

Company Name: Perion Network Ltd. (PERI)  
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<<Mark Kelley, Analyst, Stifel>>

Good afternoon, everybody. My name is Mark Kelley. I'm one of the internet analysts here at Stifel. Very excited to have Perion with us today. We've got the Doron Gerstel, the CEO. So thank you very much for being here.

<<Doron Gerstel, CEO & Director>>

My pleasure.

<<Mark Kelley, Analyst, Stifel>>

I think it's probably a good place to start giving us as a multi-sector conference. So maybe just briefly describe Perion what's the problem you're trying to solve. And then we can dive into some of the macro stuff and more so to the business.

<<Doron Gerstel, CEO & Director>>

Great. So thanks everyone for coming to this Q&A. So Perion is an advertising technology company. And as an advertising technology company, it's our challenge and the business opportunities, well, advertiser are shifting way more dollars into digital channels. Market overall is above \$600 billion of advertisers spent on digital channel. Digital channel is everything from. Domain by the way, the three main channels are Search Advertising, social advertising, and display including even connected TV.

And our main challenge is that while it's a huge market, it's very much dominant by two to three large companies that you all know that's Google on one hand, Facebook on the other hand, \$39 billion of Amazon that is doing a digital advertising. So we're very much on what is being left, which is \$200 billion and more known as open web, within that we are swimming, and trying very much to grow our business more than the entire sector.

So if the sector is growing by 15%, 17% year-over-year, our company is growing by 40% year-over-year. And that will be probably one of the question that will be asked. So we probably taking market share from others. I have a good answer for that as well.

<<Mark Kelley, Analyst, Stifel>>

Perfect overview. I think, you know before we get into the details of your business, specifically, can we talk about just the current macro backdrop. We obviously had Snap Chat a couple of weeks ago, things are worsening. And then we conversely had the Trade Desk double verified some others say that things are they reiterated their guidance in the

near term. I guess, what are you seeing in the market for Perion, and then maybe by vertical, anything that you'd want to call up?

<<Doron Gerstel, CEO & Director>>

So let's start with the bottom line. We reiterate our annual guidance as well, that we're talking about 32% year-over-year growth on the revenue side and more than 40% year-over-year growth on the EBITDA side. That's guidance that we provide. Back then on May, beginning of May, that we announced our first quarter of 2022, I can tell you that we're now towards the end of the second quarter.

And so far, definitely so good. So we're not seeing any slowdown, I must say that at the same time, or we're not see were aware of what's happening. And we are in a way, a bit deep dive into the different type of player within this huge market. So we are now on the -- we are not on the performance advertising. We are more on the awareness side of advertising.

In other words, those advertiser most of them are what we consider as a first year advertiser that keep investing on their brand awareness. From very much one reason that they understand if there any kind of slowdown or any kind of thing in the horizon, they need to invest on the brand awareness. Because when things will go over, they really wants to stay relevant.

So when it comes to the brand awareness, we're not seeing any kind of slowdown, it really helped us that we put it this way. The strategic decision that we took back then it was mid 2017, where we basically saying that we need to conceptually following the point of view of the person, and the brand side that is responsible of allocating the digital budget across the three main pillar of digital advertising, the Search Advertising, social advertising and display.

And the whole idea of the company from what we offer is that we want to capitalize on any changes, any movement between those three main pillars. So if now budget is being transferred from, let's say e-commerce, performance advertising into other channel, we want to capitalize on this change. And I think it was a very, very wise decision back then, to diversify the parent strategy, because things are happening and we want to not be victim or actually hedge being a point solution, I can say, most of our competitor in the sector, we're taking one position, they are there on the display on the demand side, or they are in the supply, display side or other things like that.

I think we're very much enjoyed this diversification, which is the right approach, according to what we're reporting.

<<Mark Kelley, Analyst, Stifel>>

Do you think diversification is good just to pad or to make sure that you're not as impacted, like some of the point solutions like you suggest. But I also think it plays into,

it's a benefit. Once we continue to move down this privacy centric path with cookies going away and things like that. I guess, can you talk about how the diversification strategy helps you there as well?

<<Doron Gerstel, CEO & Director>>

Definitely. But before that, I just want to mention easy to say diversified, because we have two dimension of diversification, I will talk about the main challenge in a second, the diversification as far as one dimension has to do with the cross pillar, as I mentioned. The other diversification, it has to do for us playing on the both of the demand and the supply of the open web.

So think about it the 3/2 type of metrics, that we need to cover all those six type of boxes, not trivial. So which require first, it's so while it's makes sense from economic standpoint, that also from our advertiser standpoint, it's quite an execution challenge, because you need to do it in a most economic way. And the way that we are investing back then, let's say 2.5 years ago, was how we able to connect all those six boxes 3/2 into a most efficient type of structure.

And we came with this hub, which we call the intelligent hub. So everything that is being connected is connected through the hub. Now this is the best way to describe it is like the air traffic control. At the middle of all our asset connected to demand side, supply side, and the different pillar into one, that's gives us a huge advantage. And in a moment getting into your answer about our solution that has to do with privacy.

So first and foremost, we're able to optimize everything that is going between left side and right side. The best example I was using today, is was using aviation. So why they have a hub in work, where they need to connect the people that wants to fly from Madrid to Boston. It's being done first and foremost from operational standpoint. So operational divided into two operational expenses. And the other one is optimization on our media expenses, which is the highest by far expense item on our P&L.

So we able to optimize it. So this is why we're able to get to such a profitability. The interesting outcome is how come we are able to take this model, which is a hub model, and also allows to that our customer will have -- will benefit from it, not just us by being more profitable, how customer can benefit with it. And one of the projects that we rolled, and that was an investment, it has to do with the data. It's called SORT, SORT is we submit the patent, but it's a huge investment from a technology standpoint, and has to do with three major design. We call it design factor.

One, we want to provide a cookieless solution that will be on par or better than using cookies. In other words, if you're using cookies on half of your campaign, the other half, which is runs by SORT will be as good as CTR wise. In other words, the number of clicks that you're doing to 1,000 impressions. That's one design factor. The other design factor was that we were very much insisted will not have any integration whatsoever with publisher nor with the user. Remember this one because the most common type of

solution is user ID that require heavy integration with the user by providing email that they hashed it. No integration.

The third is privacy, user privacy and in a way we are not store any kind of data on the user itself, that allows us in a way to target because everything it has to do with targeting, we are in the targeting business, advertising is all about target the right user, but with scale. Scale is a very important. Because if I'm putting all my budget in order to [indiscernible] was here with Perion with me, it's that economic. I need to, I need as much as I can to target people like him, that will click on this ad, scale is everything.

And I must tell you, after 125 campaigns that we did, we are 2x better than using cookies, 2x better than using all of our campaign with no exception is running side by side. So we're 2x better than then we are 4x better than Google performance that they're reporting. And we're so proud on the fact that it's ultimate user privacy.

So in a way, I came with this, strategic decision that we take on diversification, the fact that we connected into the hub, the fact that we have all the data, which is a huge effort on our side and huge expense to maintain this data at this point that Amazon and translate it not just into internal benefit, but also to external benefit, which has to do with cookieless solution.

<<Mark Kelley, Analyst, Stifel>>

Do you -- so when we talk to other folks in the industry who talk about cookieless solutions? They don't. We haven't heard the evidence and kind of the trials that you guys have talked about. But I think the expectation is that the industry will continue to use cookies until they can't.

<<Doron Gerstel, CEO & Director>>

Yes.

<<Mark Kelley, Analyst, Stifel>>

But what I would imagine your customers would rather you SORT if it's so more efficient, like do you think your customers will?

<<Doron Gerstel, CEO & Director>>

So at this point, were so -- we understand that the skepticism is not just among, it's also among that our brands and customer because they used to use cookies. So SORT is effective or not. So we came with two things. First of all, we were engaged with a certification body that called Neutronian third-party certification company, that whatever we are doing, they able to certify. It's not us saying that we are double CTR, it's their reporting, that we are doubled the CTR. That's one.

The other thing, it's require more. And then I think that our advertiser, the campaign that we said is give us 20% of your spend for this specific campaign. And it will not be on par or better then we're going to pay for those impressions. That's it. So it's like a risk free for you. At this point, we didn't pay for anyone. It's not that all of them were to, I'm talking about the 2x. I'm talking about the average.

But what I can say that we are having more and more customer. And this is something that we're going to report on every earning call that it's create a very, very efficient flywheel where customers see it that it's give the more results. Due to that they spend more, and due to that they're in a way using source for all of their campaigns.

<<Mark Kelley, Analyst, Stifel>>

Okay, perfect. And I guess, just continuing down the SORT path and just privacy in general. We've got the Apple developer conference going on as we speak, the keynote was yesterday. I was a little surprised that we didn't hear anything incremental about, whether it's IP addresses being hidden or things like that. It's still a concern for the industry. I guess, can we talk about a couple things there? One is the SORT rely on IP addresses. Is that one of the data inputs? That's one. And then I guess, this has nothing to do with privacy, but while we're talking about SORT, can we talk about maybe the Search business and how that plays into SORT as well?

<<Doron Gerstel, CEO & Director>>

Right. So, first of all, keep in mind that SORT has two parts, which is really interesting for you to know that, it in general SORT is running 24/7 and creating is taking signal from the side contextual signal, but more important signal that goes through the hub. Signal that is coming from all parts of the house, it can be signal that is coming from search, by the way Search Advertising and we are monetized 18 million searches a day. 18 million Searches a day, and there is nothing compared to Search when you type in, because your intent is the highest possible, where you are typing electrical bike you are here not about who invent electrical bike, kind of you're not looking about informative search.

You're not looking for directional event search and where is what, you are looking about, I want to understand what is the price, offer me, this is the highest possible, it's more than any click that you can do in the web. So we are able to take the search, which is quite an asset for us and basically analyze what is the trend, what is the signal that we're able to get? It's a huge amount of data that we get from the search. Also from the display, we are basically see a half a billion dollars spent on social.

So keep in mind how those three major channels get into a one, what we call data modeling, that allows you to, in a way, build smart groups. So we have dozens of smart groups that have something in common, these smart groups is people not names of people, but type of people that has same traits that the likelihood, that they will engage with and travel ed is greater than other smart group. Okay, this is running on the

background 24/7. Now, what's happening on real time is real time for us is a point where any given publisher, let's say take whatever cnn.com is looking for bidders and we are a bidder, we are an ad network that bid against the 250 by 300, which is an ad unit that looking for, okay, who will win this bid.

Now, at the moment of this bid, we're getting the request, we need to analyze which campaign and which smart group we're going to use. And we need to win this inventory or this slot. Keep in mind that all these transaction is happening on half a millisecond that you will not be aware of because otherwise you said what's going on. And moving to other side and it's impossible. So within half a millisecond, we need to choose this combination of the three that I mentioned and of course winning it. And if then everything has to do with the performance. So as I mentioned out of the 1,000, we're expecting the 1,000 that will be exposed to it, 20 will click, this is our aim, which kept in a way a 2% click on CTR, that's the objective.

Okay, this is how it works. I want to mention, because the other, let's say major solution to cookies called UID, Unified ID 2.0. Technologically, it definitely works. It will be overcome the day when cookies will be obsolete and nobody able to use it. Because it require you when the user to submit its email when they want to read content, and they will hash this email back to the UID. And from this point, you will not be [Doron@gmail.com](mailto:Doron@gmail.com), you will be 1235613, yes, it solves the problem of cookies. But it didn't by design solve anything that has to do with user privacy, or if user decided to opt out from given its email. So it's quite sufficient.

But all for those that doing it, you mentioned an interesting thing that what's happened with iOS 14, when Google -- when Apple update and now it require you to provide consent, whenever you would be asked to provide your information. I've been in this app and now I'm in this app in order for any kind of advertiser to trace back.

By the way, I find the very interesting stats that 30%, 30% I was in shocked of all consumer that being exposed to this message agree to it. It looks to me too high of a number. I was expecting to have a single digit, not four, because what are you getting in return? Usually we always in our psychology is doing something and expect something in return. You're not getting anything in return. But maybe that has to do, we click on everything and who knows.

<<Mark Kelley, Analyst, Stifel>>

It was what the message is go away and don't even realize you're hitting yes?

<<Doron Gerstel, CEO & Director>>

Exactly, just take it. Why not?

<<Mark Kelley, Analyst, Stifel>>

I was at an industry conference last two weeks ago and a couple of things. One is I heard there are about 80 unique identifiers. So you brought up UID 2.0 which The Trade Desk started. There's 79 plus others, which seems a little excessive, I guess, how many do you think like three win, so to speak or do you think none of them win?

<<Doron Gerstel, CEO & Director>>

So the point here is, at the end of the day, what will be stronger, we went to completely something which is at the beginning was something that our technology team think that this is the quiet challenge, but we feel that the user privacy at the end will win, at the end of the day, and there is it's way stronger in Europe, I must say that here in the States. But eventually, that will require all those that putting all kinds of identifiers to think about what's their 2.0? How are they able to assure not just the effectiveness of replacing cookie, but also the user privacy.

<<Mark Kelley, Analyst, Stifel>>

I think privacy is something we will be able to talk about and so hopefully we're not working anymore. Because I don't think it will ever be solved, another topic that I want to switch to CTV, another one we'll be able to talk about for a while. CTV and video collectively big tailwinds for your business, you got some unique inventory. Can you just maybe talk about, your products in that environment? And then do you get excited about the Netflix's and Disney Pluses of the world adding inventory? Does that matter for you?

<<Doron Gerstel, CEO & Director>>

Just one comment before why CTV and why this is such an exciting topic, it's an \$80 billion of business that is being shift from Linear TV advertising to a Digital TV advertising, \$80 billion. And that's quite a transformation, where everyone is trying to very much put in. But it's more than that. I think it's not just about \$80 billion, because the number will be the amount of dollars that advertiser will put in CTV will be much higher, only because think about it this way, if they were convinced to spend \$80 billion, and the measurement was a bit vague, who is actually, who is watching, and who is engaging. Think about those kind of survey, do you remember, it was kind of a cart that this was like and if you're taking it into the digital world, everything here is measurable.

So I think that the big screen is definitely going to consume more and more dollar spent, especially where there is great technology that allows us to even connect the big screen and the small screen. So the QR code is definitely there. But it's definitely something which is increased or able to take you through the journey, let's say the consumer journey from awareness to other stages. Now, we've been taking an approach because on everything like that, and there are currently I think it's more than \$10 million spent on digital, on CTV, the approach that we've been taking from day one was that, we don't want to be considered a standard kind of TV ad, the CTV digital ad that gets commoditized.

We want to provide something which is different, different, we call it high impact. And we're trying to take the digitization of the television into the next. Okay, how is this being translated? Think about an ad unit, where we call it in ICTV. Because I can have it interactive with your remote control. I can basically interact with you, why this is so important for the advertiser, because they know exactly who interact, who is interesting or who at the time of ad is doing something else.

So no doubt that the fact that you interact and you want to learn more, and you use your remote control, that's an evidence. So I will give you one idea. The other idea is that we have what we call connected cart. I mentioned it with the QR code, but it's worked so well with CPG products that you are building awareness on your CTV, and then we did it with Walmart, you get the QR code, you scan the QR code and with that you get hope all the way to the guests shopping cart on Walmart, one click you buy and you out and if they don't have it, they even offer a substitute.

Because that's a moment of truth, we got you all the way to the cart. So we are trying very much to go into very high price for the some of the cases, even [indiscernible] \$40 CPM on the CTV, by the way, just for a comparison, take YouTube, it's less than \$2. Same video, if you pay 20 times, and we always try that our advertiser will convert it into Ross, which is the return on ad spend, not the fact that you spent \$40 and here, you can buy it for \$2. It's what is the return and the return, we need to prove them that the return is way higher. It's not about to skip, skip, skip, skip, it's about to look at it all the way. And more importantly, how it convert into your advertiser KPI, number of people that came and asked for, let's say, a test drive or number of products that is being delivered to your cart.

All these kinds of things is something which is measurable. And that's why we're trying to educate the market that it's not much how much it costs you. It's how much it really.

<<Mark Kelley, Analyst, Stifel>>

The holy grail of the CTV, absolutely, I can't believe is we only have a couple of minutes left here. I wanted to ask you about M&A strategy. That's a big part of the diversification process. And then maybe we can quickly see if anyone has any questions from the audience.

<<Doron Gerstel, CEO & Director>>

So first of all, it's a good time to thank Stifel because in 2021, we did two follow-ons and raised \$250 million. And they were quite helpful in the process. I'm glad we did it, because now we are with \$314 million in cash and no debt. And this year, we're going to have around \$90 million to \$100 million net cash from operation, we are in a great pole position, right. So to be in the market and look about some potential acquisition, we develop a very interesting framework of acquisition, that I think it's suitable more for AdTech, where for accretive company, highly synergistic, integrate with the hub, we are



hedging the risk that any acquisition evolved by paying only 30% to 40% of the total consideration in cash and all the rest is of two to three years now.

It plays very well in the last four acquisition that we did. And we plan to continue with this framework. There are two areas where we identify is area we'll look at one is CTV, for the reason I mentioned, and the other one is retail, I don't think we have any time to talk about it. But retail is definitely the next big thing when it comes to media. And you will, if you remember, but five or 10 years from now, retail will be media companies, they have quite an asset to turn into media companies. And that's going to be a huge trend in the industry that we're looking to acquire companies.

<<Mark Kelley, Analyst, Stifel>>

Perfect. I want to make sure with the last minute there aren't any questions in the audience.

<<Analyst>>

I have a mic for questions.

<<Analyst>>

Can you talk about sort of your global reach to versus a lot of companies in the space are a bit more domestic oriented versus global?

<<Doron Gerstel, CEO & Director>>

Yes, so definitely, I think it's first of all, there are some what we call from global to local, think about that there is some mega brands, mainly in the auto industry, fashion. Some of them in the beauty are what they are global companies. Louis Vuitton is one of our largest by far advertiser, and that looking about it for to what extent when they are having a franchise operation, and they want to make sure that they have the same brand identity all over the world. So from global to local, we see it a lot of in the automobile industry where they give a freedom to their local reseller to use all kinds of ad unit that they produce in the central but what way they enforce it, how it all works.

So I think the fact that we have a global presence really help us to get some of those large brands that they care a lot about how they are able to enforce a global advertising strategy while they're working with local resellers. So that's helped a lot.

<<Mark Kelley, Analyst, Stifel>>

Perfect, I think we're just about out of time. So thank you so much for being here.

<<Doron Gerstel, CEO & Director>>

You are welcome, thanks again.

<<Mark Kelley, Analyst, Stifel>>

Thank you very much.