advertisers to put more budget there? Thanks.

Maoz Sigron

Thank you. First, thank you, Jason.

About the video, this is pure economics, as a unit of economics consideration. Once we see that we get more profit from display, we will shift inventory to display. It's just pure economic consideration. Historically it was better with the video, but in the last, let's say quarter, it was low but it's something the trend started a few quarters ago, that we start seeing that we can get more profit with the display, so we did that shift. This is for the first.

About the macro, again, we ended the quarter more or less in line with the original plan. The diversification is part of the reason why we're able to end the quarter, but definitely there is a change between what we planned originally to how we ended the quarter. There were some areas that were, let's say, less—showed lower numbers versus our plan, but some others that offset the weaker areas. But generally speaking, if I am talking about search as a whole and display advertising as a whole, as you can see the numbers, this is very much aligned with the plan. The drivers for the quarter that offset more than anything the negative trend is Retail and CTV. These are the main two areas that helped us to offset the negative trend.

The last is about the CTV. You are right, that we believe that part of the reason we're able to show better results with the CTV is related to the weakness that we have on the standard CTV. The ROI, the ROAS that we are showing is better than the standard, and we believe that this is part of the reason we are able to be very attractive and to be able to keep the CPM, which are relatively high, as you know, and this is part of the reason why the growth, the year-over-year trend, is very much positive.

Operator

Thank you. Our next question today is coming from Jeff Martin from Roth. Your line is now live.

Jeff Martin

Great, thank you. Good evening, and also expressing my support and sympathies.

Wanted to get a sense, Moaz and Tal, next year, how should we start thinking about growth in search and display? Do you believe that Retail Media can continue to support growth in the double digits on revenue overall, and any insight into whether you think there will be some M&A activity next year? Thanks.

Tal Jacobson

Yes, so let's start by saying our organic business is growing, right, and we expect it to continue to grow next year both in search, on Retail, on CTV, on all parts. Frankly, we have great signals from all parts of the business. Having said that, we are also evaluating a few candidates for M&A. We feel strongly that we need to have another arm, more technology, maybe a new vertical, so we are working on that very actively.

Jeff Martin

Great, and then just to follow up, there wasn't much discussion about SORT and SORT-related metrics in growth. Maybe give an update there.

Tal Jacobson

Absolutely, absolutely. I'm actually glad that you added that.

A few things about SORT. First of all, SORT is doing great. It stays very strong and it keeps driving more and more campaigns to us. As we've said in the past, SORT is not a standalone product. SORT drives—it's AI-driven targeting capabilities that do not require any cookies or any privacy formats of any sort. We're extremely happy about SORT even now, especially when Google just announced that they are going to restrict the ability of advertisers to look at IPs through Chrome. SORT doesn't use that, so it's a home run for us. If cookies are going to go away, if IPs are going to shrink, SORT doesn't use both of them, so we're extremely happy about that.

We feel very strongly about us having SORT as a secret sauce to continue our growth, and yes, we don't feel that adding KPIs to SORT every single time actually helps or predicts anything about our growth. But it is our secret sauce and we keep investing in that. We're adding more and more features to it and it's very much alive.

Operator

Thank you. The next question today is coming from Max Michaelis from Lake Street Capital. Your line is now live.

Max Michaelis

Hey guys, just one from me. Looking at the quarter, it seems like advertising came in a little bit softer than expected, still 14% growth, which is solid, but search helped perform. Is that the way we should be thinking about Q4 in terms of modeling? Thank you.

Maoz Sigron

Thank you. Yes, more or less, the trend of the third quarter reflects very much - also high level, I would say, thinking about Q4, so very much what you see here is what we are expecting to see in Q4 with the seasonality of Q4, which is of course the most important quarter we have for the year.

Operator

Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over for any further or closing comments.

Tal Jacobson

Thank you everyone for joining. We had a great quarter. We're looking forward to seeing you again at the next quarter. Thank you.

Operator

Thank you, that does conclude today's teleconference and webcast. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.