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<<Jason Helfstein, Analyst, Oppenheimer>>

Good morning, everybody. Thanks for joining us for fireside Chat with Perion. Sorry for the slight delay, some technical difficulties. I'm happy to have the company's CEO, Tal Jacobson; and the company's newly promoted COO, Former CFO, Maoz Sigron. The format of today is fireside chat. Down below you'll see a place to put questions, so feel free to do that and I'll ask them. We already have one in so far. We have about 35 or so minutes. So, gentlemen, thanks for joining us.

<<Tal Jacobson, Chief Executive Officer and Director>>

Thanks for having us. It's good to see you.

<<Jason Helfstein, Analyst, Oppenheimer>>

So, let's start with just the evolution of the business. So, the DSP business has evolved over the last several years, some things that have been more favorable for Perion, something is less favorable. Just maybe talk about kind of what you see as kind of the biggest challenges that the business is facing and then kind of the parts of the business that are really working. And ultimately, it's really about getting those parts to become a bigger part of the mix to offset the parts of the business that are more challenged.

<<Tal Jacobson, Chief Executive Officer and Director>>

Yes, absolutely. So, you're absolutely right. Focusing on the DSP, you know, in Ad-Tech, there are only two main parts, right. The demand side budgets, well, supply side and through the past – well, I think, almost two years now, we're really focusing,we're shifting a lot of things towards the DSP part, so, we're focusing on demand. We're shifting a lot of our moving pieces into the demand part, and we are – actually all our technology is now focusing on the advertising needs so we can get more and more out of those budgets so, we're looking at ourselves as very, very focused on demand and nothing else.

<<Jason Helfstein, Analyst, Oppenheimer>>

And so, when you think about the business, maybe can we highlight, like, what are the areas that are doing particularly well and what are the areas that right now are dragging the business?

<<Tal Jacobson, Chief Executive Officer and Director>>

Yes, absolutely. So, our goal is to come to advertisers to basically meet with the CMO of whatever brand or with major agencies and to say, what do you guys need? We probably have technology for that, right? and we're building technologies for all the major channels. So, we have CTV, we have out-of-home, we have social, we have video display. We have the entire thing. And we're seeing an increasing success on our CTV technologies at our out-of-home technologies. We bought a state-of-the-art technology of out-of-home in December, retail technologies, which we're actually using for physical retailers to push people back into physical stores. So those are the biggest growth engines of the company. We did see some challenges with open web video.

In the past, open web video was a big thing for us. We're shifting away from that. I think a lot of advertisers are shifting away from our side open web video. And we do seem to get a lot of requests to do videos at out-of-home like on subways in New York or CTV. So, videos are actually shifting away to other formats. We just launched our integration with YouTube CTV, which is the second biggest CTV platform in the U.S., and we're focusing on premium inventory for our video budgets.

<<Jason Helfstein, Analyst, Oppenheimer>>

So let's talk about open web. I mean, what has caused the change there? Is it that other platforms are able to kind of prove that their channels are more effective? We all know that obviously, the explosion of social video, even TikTok has expanded, or YouTube expanding to it with shorts. But just – so you have an explosion of kind of social video inventory. Walled garden have all these metrics to try to show ROI conversion. So is it that or is it just the fact that like we've just seen prices come down and because your business – because DSPs inherently are kind of take rate oriented, that kind of weighs on your ability to kind of monetize that and it's a challenge to make the math work for an advertiser. So just, I mean, just elaborate a bit more on, like, why are we seeing weakness in social video and what's the catalyst?

<<Tal Jacobson, Chief Executive Officer and Director>>

In social video or open web video?

<<Jason Helfstein, Analyst, Oppenheimer>>

I am sorry, open web, open web. Sorry.

<<Tal Jacobson, Chief Executive Officer and Director>>

Yes, yes. So I think walled gardens are always good when you want to track performance. Even now with the cookies going away, walled garden is good. So, for us to use – we're actually driving some walled garden traffic on Facebook and TikTok and others. But open web has just become such a commodity, and prices are going down because of that on open web. Now, we are on the take rate business, right? If we get $1 million of budget, if rates are going down, we actually can – we can provide more inventories for our clients. But at the end of the day, numbers are going down because it performs less good, not because of anything else. So, we rather shift a lot of the budgets towards things that we see better performance, and that's why we're shifting a lot of that.

<<Jason Helfstein, Analyst, Oppenheimer>>

And so how do you insulate the business going forward so it's not as dependent on ad pricing? At the end of the day, you're running campaigns. If you can deliver performance irrespective of what the ad costs, that should be in the best interest of the advertiser. So just how do you think about trying to modify the business over time so that kind of movements in ad pricing don't weigh or impact as much on the business?

<<Tal Jacobson, Chief Executive Officer and Director>>

Right. So, since we're not an SSP, ad pricing affects us less, but we do focus more and more and most of our technologies going forward are focusing on performance. So, we want to make sure that the advertiser is getting the best ROI with us, so hecan come back with more and more budgets. Now, again, it's not about the price of the inventory, it's about the ROI that we can provide through that. I mean, we're thinking like a DSP and not like an SSP. So, it's all about what is the ROI that we can provide.

<<Jason Helfstein, Analyst, Oppenheimer>>

So, is it changing the way you run the contracts with the advertisers and agencies so you're paid on a performance basis as opposed to on a kind of in touch with total spend basis?

<<Tal Jacobson, Chief Executive Officer and Director>>

Right, so that's an excellent question. Currently, we're not changing our agreements, but we do know – I mean, we're getting a million dollars for a campaign and that's it. But we do know that if we perform good, they're going to come back with more budgets, right? So even though it's not based, it's not part of the agreement. We do know that that's what's going to drive them back. So, we put a lot of emphasis on that.

<<Jason Helfstein, Analyst, Oppenheimer>>

So we take a step back and kind of look at the longer term opportunity, right. A lot of the functions that you offer, the capabilities technically ad agencies could offer that they could have as internal capability, they don't because historically holding companies have really struggled with executing technology and keeping up with the pace of innovation and we need the walled garden. And so just maybe talk about that and why you think while the company is going through kind of a slower patch here, ultimately it makes you confident about the future and the capabilities that you can offer that the agencies don’t want to bring in house?

<<Tal Jacobson, Chief Executive Officer and Director>>

Right. So, when I go in meeting agencies, the conversation usually goes where we say, let us be your technology arm, we’ll be that layer. So, you wouldn’t need to focus on that, but you’re going to do the heavy lifting of the brand, right? Figure out strategy, figure out messaging, figure out creative, let us be the technology arm that you do not want to deal with, and that goes well. I mean, it really resonates at those meetings that this is needed, right. When they are focusing on margins, they do not want to spend more money on developers. They want to spend more money on getting more clients, winning those awards, which eventually would get the clients to renew. That’s their focus.

Our focus is to help them with technology. So they wouldn’t need to use 100 different vendors, right?~~.~~ So that’s our focus.

And I think it kind of resonates from the meetings I personally had and Maoz is joining me quite a lot in the past years or so, where we’re seeing now deeper relationships than we ever had with those agencies and increased budgets.

<<Jason Helfstein, Analyst, Oppenheimer>>

So, I mean, just on advertising, then we’ll go to search for a minute. So, kind of putting that together, how do you think about ultimately improving the margins in the business? Is this about bringing more automation, kind of getting more technologies, just where the margins go from here for the advertising business?

<<Tal Jacobson, Chief Executive Officer and Director>>

Yes. So, I think that’s a great question to state that the last change that we’ve made with Maoz, where we said, we have so many different products that are basically – we’re basically selling to the same audience, right, the same customer. And up until now, we’ve sold that through different salespeople. And we had a Hivestack salesperson and an Undertone salesperson, and a Vidazoo salesperson and ~~I~~ now, we’re now combining all of them. So, we’re making ourselves a lot more efficient in terms of process. And maybe Maoz can say a few words about that.

But we are also making ourselves a lot more efficient in terms of technology. So, we’re adding a lot of AI automation to our business, so we can run campaigns way faster. From the minute we get a request, the minute it goes live, it’s way, way faster. And we can combine now the view that we have on a client to say, you’re actually working with us on all those different places. How about we going to combine this into one view, one billing, maybe a different deal.

So again, maybe Maoz want to say a few things about that, because that’s really the strategic move that we’ve done with the promotion of Maoz.

<<Maoz Sigron, Chief Operating Officer>>

So, definitely, I would say that over the years, this is like a process that started when we did everything into one place. It was really more optimization other than really taking into the opportunity to have more business, because you have more holistic solution. So now I think we are moving from optimization, which is still important, and still from margin, from mediamargin efficiency, and also from OpEx efficiency, this is one, but this is not enough.

Now we are more moving into adding and making sure that we are taking all the solutions that we have, all the products, into one process, into unified process in all different areas. And we believe, and also based on the feedback that we are already getting from a few meetings that as Tal mentioned before that we are already doing, we see how advertisers, how agencies are responding. And this is very exciting. So, this is part of this change and this is part of our ability to take more and more assets that we have internally and leveraging that into a one holistic solution.

And this is something that already started. And now with the new role, I spend more time on this part to make sure that we are not losing any opportunity, that we can really combine everything to a one page. This is not 100% yet. It will be a process, but definitely we're starting to get there.

<<Jason Helfstein, Analyst, Oppenheimer>>

So, let me ask you a macro question, just more recent, I think, investors have gotten just more concerned about macro ad spending. I mean, just maybe talk to us, obviously there's Perion specific products category, but maybe can you break it down? So, from a vertical standpoint, are there any verticals that have gotten weaker in the past month or so as you are looking out kind of factor in your guidance? And then just for Perion specifically, I mean, we obviously highlighted online video as an area of weakness, but any other areas that investors just should be mindful.

<<Tal Jacobson, Chief Executive Officer and Director>>

I think when we're looking at the overall business, we stopped looking at different channels and we're looking more of can we get a deeper relationship with a customer, can he spend more time with us, more money with us through more technology? So, I wouldn't say dependent on us, but he is definitely going to have a lot of his marketing strategy with all our moving pieces. So that's the way we're looking at it.

You're absolutely right. I think open web video is not going to be – it's not going to grow dramatically. I think we're mainly going to concentrate on how do we push more, maybe more social, maybe more out-of-home, CTV, those are the major things that we're hearing from our clients, that that's what they want. But the key focus is how do we leverage our data? How do we – if a client comes and wants open web video, that's great, we will do that. But as long as we can leverage our data to make him get more customers, get more sales. So that's the main focus, not necessarily the channel, but we want to focus on performance.

<<Jason Helfstein, Analyst, Oppenheimer>>

Let me add, I guess, I'll be more specific. Are you seeing any weakness in consumer, I will call it, CPG or any kind of consumer discretionary categories right now?

<<Tal Jacobson, Chief Executive Officer and Director>>

Well, we do see a shift, not weakness, but do see a shift from brand awareness towards performance. So, we do see an increasing demand for – we're going to spend more money, but you need to show us sales. I think that's why you would see, Meta performing so well because it's a performance platform at the end of the day. So that's what we're seeing. I don't think we're seeing a weakness, but we do see a focus. Like two years ago, they have spent money on all directions, right? Performance, awareness, everything. Now it goes back to performance, performance, performance, and that's why we're focusing on that.

<<Jason Helfstein, Analyst, Oppenheimer>>

So talk about search for a minute. So I think there is a lot of confusion out there around the change with Microsoft. So I guess to kind of set the record straight. So do you – you had kind of many, almost like a decade long, I could go back a long time relationship with Microsoft on the search side, search affiliate side. Is there anything that you can do that caused them to decide to effectively remove the bulk of the search traffic that they were getting from Perion websites? Does any of this have to do with the Content IQ, which is a business you've now exited just broadly like, is there any reason you're aware of why Microsoft made this change? And maybe what you understand is Microsoft's strategy around search going forward?

<<Tal Jacobson, Chief Executive Officer and Director>>

Yeah. Well, so a few things. One, it wasn't directly for Perion or was against us, right. They've decided that their entire distribution partners, they're going to change the way they work with them, right. So all their distribution partners not just Perion.

Second, I think, and again, I don't want to speak on behalf of them, but that's my only point of view. That's not an official answer from Microsoft, I'm not thinking. I'm not making any statements on behalf of them. But I do think there's a lot more inventory currently than there was a few years ago. TikTok came into the U.S., which half of the phones in the U.S. now have TikTok. So a lot of inventory advertisers, Reddit became big. If you have Pinterest, you have Spotify, you have so many different inventories. So everybody needs to fight for that dollar. And that's why CPMs are going down for everybody. And I think that was, again, that's an assumption that I have that's Microsoft, like anybody else on the supply side, need to be as attractive as possible to attract more and more advertisers. And that's why they lowered their prices, so no, that's my two cents.

<<Jason Helfstein, Analyst, Oppenheimer>>

Right. Okay. So there wasn't anything, there's nothing you're aware that any of this related to anything Perion specific? This was kind of a change in Microsoft strategy that hasn't necessarily been communicated broadly?

<<Tal Jacobson, Chief Executive Officer and Director>>

No. No. And then – and we're – at the end of the day Microsoft distributors are like maybe 10. So we know all of them. So that happened to everybody, every single one. So it has nothing to do with Perion specifically. Now as for Content IQ, it has – the Content IQ and the search business were never at one bucket. That's not the same traffic. So I don't see any connection there.

<<Jason Helfstein, Analyst, Oppenheimer>>

Right. So the question online, I think, relating to this so now obviously with the Microsoft traffic or inventory going away, can you add, I think the person's basically asking, can you add another search partner which search margin would be Google, I guess, right. Could you add another search partner to kind of over time make up for that lost inventory or kind of that business is probably lost forever?

<<Tal Jacobson, Chief Executive Officer and Director>>

Right. So we currently work with pretty much every search engine, I think, on the planet, and the biggest one we currently have is Yahoo! and we do work with Google on different formats. But I don't think - you know - looking forward in our future, I don't think the main growth would come from search. I think the main growth would come from our other side, which is technology tools to generate demand. That's where I think the major growth will come from.

<<Jason Helfstein, Analyst, Oppenheimer>>

Yeah. Another question – investor question kind of gets into the undervalued nature of the company, right, like it's trading very low multiple and enterprise value. I mean, the question is, do you believe the company is undervalued? I can imagine the answer to that is yes, but really I think the question should be how do you plan to address the low kind of enterprise value relative to the cash flow or asset value?

<<Tal Jacobson, Chief Executive Officer and Director>>

Yeah. So I'll give you my two cents. And I would love Maozto answer that as well. So we're doing two things in parallel, right? One, we're working really hard to increase our sales, so revenue should go up and EBITDA should go up, but that's obvious. And in the meantime, we're using our cash to deploy two methods. One, buyback, so we've already stated that we're going to do $75 million of buyback, which unfortunately is about 20% of the company. So I think it's a pretty major buyback. And we're focusing also on acquiring new and synergetic growth engines.

But as opposed to previous years, we're now focusing, we have a lot of clients where before we buy a company, we present them with opportunity and we ask them if we're going to buy this, would that help you? Would that make you shift more budgets towards us? So that's a new methodologies. And if we're going to buy companies, that's only going to be meaningful EBITDA, synergetic, technology oriented. And we're not going to do any huge acquisition, right. So we're not even looking at kind of Teads' acquisitions. We're looking at smaller companies. Want to add anything to that?

<<Maoz Sigron, Chief Operating Officer>>

Yes. No, I think that the disconnection in our view is clear. We are running here the business. Yes, we face two events this year. One, the announcement from April and the second is from June. Clearly people are reacting to the news. And unfortunately, this is really not connected to where we are today with the revenue and EBITDA that we are still generating and expecting to generate as Tal said before, in the future. I believe that as we did in the second quarter, we shared the guidance for the second quarter, and we ended the quarter with more than our original guidance for the second quarter, revenue and EBITDA.

We reiterate our annual guidance for the revenue and for the EBITDA. So, quarter after quarter, we are planning to follow our plan and to build this and to rebuild this from here, I think we have all that we need. We have the knowledge, we have the executive team, we have the cash, and we have a lot of potential. We see many companies as part of our M&A scanning and we see many opportunities. So we are focusing on really managing the business, focusing on our drivers for 2025 and 2026. This is really our main focus now. And I believe that the gap will close. It’s just a matter of time. And this is clearly part of what has happened. But again, it’s part of a big picture.

<<Jason Helfstein, Analyst, Oppenheimer>>

Got it. So if we take a look at kind of the guidance for the year. It still assumes you guys, it’s implied exit the year still kind of with advertising growth being negative. So assuming it takes into some time next year for advertising to go back to positive, would that mean that you're likely or more likely to kind of buy back stock? Or is it again, because presumably the shares are likely to remain undervalued until you get back to positive growth, so are you more likely to continue to buy back stock? Or is it really about saving up the cash for strategic acquisition? And we can kind of talk about that a little more what that could be?

<<Maoz Sigron, Chief Operating Officer>>

So there are three things that we are now focusing on for capital allocation. One is the working capital and making sure that we have enough money to run the business. Second is the buyback because we believe that the stock is undervalued. Clearly, as long as it will be the case, we will consider a buyback. The plan that we have now is active and we are running with the plan. We did it in the second. We are going to do the same in Q3 and Q4 and we are expecting this amount to end at the beginning of 2025. And the third part, which is super strategic for us is the M&A. I think that based on where we are now with the cash, which is close to $400 million, we can do all and as the stock will, if that will be the case at the beginning of 2025. But still we will feel that we are undervalued. We will consider and we'll see what we are doing. I don't want now to commit.

I will say that our history and also our long-term strategy is not a buyback. Buyback is really good tool or good answer for the situation now. But I will not say that this is our main preference. Our main preference is definitely to invest in internal and inorganic growth. I believe this is the key for the future.

<<Jason Helfstein, Analyst, Oppenheimer>>

So to that point, I mean, I think the areas that you'd like to expand to, if kind of the price and the asset was right is retail media, connected TV, international probably some other high growth areas. But I mean can you rank all of those? Or is it really just a function of, like, each M&A presents itself and then kind of, it's like what's the post synergy kind of multiple that you end up acquiring at, given these are cash acquisitions?

<<Tal Jacobson, Chief Executive Officer and Director>>

Yeah. I think as I said we're focusing on delivering the best value for our customers so we can gain more and more budget. So we're looking at performance capabilities to the existing products that we have, data capabilities, AI capabilities. So not necessarily adding new things that we never had, but accelerating what we do have, that's a big focus.

<<Maoz Sigron, Chief Operating Officer>>

I would say that technology and capability that will accelerate the line of business, which we already have, like you mentioned the retail. I think that everything that we will do will also help and change also the out-of-home. So I think that this is really more the technology behind the area we are already there, rather than something that is more vertical or something that is more specific.

<<Jason Helfstein, Analyst, Oppenheimer>>

So the company is at pretty attractive financial characteristics for a long-time, healthy EBITDA margins, healthy free cash flow conversion. This quarter, free cash flow was negative. I think kind of one-time factors, I mean, I could say in our model we have free cash flow going back to positive for the foreseeable future. But maybe it was an investor question. Just talk about what were the one-time factors that weighed on free cash in the second quarter and how you see kind of that those factors kind of burning out over the next few quarters?

<<Maoz Sigron, Chief Operating Officer>>

So this is really two events that came together unfortunately. One is the Microsoft that normally they are paying few days before the end of the quarter and somehow they paid in July 1st. This is a $17.5 million, this is huge. And second is really accounting issue or accounting guidelines that classified $9.4 million that related to acquisition to P&L historically, and now to the cash from operation. If you're taking these two items out, you are getting to a positive Free Cash Flow, which is about $5 million, $6 million, which is not far from the EBITDA. And this is also historically, as you said, Jason why in most of the quarters and most of the years our EBITDA and our free cash flow are similar and this is what we're expecting moving forward.

<<Jason Helfstein, Analyst, Oppenheimer>>

Okay. So let's see what haven't we focused on? It sounds like, again outside of finding something very kind of unique that fits into one of these areas you're focused on, that's a right side acquisition. The focus is going to be on bringing more automation and more sales, I guess coordination and breadth as you're approaching these customers. I mean, is that kind of the right way to describe kind of what a lot of your time is being spent thinking about strategy standpoint?

<<Tal Jacobson, Chief Executive Officer and Director>>

Yeah, absolutely. So when we absolutely write even a lot of our technologies now, also looking at our internal processes, how do we make them faster and not being reliant on so many people doing those jobs? So we want to make sure that once we scale our business, we don't need to also scale our OpEx, right. We don't want to hire too many people. So we're focusing on that. We're also focusing when we bought Hivestack in December, we added so many different countries that we never had. So we have a lot of companies, a lot of customers now in Asia. I think we're one of the only companies of Ad-Tech behind the firewall of China. We actually have infrastructure in China. We have people in China. We have people in Australia.

So we want to see how do we leverage all the relationships that we have with those customers, with those agencies and all those countries to now leverage our existing products, right? How do we take the older products that Perion had and now sell them to those new customers that we now have. And again, that goes back to Maoz you're unifying the processes, unifying the data of clients. So we do see an uplift in the future going through that.

<<Jason Helfstein, Analyst, Oppenheimer>>

Okay. So it looks like that's all the questions that we had. I want to thank you for your time. Thanks, everybody. And we'll see at the next meeting.

<<Tal Jacobson, Chief Executive Officer and Director>>

Thank you, Jason. Bye-bye.

<<Maoz Sigron, Chief Operating Officer>>

Bye-bye.