# Perion

## Second Quarter 2024 Earnings Conference Call

## July 31, 2024

## CORPORATE PARTICIPANTS

**Tal Jacobson**, *Chief Executive Officer*

**Maoz Sigron**, *Chief Operating Officer*

**Elad Tzubery,** *Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Jason Helfstein**, *Oppenheimer*

**Laura Martin**, *Needham*

**Mark Kelley**, *Stifel*

**Eric Martinuzzi**, *Lake Street Capital*

**Jeff Martin**, *Roth Capital*

## PRESENTATION

**Operator**

Hello everybody and welcome to the Perion Network Second 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 been filed on Form 6-K.

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

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

**Tal Jacobson**

Good morning and good afternoon. Thank you for joining us for our second quarter earnings review. As always, Maoz Sigron, our CFO, is with me today.

I want to start by reminding all of us what we are trying to solve at Perion. Digital advertising is expected to reach $700 billion this year and grow to over $900 billion within three years. However, managing this vast spending across numerous platforms, channels, screens, data points has become very complex for the advertiser. The Chief Marketing Officer is in charge of spending those digital advertising budgets. An army of experts and vendors are needed to cover all relevant advertising channels, and when they do, it's almost impossible to prove actual ROI across all channels and platforms. This is where Perion comes in, providing the technology that fits the brand goals.

As a technology company, we ensure our tech fits the brand strategy as different brands have different needs. In the early days, an off-the-shelf CRM worked for many brands. Today, we know that if you want to get the best results from your CRM, it's not enough to buy a license for a CRM such as Salesforce. If you want to get the best results, you need to customize the technology to your needs. The same applies to the $700 billion digital advertising industry, and we believe we are on our way to tackle the over-complexity of the digital advertising universe through technology.

Our mission in the fast evolving, over-complex, omnichannel advertising universe is clear; to identify, connect, deliver and measure compelling messages across multiple screens and platforms while maximizing our clients' advertising budgets. The core of our technology is to empower advertisers to seamlessly and effectively connect with their audience, whether at home, at work, in the supermarket or on the move.

This quarter, we made significant advancements in our technologies, forged key integrations, and secured crucial partnerships to advance our solutions. Here's a reflection of our core growth engines that have continued to demonstrate positive momentum with a strong double-digit growth rate.

Hivestack, our best of breed programmatic digital out-of-home technology that we acquired at the end of last year, is already bearing fruit. We have added a robust growth engine, enhanced our ability to help advertisers deliver omnichannel experiences, and expanded our global footprint. Programmatic digital out-of-home is expected to play a pivotal role in the future of retail media as consumers continue to seek goods at physical stores and retail advertisers compete for their attention. By leveraging our technology, advertisers can synchronize their campaigns to deliver consistent brand messages effectively to maximize ROI.

Our recent omnichannel campaign for Colorado Tourism utilized our CTV pause ads, our cutting-edge AI-generated dynamic audio ad technology called Wave, and our mobile interactive ads.

(Video clip)

By integrating those channels into a single compelling and holistic advertising experience, we ensure that the brand messages resonate deeply with the consumers. This provides consistent engagement across all platforms and devices.

Our CTV solutions are showing great momentum and are adopted by more and more brands. We are leveraging our advanced location-based capabilities to drive meaningful results for advertisers. For example, our CTV Golden Corral campaign directs viewers to the nearest restaurant, making it an easy choice for a hungry consumer. Our technology is using the restaurants' locations and integrating them into the brand creative using our advanced dynamic creative technology. Let's take a look.

(Video clip)

Our retail and commerce advertisers are also enjoying new developments that enrich retail campaigns to drive meaningful results, one of them being the click- to-cart functionality. Click- to-cart allows advertisers to add direct to cart call to action within the ad. This creates an accelerated path to purchase. As presented in this ad, one click opens the target website, and the item is already in the shopping cart. (Video presentation)

One of the most exciting developments at Perion is the extension of our advanced CTV technology to now also run on YouTube CTV. Brands can now leverage our appealing high impact CTV solutions on YouTube, the second largest CTV ad platform in the U.S. Here's an ad for Direct Energy, one of the first brands to adopt our CTV technology for YouTube.

(Video clip)

Our programmatic digital out-of-home advertising solutions are reshaping how brands engage, interact and connect with audiences across the globe. Programmatic digital out-of-home is uniquely positioned at the intersection of art and science. It provides parallel opportunities for brands to deliver full funnel advertising campaigns that are customizable to meet their goals.

The out-of-home channel is evolving at an incredible pace, growing in popularity with some of the world's leading brands, and we keep adding new and exciting features. Burger King, for example, uses our technology for programmatic digital out-of-home to motivate people to visit restaurants across 165 locations in New Zealand. They leverage features such as proximity (inaudible) fencing, advanced scheduling, and contextually relevant creative. Those features are unique to programmatic digital out-of-home and generated impressive results for Burger King.

(Video clip)

In the world of programmatic digital out-of-home advertising, the variety of screen sizes and formats is vast and diverse. It's almost like navigating a jungle. Digital out-of-home, unlike web advertising with its IAB standard ad sizes, presents unique challenges as there are many screen sizes and proportions. This is where Perion's AI-based dynamic creative optimization technology, DCO, steps in. We transform complexity into opportunity by adjusting out-of-home creatives dynamically. Our AI-based DCO capabilities are already at work in other formats we power. Now we have added this capability to support digital out-of-home and offer our clients more efficiency, scalability and consistency. Advertisers utilizing this technology maintain high quality visuals and messages across all formats, enhancing brand consistency and the effectiveness of each campaign.

Our technologies continue to earn industry recognition and win awards. I'm proud to share several awards our team has won this quarter, including the Drum Awards and the IAB Tech Lab certification.

Before we transition to review our financial results for the second quarter, I'm excited to share important updates within our Leadership Team. Our incredible CFO, Maoz Sigron, will be promoted to become Perion's Chief Operating Officer. I'm extremely excited about Maoz's promotion. As a proven leader who has been pivotal to the Company's turnaround the past seven years, Maoz is well positioned to lead the strategic unification of our various operations, ensuring the Company is on the right path of achieving sustainable growth.

I'm also pleased to share that our current Senior Vice President of Finance, Elad Tzubery, will be promoted to become our CFO effective August 1.

I wish Maoz and Elad great success in their new roles.

With that, I'll pass the stage to Maoz to review our second quarter financials.

**Maoz Sigron**

Thank you, Tal.

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

The second quarter had its challenges. Microsoft Bing made changes to its search distribution marketplace across all of its distribution partners that significantly impacted our search business. In addition, and as we stated previously, we continued to see a reduction in our open web video and display standard formats. However, the strengths of our hyper growth engines, including retail media, CTV and digital out-of-home, continued to outperform the market. Notably, our recently acquired digital out-of-home business continues to deliver strong results. It grew 41% year-over-year on a pro forma basis, and it is on track to become one of our fastest growing categories.

Our strong balance sheet and cash position allow us to continue our organic investments in technology and to execute our M&A strategy. Those of you who have been following us over the years have witnessed Perion’s ability to successfully meet challenges. We have always exhibited the operational flexibility to adjust our strategy and execution. We do this in a way that enables us to overcome obstacles while continuously leveraging our technological advantages and innovative initiatives. We expect this time is no different, and I believe that we will become an even stronger Company.

Looking ahead, we believe that the combination of our cash position and the opportunities in the near $700 billion global digital advertising market will allow us, I am sure, to capture market share and lead to profitable growth.

Turning to our main financial highlights for the quarter, for the second quarter that ended on June 30, 2024, revenue was $108.7 million, a decrease of 39% year-over-year. Adjusted EBITDA amounted to $7.7 million, a decrease of 81% year-over-year and resulting in a 7% Adjusted EBITDA margin and 15% ex-TAC margin.

GAAP net loss was $6.2 million while non-GAAP net income was $13.4 million. Net cash was $407.1 million, in part reflecting the execution of our share buyback program in the amount of $20 million.

Revenue for the second quarter was $108.7 million, a decrease of 39% year-over-year, mainly impacted by search and standard open web video and display.

Revenue from advertising solutions was $74.4 million, a decrease of 25% year-over-year and accounted for 68% of total revenue. The year-over-year decrease was a result of the decline in open web video and standard display revenue. These declines were partially offset by a significant year-over-year increase of our growth engines, including Retail Media, CTV and Digital out-of-home.

Our CTV business grew by 42% year-over-year to $10.2 million. This is more than double the 2024 market growth of 19%, according to eMARKETER estimates. CTV revenue represented 14% of advertising solutions revenue compared with 7% last year.

Digital out-of-home grew by 41% year-over-year on a pro forma basis to $13 million, outpacing the expected 2024 market growth of 11%, according to eMARKETER estimates. Digital out-of-home represented 18% of advertising solutions revenue compared with 9% in the same period last year on a pro forma basis.

Our Retail Media vertical delivered consistent growth, increasing 75% year-over-year to $17.6 million, while the expected 2024 market growth according to eMARKETER is 26%. Our Retail Media business accounted for 24% of advertising solutions revenue compared with 10% in the same period last year.

ThEse results were aided by our ability to introduce new technological solutions across multi channels. Also, our access into premium inventory drove increased spending by existing and new customers.

Second quarter Search Advertising was $34.3 million, a decrease of 57% year-over-year. This is mainly due to the changes in advertising pricing mechanisms implemented by Microsoft Bing and their decision to exclude a number of publishers from the sales distribution marketplace. Going forward, we expect our business from our agreement with Microsoft Bing to represent about 5% of Perion's revenue in the second half of 2024.

Contribution excluding TAC to revenue was 46% compared with 43% in the second quarter last year, mostly due to shifts in product mix given the reduction in the search business.

Adjusted EBITDA amounted to $7.7 million, 7% of revenue and 15% of contribution ex-TAC. This is compared with 23% and 54% respectively in the second quarter of 2023. The decrease in the Adjusted EBITDA was mainly a result of the reduction in search advertising activity, the decrease in standard video and display formats, and higher operating expenses due to the integration of Hivestack.

On a GAAP basis, second quarter net loss was $6.2 million or $0.13 per diluted share, compared with a net income of $21.4 million or $0.43 per diluted share in the second quarter of 2023. Non-GAAP net income was $13.4 million, a year-over-year decrease of 68% or $0.26 per diluted share, compared with $42.1 million or $0.84 per diluted share last year.

Operating cash flow for the second quarter was a negative $20.5 million compared with $47.4 million in the same period last year. This quarter's operating cash flow was mainly impacted by a delay of $17.6 million in the Microsoft collection to July 1, 2024, and a one-time contingent consideration payment of $9.6 million related to Vidazoo earn-out which, according to accounting standards, are classified under operating cash flow.

As of June 30, 2024, net cash including cash equivalents, short-term deposits and marketable securities was $407.1 million, down from $479.7 million at the end of the first quarter of 2024. The quarter-over-quarter decline in cash was primarily the result of a $41 million payment of contingent consideration and a total of $20 million execution of our buyback program.

We are reiterating our full-year 2024 guidance that we provided on June 10.

This concludes my financial overview. I would like to take a moment to acknowledge the changes we made in our Executive Team. I am excited to take on the role of Perion's Chief Operating Officer. As Perion's COO, I will partner closely with Tal and Senior Management, aiming to navigate through opportunities and challenges that lie ahead. As part of my new role, I am responsible for the strategic integration of Perion's cross-organization business operations, exploring internal and external business opportunities and partnerships, and maximizing efficiency. My prime goal is to drive sustainable profitable growth in the next years. I would like to thank Tal and the Board for having confidence in me to lead these strategic functions.

I strongly believe Perion has a promising bright future. Along with the entire Management, the Board and our employees, I am determined to seize this opportunity and navigate Perion to its next phase of growth.

I am pleased to welcome Elad in his new role as Perion's Chief Financial Officer. I have known and worked with Elad for the past decade, out of which six years at Perion. His promotion is very much deserved, and he is my natural successor. I will assist Elad in any way possible, and I look forward to continue working closely with him in our new roles.

I will now pass it to Elad to say a few words.

**Elad Tzubery**

Thank you Moaz.

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

I have been working closely alongside Moaz at Perion for the past six years. Throughout my years at Perion, I took an active part in most of our important milestones, and as Senior Vice President of Finance, I manage all financial aspects of the Company. As Maoz noted, our professional and personal relationship goes back over a decade. I want to congratulate Maoz on his well-deserved promotion and thank him for being such a trusted mentor. I would also like to thank Tal and the Board of Directors for their trust and confidence in me.

In my new role as the Chief Financial Officer, I will capitalize on the knowledge and skills I learned over the years. I am eager to join our superb Management Team. I am ready and fully committed to help lead Perion to new heights.

I'll now hand it back to the Operator to open the line for questions.

**Operator**

Thank you. We'll now be conducting a question-and-answer session. If you'd like to verbally ask your question over the phone, please press star, one on your telephone keypad; over the webcast, please click the Raise Your Hand function. One moment please while we poll for questions.

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

**Jason Helfstein**

Hey, good morning, everyone. Two questions. One, do you think take rate is the right pricing model for the business, just given the exposure you ultimately then have to kind of add pricing, or does it make sense to pivot more to an agency type of professional services or billable hours model and charge on a campaign basis? Then second, did closing ContentIQ have an impact on open web video in the quarter? Thanks.

**Maoz Sigron**

Hi Jason. We have here some technical issue with the microphone. Sorry, but could you repeat the first question?

**Jason Helfstein**

Do you think take rate is the right pricing model, or should you pivot to an agency type of professional services or billable hour model? That way you can get paid on a campaign basis and aren't as dependent on ad pricing trends.

**Tal Jacobson**

Yes, that's a great question. You know, as we're trying to move away as possible from being an advertising company into a technology company focusing on technologies and solutions, we do not look at ourselves as agencies. We want to provide that layer of technology to actual agencies, so we work with direct advertisers, with direct retailers, but also with agencies and hold Cos. We do not look at ourselves as agency but as a technological layer that connects all the dots. It makes more sense that we're making our money out of a cuts of what we can actually provide to the client, which is the advertising.

For the second question…

**Maoz Sigron**

For the second question, Jason, during the quarter we did some changes, part of them include changes in CIQ. We are now not running any owned and operated websites, we use the technology for other needs, for the other parts of the business. We're less impacted from this part of the business of the O&O.

**Operator**

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

**Laura Martin**

Yes, Tal, for you, you talked about wanting to do acquisitions in the past, but with the stock down 70% and cash flow negative $20 million in the quarter, could you update us on your M&A goals at this point?

Then Moaz, congratulations on your promotion. My question is the business is going to be 35% smaller at the revenue line this year than last year, could you talk about your goals as a Chief Operating Officer, and specifically I'm interested in your cost-cutting strategies. Thank you.

**Maoz Sigron**

Thank you. Thank you, Laura. First for the first point about the cash, we had two things during the quarter with the cash flow. One is a delay of one day with Microsoft Bing, just a shift of $17.5 million from Q2 to Q3, to July 1. Second is a one-time impact from accounting of $9.5 million that related to contingent—that's related to Vidazoo payments that we did during the quarter. If you're taking these two items, the cash that we have is more or less $6 million during the quarter, which is very much aligned with the EBITDA we have for the quarter. This is one.

Second, about my new role, I'm really excited and happy to take this role. Efficiency of course is only one part of what I'm going to do. More realistic, we are trying here to take the opportunity to let Elad take the CFO position and to lead the finance part, and that myself and my team will lead the operation side of the business. This is not only efficiency; this is also identifying business opportunities that we have all over and how we can leverage that and to take it as part of our plan for ‘25 and ’26. Efficiency is part of it.

During the quarter, as part of the change that happened with Microsoft, we did a significant efficiency. We reduced people in some places and also some other changes that we did, and we reduced our cost basis dramatically. We'll see later because it will impact H2 forward. I'm really excited from my new role, and I believe this will definitely give me enough time to focus on growth and the future of Perion.

**Tal Jacobson**

Yes, let me just add to that. We're generating positive cash flow. I know this specific quarter with all the technical item, but it is positive. We're absolutely looking to generate more and more cash. We're using the cash for buyback and investments and M&A. Now, I think we've shown that the last M&A that we've done has helped us gain meaningful technology that by itself generates a very nice growth rate. We're going to continue doing that. We're not going to buy any company that doesn't make any money. We're focusing on companies that are profitable, synergetic to what we do, and are focused on technology.

One of the things, obviously with the new role of Maoz, he has many items, but one thing is to sell our cross solution across anything we do to those customers. That would reduce operational and customer acquisition costs because we're now unifying those solutions to that specific customer, and that should result in a more efficient Company and a faster growing Company.

**Laura Martin**

Thank you.

**Tal Jacobson**

Thank you.

**Maoz Sigron**

Thank you, Laura.

**Operator**

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

**Mark Kelly**

Hi, great. Good morning, good afternoon. Two quick ones. I was hoping you could touch on SORT adoption and what your expectations are there now that Google has decided to keep cookies around for now, at least. I know there's a lot we don't know about the path forward there, but any thoughts on SORT adoption?

Then second, can you dive into retail media a bit more? It's my understanding that the majority, or maybe all of your retail media business is the off-site component, so not buying on retailers’ websites—retailers’ sites. A, is that correct; and B, I guess, what would the mix be between on-site and off-site for you? Thank you.

**Tal Jacobson**

Great, thank you for the questions. Absolutely. Listen, I think we all—none of us was very surprised when Google said we're going to push this further or even cancel that. But I think the exercise that we went through in the past few years thinking that cookies are going to go away really pushed us in developing new technology for segmentation, for audience segmentation, and SORT is very much relevant. Our customers are using SORT 2.0 with CTV now, it's even more robust, and the fact that you can target the same type of segmentation across open web and now CTV with the same technology is really powerful.

But having said that, and that goes directly to your second question, our Retail Media and our solution as a whole is the omnichannel solution. It's not just offsite or on-site, it's connecting the dots, right? Connecting the dots means we can run it on social, we can run it on CTV, we can run it on out-of-home, we can run it on Spotify, we can run on open web. Whatever the client needs, we can provide because we've built a technology that is flexible enough for that. That's in retail. Retail is not just out-of-home, it's also on-site, off-site, from digital advertising on websites and from digital advertising out-of-home. We're connecting the dots, that's the idea.

Now, SORT is perfect for that because it actually understands the audiences based on all our algorithms that we've built throughout the years. That doesn't mean that we're not using other third parties. If a client wants to say, you know, I want to use LiveRamp or I want to use The Trade Desk ID or whatever they want, we're already integrated into all of those. One thing to remember, because we work in omnichannel and not specific—we're not working specific channel, we can work on Meta and Google and open web and whatever. We're connecting the dots because of that and understand that cookies are not relevant to most of them, right? Out-of-home doesn't have cookies, CTV doesn't have cookies, so not everything has cookies, but the ability to understand all of them is the powerful thing that we do.

I hope that answered your questions.

**Mark Kelly**

It does, thanks very much.

**Tal Jacobson**

Thank you.

**Operator**

Thank you. As a reminder, to be placed into the question queue over the phone, please press star, one on your telephone keypad, and over the webcast, please use the Raise Your Hand function.

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 cash generation expectations for the back half of 2024. You've got—you know, we're halfway through the year here. You've given a midpoint Adjusted EBITDA projection of $50 million, and we've got $28 million at the halfway mark. Given that that remainder is about $22 million, is that a fair estimate of what we think cash generation could be in the back half of the year?

**Maoz Sigron**

Yes, thank you Eric for the question. Yes, we are starting to move back to normal. Without the two things that happened in the quarter, we will have free cash flow that's similar to the EBITDA, this is what's going to be in H2. What you said is very much right. We're expecting H2 to be very much aligned with the EBITDA plug number there for H2, based on the $50 million EBITDA that we have in the guidance.

**Eric Martinuzzi**

Okay, and then the uses of the cash, I was pleased to see that you were active in the repurchase activity in Q2. Based on that $20 million spend, we're now, I guess, down to a balance of $55 million on the repurchase authorization. What's your expectation for the pace and size of repurchases going forward?

**Maoz Sigron**

We are, as you said, we started the plan, as we said, during the quarter. As we promised right after the earnings call, we are going to complete all the operations, and we will start the plan. We did the $20 million in the second quarter. We're expecting to spread the rest of the plan until the beginning of 2025, so it will split between Q3 and Q4, and a bit in 2025.

**Eric Martinuzzi**

Got it. Thanks for taking my questions, and congratulations on your promotion, Maoz, and yours as well, Elad.

**Maoz Sigron**

Thank you. Thank you, Eric.

**Operator**

Thank you. The next question today is coming from Jeff Martin from Roth Capital Partners. Your line is now live.

**Jeff Martin**

Thank you. Good morning and good afternoon, fellows.

**Tal Jacobson**

Good morning.

**Jeff Martin**

I wanted to just get a little more detail on the open web revenue decline. How much of that is, do you think, market dynamics versus internal adjustments that you're making at Perion? Specifically, how much of that was ContentIQ?

**Maoz Sigron**

The main—as we said also in the preliminary, the main change started back then in 2023 related to our priority in terms of margin. Then from 2024 beginning of the year, we started to see something that is different, that's more related to the market and to less demand on this specific format on the display, on the video, on the open web. This is very much most of the reason for the change.

I think that, you know, moving forward we're expecting, let's say, that it will stabilize around the current level. We ended the quarter with 18% for the video. I believe that if I need to, let's say, think about the future, we are around a level that will be stabilized around, let's say, 15% more or less. This is more or less kind of the new norm of this part of the business.

**Jeff Martin**

Thank you, and then balance sheet question for you on the short-term payment obligation related to acquisitions. You made a $9 million payment for the Vidazoo acquisition in the quarter, and you had a small change in the contingent consideration estimate going forward, but when you look at the balance sheet, that line item declined $46 million from first quarter to second quarter. I was just curious what other factors led to that change on the balance sheet.

**Maoz Sigron**

As we said before, part of the accounting rules means that we need to split the payment we did for Vidazoo to two lines. One is the cash operation and the second is the investment. The $9 million is what you see in the balance sheet is actually the change from the payment. There is another small change that's related to other changes that we did for the other acquisition, but the change that you see in the balance sheet, this is the main change.

**Jeff Martin**

Okay, I'll follow up with you on another follow-up call on that one. Thank you.

**Maoz Sigron**

Thank you.

**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**

Thank you very much. Thank you everyone for joining us today and thank you for being part of our journey. We're looking forward to seeing you again in person or on our next earnings call. Thank you.

**Operator**

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