Perion

First Quarter 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

Tal Jacobson, *Chief Executive Officer*

Andreas Soupliotis, *Founder and General Manager, Hivestack*

Kenny Lau, *Chief Product Officer*

Maoz Sigron, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Max Michaelis, *Lake Street Capital*

Steve Roman, *Oppenheimer*

Mark Kelley, *Stifel*

Laura Martin, *Needham*

Jeff Martin, *ROTH Capital*

PRESENTATION

Operator

Hello, everybody, and welcome to the Perion Network First Quarter 2024 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 from 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.

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

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

Tal Jacobson

Good morning, and good afternoon, everyone. Thank you for joining us today.

With me today at our New York office are Hivestack's General Manager, Andreas Soupliotis, who leads our out of home advertising technologies, and our Chief Product Officer, Kenny Lau, who leads our advertising solutions. Our CFO, Maoz Sigron, is joining us from our Israeli office.

Today, we face our challenges heads on with a determined spirit to navigate forward. As we previously announced, the first quarter of 2024 presented specific challenges, notably a decline in our search advertising activity that began during the first quarter and will be mostly reflected from our second quarter. This is largely due to recent changes in advertising pricing and mechanisms by Microsoft Bing. These changes led to a reduction in revenue per 1,000 searches for both Perion and other Microsoft Bing distribution partners.

Let's take a deeper look into what this means for us.

Perion has been working with Microsoft on a revenue sharing model. This model did not change. Yet both Microsoft and Perion earn their revenue based on how much Microsoft charges their advertisers. This is where the changes were made. It is common for major tech companies such as Microsoft to periodically adjust their pricing strategies. Microsoft's advertising pricing and mechanism changes do not affect our contract.

You'll notice that despite our announcement about the changes that Microsoft made, our search activity actually grew 26% year-over-year in Q1. Again, we expect the changes to mostly affect us from Q2 forward, and our new guidance reflects that. We believe that our relationship with Microsoft remains strong with ongoing collaboration between our teams. This event didn't change Perion's execution abilities and future possibilities.

Now, let's move to talk about the future.

I'm excited to present the next phase of Perion's evolution, an advertiser centric universe with technologies that power brand presence across the entire consumer journey. The Perion universe is built to connect advertisers with their target audience throughout the entire day, online and in the physical world, such as in-store advertising. We harness the power of dynamic creative optimization to generate demand. We use our technologies in web and search supply, in digital out-of-home, in social, connected TV, and in audio ads. All our technologies are leveraged to create a harmonious blend of consumer engagement.

This new chapter of Perion is wrapped in a fresh brand identity. Our new brand reflects our evolution as a company. At Perion, we architect AI-powered technology solutions to anticipate consumer behavior and adjust to it. Our AI solutions are designed to help brands and advertisers elevate their strategies and seize every advertising moment.

Our new slogan "Elevate with Perion" embodies our commitment to advertisers to stay ahead of the curve. Our objective is to ensure that wherever the audiences are in their journey, Perion is there to

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elevate their brand and outcome. As Perion keeps evolving, we add more technologies and solutions to our universe either by acquisitions or through our in-house talented R&D teams. Later, you will hear from our Chief Product Officer for Advertising Solutions about the new innovations we have lined up.

While we at Perion have many growth engines, we are highlighting for you the fastest growing drivers in each quarter. We've seen significant growth across the key areas: Retail Media solution grew by 134%, our CTV advertising surged 108%, and our programmatic Digital Out-Of-Home advertising increased by 25% on a pro forma basis. These engines are pivotal in our growth path.

Within retail, we replicate the success that we had with large retailers and grocers in the food and beverage industry. In the first quarter, for example, our technology significantly enhanced a top U.S. beer brand with a cross channel campaign. We use advanced AI driven dynamic mapping in High Impact advertising units to achieve a 14% sales lift, and we generated nearly $0.5 million in incremental in-store sales. This approach leveraged real-time data such as sporting events to optimize ad delivery that creates more foot traffic to multiple retail locations.

It's important to highlight the strength that Hivestack brought to our Retail Media solutions. As you can see, the impressive 134% year-over-year growth of our retail media solutions was fueled both organically and by our new Digital Out-Of-Home advertising solutions. We believe that Digital Out-Of-Home will increasingly support the growth of our Retail Media solutions going forward.

Within CTV advertising that enjoyed a remarkable 108% growth, this quarter the most popular features among our customers were Live and Dynamic CTV, Branded CTV, and Pause ads. Here's an example of a Live CTV ad that we ran for Estée Lauder that was part of an international cross-screen campaign.

(Video Presentation)

This specific campaign shows that the consumer's journey constantly changes, with the current trend of cosmetic companies advertising during football events.

Within Digital Out-Of-Home advertising, we achieved a remarkable 25% year-over-year growth. This success demonstrates the strategic value of our recent acquisition of Hivestack. This acquisition unlocks revenue potential, especially retail media revenue from retailers that leverage programmatic Digital Out-Of-Home advertising technology to attract consumers to their stores.

To elaborate on our Digital Out-Of-Home advertising activity and success, I'll hand it over to Andreas, the Founder and General Manager of Hivestack, who's leading our out-of-home advertising activities.

Andreas Soupliotis

Thank you, Tal.

Out-Of-Home advertising is the oldest traditional media channel undergoing a massive renaissance that is being helped by advanced technology. As digital screens replace printed signs and programmatic technology eventually complements direct sales, the stage is set for a massive upside for the rise of programmatic Digital Out-Of-Home.

A recent eMarketer study in the United States suggests that 30% of all Digital Out-Of-Home advertising transactions will be programmatic by 2025, while 70% will be non-programmatic. That's an awesome growth story for programmatic Digital Out-Of-Home when we observe that it represented only 3% in 2019. This represents a whopping 969% growth over six years, and it's not stopping. Extrapolating this trend

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line could suggest that programmatic Digital Out-Of-Home is on track to represent about 50% of all digital Out-Of-Home transactions in five years.

From a marketer's perspective, this growth is driven by technological advances afforded by programmatic Digital Out-Of-Home on how to reach precise audiences at scale through compelling digital experiences.

Perion's Hivestack advanced technology sits at the epicenter of this massive growth story and is used by marketers globally to drive business outcomes at all stages in the consumer sales funnel. Retailers, in particular, are taking advantage of programmatic Digital Out-Of-Home technology to drive consumers into their retail stores, which is now part of Perion's Retail Media solution universe.

Let's look at our real-life case study of how an awesome Canadian brand Lululemon used Perion's Hivestack platform and their agency Zenith to drive in-store visitation to their retail stores.

(Video Presentation)

Andreas Soupliotis

As you can see, we have become a key part of Lululemon's toolbox to drive in-store visitation and the measurement data proves that Digital Out-Of-Home drives results.

I want to thank Tal and Perion for adding Hivestack's advanced technology and our amazing team to the Perion universe. The best is yet to come for programmatic Digital Out-Of-Home and Perion's Hivestack is a global leader in this space and sits at the epicenter of it all.

Tal Jacobson

Thank you, Andreas. Exciting time indeed. Now, our Chief Product Officer of our advertising solutions, Kenny Lau, will present two of our new and exciting innovations.

Kenny Lau

Good morning, and good afternoon, everyone.

Today, I'd like to share some of the exciting things we are developing internally to equip our customers with the most comprehensive set of products and solutions in the ever-evolving digital advertising space.

As we prepare for cookieless future, we seek to prioritize user privacy while enhancing accuracy in targeting. We've been doing so with SORT®, our AI-based audience segmentation technology for our High Impact and Video advertising campaigns.

Now, this award-winning technology is getting a major upgrade, **SORT® 2.0**, which has more capabilities for web but even more exciting, it is now also for CTV, one of the fastest growing areas in digital advertising.

What does that mean for advertisers and brands?
SORT® 2.0 technology offers privacy-focused targeting, ensuring that your brand connects with the most receptive audiences for your message, regardless of their browser or device preferences.

SORT® analyzes non-personal identifiable information signals at the moment someone lands in our network, and then immediately classifies them into the most likely intent group. This allows us to serve the

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most relevant ad, maximizing engagement and return on investment. It is not just about reaching more viewers; it's about reaching the right audiences with precision while respecting their privacy.

Alongside our proprietary solution, SORT, we have developed WAVE, our AI-based dynamic audio technology to bring unparalleled precision to audio ads. We are proud of the progress our WAVE audio ads technology has made, delivering personalized audio experiences that drive engagement and sales.

This quarter, we expanded WAVE's reach into new verticals, including CPG, Quick Service RestaurantS, and Travel. Moreover, we're thrilled to announce the launch of WAVE's multi-language capabilities, starting with Spanish.

Let's listen to a sample for Super Shoes. Remember, this is not a real person, it's all generative AI, and you wouldn't know the difference.

(Video Presentation)

Tal Jacobson

Thank you, Kenny.

It's always a pleasure to see our AI team producing groundbreaking products for our customers.

Now, I'm proud to share our recent industry recognition and certifications. Perion has been granted two TAG certifications for 2024, symbolizing our unwavering commitment to integrity and quality in the digital advertising space. These awards and industry recognitions reflect our team's hard work and our commitment to excellence. They are proof of what Perion is capable of achieving.

Thank you once again for joining us today. We're excited about the future and invite all of you to continue with us on this promising journey.

Now, our CFO Maoz Sigron will present the financial results for Q1.

Maoz Sigron

Thank you, Tal. Good afternoon, and good morning to those of you joining us from the U.S.

As Tal mentioned, the first quarter was a challenging one. We experienced a decline in Search Advertising activity, that is attributed to changes in advertising prices and new mechanism that Microsoft Bing implemented in its search distribution marketplace. These changes in pricing strategies affected all Microsoft distribution partners. Our relationship with Microsoft remains strong. As a result of Microsoft changes and to a limited extent, a reduction in video activity, we reduced the 2024 full-year guidance in our announcement on April 8.

We at Perion have a history of meeting challenges. We are resilient and agile, and we continuously focus on enhancing our growth engines, which include Retail Media, CTV, and Digital Out-Of-Home. Thanks to Perion's assets, technology, know-how, and expertise, along with our core growth engines, I am confident that our team will take Perion to the next successful growth chapter.

Moving to the first quarter's main financial highlights.

Revenue increased by 9% year-over-year to $157.8 million. Adjusted EBITDA decreased by 35% year-over-year to $20.3 million, resulting in a 13% Adjusted EBITDA margin and 34% ex-TAC margin. GAAP

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net income decreased by 51% to $11.8 million. Cash flow from operations decreased by 61% to $6.9 million. Net cash slightly increased over the previous quarter to $479.7 million.

Revenue for the first quarter was $157.8 million, an increase of 9% year-over-year. This growth was achieved despite a 52% decrease in video and is the result of our ability to execute our diversification strategy. While search advertising grew by 26% year-over-year, we expect revenue to decline next quarter due to the changes to Microsoft Bing pricing strategies, as we discussed earlier.

Revenue from Advertising Solutions decreased by 5% year-over-year to $75.8 million and accounted for 48% of total revenue. The year-over-year decrease in revenue was a result of a continuous decline in Video revenue and was partially offset by a significant year-over-year increase of our growth engines.

Our CTV business grew by 108% year-over-year to $8.2 million, representing 11% of advertising solutions revenue compared with 5% last year and was driven by strong customers' adoption of our high-impact CTV solutions.

Digital Out-Of-Home grew by 25% year-over-year on a pro forma basis to $9.7 million.

We are also happy with the consistent growth delivered by our Retail Media vertical, which grew by 134% year-over-year to $14.9 million, and accounted for 20% of Advertising Solutions revenue compared with 8% in the same period last year.

These results were driven by new customers and increased spending of existing customers, aided by the positive progress we are making to introduce new products and new technologies.

Revenue from Search Advertising increased by 26% year-over-year in the first quarter to $82 million.

During the quarter, Average Daily Searches increased by 20% over the same period last year and the number of publishers grew by 8% year-over-year. While having a relatively minor impact on revenue in the first quarter, we expect the changes recently instituted by Microsoft Bing to significantly impact Search Advertising revenue in the second quarter and throughout 2024.

Contribution excluding TAC to revenue was 38% compared with 45% in the first quarter last year, mostly due to shifts in product mix and higher revenue-share for some of our search publishers in the first quarter of 2024.

Adjusted EBITDA decreased by 35% year-over-year to $20.3 million or 13% of revenue, from 22% in the first quarter of 2023 and 18% in the first quarter of 2022. The decrease in Adjusted EBITDA was mainly a result of the reduction in Search Advertising activity during the quarter and higher operation expenses following the integration of Hivestack. Adjusted EBITDA to contribution ex-TAC decreased to 34% compared with 48% in the first quarter of 2023 and 42% in the first quarter of 2022.

On a GAAP basis, first-quarter net income decreased by 51% to $11.8 million, or $0.24 per diluted share, compared with $23.8 million, or $0.48 per diluted share in the first quarter of 2023.

On a non-GAAP basis, net income decreased by 25% to $22.6 million, or $0.44 per diluted share for the first quarter compared with $29.9 million, or $0.60 per diluted share last year.

Operating cash flow for the first quarter was $6.9 million compared with $17.8 million in the same period last year. The decrease in operating cash flow was mainly attributed to the reduction in Search Advertising activity and one-time working capital needs for the Hivestack operations. We are proud of our

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consistent ability to generate positive cash flow and to increase our net cash position despite the challenges we are facing.

As of March 31, 2024, net cash, including cash, cash equivalents, short-term deposits, and marketable securities was $479.7 million, up from $472.7 million at the end of the fourth quarter of 2023. The increase in cash and cash equivalents was the result of the positive operating cash flow generated in the quarter.

Consistent with our previous announcement, we are confident that Perion's diversified and holistic solutions will expand our opportunities to better serve our customers. We are reiterating our full-year 2024 guidance that we provided on April 8, adding guidance to the second quarter of 2024 as well.

This concludes my financial overview.

Now, we'll open the line for questions.

Operator

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

If you'd like to be placed in the question queue, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up our handset before pressing star, one. Once again, that's star, one to be placed in the question queue.

Our first question today is coming from Max Michaelis from Lake Street Capital. Your line is now live.

Max Michaelis

Hi, guys, thanks for taking my questions. First one for me. If we look at video revenue, I think it was down 33% last quarter and then down 52% here in Q1. Internally, where had you guys expected that to end up? Going forward, what is your expectations for the year just for video revenue? Then, I guess, you can tie in a macro question with that as well. Have you seen any improvement in the macro here, maybe in the second quarter?

Tal Jacobson

Maoz, do you want to take this?

Maoz Sigron

Yes, of course. Thank you for the question. As we said, the headwinds of the video is expected to end in the second quarter this year. So, we're expecting to move to a normal growth on Q3. We have another quarter of negative comparison between '24 to '23, and we're expecting H2 to move to be a positive one. We are moving with the market. As we said, historically, there is a reason why the video is moving down. The idea here is optimization, and we believe that this impact will end at the end of this quarter or the second quarter.

Max Michaelis

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Okay. Thanks, guys. My last question here. I know you guys increased the buyback authorization last quarter. Are you guys active at all in Q1, or have you been since the announcement?

Maoz Sigron

The buyback is yet in process. As we said, first, the 20-F was filed, so now we don't have any problem, and we can move on with the plan. But, as we need to file the plan, when we are open and we are not in the blackout period, which is going to be this weekend. So, next week, we are going to file a plan which will be executed two weeks later. We're expecting this plan to start at the end of May, and we are going immediately to start the buyback plan in the quarter already. I believe that when we will get to the end of the quarter, and we will share the result, you will see already the buyback take place in our balance sheet.

Max Michaelis

All right. That’s it for me. Thanks.

Operator

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

Steve Roman

Hi. This is Steve Roman on for Jason. Just first on SORT 2.0, I was just wondering if you've broadly launched that to all of your CTV advertisers or whatever percentage. Then wondering if you can give any metrics, in terms of how many advertisers are using it, et cetera? Then secondly, on Hivestack growth, you guys posted 25% pro forma. Just wondering if this is in line or exceeding your expectations, and what do you think on the full year in terms of digital out-of-home? Thank you.

Tal Jacobson

Right. Let's start on the SORT 2.0. We are just launching it now. This is getting shipped out today. Obviously, we don't have the results yet. But the big news here is it got a major upgrade with all the new technologies for the new formats of cookie-less and, obviously, the audience segmentation for CTV, which is huge. Once it's out and we're going to have more metrics, we'll be happy to share that. What was the other one?

Maoz Sigron

The second question was—I can take it—it was about Hivestack. Yes, this is really exciting quarter. This is the first time we have Hivestack in full, and this is definitely aligned with our expectation. As we shared with the KPIs, they ended the quarter with 25% year-over-year growth, which is very much aligned with our expectations. We're expecting to end the year with more or less our original model. No dramatic change. This is Q1, and we're expecting more to come in the next quarters.

Operator

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

Mark Kelley

Great. Thanks. Good morning, everyone.

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First question. With cookie deprecation getting pushed out again to '25 on Chrome, does that provide, I guess, a little bit of cushion in the back half of this year, especially for the non-search business, or is that not the right way to think about it?

Second one, just going back to Hivestack. A few weeks ago, we saw that Lamar chose Vistar to power their digital billboards. I'm just curious, how does your tech stack up relative to Vistar? Maybe they were looking for something that the Hivestack suite of products didn't offer. I guess, what's the right way to think about that? Were you a part of that RFP process? Thank you.

Tal Jacobson

Yes. Well, thank you very much for the question.

So, cookieless. Yes, I think the fact that Google keeps pushing this back, for me, it's not a surprise. We were ready for the cookieless era two years ago. Now as time goes by, more and more technologies are coming out to address that. We want to make sure that we're ready for that whenever Google finally decides to do that. We're going to be perfectly ready, and we are perfectly ready now.

Now, in terms of Vistar, from everything we've been hearing from our clients, Hivestack is the most advanced solutions out there. This is what we're hearing. This is what we believe. Obviously, Vistar—those guys are great. We know them very well. They're a competitor. They're getting some deals; we're getting some deals. This is just the nature of the business, but our technology, from everything we know, it's the most advanced technology out there.

Mark Kelley

Okay, thank you very much.

Tal Jacobson

Thank you.

Operator

Thank you. As a reminder, that's star, one to be placed into question queue. Our next question is coming from Laura Martin from Needham & Company. Your line is now live.

Laura Martin

Good morning. Good morning.

Tal Jacobson

Morning, Laura.

Laura Martin

Just thinking about the overall context of the demand from a vertical point of view. Can you talk about what you're seeing in the marketplace right now, please?

Tal Jacobson

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From the vertical point of view?

Laura Martin

Yes. Strong verticals.

Tal Jacobson

Yes. Maoz, do you have that vertical?

Maoz Sigron

Of course. Yes. I can take that. Thank you, Laura, and good morning.

Laura Martin

Good morning.

Maoz Sigron

Hi, Laura. The same trend, as you said, I can see from the financial—from the retail is, let's say, very strong. Consumer goods as well. Travel is strong. Healthcare and Auto is strong. These are the areas that are more dominant in Q1.

Laura Martin

Okay, that's interesting, because that's exactly the opposite of what Double Verify said yesterday. That's super interesting. Okay. When you think about you—sorry, go ahead.

Maoz Sigron

No, I agree. It's interesting that this is different from what others are reporting, but this is the nature of this business.

Laura Martin

Yes. In terms of your expense growth, G&A was much higher than we thought, but sales and marketing was much lower than what we thought. Could you talk about that sort of reallocation of resources between the cost lines, why money is moving towards G&A and away from sales and marketing, please, in the quarter?

Maoz Sigron

This is more related to the GAAP numbers and less to the non-GAAP. There are some stock-based compensation adjustments that we did in the quarter that are part of the GAAP. The non-GAAP is very normal and in line with our trends. This is more accounting changes that we did in the SBC during the quarter and not more than that.

Laura Martin

Okay. Super helpful. Thank you.

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Maoz Sigron

Thank you.

Operator

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

Jeff Martin

Thanks. Good morning, guys. I wanted to touch on Search a little bit more. What specifically is the mechanism that changed at Bing, and how has that affected your publisher account in Q2?

Tal Jacobson

Right. Microsoft changed the mechanism of pricing for the distribution channels, right? The reason it affected our publishers is, at the end of the day, it all needs to make economic sense for them. I mean they have other options, right? They can switch between vendors. They can do whatever they want. This is exactly what happened. Does that give you the answer?

Jeff Martin

Yes, sure. What's the publisher count change so far in Q2?

Tal Jacobson

We cannot disclose Q2 numbers yet, but we did disclose that although the average was high, we actually saw a growth. Towards the end of the quarter, we actually saw a decline. Again, numbers of Q2 are going to be reported in three months from now.

Jeff Martin

Fair enough. In terms of…

Tal Jacobson

Let me just add one more thing. But it's important to say that the guidance that we gave already took that into consideration, right? This is already what you see in front of you in terms of guidance.

Jeff Martin

In terms of capital allocation, you've got the $75 million authorized for repurchase. Has there been activity in the past month or so, since you made the pre-release announcement? Then what's the potential to up that materially over time? Do you plan to be aggressive in buying back shares?

Maoz Sigron

As we said, the buyback plan is not yet started. We're expecting to start in more or less two weeks from now. This is part of regulations and the other requirements that we have. First is the filing of the 20-F, and second is the period that we need to wait after we're filing the plan, but we're expecting to execute the plan this quarter, and we are running with a $75 million plan. This is very much aligned with what we said

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a few weeks ago on the preliminary. As for M&A, we have the same plan, same structure. We know what we are looking for, and once we get the right opportunity, we will do that.

This is very much aligned with our high-level view on the cash that we have so far. One is the buyback, which is already announced, and second, of course, is the M&A effort, which is, of course, relevant to what we're expecting to do next with the cash.

Jeff Martin

Thank you.

Tal Jacobson

I just got an answer from my team about the previous question. Why Vistar got the deal with Lamar. It turns out that Lamar actually owns part of Vistar, so there was no RFP there. That was just part of the ownership.

Operator

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

Tal Jacobson

Yes. Thank you. Thank you everyone for joining us today and thank you for being part of our journey. Even though we saw a big change lately, we are confident in our future. We're investing in technology, we're investing in our clients, and we have all the resources needed to succeed. Thank you again, and I hope to see you again in our next earning call. Thank you.

Operator

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

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