



Perion Network Ltd.

Second Quarter 2022 Earnings Conference Call

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CORPORATE PARTICIPANTS

Doron Gerstel, *Founder and Chief Executive Officer*

Maoz Sigron, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Laura Martin, *Needham & Company*

Andrew Marok, *Raymond James*

Mark Kelley, *Stifel*

Eric Martinuzzi, *Lake Street Capital Markets*

Jason Helfstein, *Oppenheimer*

Jeff Martin, *ROTH Capital Partners*

PRESENTATION

Operator

Hello, everybody, and welcome to the Perion Network Second Quarter of 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, 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 a 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 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

Hi. Thank you very much. Good morning, everyone, and thanks for joining our second quarter 2022 earning call.

Together with me on this call is Maoz Sigron, our CFO, and myself, Doron Gerstel, CEO.

Before diving into our exciting second quarter financial results, I'd like sharing with you what you probably aware of. The macro environment is filled with talks about ad spending being reduced. What I want to stress is that not all ad tech is impacted in the same way. We heard the same very statement at the start of the pandemic two years ago, and we had a positive comp then, as we have had for the last eight consecutive quarters. We are built for volatility instead of trying to evade it. We embrace volatility. In fact, in ad tech, volatility is highly predictable. For example, trends are now favoring search as direct response campaigns, our anxious advertising are investing first.

With that, I would like, before diving in into the numbers is share with you the five things to remember when volatility is now a new norm. We are diversified to capitalize on shifting spending across the three main channels of digital advertising: search advertising, social advertising, and display CTV advertising. We are continuously expanding our margin, demonstrating the effectiveness of our Intelligent HUB that's known as IHUB. We are meeting the demand for higher user engagement with our high-impact ad suite. Fourth, we are bringing innovation in response to advertiser recognition that privacy matters with SORT. Last but not least, we execute and acquire with strategic operational discipline.

With that, I feel comfortable diving into the numbers. From a revenue standpoint, the Company is reporting 34% year-over-year growth and \$147 million. The macro environment—okay, we see where spending is going in real-time and adjust. We have the diverse platform and signal intelligence to do that from the supply and demand side. We don't look at the rearview mirror and make decisions based on that, our results very much speak by themselves.

From a macro perspective, I definitely can say, based on a 39% CAGR between the years '20 to '22 is that our seasoned team who knows how to make the most tailwinds and cope with the headwinds so that we continue to outperform the category and win new business, combination of entrepreneurial energy and strong R&D, as well as our diversified model.

Now to the EBITDA, which we are so proud of, 99% year-over-year growth, \$28 million in the second quarter of EBITDA. But the most important part is this part, the 47%. The 47%, as you can see at the green bar, is getting to 47% of EBITDA to revenue ex-TAC, putting us as best-of-class. It's very much thanks to our investment to further develop our AI engine, which is behind the iHUB resulting in efficiencies that benefits our clients and our bottom line. Efficiencies in terms of optimizing media margin and reducing cost of operation. The best innovation is what which help you and your clients. Our margin demonstrates the continuing value we bring to our advertisers.

From our perspective, our iHUB sits in the center of the supply and the demand side of the market. This is an innovative model that no one else in the industry has. Aggregate data signals from all channels and

from both sides of the Open Web to create a model that eliminates waste and rewards clients. The data goes into Perion's privacy-first cookie-less solution known as SORT. The iHUB is both a source of data and operational platform. Mentioning SORT, very important to talk again about our flywheel.

But before that, I would like to relay to Google's recent announcement that very much delaying their cookie-less solution until 2024. That gives us the time to cement our leadership and clearly draws the bright line between companies that are on the right side versus those that are not. On the right side, we believe are those that since the future of ad tech must address consumer privacy.

Many of you know that U.S. Congress is looking to stricter regulations. Europe is already further ahead. We are at the forefront of the privacy trend with SORT. In fact, delivering privacy without sacrificing performance is—more and more advertisers are now recognizing that the importance of privacy for their business, and we are ready to serve them with a world-class innovation. SORT Flywheel effectiveness is being measured by two KPI, number of new advertisers and how existing advertiser expand their spend.

From the Flywheel perspective, I would like to mention that we are continuing in adding more clicks that drives better performance, as you can see, three times what Google reporting, and that's our benchmark. That's increased the ROS, the return on ad spend, which drives, and that's the two major KPI. One hundred and twenty-six, which is sixty-one more new customers in the second quarter, but more importantly, existing SORT customers that experience SORT, we found out that these customers are spending 50% more quarter-over-quarter. That's a true effective Flywheel.

I will end and said (phon) that while we are talking with these customers more and more, we find out that advertiser recognize that consumer increasingly favor brands that protect their privacy. Very, very important to acknowledge that.

Next, our revenue line is split into two, advertising revenue and search revenue. From an advertising revenue standpoint, I must say that even though we are reporting 41% year-over-year growth, which is \$82 million of revenue of advertising, it's getting harder every day to capture and hold attention. But it is more and more vital, it takes only a fraction of a second to make a first impression.

Our high-impact Ad units are the breakthrough creative formats that are essential in today's environment. These units are effective across all vertical, travel, entertainment, retail, CPG. I will show you three examples just in a second. In fact, we have decade of data, which shows that our units outperform conventional ones by up to three times. This is always important, but especially so during a slowing economy. We're taking our proven high-impact suites to cross channel, especially on CTV.

We are very excited with our advertiser reaction to our high-impact CTV suite. Revenue grew by 90% year-over-year, representing 6% of display advertising revenue. Main factor behind such growth is the step-up in the average deal size by 5% to \$105,000.

Video revenue grew by 273% year-over-year, representing 44 of the display advertising revenue. Vidazoo, our latest acquisition, which we call the Shopify of video because of its ability to empower longtime publisher, is booming.

Okay. The main objective of this campaign, which we did with Beyond Burger, and that's Beyond Meat, the public company, the main objective was to drive net new consumers to taste their product and be aware of their new product, which is the hamburger. We describe this concept as awareness to performance campaign.

It's not just shorten the cycle. Most importantly, it's added significant amount of new consumer that experienced this product in the first time. You can see the results here, 124,000 products added to the

cart. In this case, you can see it on the right, that's Walmart's cart. \$1 million product value and two-times in terms of the recall lift. That's definitely a very interesting concept of a full funnel awareness to performance.

The second thing which I would like to show you is a new innovation, and this new innovation has to do with high-impact suites on gaming. In this case, we are using gaming that is on PC console and mobile. The whole idea is to target this very unique 90 million engaged gamers, across all ages and gender, mainly Gen Z audience. As you can see here, for the example of Nike ads, the most important is that these ad units has 100% viewable. They are non-intrusive in non-intrusive placement with an average time spent of five-plus seconds. Very useful, the performance is very high, and our customers are very pleased with this format.

Last but not least, I would like to share with you our innovation in retail. As retailers face increasing pressure from Amazon with a massive amount of personal data, they need new solutions to deliver personalized recommendation in real-time. We are having a very positive early success in these emerging verticals. Our ability to personalize and target at scale fits nicely with retailers need to be more relevant to their customers and support their overall effort shifting budget from linear TV to CTV.

What you can see in the left is that we identified five different personas. With 904 store in 17 states, in a second we are able to produce 4,520 different type of video units that you can see that is running on the right. That's all runs, and it's very much support, as I mentioned before, the huge trend of retailer that shifting budget from what known as linear TV and get the full advantage of the personalization of CTV. This is an area where we are going to invest more and more with our customer and providing them the right personalization that they're looking for.

When it comes to video, special attention from our business has to do with the adoption of the video platform. I will not go to each one of the products—this video platform—but the essence of it that our publisher, first and second-tier publisher, are very much focusing solidly and get all the tools from this holistic platform. We are very happy to share that 54 publisher already is using our video platform from '18 in—54 publisher already using our platform from 2020 to the second quarter of 2021.

As you can see, the video platform is a comprehensive ecosystem, is what attracts us to Vidazoo, and it is a perfect example when it makes sense to buy and not to build. We will deploy such strategic and disciplined M&A in the future, as I mentioned in my Five Reasons slides.

From that, I would like to move into the search advertising. We are gaining search market share and becoming a stronger player in the search ecosystem. In search advertising, we are reporting 26% year-over-year growth to \$65 million of revenue in the second quarter. What is more important for our KPI is the following.

While we see that the number of searches are in a way flat between the quarters. We are reporting 17% and it was around 17.1% a year ago. What is more important is the fact that advertisers are willing to pay more for their ad in search advertising. In other words, our RPM, the rate per 1,000 clicks on search advertising, is being increased by 43% quarter-over-quarter. It was 52% in the last Q.

But what you're able to see here, and that's a COVID quarter, that the rate was dropped. The rate was dropped, but look how it's bounced back, and we are very much thinking that this is thanks to change in advertiser preference towards direct response and there is nothing better than direct response than search advertising, whether searchers definitely demonstrate the highest possible intent, which gives advertisers a great opportunity to go after them. DR is definitely showing its results here.

The other thing that I want to mention—or actually two things. One is that we increased the number of publishers to 124 from 93 in last year. The other thing, based on the intent or the searches that we analyze, we definitely can say that travel is back, and it's back in a big way where more and more consumer is looking for travel deals, and this gives advertisers a great way to spend more on search advertising. Spend more means that they increase the RPM in order to be higher in the place where consumers are searching for travel deals.

With that, I would like to turn the call to Maoz for a financial overview.

Maoz?

Maoz Sigron

Thank you, Doron.

Doron Gerstel

Let me just stop share.

Maoz Sigron

Thank you, Doron.

Good day, everybody. I'm happy to present to you another strong quarter with record financial results. Perion continued to demonstrate the ability to execute our diversification strategy, leading to strong performance despite the macroeconomic situation and uncertainty.

With the current macroeconomic environment being more challenging, we are constantly monitoring external and internal signals. Based on what we see and hear from our customers and partners, we are confident that this momentum will continue in the second half of 2022.

Let me share with you four of our key financial achievements during the second quarter. Revenue of \$146.7 million, reflecting 34% year-over-year growth, the highest second quarter revenue since 2014. Adjusted EBITDA of \$28.5 million, 19% from revenue compared to 13% last year, 99% year-over-year growth, the highest second quarter Adjusted EBITDA ever.

GAAP net income of \$19.5 million, a new record with 175% year-over-year growth, the highest GAAP net income ever. Non-GAAP diluted earnings per share of \$0.51, a new record for the second quarter with 55% year-over-year growth.

Perion's unique technology and solutions lead to a great diversity in our business. The scalability of Perion business model translate into strong, predictable, and sustainable performance. We are able to improve our margin and our efficiency during the second quarter of 2022 as a result of our continuous efforts to improve Perion financial power.

Turning now to the quarterly results in more details.

As I just noted, revenue for the second quarter was \$146.7 million, an increase of 34% year-over-year. Since the second quarter of 2020, we have consistently delivered strong double-digit revenue growth, reflecting a CAGR of 56%. Display advertising revenue was \$81.6 million during the second quarter of 2022, an increase of 41% year-over-year. Video revenue grew by 273% year-over-year, representing 44% of display advertising revenue. The number of video platform publisher increased by 145% year-

over-year, from 22 to 54, and the revenue from the retained video platform publisher increased by 52% year-over-year.

CTV revenue grew by 90% year-over-year, representing 6% of display advertising revenue. SORT customers nearly doubled quarter-over-quarter from 65 to 126. SORT customer spending increased by 62%. SORT revenue represents 14% of display advertising revenue.

Second quarter search advertising revenue was \$65.1 million, an increase of 26% year-over-year. Growth was driven by a 42% increase in average RPM and the addition of 31 new publishers to our network. The 70 million daily searches on average remain consistent with the number of searches in the second quarter of last year.

In terms of revenue mix, display advertising revenue represents 56% of the second quarter revenue, compared to 53% in 2021. With search advertising representing 44% of revenue compared to 47% in 2021, this change in revenue mix is in line with our diversification strategy as we continue to expand into the video, CTV, and retail.

Revenue excluding tax was \$60.7 million, or 41% of revenue, compared to \$43.5 million in the second quarter of 2021, or 40% of revenue. The median (phon) margin improvement was primarily due to improved commercial terms and favorable product mix of ad formats in the iHUB control system. Opex and COGS were \$35.6 million in the second quarter, reflecting 24% of revenue compared to 30% last year. We are constantly achieving higher operating leverage, mainly due to operational excellence and automation, the scalability embedded in our business model, as well as the continued successful implementation of iHUB.

Second quarter net income was an all-time record of \$19.5 million, or \$0.41 per diluted share, an increase of 175% compared to \$7.1 million, or \$0.19 per diluted share in the second quarter of 2021.

On a non-GAAP basis, net income was \$24.5 million, or \$0.51 per diluted share, an increase of 99% compared to \$12.3 million, or \$0.23 per diluted share in the second quarter of 2021.

Adjusted EBITDA of \$28.5 million and margin of 19% compared to Adjusted EBITDA of \$14.3 million and a margin of 13% last year. Adjusted EBITDA to revenue excluding tax increased from 33% in the second quarter of 2021 to 47% during the second quarter of 2022. Our efforts to keep the medium margin level stable and to generate incremental revenue with lower variable costs continue to improve efficiency and profitability.

Net cash provided by operating activities was \$25.7 million compared to \$40.6 million in the second quarter of 2021, reflecting 76% year-over-year growth. As of June 30, 2022, we had cash, cash equivalence, and short-term bank deposit of \$353 million compared to \$322 million as of December 31, 2021. We continue to conduct a responsible and disciplined capital allocation approach, and we expect to continue generating positive cash flow. This will allow us to execute on both organic and inorganic growth opportunities.

This concludes my financial overview for the second quarter of 2022. I will now turn the call back to Doron.

Doron?

Doron Gerstel

Loading (phon).

Maoz Sigron

Now it's good, Doron.

Doron Gerstel

Loading?

Maoz Sigron

Yes, but you need to present.

Doron Gerstel

Hold on for a second.

Okay. Sorry about that. For closing remark, three slides. First, I would like to share with you, the first time what we as Management see as the uber KPI that we are running the Company upon which combined both growth in revenue and profitability, and we're very, very encouraging, especially when it's calculated in a trailing 12-month method.

The point is always be above the 40%, which is a combination of in blue, the year-over-year revenue growth, as you can see as a percentage for the last 12 months, of course, and then you're able to see the EBITDA margin, which is 18. Adding these two is providing the KPI, and I'm very happy that instead of calling it the rule of 40, as you are all familiar, we should change the name the rule—and 50 or in some cases even 60 and up. That's showing the sustainability and predictability of our business.

The next thing I would like is very much how we feel our guidance for the year. In that sense, we have realized that Chief Digital Officer must be hyper alert, and he's constantly adjusting our location to business and market condition, which means that our moat that Perion will widen, because its brands have more access to data to determine where they will allocate their spending. They are making decisions faster and faster, and they are raising the bar on their platform which we are benefiting from.

Our strong performance and \$353 million in cash and zero debt, our teams excellent execution, continuing market share gain, and improving efficiency give us confidence that we will at least achieve the high-end of our full year Adjusted EBITDA guidance, even when taking further global recessionary condition into accounts.

As a real closing note, I want to bring you back to the five things to remember, because that differentiation applies to why we performed so well and why we will continue to perform so well.

With that, I would like to open the line for Q&A. Thank you so much.

Operator

Our first question comes from the line of Laura Martin with Needham. Please proceed with your question.

Laura Martin

Hi, guys. Can you hear me okay?

Doron Gerstel

Yes. Yes. Hi, Laura.

Maoz Sigron

Hi, Laura.

Laura Martin

Hi. Great numbers. Really congratulations. These are fantastic numbers for the quarter. Let me start with this very strong search revenue growth. As you know, I always give you a hard time for the slow growth rates of search, but Google grew search at 14% and you guys grew search at 26%. Can you talk about what is driving the extraordinary strength in search for your business in the quarter, please?

Doron Gerstel

Yes. First and foremost, what drives is that we increase substantially the number of new publishers that we are working with. That's number one. More publisher, more search that we provide to our partner, this is one. The second thing is that we are seeing the increase on the RPM. But let me—because RPM is definitely something that impact Google and others as well. But we have a very interesting way to direct and guide our publisher, because the RPM that we are reporting here is an average, and there are RPM that worth more than others.

I mentioned travel, so working with publisher that are able to drive searches in areas where RPM is higher, that's I think our secret sauce.

Laura Martin

That's super helpful. Could you then also—the other thing I'd be very curious to learn from you, because your ad results are very different from Google and Meta's. Could you talk about relative geographic strength and also brand versus DR, which one you saw more strength in during the quarter?

Doron Gerstel

On brand versus DR, that's very interesting because this recession is very much—or hit us in the last quarter, so we see a shift from advertiser, not dramatic shift but we definitely can recognize it. I mentioned on the call that I'm glad that we are in this part of businesses as well, so we are able to capitalize on any changes our customer are doing in their preference between the display into DR. But that's definitely a movement that we should look very carefully and that's has to do with changes of advertiser preference, and we see it on the numbers.

Laura Martin

Now, sorry, so DR is stronger or brand is stronger?

Doron Gerstel

On the overall, display is growing more and has to do with video and it has to do with the CTV. On the overall pie (phon), we definitely reporting that we are growing. The growth is greater on display advertising than on search advertising. It's 43 to 26. That's the difference. That's the numbers.

I can tell you that discussion that we have with advertiser that they are looking about two things. First of all, the concept the awareness to performance is really working very nice, especially on CPG, vertical; on product, it is not required a long sales cycle. I think that Beyond Burger is definitely—for us, it's the use case of the quarter. Our able to drive net new consumer that will be aware of it and then click—with one click, able to continue the purchase, was always the Holy Grail in advertising that getting expand the market share of our brand. This is always the discussion that we have with them.

We are able to drive new products to the market, which reflected on the display advertising. At the same time, I think that the fact that advertising is shifting budget also towards DR is definitely something which is notable.

Laura Martin

Okay. Then geographic, can you talk about the geographic relative to (multiple speakers).

Maoz Sigron

It's about 80% U.S. and 20% rest of the world, more or less.

Laura Martin

Is U.S. stronger or what's stronger?

Maoz Sigron

U.S. stronger. U.S. U.S. 80%. Around, let's say 80%.

Laura Martin

Okay. Thank you.

Doron Gerstel

Thank you.

Operator

Thank you. Our next question comes from the line of Andrew Marok. Please unmute your line and proceed with your question.

Andrew Marok

Hi, guys. Thank you for taking my question today. I think you touched on it a little bit in the previous answer. But you said earlier that not all ad tech is being affected by macro in the same ways, and your results definitely reflect that. From where you sit, if your business isn't being affected as sharply, what parts of ad tech do you see as being affected by macro?

Doron Gerstel

I think that first and foremost, I will using—I think it's the third or fourth time in this call the word diversification. I think that companies that are having a point solution, rather being diverse, then we are a company that take diversification into extreme. If you think about it, it is not just the three channel that we

cover. In all of them, we cover also both sides of the open web, which is the supply and the demand, so you can envision a matrix which is three by two. That's the maximum diversification that I can think of.

I think that companies that will be a point solution and very much narrow, they're offering—they are very much subject to all kinds of wins that might affect their business, because we've seen the volatility, we've seen that advertiser are changing, and that has to do with the platform. They can do it, and they can do it in a short period of time, where they definitely can change the mix. The question is how you are preferred and to what extent you're able to capitalize on those changes.

Andrew Marok

Thank you. That's very helpful. One more if I could on iHUB. It looks like iHUB is definitely starting to contribute to cost efficiencies, and I think you've given some numbers in the past on expectations there. Is that progress on schedule, ahead of schedule, and have your thoughts on the bottom-line benefits it could provide have changed at all?

Doron Gerstel

We are definitely running with the plan and doing the numbers that we plan for the second quarter and expecting to see the same impact for the full year. We mentioned, the current, let's say, number for the full year is about (inaudible) benefit, GP (phon) benefit. We are earning based on our plan and just finding new area of optimization that part of them—all of them reflected in the second quarter.

Andrew Marok

Great, thank you.

Doron Gerstel

You're welcome.

Operator

Thank you. Our next question comes from the line of Mark Kelley. Please unmute and proceed with your question.

Mark Kelley

Great. Thank you very much. Good morning, everybody. Guys, I missed part of the prepared remarks, so I apologize if I'm asking something you already addressed. But with cookies being—cookie deprecation being pushed out to the second half of 2024. How do you expect that to impact adoption of SORT, if at all? I know you give a ton of great statistics about how SORT outperforms cookies anyway, so maybe it's a moot point, but any thoughts there would be helpful.

The second one, just, you have a strong relationship with Microsoft, and obviously, they are a partner—an initial partner for Netflix with their AVOD offering. I know the details are pretty vague at this point. But just curious if you think that relationship with Microsoft on your side might help you or put you in a good position to participate in Netflix with ads. Thank you.

Doron Gerstel

Yes. Thank you. I mentioned on the call, the Google recent announcement is definitely something which give us more time, and we need more time very much to cement our leadership. I think that you need to remember, and SORT does need to be divided into two parts.

One part is to what extent you're very much overcome the cookie-less issue, that's one part. But the part that we are really focusing at this point with the market is the privacy first, and that surprises us, because we were looking about—when we introduced the product, we said SORT cookie-less solution. But now we changing it, and it's very important by looking at the tagline because we said privacy first, cookie-less solution, because we are hearing more and more from our advertiser that consumer increasingly favor brands that protect their privacy, and I think this is very important.

I'm glad you mentioned it, and it's an opportunity for me to distinguish all other, and we all looking at, for instance, unified ID that being pushed by traders, which we definitely need to support. But I can tell you that they might solve technologically the cookie-less problem, okay, they solve it. But by all means, they didn't touch the consumer privacy. They didn't.

I think that the challenge that we took upon ourselves to make it privacy first cookie-less solution is definitely something that with the legislation and what's happening in Europe, and more importantly, what advertiser are recognize, I think it's very important and it's going to play a major role in our ability to grow our business, and to get more market share.

Now to your second question, as far as Bing, we are having discussion already, because Bing is part of Microsoft Advertising division. The executive there supervise all part of the business. We're having discussion on Microsoft advertising, the recent acquisition of Xandr, as well as the remarkable partnership that they did with Netflix. That's great news. That gives for everyone who is looking for quality supply, inventory, and CTV. I'm sure that we will be able to leverage our great partnership just to remind the audience that we won the Partner of the Year in 2021, so we are having a great partnership, and it's a great dialogue of how we are able to enjoy the Microsoft advertising success with Netflix.

Mark Kelley

Perfect. Thank you very much.

Doron Gerstel

You're welcome.

Operator

Thank you. Our next question comes from the line of Eric Martinuzzi with Lake Street. Please proceed with your question.

Eric Martinuzzi

Yes, I was curious about the expectation for the revenue mix between advertising and the search for the year. I know there are some seasonal aspects, so in Q2 we got 56% advertising, 44% search. That really was—despite your commentary about global macro challenges, it was kind of what I was modeling for. I'm also modeling for a higher percentage of advertising in Q3 and Q4 so that we finish out the year, more like a 58%, 42%. Just wanted to know if that's in line with your expectations or would you expect that the advertising to be a lesser percentage than that?

Doron Gerstel

Yes. I think that you very much hit the point, and if there is one thing which I think it's very hard for us to predict, the word volatility is very much described that—Chief Digital Officer are changing their preference. In this macro environment here, those changes are happening overnight. I'm glad that our diversification strategy allows us to capitalize on these changes, but I can tell you that from a modeling perspective we have some hard time to model it because, again, those changes are happening way more frequent than it happened in previous years. Currently the model is supporting what you described but we are looking at it with a caveat on changes that can happen and has to do again with advertiser preference.

Eric Martinuzzi

Okay. I appreciate the fast-changing environment and the difficulty in forecasting, and also kudos for the good execution in Q2 and the outlook for the year. The big upside here is obviously the Adjusted EBITDA target being raised for 2022. You had that Adjusted EBITDA to revenue ex-TAC percent at 47% versus 33% a year ago. It just begs the question, how high can we go? You're talking about a challenging macro environment and as you're putting up outperformance in the Adjusted EBITDA margin to revenue ex-TAC, where can that go?

Doron Gerstel

Where it can go, I don't know. I'm having the pressure from my Board and that's enough. But we are—at the end of the day, we definitely put the foundation there. When two years ago or even a bit more when we start investing in the iHUB concept, we had way, way more, let's say, modest type of expectation as far as what we able to generate and to what extent our iHUB will eliminate, as we like to say, the waste and allows us to perform better in both way.

One is to do with optimizing the media cost and the other thing, which is very, very important, it has to do with reduce operational costs. It has to do with cloud expenses, data expenses, and all other things. We are definitely very, very happy with the return on the investment on developing the hub, and we will continue and develop it furthermore because the evidence that we are getting right now is very, very promising as far as our ability to increase our margin.

Eric Martinuzzi

Okay, so no answer other than there's still upside.

Doron Gerstel

No answer.

Eric Martinuzzi

Okay. Last question. You talk about the macro challenges and your diversification is how you overcome those macro challenges, but do you have anecdotal evidence within your customer base of your customers spending less? You talk about diversification where you're—it sounds like they're not spending less with you, they're spending less with others, but why are you saying that there's challenging macro environment and yet your revenue outlook is unchanged.

Doron Gerstel

Right. First of all with the respect to our \$630 million as a midpoint for revenue, from overall perspective of the market which is \$600 billion, we are one tenth of a percent. Sometimes you enjoy the fact that if you're one tenth of a percent, your agility and ability to capture market share from others is definitely playing favor. That's basically what we are trying here to do and the foundation that we set in place.

The macroeconomics are definitely there in the way for us to interpret the microeconomics is that our customer are changing their preference. We need to be not just cover the three pillars, but also come with a wide, wide range of offering and products. I think I mentioned it, and I showed it in our tools that we have on the video platform.

The point here is that you have to have enough—as large as possible of bandwidth with your customer to accommodate their objective, and I think that Beyond Burger is a great example for it. I think the fact that our search advertising, what we're doing on CTV, the new innovation in gaming, in console gaming. We are acting as a—it's not the entrepreneurial spirit is very much—even in a \$600 million company, and we would like to retain it as possible.

Eric Martinuzzi

I understand. Thanks for taking my questions.

Doron Gerstel

Thank you.

Operator

Thank you. Our next question comes from the line of Jason Helfstein with Oppenheimer. Please unmute your line and proceed.

Jason Helfstein

Hi, guys. How are you? (Multiple speakers) speak to you.

Doron Gerstel

Hi.

Maoz Sigron

Hi.

Jason Helfstein

Hi. How are you thinking about advertising in the second half? Do you think that we see a continued slowdown offset by increased search air and obviously that search segment is wide encompassing, right? It's not just "search"? Or is a function of you're seeing some of the newer channels such as video and ad targeting offsetting, I guess we'll call it, the legacy perhaps headwinds in advertising? Just unpack that a bit more?

The second question, I don't think anybody asked it, if they did, you can skip it. Just how are you thinking about acquisitions from here? It seems like you're doing better than others, you've got a balance sheet,

asset values are depressed or do you keep it heads down and focused on organic growth for the next medium term? Thanks.

Doron Gerstel

Right. Thanks. First to your question as far as what we've seen, as far as H2, I want to mention since we are very much into the third quarter, and I can say that at the end of the second quarter we have seen some shifts, and shifts from advertising spent towards DR. The way for us to interpret the DR is to do with search advertising. As I mentioned in our call, the best evidence for it and the reflection of that has to do with RPM increased dramatically. In the second quarter, I think we've seen 40%...

Maoz Sigron

42%.

Doron Gerstel

42% increase on the RPM. This is continued into the third quarter, which is very much support the fact that advertiser might shift the spend from traditional display advertising to more of a DR play. That's kind of an evidence that we see from our customer. That's number one.

As far as M&A, yes, we are definitely putting a lot of efforts. We identify two areas and remain focused in two area. One has to do with CTV and the other has to do with retail. In both verticals, we are doing a great progress. We learn it well from our customer what really kick (phon) and where is our gap. As I mentioned, it's always a question of the build versus buy. At this point we are doing a lot of the build in order to close this gap but there are some great opportunities in the market.

I must tell you that we are waiting that valuation will come down as we are expecting and start seeing it from privately held companies. I think that we are in a great position to strike both from a cash standpoint, and what is more important even from the fact that we understand what we're really looking for.

Jason?

Jason Helfstein

Yes. I'm all set. Thank you.

Doron Gerstel

Thanks.

Maoz Sigron

Thank you.

Operator

Thank you. Our next question is a follow-up from Mark Kelley. Please unmute your line and proceed with your question.

Mark Kelley

I forgot to lower my hand. I apologize. I'm all set as well. Thank you.

Doron Gerstel

Thank you.

Maoz Sigron

Thank you.

Mark Kelley

Thanks, guys.

Operator

Thank you. We do have a follow-up from Jeff Martin. Please unmute your line and proceed with your question.

Jeff Martin

I'm sorry. This is Jeff Martin. Did you call on me? My Zoom keeps cutting in and out.

Doron Gerstel

Yes. Hi, Jeff.

Jeff Martin

Hi, guys. Great to see such strong results and a strong outlook for the balance of the year. I was curious if you could give us some insight into the strength in Vidazoo? Looks like it performed very well in the quarter. What are some of the underlying drivers there?

Doron Gerstel

The main underlying drivers very much has to do with the fact that the Vidazoo platform, which is very much in holistic approach and the idea is to what extent we are able to drive a long-term partnership with our publisher. It's not a secret, it's a very competitive market where there is a lot of video monetization.

The approach that the Vidazoo guys were taking by coming with a platform that very much incorporates everything that publisher needs from player to monetization to out-stream and in-stream to display, you name it and I think that this slide describes it well. It's giving us a great position, as I mentioned, to develop the stickiness that is so important for the predictability factor of our business and we are very, very happy that we are able to increase substantially the number of publisher in the second quarter.

The same metrics here. The idea is to look about net new publisher and to what extent the existing publisher increase their spend over time. Those are the two KPI. We are very happy with the fact that we are able to penetrate and because we have such a long range of product within the platform, our publisher is signing on to more and more product and based on that they increased their spend and we are developing here a very—I think very useful economic model, which the Vidazoo video platform is acting as a unit of this economy and gives us a very important factor to our predictability of our business.

Jeff Martin

Okay. Great. My other question was on the retail side. It sounds like that could be part of your imminent M&A strategy, but in the interim, you also mentioned you're going to invest more here. How do you envision that from a market opportunity standpoint? Maybe give us a context of what kind of timing we might expect that to become a meaningful contributor to the CTV revenue?

Doron Gerstel

Yes. I think that it's very interesting we are in a way looking about two separate types of efforts. One is retail and the other CTV, but they are combined very nicely, because those retail that we talk to—and I think the best example has to do with Safeway—is their majority of their spend was on very much linear TV. They understand that while they are doing it on linear TV, they are very, very much limited in terms of personalization.

There is an educational process here, but what you able to see—I don't know if you had the chance to see the use case that I showed on the call, we are taking personalization to where they never been before, only because linear TV cannot allow it. It cannot by all means get into 4,520 permutations of video that cover five types of persona in 904 stores.

The point here is that—yes, that there is a huge transformation in regards to how retail is viewing their advertising spend. They are more, let me put it, risk adverse. It require quite an education process by moving those dollars from traditional advertising to digital advertising, but we truly believe that this is definitely an area which we are not the only one who see it, but we are trying very much to blend into our product or our offering the high impact units, the innovation that you are able to see, the ability to get to a one-click and do this hopping from your CTV all the way to the guest shopping cart on Walmart, that was the example. All this is part of offering to retailers.

Yes, you're right. We are looking carefully on companies that are able—that will get us into a point where we will close gaps that we identified and retain our position there. We're working closely with Albertson as a design partner in some of those great initiatives, and yes, we identify retail as an area which we would definitely like to expand from an M&A standpoint.

Jeff Martin

Great. Thank you.

Doron Gerstel

You're welcome.

Operator

Thank you, I am showing no further verbal questions. I am showing we do have written questions in the Q&A box.

Doron Gerstel

Yes, so we covered very much the acquisition, and we will have some news as far as the—more on the CTV acquisition will definitely will share with you. We're not at any point of sharing anything but we are devoting a lot of efforts for an M&A. This is why we raised money and that's why we are having a great—as I said, a great position to do.

Maoz, do you want to take the pro forma?

Maoz Sigron

Yes, so for pro forma point of view, on the revenue growth, we are—pro forma basis is about 20%. This is more or less where we are in the second quarter. From a SORT point of view, if we are translating the number of advertiser to number of campaigns, we are talking about 250 so far. We are running based on our plan, so definitely we will keep an update later during the year in the next two quarters.

Doron Gerstel

Just to remind you, on the SORT KPI is the number of new campaigns that are exposed to SORT as well as to what extent advertiser that already being exposed increase their spend. Those are the two very much factor to show the progress on SORT.

Any other questions?

Okay. Guys, we don't have more question. With that, Maoz and I would end the call and thank you very much for your participation.

Maoz Sigron

Thank you.

Doron Gerstel

Thank you much. Bye.

Operator

Thank you. This does conclude today's conference and you may disconnect your lines at this time. Thank you for your participation and have a wonderful day.