Perion

Fourth Quarter 2022 Earnings Conference Call

February 8, 2023

CORPORATE PARTICIPANTS

Doron Gerstel, *Chief Executive Officer*

Maoz Sigron, *Chief Financial Officer*

Tal Jacobson, *General Manager, CodeFuel*

CONFERENCE CALL PARTICIPANTS

Jason Helfstein, *Oppenheimer*

Laura Martin, *Needham*

Andrew Marok, *Raymond James*

Mark Kelley, *Stifel*

Eric Martinuzzi, *Lake Street Capital*

Jeff Martin, *Roth Capital*

PRESENTATION

Operator

Welcome to the Perion Network fourth quarter and full year 2022 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, and any future results, performance or achievements anticipated or implied by these forward-looking statements.

The Company does not undertake to update any forward-looking statements to reflect future events or circumstances. As in prior quarters, the results reported today will be analyzed both on a GAAP and non-GAAP basis. While mentioning EBITDA, we will be referring to Adjusted EBITDA. We have provided a detailed reconciliation of non-GAAP measures to their comparable GAAP measures in our earnings release, which is available on our website which has also been filed on Form 6-K.

Hosting the call today are Doron Gerstel, Perion's Chief Executive Officer, and Maoz Sigron, Perion's Chief Financial Officer, and Tal Jacobson, General Manager of CodeFuel and Perion's Chief Executive Officer effective August 1, 2023.

I would now like to turn the call over to Doron Gerstel. Please go ahead.

Doron Gerstel

Yes, greetings. I hope everyone is well. I'm very glad to have the opportunity to be with you all once again.

Together with me on the call is Maoz Sigron, our CFO, Tal, GM of CodeFuel and, as said, as of August 1 replacing me as CEO of Perion. Tal will introduce himself and we will talk about the transition plan in depth towards the end of our call.

Now to business.

By now, you've all seen the numbers. I will briefly review them in the context you've seen before, so you have an apples-to-apples comparison. After that, I'll get into the theme of our call today, Perion's execution model.

For the revenue side, we are showing a 30% year-over-year growth in 2022 that demonstrates once again that we are able to follow the trends in media spending, for example consumer awareness of privacy and the increase of viewers that watch live sports events on their smart TVs, leading to huge demand for high impact live CTV. We also responded to the trends regarding retail media and advertiser preference towards direct response via search-related advertising. These are all reflected in our performance. What's more, these shifts are likely to increase, not decrease in velocity, therefore the ability to react becomes mandatory to continue to outperform the industry. You should remember this important factor when we talk about our execution model.

From an EBITDA standpoint, our ability to increase our media margin despite the pressure on advertising inventory due to macroeconomic environment reinforces the value of our high impact ad units and highlights the effectiveness of our central control system, Intelligent HUB, at optimizing demand and supply. These factors are behind our amazing year-over-year EBITDA growth of 90% in 2022.

Finally, I want to bring back our Rule of 40 slide. To remind you, this principle says as software companies combine revenue growth rate and profit margin should equal or exceed 40%. Q4 was another quarter following seven consecutive ones where we achieved the Rule of 40, actually 54% on the Rule of 40, performance which belongs to the most respected and high value software companies.

Now, I would like to share with you our execution model that has guided Perion's thinking in my time at the Company. It's the explore and exploit model. You can also think of it as innovate and improve model. I'm sharing this because I keep getting asked the basic question, how does Perion do it? In fact, how does Perion manage to deliver quarter after quarter, year after year of growth no matter what the economic conditions, in the midst of a pandemic, supply chain disruption, and decades-high inflation. The simple answer is our conviction that the ability to successfully execute is the core of our success. It is fundamental.

To demonstrate how this works in practice, let's look behind the scenes because the more you now about how we approach strategy and execution, the better you'll be able to understand the sustainability and predictability of our business and to assess our growth. The image shows the full concept. It's composed of two parts. The exploit grid contains our mature solution which constantly needs to be improved in terms of growth and sustainability alongside our innovation engine, which empowers us to explore and invent new growth initiatives in the explore group. Our numbers are proof of the effectiveness of this model. In 2022, our explore initiative generated $64 million in revenue and $26 million in media margin, while in 2023 our expectation is to double the revenue to $110 million and generate $45 million in margin.

For our exploit solution, we visualize our portfolio in two vectors: growth and sustainability. We extend our moat to protect us from any disruption in the marketplace. We build and measure KPIs to continually assess the progress we are making to reach higher profitability and greater sustainability. With that as a context, I've chosen a few highly relevant examples to demonstrate our model.

First one that I choose is our video solution. Our video platform is one of our main growth drivers, increasing in 2022 by 129% compared to 2021. That represents 43% of display advertising revenue. We've also seen an average increase in three important metrics. Revenue per video platform publisher grew by 106%. We experienced a 69% year-over-year increase in the number of publishers that are using our video platform - 76, up from 45 in Q4 last year, and finally a 78% year-over-year increase in revenue from retained video platform, in other words our publishers are spending more and more on our platform.

Now I'll move to SORT, our privacy-first cookieless solution which is another very interesting example of our explore solution. It's growing maturity demonstrates the journey I talked about earlier, how a 2021 explore initiative moved into exploit grid in 2022. The results in Q4 are powerful. Ad campaigns using SORT represented $26 million, up 82% quarter-over-quarter, reaching 21% of advertising revenue. The number of SORT customers increased by 36%, 76 new SORT customers, overall 191 customers using SORT. On average deal size, that's the most important factor, using SORT increased by 33% to $137,500. So, when customers are using SORT, they feel comfortable and safe to spend more because that's what consumers like.

Last but certainly not least, SORT delivers a 1.33% CTR, almost three times the Google benchmark of 0.46. Let me repeat, this is without cookies. With that success of SORT as an in-house service, we are working extensively, that's an explore effort, to offer SORT as a service to other companies that are interested in offering a privacy-first solution that performs better than other targeting tactics.

Last on the exploit side is direct response, or what we call the search advertising. Our portfolio and healthy direct response solution via search advertising continues to be one of our most profitable and sustainable exploit solutions. The business is driven by two levers: increasing the number of publishers and aggregate number of monetized number searches we transfer, mainly to Microsoft Bing. That number is robust and impressive. We are reporting today 22 million average of daily - I repeat, daily search that is going through us in Q4 2022, an increase of 26% year-over-year. This number is growing every day and I can tell you that this quarter, actually the first five weeks of the quarter, we are seeing 25 million searches, daily searches or average daily searches.

Let me quickly point out again that direct response is one of the three pillars of our diversification strategy. As cost sensitive advertisers move to ad search, we are there.

With that, we will move to the explore grid. When it comes to our innovation engine, we will continue to explore many different ideas. We recognize that the profit potential of any one of them will be unclear at the outset. That's how explore operates - we have assigned a dedicated team and budget to design, test and scale explore innovations. They investigate the value proposition, market appeal, synergies with our existing product and business models. Only after all these are assessed as positive, then an innovation initiative makes it to the top right-hand corner as tested business idea with substantial profit potential. This enables us to focus on innovation and disruption, ensuring that we stay ahead of the curve and not be blindsided as our industry rapidly changes.

The best example that I can take at this point from the CTV is the live CTV. CTV is another broad explore opportunity that excites us. Specifically, we found a very sizeable sub-segment of live CTV within sport events. According to Nielsen, sports broadcasting reached the most CTV users and, hear me out, 94 of the 100 most watched telecasts on TV in 2022. Commercializing this live sports CTV requires unique technology that is a huge challenge as ad insertion cannot be planned ahead of time in terms of timing and, more importantly, in terms of format, and needs to be executed on the run.

As an example here is how Dr. Pepper used our live CTV platform to reach U.S. viewers watching college football. It's a rare win-win-win - the viewer gets to continue watching their sports content without interruption, the advertiser maximizes attention which might have been lost during the commercial break, and the publisher retains viewers, they don't change the channel or jump to a different app. This means more revenue for everyone.

Next example on the explore is retail. The growth of retail media is also dramatic. These huge players, from CVS to The Home Depot to Macy's, are building retail networks. It is another true explore opportunity for Perion. Retail media has become the fourth largest advertising medium with ad spend forecast to reach $121 billion globally in 2023 - that's a 10% increase from last year. Growth of retail media is positioned to do for the 2020s what search powered digital advertising did for the 2000s and what social media did for the 2010s. Perion is uniquely positioned to take advantage of this new wave. We are working with the largest retailers, such as Albertson's, and during the first year after establishing our retail division, we generated $22.3 million in revenue and expecting to deliver $30 million in revenue in 2023.

Last but not least, an earnings call without ChatGPT is not a true earnings call, so I will refer to it especially after yesterday's meeting at Bing. The advertising industry is on the cusp of a major transformation as advances in generative AI are set to revolutionize the way brands reach and engage with their target audience. This capability has the potential to dramatically streamline the advertising production process and open up new avenues for creative expressions.

With regard to search, our expectation is that ChatGPT will revolutionize Bing search capabilities by providing more advanced and intuitive search experiences for its users, better meeting their needs and expectations. We believe that such superior search results will increase advertiser spending and as a result, we expect to see a very positive impact on our search business.

Microsoft Bing currently is only 3% of the global search market. If the new Bing search with ChatGPT sparks even modest share gains, Microsoft can do very well in the business. As their CFO, Amy Hood said yesterday, every percentage point of share it gains in search equals roughly $2 billion in additional advertising revenue, and as a strategic partner of Microsoft Bing, I'm sure we will be benefiting from this increase.

Let me also point out that ChatGPT, which is the number one technology story of the year, fits beautifully in our exploit-explore framework. In parallel, we will develop new exploratory applications of what AI can accomplish in our technology stack.

Going forward, it's also important to point out that the relationships between exploit and explore is dynamic. As Schumpeter pointed out in his famous theory of creative disruption, new ideas are continually destroying and replacing the old. That's why continued exploration is the lifeblood of any business and that's why failure is not be feared. You cannot explore without making mistakes, and we've made our share. This is why, for example, we shut down Privado, a privacy web browser.

With that, I would like to pass it to Maoz. Maoz?

Maoz Sigron

Thank you Doron. Just a minute. Good afternoon and good morning to those of you joining us from the U.S. I am happy to be here today to present continuing strong results for Perion for the fourth quarter and full year of 2022.

Perion continues to outperform the ad tech industry, consistently improving our results during the last two years despite the global macroeconomic challenges and market volatility. Perion's diversified business model, technology differentiation and innovation-focused approach continued to enable us to navigate our way through a challenging market, resulting in excellent performance.

Let's look at the key financial achievements for 2022, reflecting the strength of our business model and our ability to execute our strategy.

Revenue grew by 34% to a record of over $640 million. Adjusted EBITDA of $132.4 million, another record, 90% year-over-year growth. Non-GAAP net income of nearly $120 million doubled year-over-year. Non-GAAP diluted earnings per share increased by 57% to $2.47. We continue to demonstrate our ability to generate cash with operating cash flow jumping 72% year-over-year to $122.1 million.

I would like to share with you one additional and meaningful financial KPI that in my opinion reflects the strength of Perion's performance over time. The revenue and EBITDA LTM show our ability to consistently execute our business strategy. During the last 10 quarters, the average quarter-over-quarter growth of revenue LTM was 9% and EBITDA LTM was 17%. The financial metrics clearly reflect our strong results over time and Perion's robust, sustainable and predictable business model. Our ability to grow our revenue while continuously improving profitability quarter over quarter is most impressive and shows long term execution in a volatile environment.

I would like to take this opportunity to talk a bit about our inorganic efforts and more specifically about the Vidazoo acquisition. The Vidazoo acquisition in October of 2021 is a great demonstration of how we approach and execute our M&A strategy. Our M&A strategy includes the following: being profitable and accretive from day one; second, a solid growth prospective; third, strong synergies with Perion organic business; fourth, strong market position; and last but not least, a broad and build model one-third cash and two-thirds earn-out.

In Vidazoo, we found a company that had a product we were missing in our offering. We wanted to enhance our high impact and video offering, having an end-to-end solution for publishers, eliminating all existing intermediaries, and Vidazoo is the answer. Vidazoo was accretive since day one and had a clear growth trajectory. Their ability to attract new publishers and gain more traffic from existing ones helped them to grow faster than our expectations, but more importantly, we identified clear synergies with our existing businesses. Our ability to expose all Perion assets to Vidazoo and use Vidazoo as a delivered video solution and introduce the video platform to Perion's publisher network created significant synergy dollars during 2022, and more to come in the next years.

The revenue CAGR between 2020 and 2022 was 101% and the EBITDA CAGR for the same period was 118%. Vidazoo is growing their business dramatically while improving their profitability, which is exactly aligned with Perion DNA. Based on Vidazoo 2022 EBITDA and the total consideration of $93.5 million, the Vidazoo multiple is 4.5 compared with Perion 2022 multiple of 8.5.

Now let's move to the key financial achievements of Q4 2022. Revenue for the fourth quarter was $209.7 million, reflecting 33% year-over-year growth. Adjusted EBITDA of $48.2 million increased by 67% year-over-year. GAAP net income was $38.7 million, representing 119% year-over-year growth, the highest quarterly net income ever. Non-GAAP diluted earnings per share was $0.90, reflecting 45% year-over-year growth.

Let's turn to the next slide to discuss our results in more detail. The revenue of the fourth quarter of 2022 was $209.7 million, an increase of 33% year-over-year, reflecting a strong continued three-year CAGR of 33%. The revenue of the full year 2022 was $640.3 million, an increase of 34% year-over-year, reflecting a strong continued three-year CAGR of 40%.

Fourth quarter display advertising revenue increased by 24% year-over-year to $123.8 million, 59% of total revenue. This was driven primarily by the continuous market adoption of our holistic video platform the solution, the increase in SORT revenue, and growth of our CTV business. Video revenue increased by 33% year-over-year, representing 42% of display advertising revenue compared with 39% in Q4 2021. The number of video platform publishers increased by 79% year-over-year from 42 to 75. The revenue from retained video platform publishers increased by 78% year-over-year.

Our CTV business continued to gain traction, growing by 42% year-over-year, representing 10% of the total display advertising revenue. Our innovative cookieless targeting SORT solution is being adopted more and more by the market in light of consumer growing awareness and increasing regulatory pressure on companies to protect consumer privacy. The number of SORT customers rose to 191 this quarter, a 36% increase quarter-over-quarter. SORT customer revenue increased by 82% during that period, now representing 21% of display advertising revenue versus 17% in the previous quarter.

Fourth quarter search advertising revenue increased by 49% year-over-year to $85.9 million, driven by a growing trend of advertising favoring our high intent direct response advertising. The year-over-year increase in revenue was driven by a 13% increase in RPM and a 26% increase in the number of average daily searches. The results demonstrate our strategic diversification business model of our two main revenue streams. The fourth quarter display advertising revenue accounted for 59% of total revenue compared with 63% in 2021, with search advertising representing 41% of revenue compared with 37% in 2021.

On an annual basis, display advertising revenue accounted for 56% of the total revenue compared with 55% in 2021. We continue to expand into the fast-growing segments of video, CTV and retail business. Our sales business continues to grow as we benefit from the current shift to direct response search advertising.

Our media margin continued to show year-over-year improvement. Revenue excluding TAC was $87.7 million or 42% of revenue compared with 41% of revenue in the fourth quarter of 2021. The Intelligent HUB that we have developed and several other processes and automation leverage data and buying power to control and improve the overall media buying system. This has resulted in better selling and buying power, translating into a continuous improvement in media margin.

We take great pride in our ability to implement efficiency measures and progress in our day-to-day operations. Each and every efficiency measure shows a continuous improvement over the last three years. Our opex plus COGS in 2022 accounted for 23% of revenue compared with 28% in 2021 and 33% in 2020. At the same time, EBITDA per FTE has risen from $78,000 in 2020 to over $300,000 in 2022. This impressive achievement reflects the execution of our business strategy and the disciplined manner we run our operation.

Over the past few years, we have invested in innovation and automation, creating the infrastructure that allows incremental top and bottom line growth on a lower cost basis. We have improved our budget control and are consistently looking for new efficiency initiatives. This shows how our efficiency and cost control measures, coupled with focused growth in high margin business, translates into impressive bottom line growth.

Fourth quarter Adjusted EBITDA was $48.2 million, reflecting 67% year-over-year growth. Adjusted EBITDA margin was 23% compared with 18% last year, while Adjusted EBITDA to revenue excluding TAC increased from 45% in the fourth quarter of 2021 to 55% in the fourth quarter of 2022. Full year Adjusted EBITDA was $132.4 million, up 90% year-over-year and with a three-year CAGR of 101%. Twenty-twenty-two EBITDA margin was 21% compared with 15% last year. Twenty-twenty-two EBITDA excluding TAC margin significantly increased to 49% compared with 37% last year.

On a CAGR basis, fourth quarter net income was $38.7 million or $0.79 per diluted share, an increase of 119% compared with $17.7 million or $0.44 per diluted share in the fourth quarter of 2021. For the full year, our GAAP net income was $99.2 million or $0.06 per diluted share, an increase of 156% compared with $38.7 million or $0.02 per diluted share in 2021.

On a non-GAAP basis, fourth quarter net income was $44.7 million or $0.19 per diluted share, an increase of 77% compared with $25.3 million or $0.62 per diluted share in the fourth quarter of 2021. For the full year, non-GAAP net income was $119.8 million or $2.47 per diluted share, double the $60 million or $1.57 per diluted share in 2021.

We continue to demonstrate our solid ability to generate cash. Fourth quarter operating cash flow was $38.2 million compared with $28.8 million in the fourth quarter of 2021, reflecting 32% year-over-year growth. For the full year, cash from operations amounted to $122.1 million, up 72% year-over-year.

As of December 31, 2022, our cash, cash equivalents, and short term deposits amounted to nearly $430 million, up $40 million on previous quarter and $108 million since December 31, 2021. Our strong cash generating ability and the accumulated $430 million in cash provides us with a valuable resource to execute both organic and inorganic growth opportunities.

Given our strong performance and our sustainable and predictable business model, we expect the solid business momentum to carry on in 2023. With our visibility into the year, we are today publishing our guidance for 2023: revenue between $720 million to $740 million and Adjusted EBITDA between $149 million to $153 million.

This concludes my financial and guidance overview, and with that I will hand over to Doron. Doron, please go ahead.

Doron Gerstel

Thank you Maoz. At this point, I'd like to elaborate on what we shared earlier today, that I am stepping down as CEO.

I joined Perion as CEO in 2017, almost six years ago - actually, it was April 2, 2017. The Board recruited me to turn the business around. They recognized that I had had a career of doing just that, so I was no stranger to cleaning up messes, but this was quite a big one. The challenge in front of me was to fix the capital structure, build our competitive advantage and moat, strengthen our technology, and enhance operational efficiency. Only by doing those things, all of them, not one of them, would growth be restored.

I'm proudest of the fact that we have reached a point where we outperform our industry and demonstrate continuous growth and high profitability even during the most volatile economy, including the worst pandemic that we've seen in decades. We've accomplished this by creating an execution model that is positioned to benefit from wherever ad spending flows across the three pillars of our industry. That's why we are on the only one of 52 ad tech and market publicly traded companies who saw share price growth in 2022.

We have become a true technology leader with innovations like SORT, which has won awards. We have made smart and strategic acquisitions which have enabled us to enter into new categories and created organizational synergies. We have attracted world-class brands, strengthened our relationship with Microsoft Bing, and have built a culture that is committed and creative, and we did all that with agility, speed and resourcefulness.

With all that behind us and Perion is now well past the turnaround point, I felt it was the right time to move forward with the succession plan. It was clear for me to recommend Tal as my successor to the Board. I recruited Tal from SimilarWeb in 2018 to drive the turnaround at CodeFuel and to position our search business for accelerated growth. Tal is a visionary entrepreneur but also has great expertise as an operator. Under his leadership, CodeFuel, our search advertising BU reorganized, modernized its technology infrastructure, and further developed our strong and mutually beneficial partnership with Microsoft Bing. What's more, CodeFuel technology has played an important role in the development of Perion's Intelligent Hub. Tal was instrumental in making that happen.

As many of you have followed us and seen the growth of our search and direct response business are aware, the performance has been superb. As GM, Tal drove that. In addition, Tal has been by my side as a key member of the executive team involved in all important strategic discussions, including M&As. This broad immersion in current business beyond CodeFuel gave the opportunity to collaborate with other business units. He knows them, understands them, and works well with them.

The next six months will be a transition period, and I'll invest enough time to ensure that when Tal assumes the CEO role, it will go very smoothly. Of course, I will remain on the Board of Perion and so be very involved in the future of the Company.

I'd like now to turn the call over to Tal. Tal?

Tal Jacobson

Yes, thank you Doron. It's an honor to be named as Perion's next CEO, and I look forward to continuing with the collaboration with Doron in the next six months as we work through the transition. I want to thank the Board of Directors for their confidence in me. I'm excited about the opportunities before us and ready for the challenges.

For those who don't know me, I joined Perion in 2018 as the General Manager of CodeFuel. My task was to transform the search business, which was in a period of decline, into a sustainable, profitable growing business. By solidifying our key relationship with Microsoft Advertising, investing in technology, and focusing on quality, we achieved just that. Today, our search advertising business enjoys a robust relationship with Microsoft Advertising. Just one year ago, we were named Microsoft Advertising's Global Supply Partner of the Year. This is aligned with what Perion stands for: an innovator, a leader in technology, and a differentiator in the entire ad tech market.

Over the past six years, Doron led a momentum restructuring, pivoting the strategy and developing and leading the team that together established Perion as a true innovator. I've had the pleasure of working closely with Doron and I look forward to continuing our work together from the Board seat that Doron is going to continue with us.

I believe we have only scratched the surface of the opportunities we are facing, including search, retail and CTV. We are positioned to address all key facets of digital advertising, delivering high impact solutions for brands at every step of the consumer decision journey. We have proven our ability to identify shifts in ad spending, delivering the right solution at the right time. This is evident in our market leadership, our expanding margins, our growing share, and our overall financial performance. The future of Perion is bright.

With that, I would like to turn the call back to Doron.

Doron Gerstel

Right, thanks so much. We will open the line for Q&A, please. Operator?

Operator

Thank you. The floor is now open for questions.

Our first question today is coming from Jason Helfstein of Oppenheimer. Please go ahead.

Jason Helfstein

Hey, thank you. A few questions.

First, Doron, mazel tov on your tenure and what you've been able to do at the company. I think the market is concerned with maybe the timing of your leaving, given that the results speak for themselves yet the stock appears to be down. Is there anything you're seeing, kind of—just in the short term, what are you seeing in the business, perhaps, as far as out as you can see? That's question one, just maybe try to help the market ease itself.

The second, as you think about retail media, are these contractual relationships? Obviously you're seeing really nice growth, but you're competing against some pretty big companies who are trying to become platform plays with retail media, so just talk about the contractual nature of retail media.

Then last, just on ChatGPT and what Microsoft is doing, is your initial take that for Perion specifically, you will benefit if they're able to bring more advertisers onto Bing, it drives up CPCs and ultimately you benefit from that? Obviously very early with this whole AI-driven search, but just any thoughts there. Thank you.

Doron Gerstel

Yes, thank you Jason. I will start with the easy one, which is the ChatGPT, because the flow is as follows when it comes to our business. First, it all has to do with consumers. We believe that this technology first and foremost will attract more consumers that will use Bing, and as I mentioned before, it's all about how many are using the technology. I think the Microsoft CFO said that each one point is $2 billion, and while you have more that are using the Bing search, advertisers are aligning with it because it's all about scale. If advertisers are aligning in what way, they want to spend more - that's one, so they put more ads into this platform compared to other platforms that exist, and the second, they're willing to bid more, so we are expecting that two things will happen. One, we will have more in terms of searches, and right now, you've seen the numbers and we're expecting them to grow.

The other thing is if advertisers would be willing to spend more because we believe that the demand will be higher, it will increase the RPM, so with those two factors by itself, and I'm not here talking about any kind of technology cooperation or something that we're able to do this, only by that, I have no doubt that we will benefit from I think what Microsoft Bing is doing, and it's all about giving a fight to Google and become more dominant from the 3% market share that they have today, so that's clear.

As far as what I've seen in 2023, so first of all, you know us by now very well, we are very conservative and we are mostly conservative when it comes to the first time that we provide guidance for the year, happen to be in this call. Having said, we're not seeing any slowdown in this quarter. We are five weeks into the quarter and if I'm trying to compare this quarter to the last quarter—to the first quarter of 2022, I think we are in very, very good shape.

As I mentioned, there are some other areas where we are changing our business model - you know, always on, I mentioned it on the last call, with our retail customer, which gives us a better way to predict our business, so all in all, on one hand we are conservative, on the other hand, we are very optimistic as far as our ability to once again deliver the growth and the profitability as we did in the last three years or so.

Jason Helfstein

The retail media, is it contractual?

Doron Gerstel

The retail media is very interesting. We still define it as an explore business, even though the appetite is really big for 2023. I mentioned $30 million - this is our target versus the $22 million that we did this year, but I think what is more important is the quality of the revenue of retail media, because if we're talking about sustainability and predictability, I think that's the great example, because what is always on? Always on is a type of contractual business where an advertiser, in this case retailers in a way commit for spending along the year, and it's not aligned to a certain campaign. For us, for our modeling, these dollars that are considered to be retail dollars are worth more than dollars that are coming from campaigns that we are questioning their sustainability.

Jason Helfstein

Thank you.

Doron Gerstel

You're welcome.

Operator

Thank you. The next question is coming from Laura Martin of Needham. Please go ahead.

Laura Martin

Hey.

Doron Gerstel

Hi Laura.

Laura Martin

Hello?

Doron Gerstel

Yes?

Laura Martin

Can you hear me okay, you guys?

Doron Gerstel

Yes, yes. We can hear you.

Laura Martin

Fantastic, sorry about that. Okay, so Doron, let's start with you. Jason drilled down on ChatGPT as it relate to Bing and Microsoft's comments yesterday. I want to pivot your insight and ask you about—you said that you thought ChatGPT and this generative AI could really streamline the production process for ad tech, so I want to step out of search and go to the other part of your business, and could you give us your early thoughts on how you think ChatGPT impacts the advertising part of your business over the next two years, excluding the search business?

Then second for you, Doron, I'd like to do CTV. You said it was 10%—you guys said it was 10% of display advertising. How big and how fast can that get? Do you think over the next year or two, will you continue to project growth in your mind of that 42% or do you see it slowing?

Then three, Maoz, are you kidding me - like, I get that you guys are conservative, but how do you go from growing total revenue at 33% in both the fourth quarter and the full year, to 14? Like, what's falling off the cliff, because it's not search, so what is falling off a cliff that—the deceleration it has? Those are my three questions, thanks.

Doron Gerstel

Yes, so first, the ChatGPT, so other than the search, the most, let's say obvious, trivial one that we are very much around it, it has to do with reducing all creative work, content work, everything that has to do with rendering video and putting a lot of AI. I mentioned in one of our calls, the technology of dynamic creative optimization, the DCO, that is going, I think, to be a commodity, everyone is going to use it. The idea is very much to be as personalized as possible what you are targeting, no matter if this is performance or awareness campaign. This is going to be, I think, the first—very much the first phase of using the ChatGPT internally.

The minor factor is reducing the labor costs that associate with this development. I think the main benefit will be our ability to deliver greater value, greater return on ad spend to our advertiser because the personalization is going to get a huge boost. That's the trivial.

But if you're looking about it in a way beyond that, one of the most important things, it has to do with the modeling and our ability, and that's a very interesting thing. We are sitting in a goldmine with the HUB. I mentioned the fact that we're creating the technology that's able to capture signal from all over - you know, the channels, if it's the supply and the demand, and things like that. That's a huge boost into our model. We are already looking about how we're able to upload the huge amount of data and what is the result that we're getting back. That's going to be a huge step forward in the way that we're able to optimize demand and supply, and most importantly to bid smartly against our competitor.

The HUB is going to be the main beneficiary, even though it's quite challenging - we talk about a huge amount of data. We're still not sure what is the pricing model of this type of AI start-up. Currently, it's not that cheap to upload all the data and developing here a model, and we are looking about it when price will go down or it will be other opportunity for us, doing it in a most economic way. But that's something that we as a company see it as the next phase of using ChatGPT in our—internally.

In terms of live CTV and CTV in general, which was your next question, so you know better than anyone else that these CTV things got commoditized, and we are always looking about the growth and we're looking about the profitability, and this regards the gross margin. The reason that we are trying to develop all kinds of products into niches, and currently there is a reason where I mentioned live CTV within the CTV, we need to step away from the competition, we need to step away from the commoditization that is happening on CTV, and keep a very, very high margin. The outlook on CTV will be on margin, more on the growth because I think that there is a great opportunity to get high margin.

The other area that we are focusing from CTV standpoint has to do with the convergence of CTV and retail, which is very interesting. We are having some advanced discussions with our retailers, you know, customers, how the two definitely can work together, retail media and CTV. We are going to launch soon one of the most impressive campaigns that we are working on it right now. To summarize, I think that it's the time to break CTV into verticals in order for us to dominate those verticals.

Maoz, do you want to take the third one?

Maoz Sigron

Yes, I will take the last one. Thank you Laura for the question.

I must say that in the last years, we're really using the same model. This is the same model that helped us to meet guidance in the last three years. We are implementing the same model, and this is where we are now. We did 40% revenue and 40% EBITDA growth for 2023. We're feeling very comfortable with these numbers and we will keep the same model. The model is the same. Yes, the times change, the market is changing, we are taking all that we know on the model, but this is how we did it and this is how we will do it moving forward.

Laura Martin

Thank you very much.

Maoz Sigron

Thanks.

Operator

Thank you. The next question is coming from Andrew Marok with Raymond James. Please go ahead.

Andrew Marok

Hi, thanks for taking my questions. Another one on ChatGPT, if I could. Is there potentially a risk that Bing could decline to renew the agreement, maybe not this current agreement or even the next agreement, but if Bing is able to fundamentally transform the search marketplace and gain significant share on an organic basis, is there a risk that Bing maybe no longer needs partnerships to help drive traffic to Bing, because they're already doing enough, and I guess what would the contingency plans be there?

Then second on SORT, I guess, what does kind of the, quote-unquote, sales cycle look like for SORT? We're seeing obviously great expansion in that product, but how does it actually get into advertisers' plans from awareness to implementation? Thank you.

Doron Gerstel

As far as ChatGPT, and we're having a very close conversation with the guys, I definitely see no risk. The other way around - first of all, they are $10 billion into technology, I'm sure that someone, I don't know, put them in ROI plan how they're able to get this back, and the only way to get back is to increase their market share. The only way to get this back is that they will increase revenue and they will rely more on partners like CodeFuel to drive more searches, underline quality searches that they're able to monetize and very much generating a healthy business for advertisers. I think that this risk diminishes by the fact that they doubled down on Bing in terms of their strategy, simple as that.

Now to your question about SORT, so surprisingly the sales cycle with SORT has, as I said, two phases. In phase one, advertisers are a bit concerned and they said, okay, what is the—there is no free lunch here, in other words, when we are adopting SORT, are we compromising on results, in other words CTR. So, when they started the campaigns using SORT, it's always and always being done in an AB fashion, where some of the campaign is SORT, using SORT alongside of using cookies. That's 100% of the cases.

Now, once they're doing their initial campaign, sometimes it's even more than one, I must say, because markets are quite skeptical - how the hell are you able not using cookies and yet outperform the cookies, or using cookies? That seems for them a bit of a miracle. That's why there is an experiment here, that's why it takes a bit long for us to take 100% of their campaign. But once they reach this level where they—it's clear for them that we're able to deliver and they are not compromising on performance, what happens here is that they increase their spend, and that's what we show them the average deal size, significant growth of average deal size because of that. They gain confidence on the technology and for them, it's definitely doing more CTR-wise.

In the end, listen to their consumer. On previous calls, I talked about the ESG and the movement, it's very much aligned with what advertisers believe is the right things to do for their consumer.

Andrew Marok

All right, great. Thank you.

Operator

Thank you. The next question today is coming from Mark Kelley of Stifel. Please go ahead.

Mark Kelley

Great, good morning. Thanks very much.

Not to go back to the ChatGPT question one more time, I just want to make sure I'm fully grasping how that benefits you guys. I think if the consumer starts to think that Bing is a better place to search versus Google and they go directly to Bing, that would make sense, but I guess, how does that manifest itself in the pre-emptive search product that you guys have? I'm having a hard time wrapping my head around it, so apologies for making you repeat yourself a bit there.

Then second just on the retail media business, two quick ones. Is that entirely in the Undertone segment today, and then with iHUB, do you expect to be a part of the supply side as well? Thank you.

Doron Gerstel

Yes, thank you. You know, first on the ChatGPT, but I think we need to take a step back, so how are we able to enjoy and monetize and what we're doing regardless. Bing's big policy is to rely on a very limited amount of partners which they certify. We are one of them, we're not the only one but it's a handful of partners - that's Bing policy. Now what they ask for each partner is to deal with hundreds of publishers, and the way—and they're expecting from the partners as well as from us that we will screen all searches and we will deliver only quality searches, because quality means searches with high intent, otherwise Bing, as you know—Bing is charging the advertiser once they click on an ad on any given search ad page or search results page.

Now, what is a quality searcher? Quality searcher is the one that clicks and actually has true intent to buy or true intent to visit this website. What is a non-quality is bots and everything here which is not having an intent. That's why in—what Bing is expecting for us to increase the number of quality searches, and the way for us to translate it is working with more and more publishers and more and more quality publishers, improve at the same time our quality infrastructure, and able to screen and deliver only those searches that we believe that they are quality searches. That's first and foremost.

Now, what is going to happen here is the fact is that while they enhance or improve the consumer interaction with their search, it will be more and more partners that will offer the search capability, more partners that we need to certify, more partners that will go through us, as a result more searches, and we are expecting that the number of 22 million of average daily searches will increase. If this will increase, it has a direct correlation to our ability to generate revenue.

Now in terms of retail media, at this point retail media is only from Undertone. Undertone is developing, it's an explore initiative. Undertone established a whole division, which is a retail/commerce division at this point. We have dedicated sales people, dedicated R&D as we are doing it. It's a dedicated budget for this initiative. Currently under Undertone, we are expecting to leverage this relationship with the brands and basically expand it to other business units in Perion.

Mark Kelley

Great, thanks very much.

Doron Gerstel

You're welcome.

Operator

Thank you. The next question is coming from Eric Martinuzzi of Lake Street Capital. Please go ahead.

Eric Martinuzzi

I wanted to ask about the growth for 2023, where we've got the 14% on the top line. I'm wondering, underlying that, what's the implied growth rate for the two segments, the display growth and the search growth?

Maoz Sigron

Definitely when we are arriving to the different model, we're expecting advertising to grow more than the search. We are more conservative around search, but it's—it's end the 40%, but we are again not so far between the two. I will say that the search is closer to the 10% and the rest is going to the advertising, which is close to 20%.

Eric Martinuzzi

Okay, and why is that, because in Q4, we did—and I assume these are organic comps, but the Q4 search was up, what, 49% and display was up 24%.

Maoz Sigron

We did a great progress also during Q4 with adding the new publisher to the network. As I mentioned before, we're building the model based on where we are now and taking it further, and based on where we are now with the seasonality and just the normal growth, this is our assumption for 2023.

Eric Martinuzzi

Okay, and then Tal, congratulations not only on the pending promotion here but also the great work that you did in modernizing CodeFuel. Just curious to know your role in the Microsoft relationship. Are you kind of the point person when it comes to the contract renewal with Microsoft?

Tal Jacobson

Yes, so first of all, thank you, I really appreciate that; and yes, I'm the main contact with Microsoft, with the entire executives at Microsoft Advertising, have been for the past few years. I negotiated the last agreement and obviously I'll negotiate the next agreement, so yes.

Eric Martinuzzi

Okay, well good luck.

Tal Jacobson

Thank you.

Operator

Thank you. The next question is coming from Jeff Martin of Roth Capital. Please go ahead.

Jeff Martin

Thanks, good evening guys. Congratulations on a great 2022 and end of the year.

Two questions from me. One, how are you viewing the competitive dynamic? Are you seeing your competitors in the marketplace trying to adopt similar models to the iHUB and SORT? Then secondly, SORT as a service, is that currently available? If not, when will it be available and what kind of opportunity do you see that becoming over the long run? Thanks.

Doron Gerstel

SORT as a service is an explore initiative, of course not to reveal. We're getting a lot of requests to definitely externalize this service that is done internally. We want to make sure first that SORT works, and if SORT works for us and it works for the 191 customers that are using SORT, and we are able to demonstrate that no one needs to compromise on their results, vice versa, then we feel comfortable externalizing it to publishers, to other DSPs, and we are, let's say at this point, quite advanced in this effort.

The moment we will go live, or GL as we like to say internally, we definitely will share with you. We are expecting that this will happen hopefully in the first half of 2023.

From a competitive standpoint, the HUB that it's using is an internal product. I don't know what others are doing. It's not the secret sauce, the question is what you are doing with the HUB. We have one advantage, and the advantage that we have, that I don't know if our customer has, is the great and huge amount of signals that we're getting from our direct response or search advertisers—sorry, search users, consumers that are searching. That's a goldmine. If you compare this to the other signal that we have from both sides of the open web, from the supply and the demand, you are getting into a very, let's say a great model that's able to provide us an insight and, based on that, we are building all our modeling because data drives those models.

We keep investing huge amounts of R&D resources into it and we are trying to believe that that's creating us a greater and deeper moat from our customer. Definitely the media margin and our EBITDA margin, if you're looking at it, EBITDA as a ratio for revenue ex-TAC, we are demonstrating the advantages of the HUB. It's not proprietary for sure, but we are—we believe that there is a way to go for us and we are getting quite a dividend for this investment.

Jeff Martin

Great, thank you.

Doron Gerstel

You're welcome.

Operator

Thank you. We're showing no additional questions in queue at this time. I'd like to turn the floor back over to Mr. Gerstel for closing comments.

Doron Gerstel

Hi guys, thank you very much for your participation. See you in the next earnings call. Thank you.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's event. You may disconnect your lines or log off the webcast at this time, and enjoy the rest of your day.