Perion Q3 Earnings Call | November 6, 2024

Moderator:

Hello everybody and welcome to the Perion Network third quarter 2024 earnings conference call. Today's conference is being recorded and an archive of the webcast will be posted on the company's website. 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 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 under the heading risk factors and elsewhere in the company's annual report on form 20F that may cause actual results, performance, or achievements to be materially different and any future results, performance, or achievements anticipated or implied by the 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 gap and a non-gap basis. While mentioning EBITDA, we will be referring to Adjusted EBITDA. We have provided a detailed reconciliation of non-gap measures to their comparable gap measures in our earnings release, which is available on our website and has also been filed on form 6K. Hosting the call today are Tal Jacobson, Perion's Chief Executive Officer, and Elad Tzubery, Perion's Chief Financial Officer. I would now like to turn the call over to Tal Jacobson. Please go ahead.

Tal Jacobson:

Good morning, good afternoon, and welcome to Perion's third quarter 2024 earnings call. Today, I'm pleased to share our results and highlight the progress we're making in digital advertising innovations.

Technology and profitability are two core essential elements of Perion’s culture. For over a decade, we've been successfully building advanced, cutting-edge technologies at the forefront of Ed-tech industry, and since 2014, Perion has been delivering positive annual Adjusted EBITDA and operating cash flow - an accomplishment we're proud of and committed to continue to drive.

At Perion, we aim to help CMOs, the same people who control almost $700 billion of digital advertising budgets. This number is projected to reach almost a trillion dollars within three years.

Today, CMOs face an almost impossible mission. They're required to provide continuous ROI on advertising budgets. They're expected to do this while working in a fragmented ecosystem of channels, data points, screen sizes, audience segmentation, and many different media buying platforms. All this while respecting the privacy of the consumer and ensuring a minimal budget waste.

In all our conversation with brands and agencies, we hear the same thing. They're all looking for a holistic solution that can run across the omnichannel universe and provide the best results while reducing waste.

This landscape demands advanced, efficient data-driven solution. That's exactly where Perion stands out with its AI-driven technologies.

Perion is taking a unique approach to what people used to call the linear consumer journey. We understand that human behavior has changed so much in the past few years, and each person interacts differently with technology throughout the day. Perion's technology is deeply rooted in each channel to ensure we can deliver marketing messages at the right time to the right consumer. We connect the dots.

We do this across the digital advertising space between data, creative, and media, to ensure that brands achieve better returns and meaningful outcomes.

Our advanced technologies keep us ahead of the curve, anticipating shifts in digital advertising. As CTV, retail media, digital out-of-home and audio ads lead today's industry trends, we continuously introducing new innovative technological solutions. Our solutions position Perion at the forefront of those high growth areas.

Less than a year ago, we launched our advanced generative AI solution for audio ads, forecasting the movements in the digital advertising industry. Indeed, we're now seeing the largest industry players investing in audio with a new deal between The Trade Desk and Spotify coming to life. As Jeff Green commented: “digital audio might be the most on-sale corner of the internet. The time spent to ad spend ratio has the highest disparity of any channel”.

We will continue to look at the changes and build advanced technologies for it to capture the revenues and stay ahead of the curve. Our advanced technologies are built to solve the advertisers’ toughest challenges, leveraging AI to optimize campaigns for better efficiencies and reach.

In our AI lab, we continue to produce amazing products. You're all familiar with SORT and WAVE. SORT is our advanced AI audience segmentation technology for CTV and web, designed perfectly for cookie-less environments. And WAVE is our advanced generative AI audio ad solution.

Perion's Creative Studio is our AI driven DCO, Dynamic Creative Optimization, that builds and delivers the most effective creative in real-time across multiple channels. And, our recently launched product, a unique advertising experience powered by Chat AI capabilities, connects brands with their consumers through AI conversations and boosts engagements by enabling in-ad interactions tailored to each person.

Everything we do is focused on one thing - providing great results for our brands. Great results come when combining advanced technology and premium inventory. This is why when it comes to inventory, Perion works with the best.

In the past year, we've made many advancements connecting our technology to the leading platforms within our ecosystem. This is our way to ensure that our clients get the best of all worlds when working with us. Having advanced technology with a high level of flexibility that meets our client needs is our first priority.

It is our unparalleled capabilities that make Perion a trusted partner. We work with some of the industry's most recognized brands and agencies, setting new standards and creating impactful results.

I'm pleased to report that our growth engines continue to perform strongly. Digital out-of-home, retail media, and CTV delivered strong growth of 63%, 62%, and 19% year over year, respectively.

As we look into the future, I invite you to be part of what's next for Perion. Here's what set us apart as an investment opportunity: Innovation is in our DNA. We're constantly pushing boundaries, staying ahead of the industry trend. We have a decade-long track record of generating positive adjusted EBITDA and operating cash flow. Our commitment to high growth areas such as digital out-of-home, retail media and CTV, positions us at the forefront of the market. Our leadership team brings deep industry expertise and visionary approach to every decision. And with our global footprint, we can serve clients and partners in high-growth markets, positioning us for accelerated growth.

Now I'll turn it over to our CFO, Elad Tzubery who will discuss our quarterly financial results.

Elad Tzubery:

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

After completing my first quarter as Perion's Chief Financial Officer, I'm glad to share that our third quarter results were in line with our expectations.

In the third quarter, we continued to experience strong contribution from our growth engines - Retail Media, CTV, and Digital out-of-home.

As we previously disclosed, we continue to see a decline during the quarter in our Search business, in open web video, and in standard display formats.

Within search, we experienced the full impact of the actions taken by Microsoft Bing earlier this year, and are now generating what we believe is a normalized revenue run rate for the fourth quarter of 2024.

In the third quarter, we were profitable, we repurchased additional shares and continue to maintain a strong net cash position. Our favorable financial position will allow us to continue investing in technology, organic growth and executing our M&A strategy.

For the third quarter that ended on September 30th, 2024, revenue was $102.2 million, a 45% year-over-year decrease. This was primarily due to a 76% decrease in Search revenue and the continuous weakness in our open web video standard ad formats.

These results were partially offset by an increase in revenue, attributable to our growth engines. Adjusted EBITDA was $7.4 million, representing a 83% year-over-year decrease, and resulting in a 7% adjusted EBITDA margin and 16% ex-TAC margin.

GAAP net income was $2.1 million while non-GAAP net income was $11.9 million. As of September 30th, 2024, net cash including cash equivalents, short-term deposits, and marketable securities was $383.9 million. During the third quarter, we continued our buyback plan and repurchased 1.6 million shares for a total of $13.5 million.

Revenue from Advertising Solutions was $81.3 million, down 18% year-over-year, yet up 9% sequentially, representing 80% of total revenue. The year-over-year decrease was a result of continuous and anticipated decline in open web video and in standard display revenue.

These declines were partially offset by significant year-over-year increase of our growth engines, including Digital out-of-home, Retail Media, and CTV.

Our Digital out-of-home business grew by 63% year-over-year, on a pro forma basis, to $19.1 million, representing 23% of our Advertising Solutions revenue, compared with 11% in the same period last year on a pro forma basis.

Our CTV business grew by 19% year-over year to $9.5 million, representing 12% of our Advertising Solutions revenue, compared with 8% last year.

Boosted by our Digital out-of home and CTV solutions, our Retail Media business, which is a hyper-growth market vertical, delivered another strong quarter. Retail Media increased 62% year-over-year to $21 million, representing 26% of our Advertising Solutions revenue, compared with 13% in the same period last year.

Search advertising was $20.9 million for the third quarter, down 76% year-over year, representing 20% of our total revenue. As mentioned, this decrease was a result of the changes implemented by Microsoft Bing earlier this year.

Our contract with Microsoft Bing, which both currently and going forward represents less than 5% of our overall revenue run rate, will not be renewed at its conclusion at the end of 2024. As per the terms of the contract, there is a tail that is expected to generate revenue also in 2025.

Contribution excluding TAC margin was 47%, compared with 42% in the third quarter last year, which is primarily due to changes in the product mix following the reduction in the search business.

Adjusted EBITDA was $7.4 million, 7% of revenue and 16% of contribution ex-TAC, compared with 23% and 55%, respectively, in the third quarter of 2023. The cost reduction and efficiency measures that we implemented last quarter, allowed us to moderate the year-over-year decrease in EBITDA.

On a GAAP basis, third quarter net profit was $2.1 million, or four cents per diluted share, compared with a net income of $32.8 million, or 65 cents per diluted share, in the third quarter of 2023.

On a non-GAAP basis, net income decreased by 72% to $11.9 million, or 23 cents per diluted share, compared with $42.4 million, or 84 cents per diluted share, last year.

In the third quarter, our cash flow from operating activities generated $16.2 million, compared with $40.1 million in the same period last year. Perion has a decade-long track record of generating a positive cash flow from operation and we expect to continue in this direction in 2024 and going forward.

As of September 30th, 2024, net cash including cash equivalents, short-term deposits, and marketable securities was $383.9 million, down from $407.1 million at the end of the second quarter of 2024. The quarter-over-quarter decline in cash was primarily the results of an earnout settlement of approximately $24 million, related to previous acquisitions.

Going forward, we do not expect contingent consideration payments related to past acquisitions other than those of Hivestack. In addition, during this quarter we repurchased 1.6 million shares for a total of $13.5 million. As of the end of the third quarter, we repurchased a total of 3.6 million shares, bringing the total spend against our share buyback program to $33.5 million.

Based on our third quarter results and our expectation for the fourth quarter, we are reiterating the full year 2024 guidance that we provided on our second quarter earnings conference call.

This concludes my financial overview. I will now pass it back to the operator for the Q&A. Thank you.

Moderator:

Thank you. If you wish to ask a question, we ask that you please use the raise hand function at the bottom of your zoom screen or if you have dialed in, please press star nine. Our first question comes from Andrew Marok at Raymond James. Please unmute your line and ask your question.

Andrew Marok:

Hi, thanks for taking my question. Maybe first one on Digital out-of-home. Seeing good growth there in the format, but I guess could you just talk about the progress in making Digital out-of-home just more programmatic industry-wide, since it still kind of lags some of its other formats?

Tal Jacobson:

Yeah, absolutely. Thanks for the question. So, as you've seen, the growth is pretty amazing, but Digital out-of-home continues to grow. Programmatic out of that grows even faster, but when we're looking at Digital out-of- home, when we bought Hivestack, we actually combineD that within our Retail solution. So we're powering retailers to also use that, to use that as part of our omnichannel solution to drive more people into physical stores. So, the synergetic solution out of that provides even more growth than just the out-of-home part. I hope that answered your question.

Andrew Marok:

Yeah, thank you. Helpful there. And then maybe one quick one if I could on CTV. So, I guess can we just talk about some of the dynamics that are happening there, maybe industry-wide and how they're affecting you? Because saw the growth of 19%, but that's a pretty significant decel from 42% last quarter and the absolute dollar amount was down year over year or down Q over Q, Excuse me. Just wondering if there's anything to read into that. Maybe in terms of CPMs coming down across the space as industry proliferates. How does pricing kind of impact your CTV business? Thank you.

Tal Jacobson:

Thank you. Yeah, absolutely. So CPMs are a bit down, but since we're not… when CPMs are down, we're basically buying more inventory. The main reason that the growth was a bit lower than last quarter is because the main parts of our CTV is live CTV. So less sports events during the summer and September actually started to pick up again, but live events on CTV is the main driver, and July, August is just a weaker part of the year.

Moderator:

Perfect. Our next question comes from Jason Helfstein at Oppenheimer. Please unmute your line and ask your question.

Jason Helfstein:

Hey. I guess good afternoon guys. Two questions. One, when do you think advertising revenue returns back to positive growth? Presumably sometime next year, but if you just maybe level set base case versus bulk case. And then question number two, where do you see long-term EBITDA margins, ex-TAC, and how do you get there? Is it a function of doing things? How much of its revenue versus work you need to do on the cost side? Thank you.

Elad Tzubery:

So, hi Jason. Thank you for the question. So for the first question regarding our advertising solutions, we believe that next year, on Q1, we started to see the year started to get slight increase year over year, and in Q2 we started to see it expedited a little bit more. In Q2, we'll see the real growth year over year, we're going to see the entire impact for all the changes that we've made this year. In terms of the EBITDA profitability from ex-TAC, I believe that next year we'll end up slightly higher than where we are today. We are constantly working about efficiency in the organization, improving our EBITDA margins and to be able to scale up using our current headcount and our current level of expenses.

Jason Helfstein:

Can I follow up on that second question then? I mean, do you have to change at all the, I guess, pricing, billing model for advertisers to kind of get to the margins that you have to get to?

Tal Jacobson:

No, we don't need to change our pricing model. No, we're scaling with some major advertisers and that's where we're going to see the growth while maintaining the growth with the current headcount.

Jason Helfstein:

Thank you.

Tal Jacobson:

Thank you.

Moderator:

Our next question comes from Eric Martinuzzi at Lake Street. Please unmute your line and ask your question.

Eric Martinuzzi:

Yeah, I wanted to focus on the Microsoft contract. Just to clarify, you said that there will not be a renewal of that contract, but that there will be Microsoft-related revenue in 2025?

Tal Jacobson:

Yes. What was the question?

Eric Martinuzzi:

Yeah. You size the Microsoft revenue in the back half of 24 as 5%. What would you characterize, how long do we have this tail in 2025? Is it done by Q1? What percent of revenue is Microsoft in Q1, Q2?

Tal Jacobson:

Right. So the agreement with Microsoft has a clause of tail. What that means is the users, the end users that are using the product with the Microsoft engine through us, can continue to use that with us till the end of 2025. Now, software users tend to churn. They don't keep that product always. So although we have a tail clause within the agreement, and we expect to generate revenue in 2025, and still we do not have that forecast till the end of 2025, but it's going to be part of our revenue in 2025 as we see it now.

Eric Martinuzzi:

Okay, so de minimis kind of less than 2% for the full year on revenue, percent of revenue?

Tal Jacobson:

Yeah, we'll try to be more accurate next quarter when we're going to provide a better visibility into next year, but I think that's a, kind of a reasonable assumption, but we'll need to do a deeper analysis.

Eric Martinuzzi:

Got it. Thanks for taking my question.

Tal Jacobson:

Thank you.

Moderator:

Our next question comes from Laura Martin at Needham. Please unmute your line and ask your question.

Laura Martin:

Hey, so let's start with Hivestack. You closed it in the fourth quarter of 23, and the idea, the industrial logic was that Undertone had excellent relationships with ad agencies in the US and Hivestack had excellent relationships with ad agencies offshore, and there was synergy there because you could sort of, synergy of introducing products across the globe that way. Could you update us on whether that industrial logic is playing out, please?

Tal Jacobson:

Yeah, so on the product side, we've implemented the DCO, which is an Undertone product, which is the Dynamic Creative Optimization technology. We've implemented that into the Hivestack platform, enabling Hivestack advertisers to enjoy 40% more inventory than they used to. What that means is, in out-of-home you have so many different sizes of screens and resolutions that advertisers don't really bother to create creatives for all those sizes. With that new technology, they can now tap into all the inventory, which provides greater growth into our Hivestack platform. So, it does work, and it provides a bigger portion of retail advertisers into Perion. So even though we've started less than a year ago, we're seeing good synergies between the two sites.

Laura Martin:

Okay, helpful. And then my other question is, when you stepped into the CEO role here, Tal, we had Microsoft at 50% of revenue and now it's going to be less than 5%. My question is sitting here today, should you have known that this was coming as the head of the Microsoft relationship, or was just everybody blindsided by a strategic pivot that Microsoft made looking back?

Tal Jacobson:

Yeah. Well, let me just say, if I knew to be honest, I wouldn't taken this role. I didn't want this undermining, but unfortunately it happened, and it happened industry-wide for Microsoft. It's a decision they took across the board to their other partners, not just Perion, and we were all surprised by this change. Again, if I only knew, but unfortunately, I didn't, I took this role and it's my responsibility now to rebuild the entire thing without the Microsoft agreement.

Laura Martin:

Just following up on that, we're having weakness in, let me call it the old-line business, which is the video business and the display business. Do you think the weakness in the core businesses, the ones that are more than a year old, is actually related to the same reason that Microsoft left? Is it a quality issue, I guess is my question of Perion inventory or are they unrelated?

Tal Jacobson:

No, no, absolutely not. It's absolutely not. Microsoft Search had nothing to do with the display Advertising business. It's not connected in any way. Now, some of our parts in the past that we used to have, publisher solution and other parts that the industry moved away from is some of the decline that you're seeing now in the advertising part. But our inventory, as you probably saw in our presentation, we're connected to the premium of the premium inventory of the industry. We're not compromising any of our inventory. We're just working with very high-quality inventory. But those two parts are unrelated. And there's an article, I think a few months ago that Microsoft are generating a lot of money through what people call MFA sites and Google as well. So, technology companies and advertising companies are working with all type of websites, but those two parts were never connected.

Laura Martin:

Super helpful. Thank you very much.

Tal Jacobson:

Absolutely. Thank you.

Moderator:

Our next question comes from Jeff Martin at Roth. Please unmute your line and ask your question.

Jeff Martin:

Thanks. Good afternoon, guys. Wanted to ask more specifically, what are the trends within the traditional display and video advertising that are impacting you most, yeah, most severely here, and do you see that bottoming out and is there growth potential down the road?

Tal Jacobson:

Yeah, so the main trends we're seeing is open, I would call it open web inventory became less and less attractive. You can see that weakness also in the Google reports that YouTube and search are growing while ad sales, which is the open web, is not doing as good. And I think that's why we're concentrating mainly on one, the premium inventory and second, on the omnichannel experience. So we can continue to shift between higher margins and more attractive channels. But that's why you're also seeing part of our display advertising unit division declining in the past year. We expect next year to be a lot better on that part. We're investing a lot in other channels, and we're now pushing some of our advertisers into YouTube and CTV, YouTube both on CTV and web, and those are the growing engines that we're looking forward to grow.

Jeff Martin:

Great. And then my second question is regarding the Search business. My understanding is that the majority of the residual in Search is with partner Yahoo. I just want to throw it out there, a question, could the same situation that happened with Microsoft Bing happened with Yahoo? Thank you.

Tal Jacobson:

Right, so we do not see any signals that that might be the case, but again, the search part of Perion, I think we've said that in the past, is not a strategic part. As long as we can get revenue and EBITDA out of that, we'll be more than happy to do this for as many years as possible. But that's not the strategy, that's not the path we're going to, that's not even part of the investments we're doing. We're not investing in that part. We're just, we're working on that part to continue to generate revenue and EBITDA, but the main growth engines, I think that's what's going to take us to new places and to higher growth.

Moderator:

Our last question comes from Mark Kelley at Stifel. Please unmute your line and ask your question.

Mark Kelley:

Great. Thanks very much. Good morning. I wanted to ask you about two different things. One is you brought up The Trade Desk in your prepared remarks when it comes to audio, I guess is that how you're accessing audio inventory from a DSP perspective? And then second unrelated question, Tal, you talked about kind of rebuilding the company after the Search business is essentially close to going away. I guess, can you expand on the M&A strategy and some of the thoughts that you have today and maybe if those differ from what we've heard from you in the past? Thank you.

Tal Jacobson:

Yeah. Thank you for the questions. So we're now connected, on the audio part, we are connected to Spotify directly and iHeart and others. If an advertiser wants to buy our audio through The Trade Desk, they are more than welcomed to do so with our technology or through any other DSP. So that's on the audio part, and I think the fact that The Trade Desk did this deal with Spotify is amazing. I think audio has been unrecognized as a growth engine for so many years, but it's still, a lot of people are using it and we're going to see a great growth on audio in the future. It's still not there, but I think it's a good part to invest in.

As for the M&A and the future of the company, I don't think the company is going away any in the future. I think we need to rebuild everything we do. We still have a lot of money. We're generating good EBITDA, we're generating revenue. We have a lot of technology. We have a lot of clients and partnerships. It's an amazing company. I think it has an amazing future. And now in terms of M&A, we're at the same place. We're looking for to buy more growth engines. The criteria is EBITDA positive, synergetic drives through technology, and that's basically what we're looking for. Does that answer your question?

Mark Kelley:

Yes. Thank you very much.

Tal Jacobson:

Thank you.

Moderator:

This concludes today's call. I will now hand back to management for closing remarks.

Tal Jacobson:

Thank you everyone for joining us at our Q3 earning call. We look forward to having you joining us again next quarter. Thank you.