



Perion Network Ltd.

Fourth Quarter and Full Year 2021 Conference Call

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PRESENTATION

Operator

Hello, and welcome to the Perion Network Fourth Quarter and Full Year 2021 Conference Call.

Today's call is being recorded.

The press release containing the transaction details is available on the Company's website at 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 than 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 on Form 6-K, which has been filed and is available on our website, as well.

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

Yes, hi, everyone. Thanks for joining our fourth quarter and annual 2021 earnings call.

Together with me on this call is Maoz Sigron, he's our CFO, and let's get started.

Definitely, the Q4 momentum continues, and we are delivering record revenue growth in the fourth quarter, and we actually doubled our net income. There are few points, or a few factors, tailwinds factor, that I would like to mention on this call, and I definitely will dive in on some of them.

First and foremost, I think that it has to do with our diversification strategy and product, that fits different advertising channels. High-impact units. The pendulum is shifting from standard units to high-impact units, and it's all about engaging with new consumers. I'll show you a few examples of great campaigns that we're doing, that are taking the concept of high-impact, if it's CTV or video, to a different level.

We are very proud, we're very proud of our iHub, the Intelligent Hub. It's AI-driven technology, that 2022 is going to be the first year which is fully in operation. We have an estimate what it's going to generate financially for our bottom line, and that's definitely something that I share with you when I talk more about 2022 guidance, but we're very happy with what we're able to deliver.

There is a strategic focus on video and CTV with the acquisition of Vidazoo. That happened at the beginning of October, the beginning of the quarter. Actually, this is—Q4 is the first quarter that they are with us and I want to share with you some of their great results in this quarter and how it fits really well with our focused strategy and video and CTV.

Last, but not least, with very successful two follow-ons that we did in 2021, and great net cash from operation. We reach a point where we have more than \$320 million in cash with no debt. We intend to continue with our, I consider is a unique acquisition framework and strategy. It's definitely proved itself over time, and now, with more cash, we're definitely looking ahead and there are some great opportunities in the market.

So, let's dive into the fourth quarter.

As I mentioned, the fourth quarter was our record revenue, with 34% year-over-year growth between the fourth quarter 2021, with \$158 million, versus \$118 million last year, very much thanks to 311% growth in CTV, \$46 million versus \$11 million.

Another two KPIs which we are very much keep attention to is the average deal size. I will look about what is the cause for increasing the average deal size by 29%, and very much has to do with the cross-screen synchronization, very, very interesting concept that we bring to market, average of \$139,000. As you all know, the whole advantage about increasing average deal size is that the effort, the sales effort for \$139,000 is the same as \$108,000, and it can generate a very, very healthy net income. Growth in customer retention is the other KPI that we keep attention to and we improved this from 86% in last year to 91% this quarter.

So, profitability was not behind, and we actually doubled—hold on for a second.

Operator

Pardon me, Doron. I need you to please share your screen to show the slides. Thank you.

Doron Gerstel

Oh, so you didn't, you didn't see it? Okay, my fault.

So, that's the revenue slide, that I talked about, and now let's move to the profitability slide, where we doubled, actually, our revenue from the fourth quarter of 2020 to the fourth quarter of 2021, where we reached \$29 million. Pay attention into these numbers, which is the ratio between the EBITDA that we generated in the fourth quarter to the revenue ex TAC, and we reach a very significant number of 45%.

What are the cause for this high profitability? I mentioned the hub-and-spoke model and it has a huge potential of saving resources. The second thing is our investment that we did in the previous year on automation and on technology is really paying off, and as you can see, while we are scaling our business, we're able to leverage our expenses. One of the major efforts that we did, we established offshore operation on some of the repeat tasks that we have in India, and that's definitely helping us from a cost structure standpoint.

Display advertising. Our revenue is being structured—or in two buckets. One is display advertising, the other one is the search advertising.

When it comes to display advertising, 46% year-over-year growth, \$100 million in the fourth quarter, \$68 million was in the previous year, very much thanks to the CTV. I mentioned the CTV and video growth, but here you basically can see that CTV able to get us 31 new customers, and, more importantly, 20% of our customers, active customers, 412 of them, so actually 92 customers using CTV. It's a 20%—it's actually double from last year, the number of customers that are using CTV. I will show you a few examples of it.

High-impact performance drive differentiation, and, more importantly, we are very happy with our ability to share formats that drive consumers all the way from awareness to performance. Cross-synchronization was the main factor behind the average—increasing average deal share. I will share with you the Vidazoo platform, which has completely changed the way we are working with publishers and allows us to drive direct demand into their platform. Most of all, we are really happy with the progress that we're doing on the vertical of retailers. That all has to do with personalization. That generates around \$4.6 million in the quarter, working with retailers, and it's all just the beginning.

This is an example that I want to show you, an \$800,000 campaign that we did with Advil. The brief was very interesting. They describe it as the awareness to performance. The idea was to what extent we are able to synchronize a few screens, the mobile screen, the desktop screen, and the end the big screen, which is the TV screen, with here the go-to-action, and the go-to-action needs to be translated into an actual buy. By the way, it's a live campaign, so if you have your smartphone with you, you can scan the QR code here and add to this very significant number of 73,000 products that we added to Advil due to this campaign. So, let me run it here.

(Video Presentation)

So, you should get Advil.

One of the things when you scan the QR code, the beauty here, that you drive it all the way from here to the checkout, and here you basically type the amount, the quantity. You are saving on clicks, which is everything that has to do with the consumer funnel.

If you're asking what's next, this is next. The next big thing is that we are—in case this retailer is out of stock, we are getting an online indication if this is the case, and suggesting all kinds of lookalike and alternative products that can be a great substitute, based on inventory level, and why it's so important is, because if an advertiser pays so much to be at this point, so much to be at this point where this can happen, and at the end there is no inventory, can you imagine the loss? So, we are adding this capability, which advertisers see it as a huge, huge, huge value for them, and no doubt, they're increasing their amount of spend to 29%. That's a very, very neat technology that we developed.

The next example, this is the next example, it's the live CTV example. The whole idea is very much keep the viewer engaged and not look at it as an ad break. It works really well ...

(Video Presentation)

Hold on just a second, that's the next one, sorry. Okay.

So, viewers get to enjoy sports content, as it stays live, it never goes to commercial break, never goes to commercial break. That's the whole idea. That was very much the brief that we got from Draftkings, which they very much would love to get more, and you see the quote here, as how they view it. It's one of the main drivers behind the CTV growth that we've seen and very much a focus area for us.

The next one that I want to show you here, it's the interactive CTV. Here is another example that we did with HBO. I think that the most important part is this part, the win/win. It's the win/win for the viewers and the advertiser, and everything it has to do with engagement rate. This is the interesting part, the 32% more memorable advertising. As a result, interactivity drives 47 more times spend with ads. That's very much the idea. You're able to see the interactivity here.

(Video Presentation)

I will stop it just to show you—oh, sorry, I couldn't. No, but here is a nice—that's the interactive part. I hope you can see my circle. So, if you really engage with what they have to show next, you click on it, and then you're very much going deep into the advertising. Because this is what you want as a viewer, instead of us bombarding you with another minute and another minute, that make it really annoying. So, that's the iCTV angle here. Forty percent lift in engagement rate. Again, a very important factor to increase the spend. It all has to do with return on ad spend and how it's being translated into this very important factor.

Another very important innovation that we bring into the market is a platform that Vidazoo call it the all-in-one video monetization platform. I have here a very interesting slide that we're showing. We're trying to compare it to other companies and what they are known for. I think that the most important thing is that Vidazoo is able to incorporate, outstream the video player, ad server syndication, monetization and (inaudible) monetization into one platform. Fifty publishers, which is around a third of their install place, is already using this platform. The interesting part, it's really aligned with what publishers would like, minimize the number of vendors and have one, very much one console, one platform that covers all. We are very, very proud of what we're doing. It's creating—that's what I mean and I meant when I called in previous call a moat. This is a moat. It's a technology moat. It's very much protecting our customers from others, because it's holistic and it covers all parts of what publishers are looking on their video monetization platform.

Search. Search is still growing. We increased the number of publishers to 114 from 79. Search advertising is the second source of revenue for the Company. I think you will need to pay attention into this more than anything else. I think these are the most important KPI when it comes, because it's a direct impact of the geo-expansion that I mentioned on previous calls, and, of course, the fact that we're adding more publishers, I put here a slide that compared the number of monetized searches—monetized searches are only searches that we getting a rev-share on. I try to compare it between 2019, '20 and 2021, just to show you—first of all, it's very much has to do with COVID. I think that people spend more time on screen and more time doing e-commerce, more time searching, and it has to do with commercial transaction. If you're asking me what happens after COVID, I don't think it will go back to where it was before. I think that we definitely understand the advantage of searching before buying. No matter if this will be done online or not online, keep in mind that we are getting rev-share on searches, not on the actual purchase itself. So, monetized searches will never go back, it's just going to increase, and we are very happy to see it, because it has a direct impact on the fact that we are able to grow our search business by 16% year-over-year.

One of the most complicated, however, the most important slide in my presentation, it has to do with the Hub. For those who are first time see it, I will just give you kind of an insight. This side is the demand side. This side is the supply side, which are every advertising technology ad. Most companies are taking a position either on the demand side or on the supply side. Perion's diversification strategy is very much coming from the ability to drive revenue from both sides of the open web, but, more importantly, of this side, is our ability to connect all our assets, either from the demand side or from the supply side, into this Intelligent Hub. This is the AI that we invest the most of our engineering budget and it's starting definitely to pay off, and you're able to see the EBITDA contribution when I will talk about the 2022 guidance.

When it comes to the value of the Hub, we're talking about reduced operational costs and reduced TAC here, on the millions of dollars that it will generate, but the one that we're proud the most is this one, are we able to increase our customer value through the fact that we are analyzing so much data, and I here give you kind of an indication about the huge amount of data that we are crunching on the daily basis. Every day, that's the amount of data from 70 million searches to huge spend on social, to 5 billion daily (inaudible) opportunities.

Where this all data crunching is going, and one of the things that we are proud so much, is SORT, which is our cookieless technology. We launched SORT beginning of October, not more than three months away. I mentioned it on our previous call, but now I'm so happy that I'm able to share with you that we have already more than 40 customers that are using SORT, but, more impressive, guys, this is more impressive, that we are able to show that the CTR, the click-through rate, is 2x higher than cookie-based targeting. That's a drama. You have some of the campaigns that is running. Some of them are already—some already started and some are alive as we speak, but the most important thing here, that it does not require any integration with the publisher, nor with the user. Really, very, very advanced AI technology that drives more and more customers, and I would like to share with you that what we did here—by the way, you have here how it demonstrate and how it looks in life, but I want to share with you is this very, very interesting concept, which is how effectively SORT can be a flywheel for our business.

We start with the fact that 74% of the consumers that are engaged with this ad want visible protection seal. This is the visible protection seal that we have on any SORT—any ad that is using SORT. So, they feel safe, and thanks to that, they click, so they have more clicks, and then what's happen, because they click more, the click rate is increasing. That's why we have 2x higher click rate. Than, what's happen is that there is a lot of—we translate it into return on ad spend to our advertiser. They are looking to spend more and looking to have it. They spend more with us. I mentioned that we have already 42 advertisers that are using SORT, some of them looking at it as a standard, and that's why we are able to get more users that are doing it, currently 208 million reachable users, and counting.

There is another very interesting thing. Let's not forget that it's all AI-based. So, more clicks, more data, more data. It's all about the AI and more of the machine learning that we have and we are able to improve the model. We improve the model and able to get the higher performance, which is the great definition of SORT flywheel. We are analyzing the impact of the SORT for 2022, and I will share it when I will talk about the guidance.

With that, I would like to turn the call to Maoz, that will share with you some financial results of Q4 and 2021. Thank you.

Maoz Sigron

Thank you, Doron. Good morning, everybody.

Twenty-twenty-one was, indeed, a year when Perion separated itself from the pack, with accelerated financial performance and new records of revenue and EBITDA. The widespread disruption brought on by the pandemic is challenging, but is also creating remarkable opportunities for Perion, and we are very proud of our achievements.

Turning now to the quarterly results. Revenue for the fourth quarter was \$158 million, an increase of 34%, and 20% growth on a pro forma basis. We achieved all-time record level of quarterly revenue.

Display advertising revenue was a record of \$100.2 million during the fourth quarter of 2021, up 46%, and up 23% on a pro forma basis.

Search advertising revenue was \$57.8 million during the fourth quarter of 2021, an increase of 60% year-over-year.

In terms of revenue mix, display advertising revenue of \$100.2 million represented 63% of the 2021 fourth quarter revenue, compared to 58% in 2020, with search advertising of \$57.8 million represented 37% of the 2021 fourth quarter revenue, compared to 42% in 2020. This change in revenue mix is aligned with our diversification strategy.

Revenue, excluding TAC, was \$64.6 million, or 41% of revenue, compared to \$43.4 million, or 37% of revenue, in the fourth quarter of 2020. The increase of 4% was primarily due to product mix, our continuous iHub efforts to serve direct demand and supply in a closed loop that is generating superior efficiency and performance, and the incremental revenue with low variable costs.

Opex and COGS expenses were 25% of revenue in the fourth quarter of 2021, compared to 26% of revenue in the fourth quarter of 2020. The main reason for this reduction is due to our efforts to enhance process automation, the iHub (inaudible) and the shared infrastructure resource and offshoring our operation.

Net income was \$17.7 million, or \$0.44 per diluted share, an increase of 97%, compared to \$9 million, or \$0.30 per diluted share, in the fourth quarter of 2020. Non-GAAP net income was \$25.3 million, or \$0.62 per diluted share, up 83%, compared to \$13.8 million, or \$0.45 per diluted share, in the fourth quarter of 2020.

Adjusted EBITDA increased to \$28.9 million in the fourth quarter of 2021, representing 18% of revenue, compared to \$15.3 million, representing 30% of revenue in the fourth quarter of 2020. Adjusted EBITDA of revenue, excluding TAC, was 45% during the fourth quarter of 2021, compared to 35% in the fourth

quarter of 2020. Our efforts to keep the media margin level stable and to generate incremental revenue with low variable costs have improved Perion efficiency and profitability.

Net cash provided by operating activities was \$28 million in the fourth quarter of 2021, compared to \$12.9 million in the fourth quarter of 2020, reflecting 123% year-over-year growth.

As of December 31, 2021, we had cash, cash equivalents and short-term bank deposits of \$322 million, compared to \$60 million as of December 31, 2020.

Turning now to the yearly results. This year Perion continued to deliver exceptional growth, increased profitability and significant cash flow generation, sticking to the diversity of our revenue streams and differentiation of our IR (phon) platform, while delivering well ahead of guidance. Let me share with you some of the top financial achievements for 2021.

Revenue for 2021 was \$478.5 million, an increase of 46%, the highest revenue ever. EBITDA for 2021 was \$70 million, an increase of 112%, the highest EBITDA growth ever. EBITDA to revenue was 15%, versus 10% during 2020. EBITDA to revenue, excluding TAC, was 37% versus 25% during 2020. Net cash from operating activities was \$71 million, an increase of 221%.

We also continue to bolster Perion's financial strength, as is evidenced by two successful capital market transactions during the year, which added, in the aggregate, more than \$230 million to our balance sheet. This enables us to continue the execution of our strategic plan of organic and inorganic growth.

With a scalable operating model and a fortress balance sheet, we are well positioned to continue to deliver profitable growth and expect 2022 to be the third consecutive year of more than 25% revenue growth. We have built a durable, sustainable platform for profitable growth, with clear earning power.

This concludes my financial overview for the fourth quarter and the full year 2021. I will now turn the call back to Doron for closing statement.

Doron Gerstel

Thank you, Maoz.

Just let me share my screen. Can you see it? Thanks.

So, closing remarks. The title is the 20—the momentum continues to 2022, and what I would like to share with you is where the sustainability and predictability is coming from, and it all has to do with the three dimensions of our diversification.

I will start and say that one of the most important things which sets us apart from other ad networks and ad companies is the fact that we are operating across the three main pillars of digital advertising: the search advertising, social advertising and display advertising. From connecting everything into our Hub allows us, first, to generate revenue from both sides of the open web, as I mentioned, the demand and the supply.

Last, but not least, is the fact that we're able to connect all as a hub-and-spoke model, and ability not just to connect, but also to drive, drive operational savings. We are estimating that, due to the fact that we are able to concentrate our resources and, basically, as Maoz mentioned, work with shared resources, we're able to save \$6 million on operational costs, as well as on TAC savings during 2022.

The other thing which is important, we are estimating that the SORT and the flywheel that I mentioned before are able to generate an additional \$50 million on advertising budget from our customers.

So, with that, we feel comfortable of improving our—or modifying our guidance. I put the new guidance here, which is a midpoint of \$620 million in revenue and \$90 million of EBITDA. I put it in the context of what we're able to achieve in '20 to '21 to '22, in order to emphasize one point, is the sustainability and the predictability of our business model, which is, in my opinion, one of our major, major strengths. It allows us to look at the growth and also keep the organization very, very profitable. In all, very proud of ability to guide for 36% EBITDA to revenue, ex TAC, in 2022.

With that, I very much would like to thank you for participating, but one last word. With COVID around, is a world, it was a very, very challenging year for all of us, the 486 employees of Perion that are in—we count 11 countries. So, I would like to thank all of them. Without their endless dedication and contribution, we will not be able to achieve this great year.

With that, we'll open the line for Q&A. Thanks so much.

Operator

Thank you. We'll now be conducting a question-and-answer session.

Our first question today is coming from Jason Helfstein. Your line is now live.

Jason Helfstein

Thanks, guys. How are you?

Doron Gerstel

Great. Hi, Jason.

Jason Helfstein

Doron, maybe to start, that was an interesting example you gave with Advil, owned by Pfizer. One of the questions we get from clients is, you know, what are you doing that Pfizer's agency of record, right—Pfizer's a huge company, they probably have a master agency—what are you doing that their agency of record can't do, or is it because campaigns are so regional, you have certain capabilities that may not work in certain (inaudible) etc.? So, what are you doing that a company the size of Pfizer needs you to do for Advil? That's question one, and then I've got two follow-ups for Maoz.

Doron Gerstel

Right. So, you know, I must say that were a bit—how to use the word—chutzpah when we met with them, because the Holy Grail in this industry is ability to connect awareness to performance, and when we showed them the concept that their awareness dollars, which is they consider always as a top funnel, can be with that campaign, a direct impact, and be translated to actual buy. I mean, there is no kind of estimation or modeling, or what have you. We are taking upon ourselves to drive sales. That's it. That was the concept.

For them, it was always this concept that there is a gap between the awareness dollars and the performance dollars, and once we came and said, "Guys, we're able to bridge those two parts of the funnel in a very nice way, we're up to the challenge," and they very much said, "Okay. You know what,

we'll give that chance," and there is only one KPI that they shared with us from the get-go. They said, "You know what, if you're up to the challenge, we want to see how many boxes we're able to sell." That's very much it.

I must tell you that we are working with them closely on what we said, Connected Cart 2.0, which is the ability to connect the inventory part. That is going to be a killer feature. Because, think about, Jason, the amount of dollars that advertisers are wasting on performance advertisement, that at the end of it you find yourself that you don't have the right size of your jeans or not having the right color of your shoes. That's a pure waste. The ability on the fly to offer substitute product, I think that can be very, very interesting.

So, in a way, there is another interesting level for you, maybe, to discuss later on, is the verge between the ad tech and the market, which is a very interesting subject that we discuss internally, because if you see that we're taking into the advertising logistics aspects, like inventory, it's beyond the traditional, I think, advertisement or ad tech framework that we were kind of thinking. They are thrilled about this technology.

Jason Helfstein

So, Maoz, just two for you. Can you talk about the impact of Vidazoo on gross margins in the quarter and how you're thinking about kind of the benefit to that in next year, or this year '22? Then, just on acquisitions, obviously, you're seeing a lot of cash. Given the decline in public market assets and, presumably, the impact, there has been a decline, as well, in private market values, is it taking longer to kind of close the next acquisition or round of acquisitions that you're looking at? Thanks.

Maoz Sigron

Thank you, Jason. So, based on—this is not a surprise. We did a due diligence before closing the deal, so it's already embedded in the model, that Vidazoo is part of us. They are running with margin that is similar to the other business units, so there is no negative or much positive. I can say that the fact that now we have another asset and we're able to use the Hub and to contribute more together definitely help us to improve the current margin as a whole. As a standalone business before getting into Perion, they run at the same level as us, a bit lower, but together with us—part of the reason that you can see that the quarterly margin is better is definitely the combination of Vidazoo into Perion. We see the same trend for 2022. Our assumption for the guidance for 2022 is, more or less, the same level of margin, about 40%. This is about the first question.

We have—and, again, Doron can touch about the M&A, as well, but there is a list of companies on the list, definitely. The fact that the multiple moving down helps us to have more opportunities, actually, and to have maybe others that were not part of the list before. So, I think this is—we have a model that is unique. We have the cash. We have something that is also appetite for the target, because there is synergy that we can do together. So, what they can do by themselves, they can now do together with us, and do better, and be able to achieve the growth for the next two or three years together with Perion.

I think, the other way around, there is a lot of opportunity, but this is a process that we're managing, and maybe Doron can also elaborate more on that.

Doron Gerstel

No need.

Operator

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

Andrew Marok

Hey, guys. Thank you for taking my questions this morning. I had two. One, I wanted to talk about the uptake of the high-impact CTV formats. You showed the Advil example, which I think was really helpful, but what other kind of broader feedback are you getting from clients using the formats, and what do you think are some of the gating factors to broader adoption? Then, second, on the '22 guidance, if SORT is providing a \$50 million incremental budget and iHub is driving about \$6 million in cost savings, I guess if you could help us with any incremental investments that you're thinking of for why EBITDA margin is maybe flattish to slightly down year-over-year. Thank you.

Doron Gerstel

I think it all has to do with one thing. The high-impact is all about consumer engagement. There is a huge effort from advertisers to get this maximum engagement. If it's the live CTV, that you are getting their attention, because the game is on, it is interactive, because you're able to gauge their engagement with the unit, and of course the fact that there is a go-to-action. We talked about it in the example.

The way we are—so, this is our focus. The focus is engagement, and we know what's the engagement level on standard ads and we know what's the engagement on high-impact ads. Yes, high-impact ads are way more expensive for the advertiser, but does it matter when you translate it into ROAS, into return on ad spend, and this is the only thing that we're doing.

The way we are looking, from a customer standpoint, we show them the ROAS calculator that we have and we said the cost really doesn't matter. What does really matter is what is the return. We are trying to get as much away from the flood of standard advertising. That's the only way for us to get healthy margin. It's the only way for us to increase the average deal size. It's the only way for us to retain these customers. It definitely require us to invest more and more in technology, all those kinds of things that is new, you know, to 2021, and there is growing investment that we're doing on 2022, to keep and make the gap on what we're capable of doing on high-impact units better.

I mentioned one thing, and I took a note for the next call, to show you what personalization level we're able to do with customers, like Albertsons and others. We're taking it to the level that they are not able to get, combining it, of course, with the inventory factor. So, that's the edge. This is what we're thinking our niche within this huge universe of advertising and advertising spend. Up to this point, it is definitely creating great brand recognition, and drive more and more budget into this business.

As far as your question, I mentioned that we are devoting more and more resources, engineering resources. I must tell you that in order to establish or connecting all units into a central Intelligent Hub was a huge effort on our side, a huge technology effort. We had to establish a whole AI team that is going to do it. The amount of dollars that we're paying to Amazon just to store and analyze and crunch this data is piling every day. But, we couldn't be in this situation—and I all want to look more on the SORT, the impact that we bring to the market with the SORT and the flywheel that it will generate. I'm very happy. It took us a good two years to be in this position, but now, as I mentioned, we start to see the fruits, and we are just encouraging to invest more and more and turn it into a really effective moat, technology moat for our Company.

Operator

Thank you. Your next question today is coming from Laura Martin. Your line is now live.

Laura Martin

Hi, there. So, maybe a couple. Following up on Jason's question, it sounds like you might be taking on physical inventory now, so can you speak to that, and what that does to your working capital and cash needs in 2022? Second, can you talk about what percent of your total fourth quarter CTV ad revenue were these high-impact ad units? Then, third, data, you keep sort of harping on data. Can we sell that revenue stream? Can we create a revenue stream out of data? Those are my three. Thank you.

Doron Gerstel

Very good. So, one correction. By all means, we're not in the inventory business. We're not having this inventory. The only thing that we're having is that we're hoping a very useful tunnel that allows us on the fly to understand if there is—for instance, for this Advil, whatever capsule that is, is there is an inventory, because you are about, as a consumer, to click-and-buy. This screen—it's important for me to share it. Hold on for a second. It took us so much to be in this space, so I want to—I want to show off, okay. So, this is the Advil—we don't need the sound.

(Video Presentation)

The point here is, while you are here and you are doing—as a consumer, you're doing all these journeys and finally you are here. This is the money time. The question is, that we were very much looking at, is what would happen if you click here—let's say you use the QR code that is here, and you are, okay, you want to buy and there is no inventory. That's very much the point. What we want is to refresh this ad, or actually this SKU, which you have here, with alternative lookalike. For instance, this is—let's say this is a big size, and so we'll get, I don't know what—the same price, you'll get two. Because, the most precious thing for Advil is to get this consumer to a point that they want to buy, and from that point they must end it with a transaction. So, we're not holding the inventory. We just refresh the ad unit with the most relevant alternatives, substitute SKU, that will end it with a transaction. That's clear?

Laura Martin

Yes. Why do you care? Do you only get paid if somebody actually buys the box?

Doron Gerstel

Thanks for the question. No, we are not getting paid on the 73,000. But, you know why we care? Because, I can tell you that \$800,000 of Advil campaign is now turning to \$1.8 million, only because they are happy with the results, and we care a lot, because this additional \$908,000 was very much taken from someone else. That's our business. It's a zero-sum game. If we are able to show them that their ROAS is way higher and we're not putting our hands in their pocket—in other words, we're not asking for any dollars if this will be for the next campaign more than \$100,000—we're getting more budget. That's it. That's why we care.

Laura Martin

Perfect. What about selling data as a new revenue stream, and what percent of revenue?

Doron Gerstel

That's great question. We are now developing the ROAS 2.0, which is—we call it internally SaaS, but not the SaaS that you now, but this is SORT-as-a-Service, and there is a growing—we're getting tons of leads from publishers that would like to adopt SORT as their privacy technology on their side. So, the

idea that we have is taking it from internal to external and offer it as a service. This is definitely something that we will talk more about in the upcoming calls.

Laura Martin

Okay, and then my last one was high-impact CTV units as a percent of total CTV revenue in Q4.

Doron Gerstel

High-impact CTV. For us, we are not—and I can tell about something which is close to 70%, 75% of high-impact CTV. That's the main thing that we're selling.

Operator

Thank you. Your next question is coming from Mark Kelly. Your line is now live.

Mark Kelly

Hey, great. Thank you very much. I appreciate you taking my questions. I'd love to go back to the Advil example. I know we've talked about it a bit, but I'm just curious how does the Walmart, as the preferred retailer in that scenario, factor into the conversation that you have with Advil? Then, I guess, would it be possible to—instead of showing the consumer alternative products if Advil is out of stock, would it be possible to shift to like a Target, or something like that, and still have you buy the exact product you click on? I guess in this exact example ...

Doron Gerstel

It's a great question, and I must tell you that there is—we know, we not know the details—there is a relationship between Advil and Walmart. So, for that point. We are able to do a lot in terms of, you know, switching, let's say, Target, but we—on this perspective, the advertiser is very much binding us to say what is in Walmart inventory. I believe that they participate on the dollars that has to do with this campaign, but we're not—this is behind the scene. We interact with Advil. We really don't know how the supply chain is working there. We are capable of doing it, let me put it this way, but we are prevented doing it in this case, specifically.

Mark Kelly

Okay, all right, that's fair. Then, quickly, just on SORT, some of the click-through rates that you presented were interesting and, obviously, impressive. I guess, do you think you have to advertise to the consumer to make people who aren't familiar with ad tech and don't understand the industry, the typical consumer, just making sure that that logo resonates with people, that the general public knows that it's cookieless and privacy-safe, and all that stuff—and I'm bringing this up because I saw that Criteo, which is not exactly the same thing as what you guys do, but they, supposedly, have a Super Bowl ad coming up that kind of does the same thing, that just makes the consumer more familiar with Criteo and their privacy-centric approach. I'm just curious if you guys have to do something similar, do you think.

Doron Gerstel

At the end of the day, what Criteo is doing from DR standpoint, direct response, and retargeting, we're not in this business. The business is, for that sake, is an awareness campaign, and with that, I think that we are able to get great results.

Keep in mind, for those who want to get into the technology of it, if I, personally, want to get your attention, Mark, and I'm using a third-party cookie, and I'm going specifically after you, that's not our business. That's considered to be a DR business. Our business is our ability without using third-party cookies to get the (inaudible) people. That's the idea. It's not about following you. You will be a victim, because, you know, it can be—what is done before on third-party cookies, it might take you, but the idea is not following specifically, you know, a specific consumer. I hope I make it clear. That's why we're looking—SORT is very much—I used these slides in the previous presentation and I'd be more than happy to take it offline, to see how SORT works, but it's all about smart groups that we develop. Smart groups, and we have dozens, if not hundreds, of smart groups, that is very much allowing us to use a smart group where is appropriate. In other words, people that have certain traits are likely to hit on this type of ad. That's the technology that we have, instead of using third-party cookies. I hope it's clear and the difference between us and Criteo.

Mark Kelly

Sure. You know what, maybe giving you the Criteo example wasn't the best on my part. I guess I meant more about like making just the general consumer aware that SORT is a cookieless, privacy-centric solution. Like, do you need to advertise to the general public?

Doron Gerstel

We plan doing it, but what we want to get—and this is the discussion that we have with some selected advertisers that looked at consumer privacy as one of their values, and one of the things that they will be associated with. So, one of the things that we would like to do is very much use those—some of those names that are there, to be associated with this direction, and doing it as a kind of a co-marketing activity. This is definitely something that we're working on.

But, you're absolutely right. I think that in order to get an effective flywheel—no wonder I start with the number one. If 74% want to be visible on the field, they need to make sure that this is the seal and it's not part of the (inaudible) logo. You're absolutely right, we need to get their attention. I don't want to spend our money on the Super Bowl, we're not there yet, but I think that there are way more effective ways to use our net margin, let me put it this way.

Mark Kelly

That's perfect. Thank you very much.

Doron Gerstel

You're welcome.

Operator

Thank you. Our next question today is coming from Eric Martinuzzi. Your line is now live.

Eric Martinuzzi

Hey, guys. Congratulations on the quarter and the outlook.

Doron Gerstel

Thank you, Eric.

Eric Martinuzzi

It's not lost on me that you had already announced a positive Q4 and raised the 2022 outlook on, I think it was December 8, so it's good to see that there's still more in the tank here. My first question has to do with seasonality. Now that we've got the business kind of shifting more to the advertising side—and I know you gave a full year 2022, but you did not give Q1—what is the kind of seasonal step-down in revenue, because you've got some moving parts here. There's the remnants of COVID, there's the acquisition of Vidazoo, we've got more revenue coming from the advertising side. What's the right way to think about Q1 revenue seasonality versus Q4?

Doron Gerstel

Maoz, do you want to take it?

Maoz Sigron

Yes, of course. As we're looking on the entire year and the business that's acquired, you know, similar to the business we already have, in terms of seasonality, we are expecting there same trend, about 20% in Q1, 24% in Q2 and Q4, and more than 30%, 32% in Q4. This is, more or less, in line with our pro forma for 2021, and will be the same, also, in 2022.

Eric Martinuzzi

Okay, all right. Then, my second question has to do with the display. When I think about the—it's wonderful to get more demand from your advertisers and agencies, but I just think about the mechanics of serving display and serving video, CTV, iCTV, there's a huge element of their creative that needs to take place here. Is Undertone doing that creative or are the agencies doing the creative here? How are we getting the raw materials that go into these (inaudible) campaigns?

Doron Gerstel

The raw material is getting very much from the creative agency, if this is the case. Because of the iCTV that require to do multiple type of video assets, which is more than, if you can imagine, one video, because that's what we offer for our consumer. That's part of our response to the RFP. The way we respond is basically saying, "Okay, we are suggesting using the iCTV technology," and with that said, that is what's required, First and foremost, we need to prove that this is efficient, because what is required from the advertiser standpoint is to invest more, more creative, more debt, so they need to buy into the concept that it will be more memorable, buy into the concept that they will spend more time—and, again, it's all, as I mentioned, is translated into ROAS. But, we are not very much part of this production.

Eric Martinuzzi

Understand. Good luck in 2022.

Doron Gerstel

Thank you very much.

Maoz Sigron

Thank you.

Operator

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

Jeff Martin

Thanks. Good evening, guys.

Doron Gerstel

Hey, Jeff.

Jeff Martin

Congratulations on a great year.

Doron Gerstel

Thanks.

Jeff Martin

I wanted to get a glimpse into how customer acquisition strategy may have evolved with the enhanced investment that you put into the iHub and hub-and-spoke model. Based on Q4 results, it looks like customer growth is continuing at a good pace. You've got some really interesting technology capabilities that drive significant improvement in performance. So, how has your customer acquisition strategy shifted over the past year, and how do you see that continuing to shift as your Hub is more robust?

Doron Gerstel

Great. I will use this engineering slide, as we like to call it. In a way, think about it, you know, impression. No matter where the impression source, let's say whatever, impression is coming into the Hub, and at the same time request is coming to the Hub, and that's an INR. The point here, that you have here, is what is the match. That's very much the idea. So, this is the challenge. The match here, first of all, needs to—very much needs to meet all kinds of targeting, and everything like this, but let's look at it only from the economics side, and here it is the optimization element, the optimization element into the Hub; in other words, what is the priority if you met all the other criteria. If all other criteria is being met, the priority always goes to asset that you own, either you own it or you operate it, because over there you have a higher gross margin.

It's like a waterfall, if you think about it. Okay, first match, if everything is okay, it goes to here, second match, goes to here, so on and so forth. So, we are able to drive more and more impressions to request that is coming from our asset. Keep in mind if it's a video or a CTV, we want that those assets will come through our Vidazoo platform. In other words, that it will play on the Vidazoo player, that it will very much monetize on the Vidazoo platform, because that gives us another edge.

Now, what it's all about here. It's all about to really reduce one by one the number of intermediators that has to do from serving an impression all the way to its destination. If you are able to reduce the number of those chains in between, let me put it this way, you are saving money, but you provide something else, and that's very much the point. The point here, the brand and agency are looking about to what extent are able to deliver for them the transparency and the control when we are serving their ads. From the

moment we received it, all the way where it's being published, everything is being done in a very—not just transparent, but from a point of dashboard reporting, what have you, and privacy. Take any elements that you have, no surprises. From that point, where we analyze the impression request to the time that we publish it here, no matter if it's your cellphone, your big screen, no matter if it's interactive or not, that's the end-to-end element.

Now, if you combine end-to-end into the efficiency of the Hub, that's able to optimize it, you're able to get a lot of gain. As I mentioned, we are translating it into a contribution of \$6.5 million into the bottom line.

Operator

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

Doron Gerstel

Okay. Guys, thank you, thank you so much. I apologize about the glitches that we have, but since we are dealing with creative and high-impact, and all those kind of things, I think that it's better than to read it from a script. So, my apology, and thanks so much for your participation. Have a great year. 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.