



Perion

First Quarter 2022 Earnings Conference Call

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PRESENTATION

Operator

Hello, and welcome to the Perion Network First Quarter of 2022 Earnings Conference Call.

Today's conference call is being recorded.

The press release detailing the financial results 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, uncertainties and other factors, including those discussed under the heading Risk Factors and elsewhere in the Company's annual report on Form 20-F that may cause actual results, performance or achievements to be materially different and any future results, performance or achievements anticipated or implied by these forward-looking statements. The Company does not undertake to update any forward-looking statements to reflect future events or circumstances.

As in prior quarters, the results reported today will be analyzed both on a GAAP and non-GAAP basis. While mentioning EBITDA, we will be referring to Adjusted EBITDA. We have provided a detailed reconciliation of non-GAAP measures to their comparable GAAP measures in our earnings release, which is available on our website and has also been filed on Form 6-K.

Hosting the call today are Doron Gerstel, Perion's Chief Executive Officer; and Maoz Sigron, Perion's Chief Financial Officer. I would now like to turn the call over to Doron Gerstel. Please go ahead.

Doron Gerstel

Thank you, Kevin. Hi, everyone. I hope you can hear me well. I'm Doron Gerstel, I'm the CEO. Together with me is Maoz Sigron, who is our CFO. Thanks for joining our first quarter of 2022 earnings call.

Let's get started. Earlier today, it has been reported that the first quarter of 2022 was a record quarter for us, both in terms of revenue and EBITDA, revenue first, but I very much would like to emphasize on this call that even though it's a huge growth, it is definitely not a one-time event. That's the reason I would like very much to share with you that in the last three years, and that's the reason I highlighted here for the first quarter of 2022, the first quarter of 2021 and of course, the current quarter, where you're able to see that this is a sustained and predictable business model, which is very much the theme of my presentation today. I very much would like to take you what is behind it?

What are the main drivers behind this sustained and predictable business model? The most important thing, as I highlighted in left that we are built all our strategy from the point of view of the Chief Digital Officer of any given brand, where the Chief Digital Officer's main challenge is how to allocate its budget across the three main pillars of digital advertising: search advertising, social advertising and display CPG advertising.

While the challenge is how to allocate it, we see more than once and it happened quite often that the Chief Digital Officer is allocating its budget differently. It has to do with all kinds of things that is happening around us and things which is being affected. Our strategy is that we are capitalizing on any changes and this is something that's not hurting the business as if we were only buying into a one pillar. That's the heart of our strategy.

Just to give you an example of the changes and how we supply to our business from a diversification standpoint, you're able to see the shift that has happened in the Company between last year and this year. While last year search advertising was 58% of our business and display was only 42%, this quarter, this is definitely being changed, where display was going up to 55% and search is only 45%. It's allowed us to focus on a high-growth category. The high-growth category in this business, which is in display advertising business, is definitely on the video side. We're able to grow our business from a 50% video share out of the entire display advertising to 40%. CPG grew by almost double from 3% to 5%.

Now the Company is definitely looking here about another area where we are focusing. We define it as a high-growth category for us. It's really the beginning of the year, but we are very happy with the fact that we're working with some prominent brands on the retail side and offering a very, very interesting product to retail. Those are the area, but it demonstrates our ability, how we're able to shift and able to focus on a high-growth category, which overall drive the great growth.

The EBITDA is—so before going into the EBITDA. On the revenue side, I very much would like to look at it from above. While the category of ad tech is growing by 23% on a CAGR between '20 and 2022, as you're all familiar with, currently is growing by 39% on a CAGR between '20 and '22. That's very much a point that allows us here to drive exceptional growth despite changes in the market dynamics. I will go and definitely elaborate more how we are able to take market share from our competitor, which is as the result of growing almost double of what the category is growing.

Now from an EBITDA perspective, the numbers are even more interesting. I use the same type of format, which we're not just talking about the 158% year-over-year growth between the first quarter of 2021 to the first quarter of 2022. I would like to emphasize the point that this is the continuous growth of our EBITDA and very much has to do with two main drivers that help us to increase our net margin, to get them to a point where we were on below 20% of EBITDA to revenue ex-tax to a number which we're so proud of, that our EBITDA percentage is 42%, EBITDA to revenue, excluding media cost, 42%. and what is—what is behind it?

What is behind it is very much our structure, and I explained this in previous call, and I would very much would like to focus because it's a key differentiator for our Company, the ability very much to connect all the assets, demand and supply, into a central intelligent hub, iHub, that allows us to drive scalable operational efficiency and improved media margin, as Maoz will talk about it in his presentation. The two factors, the operational efficiency and improved media margin, is definitely reflected on our EBITDA numbers here.

Talking about our intelligent hub. I illustrated it in a way that you're able to see the demand asset that we have here that are connected to brand agency DSPs, to our partner, Microsoft Bing and then the supply assets that we have on the rise.

First and foremost, from a diversification standpoint, the ability to generate revenue from both sides, the demand side and the supply side, which is very important. Then the huge investment that we did on the technology to connect all possible data into one single intelligent hub and the benefit of doing it is clear. Those are the three things. I touched the operational cost, and I touched the media costs, but I would like to talk and very much elaborate on what we're really proud of is to what extent this hub-and-spoke structure, which we are crunching so much data that is coming from all sides of the house, demand and supply, allows us to increase customer value.

The first product that we launched in stores, this is the SORT solution, we saw that mid-October and the results are astonishing. This is the operation behind it. What we are doing on a 24/7 and then what we are doing on predictive analytics, the moment we are getting an opportunity. But what is more important, that we are working with the certification body of Lithuania, and the reason that we are working with them is that every quarter we are sending our performance and our results, the contained performance that we did in the given quarter, and we asked them to certify this because every campaign—this is something that we insist with our customer, and we have more than 110 since we launched the SORT solution. Every campaign that we are doing, we insist that it will have a cookie-less targeting alongside of using third-party cookie. That's one (inaudible) that is really helping them to certify the fact and coming with this point that SORT demonstrate the ability to outperform to additional third-party taxes and show the largest lift when paired with high-impact performance.

As an example, I would like to talk about this campaign that we did, which is Colorado Tourism Campaign, a very, very successful campaign. But what is more important, what is really more important is these numbers. These numbers represent the fact that we're able to show a huge lift on click through rate, that's 106, and also in all formats here, it's a huge lift. This is all about the fact that now advertiser, they have a choice. They have a choice to scale. They have a choice what is more important to keep privacy of their consumer and yet not compromise on performance. Very important to note that our solution not require any integration whatsoever with publisher nor with the user. I want to mention that there are other solutions out there like UID 2.0 that you all are familiar with that require the user to provide its email (phon).

We were going into a different direction where there is no whatsoever require any interaction between the user nor with the publisher. Now what you're able to see here, which is an interesting thing that once you run in those ad units, you're able to see this symbol. When you click on this symbol, you're able to see that's what is—this is our brand safe, and that's what it stands behind it, which is creating for us a perfect flywheel—the perfect flywheel is because we've seen more and more clicks. Actually, people would like—feel safe to click on this type of ad where they identify that there is the SORT symbol, which is there. Those clicks drives more TTR for an obvious reason. Then it increased the return on that spend, which drives more advertisers. At this point, we are really proud to say that since we launched the SORT solution, mid-October, we did 110 campaigns that is being exposed to 150 million impressions delivered.

If I translate it, we have 2 million to 3 million people that click on those ads. That's an amazing product, which is a result of the iHub, which is a result of our ability to connect all assets into a central piece and able to deliver, I think, such a great product to our customers.

Okay. From a display advertising standpoint, again, it's a huge growth. It's an 80% growth between the Q1 2021 and Q1 2020. This growth is continued. I mentioned the fact that it allows us to focus on key growth strategic areas in the market. But from other things that we are hearing, everything that we are hearing, brand and agency is looking for a full-funnel solution. This is what's always the holy grail of the industry where you're able to take the consumer from awareness stage all the way to a buy stage.

I would like to demonstrate it with the campaign that we did with the (inaudible) and this campaign was very much allows us to take the user for a different type of multiple format, if it's their mobile, if it's their CPG, and what we were using here, we're using the connected cart (phon), which is a very interesting thing because at the end of the day, for some of the CPG products, those consumers would very much would like and we really don't know when they will be convinced and they will be at the point where they want to make the transaction.

From every point, we allow them to make this transaction. This will give them the hub to go all the way to the shopping cart. In this case, that's the Walmart a shopping cart, and you all, by the way, invited to send this QR code and you're able to see how it's so effectively that you don't need to add any more clicks between the QR code all the way to the guest shopping cart, and you need to pay and then you are out. The performance is huge for these customers.

In a two-month period, we were able to add 112,000 products to the Walmart cart that's worth \$1 million plus of product value, but the most important thing, as we all need to look at, is the CPR, that's 2.5x display CPR, higher than the Google benchmark, which is between 1.2 and 0.46. That's the point.

This is the value that we are providing to our customers, that's allowing us to ask for more business. That's translated into a 42% increase on average client spend. When we are talking about where the growth is coming from, and when I talk about increased market share, and we are taking market share from our rival, it's come from a point that we deliver value and the value is being translated only on this parameter and in digital advertising, everything is measurable. As you can see, these values translated into a higher increase average client spend. The point here from the innovation part is our ability to synchronize the different parts of the funnel.

I think that the Company—where the Company is coming from, the point of awareness to performance, that's what advertisers really wants to see and hear. From a search advertising standpoint, the numbers, we grew our business by 10% between the first quarter of 2021 to the first quarter of 2022. The most important KPI of this business has to do with the average daily monetize search. Those are the average daily monetize search. We are at 18.1 million daily monetize search and you're able to see that between 2019 and 2020 and 2021, the number decreased significantly which translated into the revenue, as you can see it here.

What is behind it? What's behind it is the fact that we're able to increase our number of publishers, 95 publisher in the first quarter of 2021, and now we have 120 publisher. I can tell you that there is some signs for the fact that we are recovering from COVID, and we see that travel is back, since we are monetizing carefully those searches, and we see that there is a growing interest on travel way more than it was before. That gives us a huge optimism for 2022 and beyond.

With that, I would like to pass it to Maoz to review our financials for Q1. Maoz?

Maoz Sigron

Thank you, Doron. Good morning, everybody. During first quarter financial performance is the continued demonstration of the Company's strong execution and superior growth while keeping all margins growing as well and this momentum continues.

Now let me share with you three of the main achievements of the first quarter.

Revenue of \$125.3 million, a new record, reflecting 40% year-over-year growth, the highest first quarter revenue growth since 2016. Adjusted EBITDA of \$22.7 million, 18% from revenue compared to 10% last year, a new record, with 158% year-over-year growth, the highest first quarter Adjusted EBITDA.

Non-GAAP diluted earnings per share of \$0.44, a new record with 132% year-over-year growth. This exceptional growth, increased profitability and significant cash flow generation is the result of the diversity of our revenue streams and the scalability of Perion business model that translate into unprecedented profitability. We are disciplined in how we manage growth and deploy capital and how we successfully integrate acquisitions as we did with Vidazoo in October 2021.

Overall, the first quarter showed that we have a scalable operating model built on for possible growth and demonstrating sustainable earnings power. We have the financial strength to continue to execute our strategic plan of organic and inorganic growth and are well positioned for another success year in 2022.

Turning now to the quarterly results. As I said before, revenue for the first quarter was \$125.3 million, an increase of 40% and 30% on a pro forma basis. We are consistently delivering strong double-digit revenue growth across both display and search advertising.

Display advertising revenue was \$68.6 million during the first quarter of 2022, up 80% and the (inaudible) increase of 52% on a pro forma basis. The 341% year-over-year growth in Video and CPG served as a key driver to the overall display advertising group, leading to an increase of average client spending by 42% and to an increase of client by 3%.

Sales advertising revenue was \$56.7 million during the first quarter of 2022, an increase of 10% year-over-year. Growth was achieved primarily due to 18.1 million average daily commercial searches compared to 17.7 million in the first quarter of 2021, as well as the addition of 25 new publishers to our network.

In terms of revenue mix, display advertising revenue represented 55% of the first quarter revenue compared to 42% in 2021, with search advertising representing 45% of revenue compared to 58% in 2021. This change in revenue mix is in line with our diversification strategy.

Revenue, excluding tax, was \$54.3 million or 43% of revenue compared to \$35 million in the first quarter of 2021 or 39% of revenue. The increase of 4% was primarily due to favorable product mix of ad format and our ability to connect the supply and the demand side of the open (inaudible) to our central iHub and Intelligent Control Systems.

Opex and cost expenses were 30% of revenue in the third quarter of 2022 compared to 35% of revenue in the first quarter of 2021. We are achieving higher operating leverage, mainly due to the scalability embedded in our business model as well as the continued successful implementation of iHub.

Net income was \$15.5 million or \$0.33 per diluted share, an increase of 368% compared to \$3.3 million or \$0.09 per diluted share in the first quarter of 2021. Non-GAAP net income was \$20.7 million or \$0.44 per diluted share, an increase of 196% compared to \$7 million or \$0.19 per diluted share in the first quarter of 2021.

Adjusted EBITDA increased by 158% year-over-year to \$22.7 million in the first quarter of 2022, representing 18% of revenue compared to \$8.8 million, representing 10% of revenue in the first quarter of 2021. This significant improvement is again the result of the high scalability within our business model as well as the successful implementation of iHub. Adjusted EBITDA of revenue, excluding tax, increased from 25% in the first quarter of 2021 to 42% during the first quarter of 2022. Our efforts to keep the media margin level stable and to generate incremental revenue with lower variable costs continue to improve the efficiency and profitability.

Net cash provided by operating activities was \$23.6 million compared to \$13.5 million in the first quarter of 2021, reflecting a 75% year-over-year growth. As of March 31, 2022, we had cash, cash equivalents and short term bank deposits of \$342 million compared to \$322 million as of December 31, 2021.

This concludes my financial overview for the first quarter of 2021. I will now turn the call back to Doron.

Doron Gerstel

For an ending note, I would like to close the loop and reemphasize the fact or what is really behind our sustained and predictable business model. We define it as a three dimensional diversified business strategy. The three dimensional is the trust channel, as I mentioned at the beginning, the ability to generate revenue both from the demand and supply of the open web and our unique structure of an hub-and-spoke where we're able to connect all assets into a central and demonstrate it with the first product that we launched to the market, that is SORT.

With that, with the sustainability and predictability of the business, we are feeling confident—we have the confidence of improving the 2022 guidance that has to do with the revenue. We put the new guidance on the range between \$620 million to \$640 million, which represents 32% year-over-year growth. But I think the most dramatic improvement of the guidance has to do with the profitability, midpoint of \$100 million this year which represents 40% of EBITDA to (inaudible). It was 36% last year, and it was 25% the year before. I can tell you that we are really feeling great about it because we start seeing that this whole structure that we bring into place is really kicking off, and we are able to turn it into a great profit and leverage our expenses.

Last slide. We released earlier today the fact that Microsoft Advertisement, Microsoft Advertising has chosen (phon) Perion and its search advertising subsidiary CodeFuel as a Global Supply Partner of the Year. This is a huge achievement. We just celebrated 10 years of partnership with Microsoft Advertising. We are in a four-year contract, which is going to end in 2024. But what is more important for us is our ability now to leverage the great partnership that we had with being into other parts of Microsoft Advertising. With the lender acquisition and the fact that they're going all the way into retail, it fits very well. Some of the strategic efforts that we are doing, and I have no doubt that we are able to leverage this success and take it into other important areas.

It's important to mention that it's a really hard work from all the teams. Besides CodeFuel, there are other almost 500 employees that worked really, really hard in this quarter and continue doing this quarter after quarter after quarter, and I'm really proud to do it. It's important for me, and I feel I should mention the contribution of 32 Ukrainian employees that we have. That despite of the war, they are working, and they are essential factors behind this quarter's success. I would like to thank them a lot and pray for their health.

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

Operator

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

Jason Helfstein

Thanks. I'll ask you two questions. The first, we've seen really good improvement on the margin ex-TAC (phon). Maybe talk about as you're thinking about acquisitions going forward. How do you think about growth versus being able to maintain the margin?

Then secondly, perhaps talk about your outlook for CPG. You've been able to move the number nicely over the past year, but it's still a relatively small percent of the business. Maybe expand upon that a bit.

Doron Gerstel

Thank you. First of all, it's a rare occasion, but the two questions is leading to one. That has to do with acquisition and CPG. We identified the CPG is definitely a strategic area that, for us, in order to leverage the growing spend in this area, require a different approach. We identified a few companies. We narrow it into three. I do believe that by the end of the year, for sure, we were able to have some significant strategic acquisition in this direction. When I'm talking about significant, don't take it into the sides. You all know how we are doing acquisition and what is our philosophy in terms of the acquisition. But we are definitely crystal clear on this direction.

Now I think that when it comes to your first question that has to do with maintaining the profitability and even it growing more than what we think, I think we are very much enjoying the fact that we enjoy different parts of digital advertising. While you connected them in a smart way, and I must say that the huge technology investment that we did in order to optimize the match, we call it here the brain and the match between impression and request and the demand side and the supply side give us a huge advantage, huge advantage in terms of optimizing our margin, which translating it later on to—optimizing our media cost and translate it later on into a net margin.

Kevin?

Operator

Any further questions, Jason? Our next question today is coming from Andrew Marok (phon). Your line is now live.

Male Speaker

Thank you for taking my questions. Congrats on a great quarter. I wanted to talk a bit about the search business. With Google calling out strength in search and Microsoft posting a solid quarter, I know they're not directly comparable to your search business. But how should we think about how Perion search growth trends relative to them? With publishers growing to 120 from 95, how should we think about the publisher opportunity?

Doron Gerstel

First and foremost, we are not competing with them. We are partnering with them. Basically, we are providing them search fees. In other words, we are working with our partners, and we are using a lot of—in this case, being as a partner, their tools, how to increase the number of quality searches. That's very much the idea.

I think that what we've seen is that from—again, from the advertiser standpoint, the attractiveness of search advertising is definitely there. User expressed the highest possible intent that advertisers are so much looking for. We see that the RPM, which the equivalent to a CPM, is going up, and we've seen that in some categories, and now we have a very, very good view of how much advertising spend on what keywords, et cetera, only the fact that we are exposed to a huge amount of searches every day. There are some categories that are growing. There are some that do not. I mentioned the fact that travel is growing and growing very nicely. It's only the beginning. It's not at the point that it was before, let me put it this way, but it's definitely in the right direction.

I'm very optimistic as far as the search is our search business.

Male Speaker

Great. Then one more, just on a tactical perspective from margins. 1Q is typically a low point EBITDA of margins in the year from a seasonal perspective. But this year is 42% of revenue ex-TAC (phon) with

guidance for the full year of 40% suggests that, that necessarily will be the case this year. How should we think about the scale and phasing of investments over the rest of the year?

Doron Gerstel

Definitely there. We are continuing, I think that our engineering R&D investment is just growing. We see ourselves as a technology company. With all the impressive number and the EBITDA is growing, the amount of technology and dollars that we're investing in developing the predictive analytics, which is—the heart of the iHub was there, I'm very happy. It just encourages us to do more.

SORT is the huge investment from our end. Just to get into a point—you can imagine that you can beat the third-party cookies CTR without having any kind of interaction or with the publisher, that's a huge investment with people that most of them are data scientists, AI engineers that are very costly to get, so we are continuing it because we are able to get dividend on this type of investment. That's what—something that we see. We truly believe that there is a scale. Keep in mind the SORT is—this is the first full quarter of SORT, let me put it this way. It's just being launched. We've seen more and more advertisers are looking for this type of solution. They're looking for a solution which does not require integration. That's clear. I wish that from this point, it will be a callout.

It's a bit provocative callout, but I will use the stage and basically ask how come investors are not jumping on this one? At this point, we are not charging. I'm not talking about the future, but we're not charging for SORT. If it's performed better and you are providing a better citizenship, but not stalking your consumer, why not using SORT? Now we are, after 100 campaigns, proved very much that we performed and performed well. The conventional use of cookies, we start getting some great leads. As I mentioned before, it's the first KPI that I'm looking at is the average deal size or the average transaction, which is growing rapidly. The scalability is definitely there.

As I mentioned, from years from my background as an enterprise software guy, I truly believe the technology makes a difference. In our case, it makes—it made a difference. It continues to be definitely something which is the torch of Perion.

Operator

Thank you. Our next question today is coming from Laura Martin from Needham & Company. Your line is now live.

Laura Martin

Good morning. My first question is on SORT, just building on what you just said. I think people here would say that UID is really important to the industry because the industry needs a solution to cookies, the open Internet industry. Therefore, an industry-wide solution is better than individual company solutions. Also, it is more in keeping with the EU's requirement that every consumer opt in and that feels like the U.S. is going to follow, I think, the EU data privacy. Could you talk about why joining UID 2.0 isn't better for you as part of this open Internet industry and how your solution of SORT actually is consistent with the EU's real lockdown now on consumers must have choice to opt out of tracking?

Doron Gerstel

Right. Thanks for the question. First and foremost, when you're looking about the UID, we are supporting UID because there are some publishers that basically said, we already have UID and if you want to put your head there, you have to support UID. UID is an open source, everyone is able to support it. In a way, even though it's driven by Trade Desk, the Trade Desk, it's an open source and everyone can integrate with them.

We were, from a design thinking standpoint, a project that started two years ago, let me put it this way. We put a very—we put a constraint here. Our main constraint was that the user is not required to cooperate with that solution. In other words, we're not asking the user to provide its email. That was the idea. I think it's still very much relevant. You are right in a way that we've seen a trend in Europe.

I must tell you that we are very, very close to what's going on there, and there is some resistance with—from the audience, from the user and from the community about providing it. I think, Laura, it's too early to say, and we are very happy with our technology. We are very happy with the performance that we provide. I wish other will join because at this point, I think that there is—the consumer drives it, and I think the consumer demands it. I truly believe that it will be more than one solution in the market, especially those solutions that we call non-intrusive solutions that not require any kind of handshake, not with the publisher nor with the user. We are all in, in this case.

Laura Martin

Okay. Then my other question is just following up on Facebook's call last night. They made a call out about e-commerce advertising being much weaker, but retail advertising, which was the omnichannel, both physical brick-and-mortar as well as e-commerce, coming back. Have you seen that kind of shift in the retail category in your revenue line as well?

Doron Gerstel

We are seeing—it's not a shift. I must say that from a CPG standpoint, we are—we definitely see that there is a growing interest. We're getting a lot of, I think, positive feedback from the fact that we're able to provide this connected cart, which is very much aimed to CPG type of clients where the deal size is not that significant and consumers able to do—to complete the purchase with one click. I must say that this is definitely a growing trend.

At the same time, we combined the two into a shop-able marketing as well, and we are working and that's the retail part where the whole personalized type of circular is going into a huge transformation in the market. We are investing a lot in order to personalize those circular. We're working very, very closely with Albertsons in this regard. They are our design partner and offering a personalized shop over market, marketing offering. That's going to be one of the key growth driver behind our display advertising in 2022, 2023.

Laura Martin

Then just following up on this, and this is my last question. You were thinking of taking inventory to help grow that business. Are you now doing that? Or what's the status of you taking on physical inventory to fill on that one click product?

Doron Gerstel

No, we're not taking an inventory. We're not, but the whole idea was that from a Walmart standpoint, they are offering for guest, they don't need even to login and everything, a very, very easy, a nice way for them to click and buy, which is happening in other e-comm platform. Now we are developing something which is in the next generation as far as offering substitute in case this product is not available in stock, not just to meet the opportunity where consumer did all the way, click on it, now it's on the cart and you will end it with this product is not available. We are working closely on the next generation of the solution.

Laura Martin

Thank you very much. Great numbers. Congratulations.

Doron Gerstel

Thank you.

Operator

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

Mark Kelley

Thank you very much. Two quick ones. The first one—they're both on SORT. But the first one is you just mentioned that you started working on SORT two years ago, give or take, which is before all of these Apple changes that were made. Have you had to make any adjustments along the way with anything that Apple has come out with, with their more privacy-centric demands across the app and iOS installed base?

Then number two, if you do decide to explicitly charge for SORT, what might that look like? Not expecting a timeline here, but just conceptually, how would that work?

Doron Gerstel

Yes. To your first question, from a design factor standpoint, SORT was not aimed to do any kind of an in-app, to support an in-app simply because we're not doing any in-app advertising. Their modification of their iOS is targeting mainly apps and the ability to transfer knowledge or data from one app to another. In this point not require any kind of modification. That's the first question.

As far as the pricing. First of all, keep in mind that if we provide twice the CTR, that's translated into return on net spend. That's very much it. While everything is equal, we provide twice the value. We always like to price it based on value. It can be two things. One thing can be, okay, you know what, we are—with this performance, you have the choice either to pay or to double your spend, that's very much what we are doing. Currently, we are going in a way where customers see the value. Instead of charging, they increase their spend. For me, it's like we are being charged because that's a key driver for us to turn SORT into revenue and margin generated. We don't need to charge for SORT, per se, in order to impact our top line and bottom line. That's the current philosophy that we get in.

Aside of it, and that has to do with what Laura was saying, it has to do with the UID 2.0. There is a race out there. The point here that the first six months, we get 100 campaigns, I can tell you now that on every campaign we run in SORT, yes, alongside of the cookies, and we want to be in a point where we're reaching the number of 1,000 campaign by the end of the year of using SORT. We are able to get way, way more advertiser that is being exposed to this number. But more than that, every campaign that we are doing allows us to improve the model. That's the beauty of this kind of AI and machine learning. Currently, the fact that we're not putting any constraints of putting a price or doing it like this, it's just helping us, not just to proliferate the solution but also to improve the prediction analytics of this, which is a key for us to drive 2x CTR and even more than that because we are shooting for a way higher number.

Mark Kelley

That makes perfect sense. If I can maybe ask a quick follow-up to the—to my first question about the Apple changes. I know you don't do any in-app advertising, but I'm just curious, there's been some reports that Apple might be clamping down on fingerprinting. I don't know if that's—it looks like you're taking a lot of different signals from a handful of different places. Is there anything that you're doing that could be considered fingerprinting in the eyes of Apple?

Doron Gerstel

No, not at this time.

Mark Kelley

Perfect. Thank you very much.

Doron Gerstel

Thank you.

Operator

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

Eric Martinuzzi

Yes. I wanted to dive into the display advertising topic again. You've talked about an increase of average client spend by 42% and a 3% increase in number of clients. I wanted to focus on that 3% number and ask what are you doing? It would seem like people would be beating a path to your door, but is this more of a trying to—you need to get the word out? Or is it just folks are slower to change old habits?

Doron Gerstel

From a number perspective, in Q1, the average client spend was \$73,000 and now is \$103,000. That's the average client spend and that's the 42% increase year-over-year. Now the point here is very simple. We are very much trying to be aligned with our customers that in a macro perspective, always trying to minimize the number of vendors. The main point here is that those digital campaign, which is very much driven by analytics and reporting and return on ad spend and everything like this, they would like as much as possible to have a single point—not a single point from a service standpoint, but single point from a data standpoint.

Where there are some other pockets and the pockets were there, we are very much trying and that's what we're trying to do right now. The word that I'm using is awareness to performance and it requires some education, let me put it this way. It was two separate kind of pillars or budget for awareness campaign and then from the performance campaign.

Once we were able to bridge the two, we are able to get more and more performance dollars because we, as a company, was very much on the awareness side of the (inaudible). That's increased the spend because they truly understand that advertise able to leverage its spend on the awareness and translate it into a performance. This type of continuous type of flow along the consumer funnel where you are able to take the user from awareness to consideration to intent to buy, and you're doing it in a certain amount of product. It's not happened on all products, and it has to do with the dollars. That's why I mentioned that CPG is a perfect example for it. You are able to take dollars that were not designed for us before, mainly on the performance side of the house.

I must say that the connected cart, helping us very much in this sense. The fact that we increased dramatically our video offering, and in this regard, we are offering more and more. Video business is definitely—video solution is definitely helping us. High-impact CPG suite is there as well. All in all, you are touching more and more points where customer is looking at it as a holistic type of solution, which reflected on the average client spend.

Eric Martinuzzi

Okay. But more to the number of new clients, is there an expectation here that, that 3% number is going to rise throughout the year?

Doron Gerstel

Yes, definitely.

Eric Martinuzzi

Okay. All right. Then in the display advertising revenue, what—are you able to pinpoint the percentage of the display advertising revenue driven by SORT? What is that?

Doron Gerstel

Currently, it's close to 30% of the display business.

Eric Martinuzzi

Okay. How is that compared to last quarter?

Doron Gerstel

Last quarter, we just started. This is definitely a huge factor, the majority of the 100 campaigns that we did within this quarter, I think 80 of them. Even though we launched it mid-October, we did it in a small step, let me put it this way. We did it in a way that the majority of the campaign was still cookie-based because we try as much as possible to convince our customer and that's what the efforts that we're doing, that they will allocate more and more budget towards SORT, but we have to prove them that we are outperformed and that requires some—there is a skepticism at the beginning. You're not doing third-party cookies. Yes, you have a certification arm that you're using as a third party, but we want to see it. We want to recognize them.

I think that—I think we issued this press release of Colorado Tourism, it speaks by itself. It's not just the safer not using the cookies element. It's very much has to do with scale as well. You are not minimizing the number of people that is being exposed. I would send the link, I'll ask Rami to send the link of this use case. You're able to see and we are able to see in connection in all parameters. That speaks for itself.

Eric Martinuzzi

Got it. Thanks and congratulations on the numbers.

Doron Gerstel

Thank you.

Operator

Thank you. I'll turn the floor back over.

Doron Gerstel

Okay. There are no more questions, Kevin?

Operator

There may have been one that came over.

Doron Gerstel

Yes, please, please.

Operator

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

Doron Gerstel

Yes. Hi, Jeff.

Jeffrey Martin

I was able to make it back on the call. Thanks for taking my questions. I wanted to get a sense for the key drivers of the average client spend, 42% is an impressive number. One, what are the key drivers? Two, is there a potential to expand this from here?

Doron Gerstel

Yes. Definitely. The main key driver is the fact that we—as I think I answered it just now, is the fact that we are able to shift—to get more dollars on the performance side of the house, and we were, up to this point, we're very much only doing on the awareness budget. The fact that we expanded into lower funnel, that's one; expanded to other channels in this regard to video. We were not known in our video solution. But as you can see from the number, 40% of this pay advertising is now video. That's a huge, huge, huge lift in spend and we are taking video dollars that was associated with other companies that were known for their video solution. Now we've not just closed the gap, but with our high-impact video suite, we're able to do way, way more, so additional format, additional areas on the funnel, CPG to some extent, all this has to do with drivers to increase average client spend.

Jeffrey Martin

Okay. Then one other, if I could. On the retail side, you gave the Walmart example, seems like very encouraging results there. How would you characterize the opportunity in retail? Is that one of the primary focuses strategically for Perion at this point?

Doron Gerstel

Definitely. Definitely. We found that this is a very interesting. With retail, we are looking about two parts. One has to do with, I call digital circular. As I mentioned, that has to do with one area, personalized (inaudible) circular, great opportunity that we have. I mentioned Albertsons is a key customer for us in this regard, the further developing it. It's a transformation of this business that we very much would like to cap. On the other hand, the retail is the connected market.

Jeffrey Martin

That's very helpful. Thank you, and congrats on a great quarter.

Operator

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

Doron Gerstel

Thank you. Thank you, everyone, for joining our call. See you next time. Thank you. Goodbye.

Operator

Thank you. That does conclude today's teleconference and webcast. You may disconnect now and have a wonderful day. We thank you for your participation today