

BUY:
PERI

Current Price:
\$33.10

Target Price:
\$40.10

Upside:
21.10%

Perion Network (NASDAQ: PERI)

Communication Services Sector

Sector Head: Adam Kawalek

Lead Analyst: James Davide

Senior Analysts: John (Jack) Schaffer, Thomas Vitale

Junior Analysts: Amanda Harrop, Ava Lu, Denis Sadrijaj, Jacob Smith

Executive Summary

Investment Thesis and Key Statistics

BUY: PERI

Current Price:
\$33.10

Target Price:
\$40.10

Upside:
21.10%

52 Wk Range: \$16.41-35.16

Market Cap: \$1.52 B

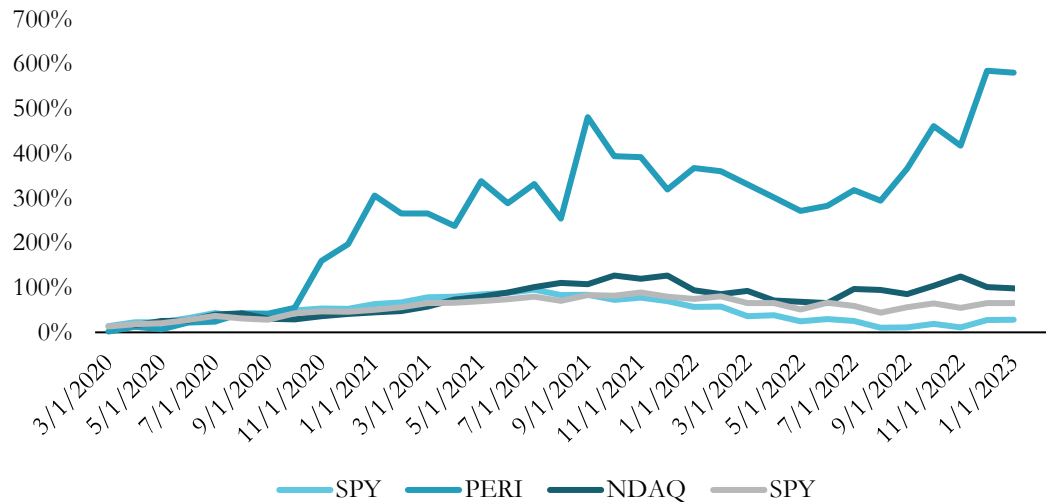
Revenue: \$640.26 M

EV: \$1.07 B

EBITDA: \$123.00 M

CEO: Doron Gerstel

Historical Performance

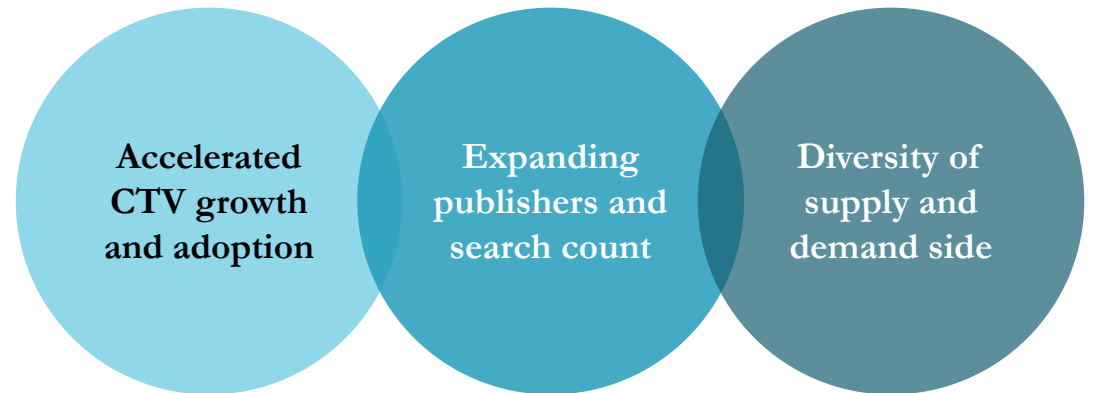


Overview

- Provides digital advertising and marketing solutions that give businesses the holistic ability to reach target customers across all channels
- Operates through 3 main divisions including search technology, digital advertising, and social expression and optimization

Digital advertising has become one of the most indispensable marketing tools worldwide due to the ever-increasing demand for online content

Basis for Growth



Industry Overview

What are Digital Advertising Solutions

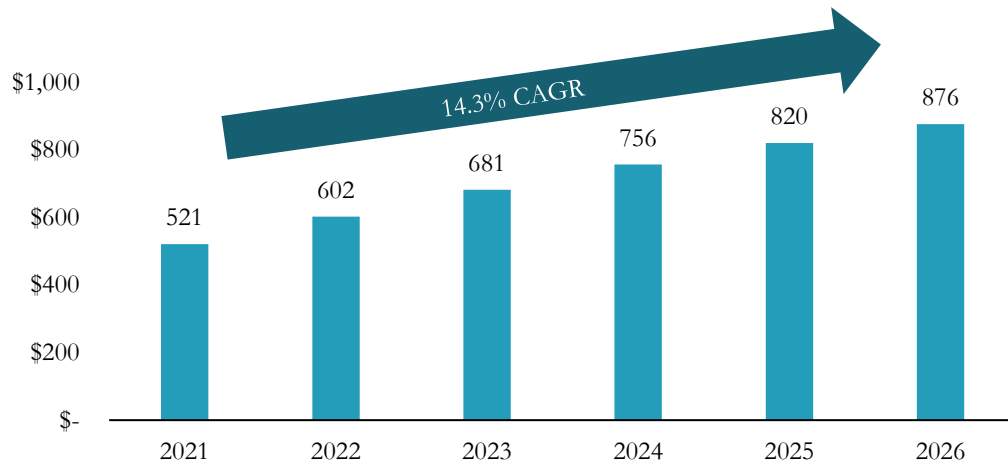
- 4 types of digital advertising: social media, paid search, native, and display advertising
- Optimizing Ad display to maximize new customer acquisitions, better leads, and brand awareness
- Digital advertising agency's provide services geared towards the use of technology so you can connect with your target audience



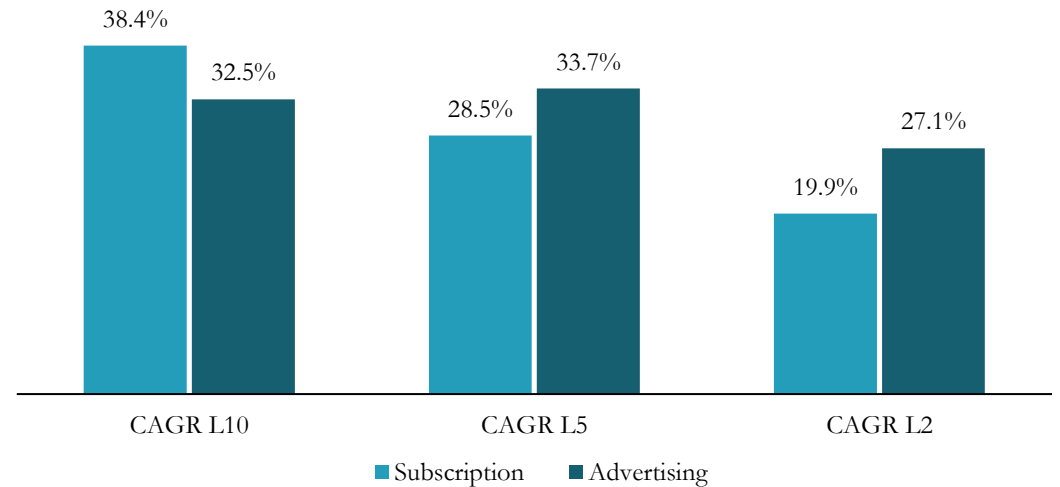
Competitors



Global Digital Advertising Spending (\$ in billions)



Advertising Market Growth



Company Overview

Business Overview

- Global technology company based in Israel that provides digital advertising services to brands, agencies, and publishers
- Focus on ad search, social media, and display/video/CTV
- Strategic Optimization of Relevant Traits (SORT) is their patent technology that eliminates the need for cookies, which are currently criticized for violating user privacy
- Develop a centralized and intelligent iHub that reduces additional expenses for businesses to develop separate infrastructures
- Recent acquisitions include Septa Communications LLC, Content IQ, Pub Ocean, and Vidazoo
- Current company objectives focusing on exploring and inventing new revenue streams, then exploiting and improving those streams

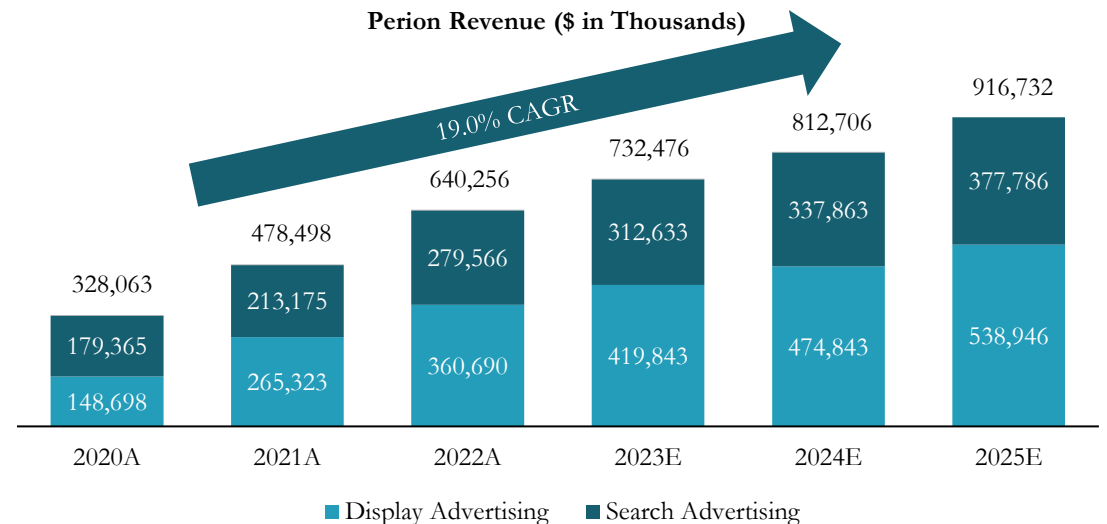
Operating Segments

- Display Advertising: Video Solutions making up 43% of Display, with a 69% increase of publishers Q/Q
- Search Advertising: Direct response solution which monetizes transfer of searches (Microsoft/Bing)

Both Segments Rapidly Growing, with Strong Margins

Strong Momentum Within the Industry

Revenue Breakdown



Differentiated Display Advertising Technology

Movement Away from Third-Party Cookies

Consumer	Regulatory
<p>79% Americans concerned about how much data companies are collecting about them</p> <p>81% Americans feel that the risks of data collection outweigh the benefits</p>	<p>General Data Protection Regulation (GDPR) prevents companies from storing cookies without user permission</p> <p>American Data Privacy Protect Act (ADPPA) would enforce further restrictions (2023 reintroduction likely)</p>
<p>Apple, Google, and Mozilla have all announced plans to phase out support for third-party cookies in their web browsers</p>	

Addressing the Need For Modern Ad Solution

Q4 2022 SORT Growth

- Ad campaigns using SORT represented **\$26 million**, up **82%** Q/Q, reaching **21%** of advertising revenue
- Number of SORT customers increased by **36%** (**76 new**) to an overall 191 customers
- Average deal size using SORT increased by **33%** to **\$137,500**

“When customers are using SORT, they feel comfortable and safe to spend more because that’s what consumers like.”

– Doron Gerstel, CEO

Perion’s SORT Technology

Cookie-less Ad Targeting Solution



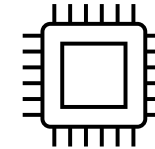
Does not collect Personally Identifiable Information (PII)



Fully accessible across all browsers, devices & formats

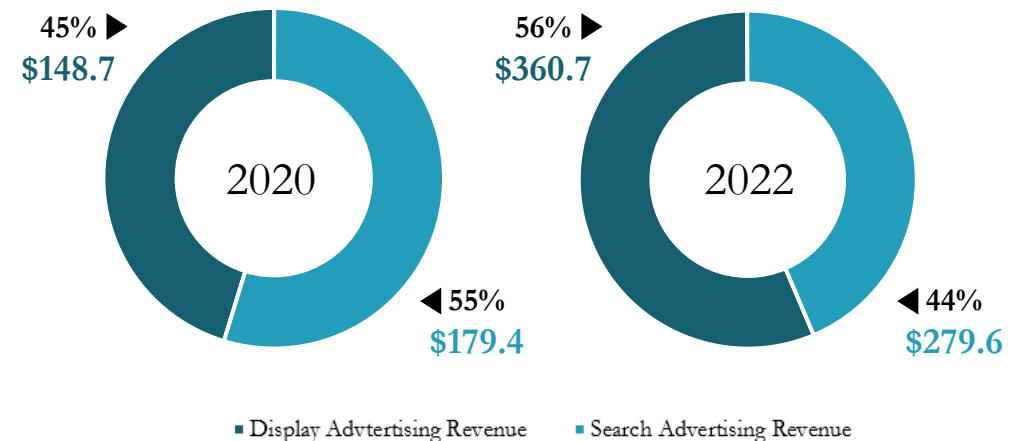


Outperforms cookie-based methods across various verticals



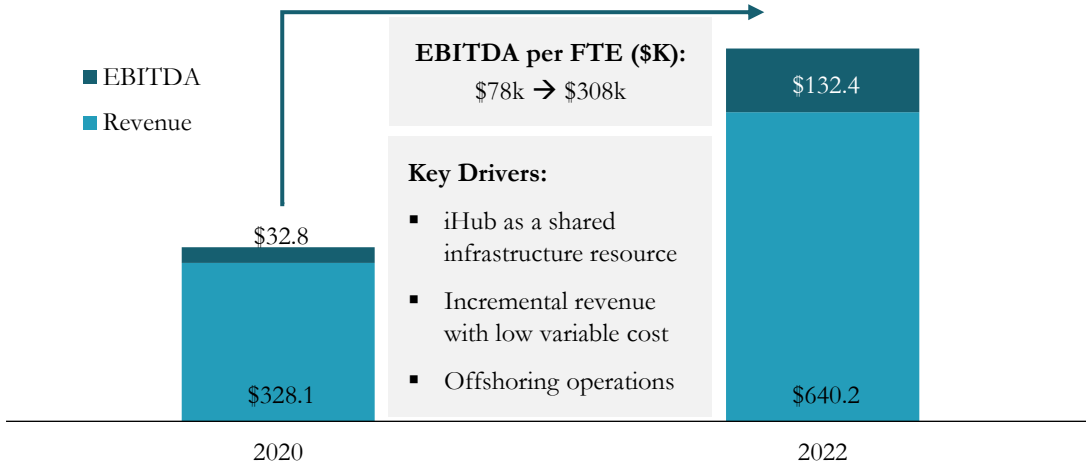
Uses real-time targeting to predict a user’s mindset

Display Growth Decreases Search-Reliance

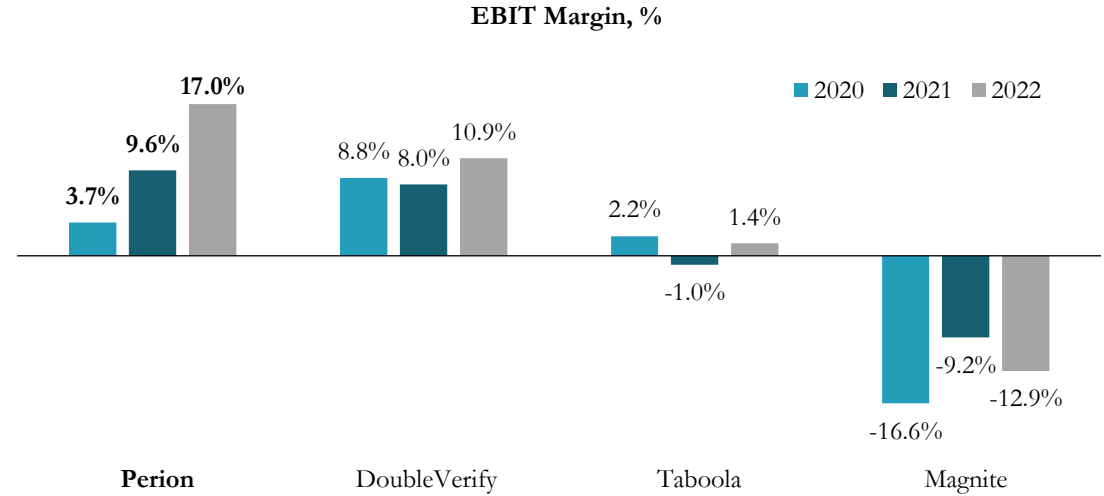


Financial Strength

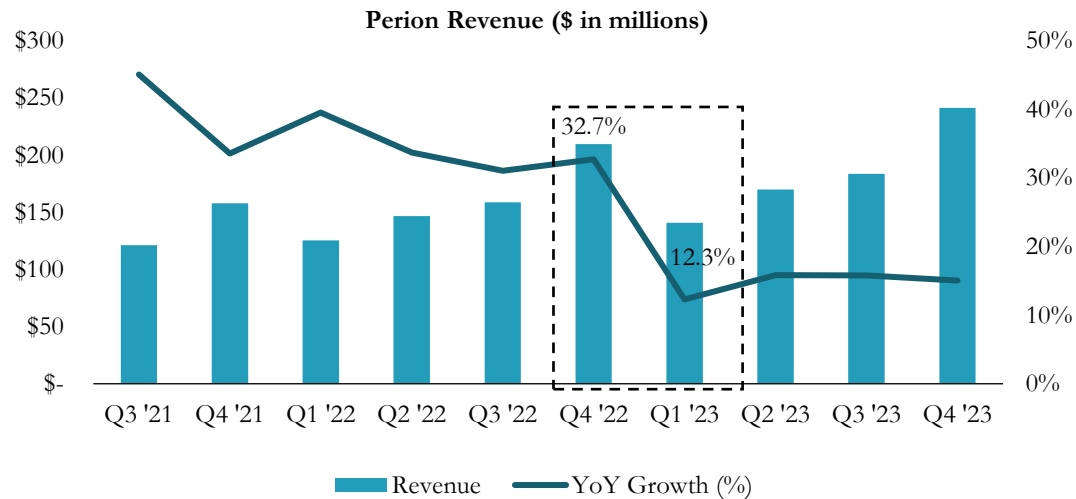
Efficiency Drives Profitability (\$ in millions, except FTE data)



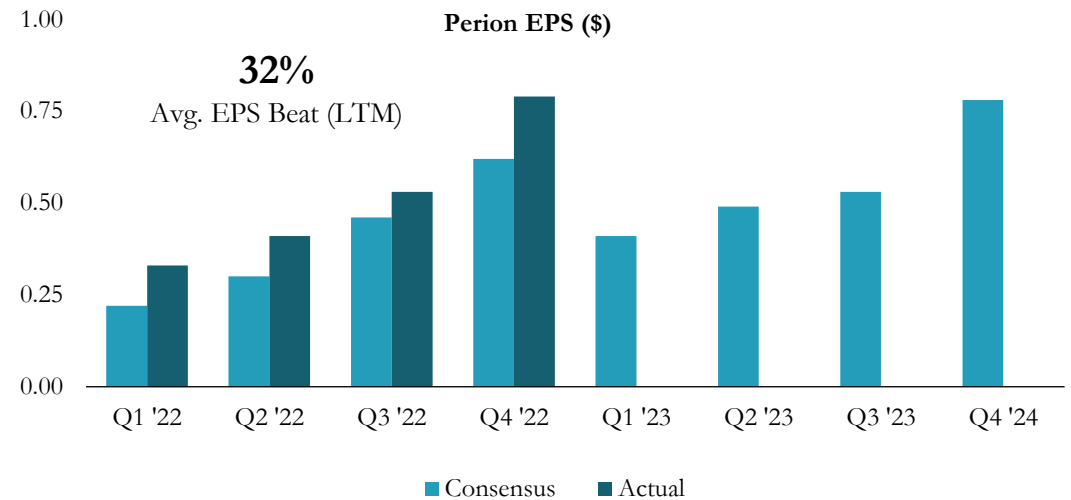
Dominant Ability to Generate EBIT



Low Growth Estimates Create Outperformance Potential

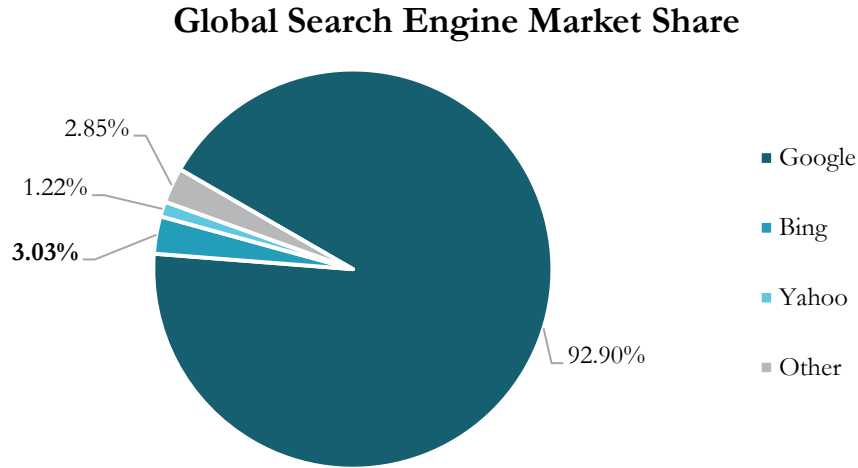


Under Promising Then Over Delivering



OpenAI Integration Into Bing

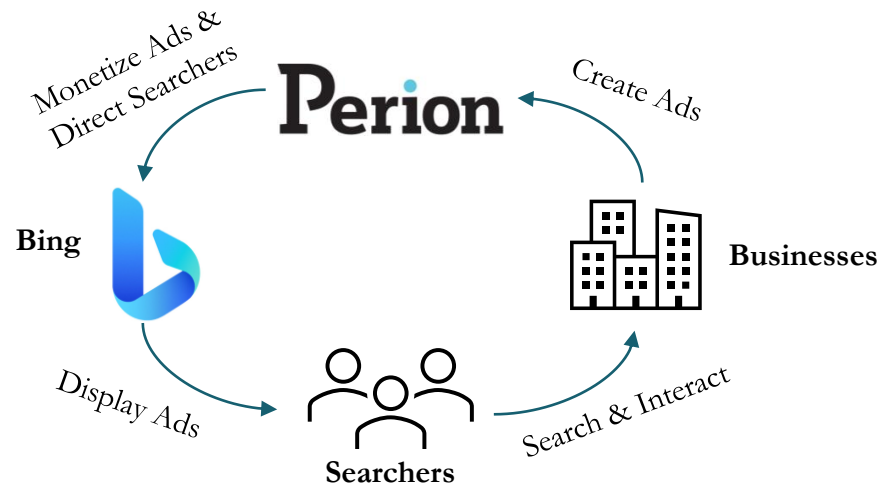
Google Dominates Global Search Market



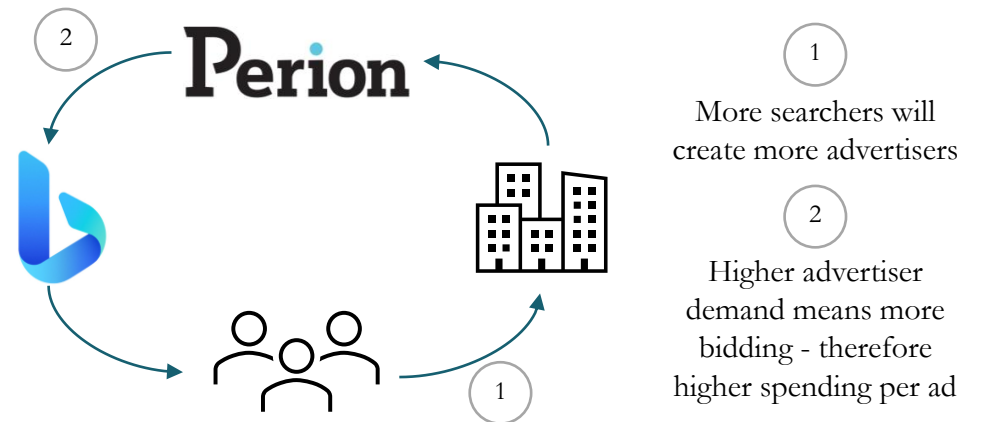
Revolutionary Search Capabilities

Better Search	Complete Answers	Chat Experience	Edge Sidebar
More relevant results for simple things, and sidebar to show comprehensive answers	Reviews web for results and provides summarized answer to multi-step processes	Interactive chat helps to refine your search until you get a complete answer	Helps compose meaningful content by utilizing chat feature
Ex: Sports scores, stock prices, weather	Ex: Detailed instructions on substituting eggs	Ex: What TV to buy based on price, quality, etc.	Ex: Summarize financial report, then compare

Search Advertising Workflow



Perion's Benefits From Additional Searchers

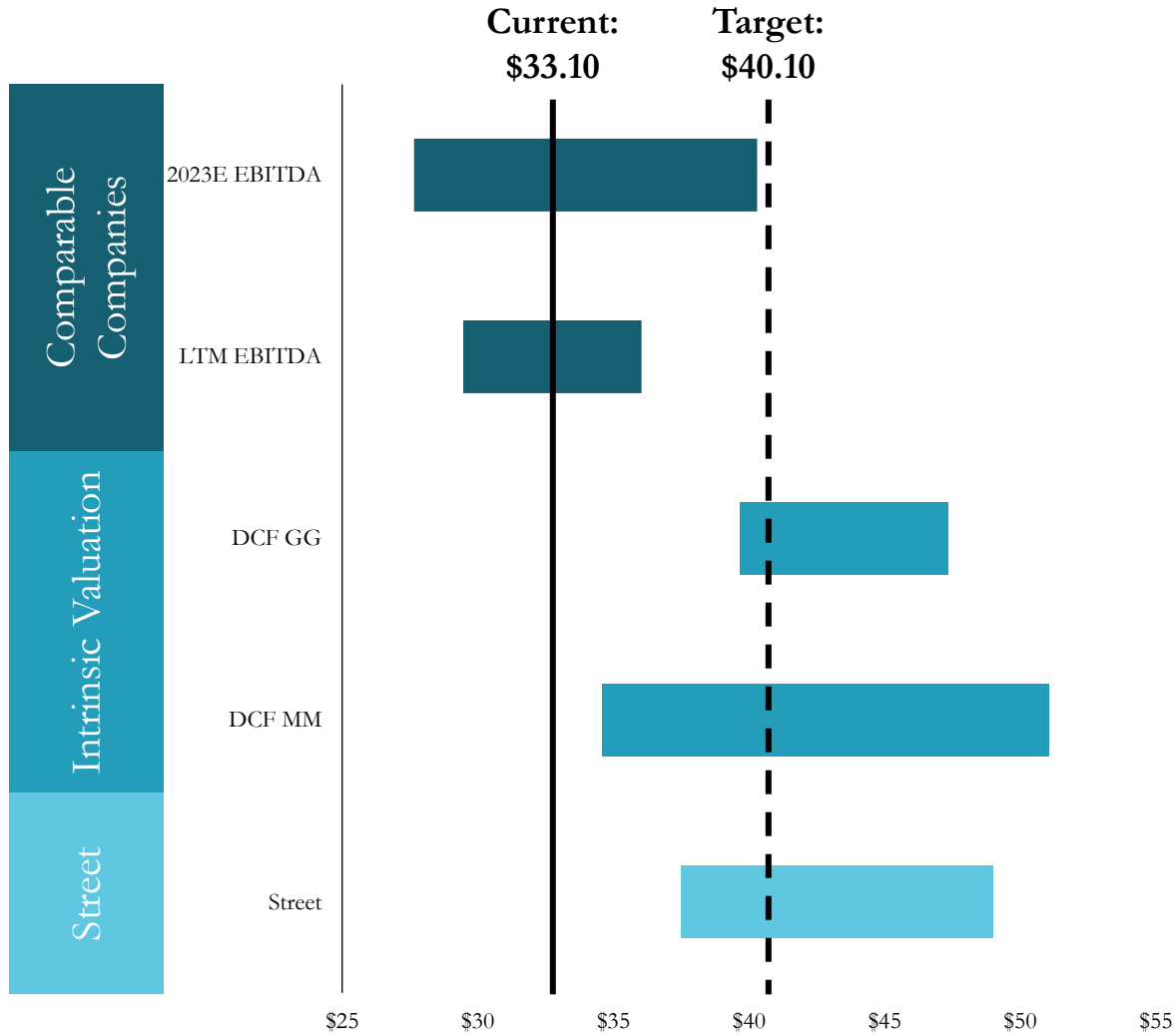


1 More searchers will create more advertisers

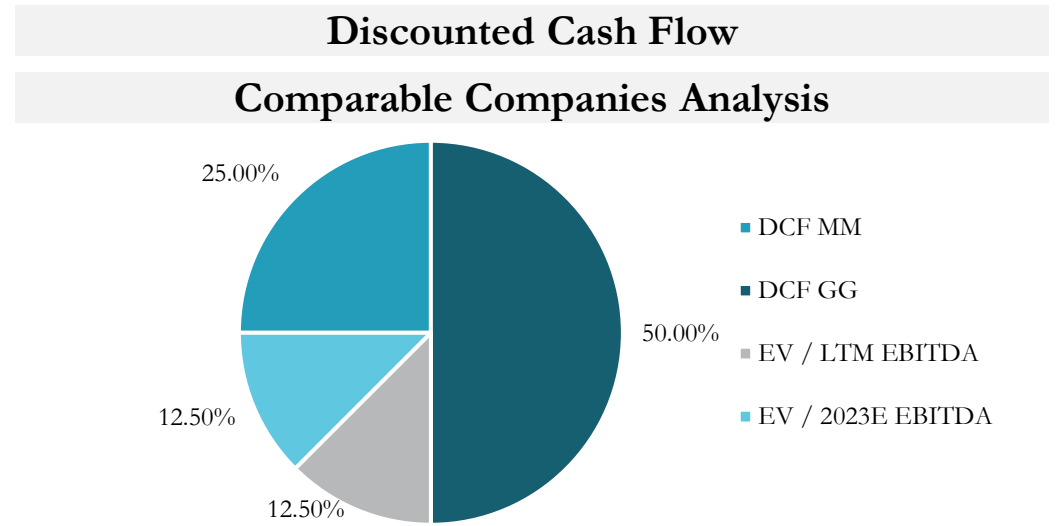
2 Higher advertiser demand means more bidding - therefore higher spending per ad

Valuation

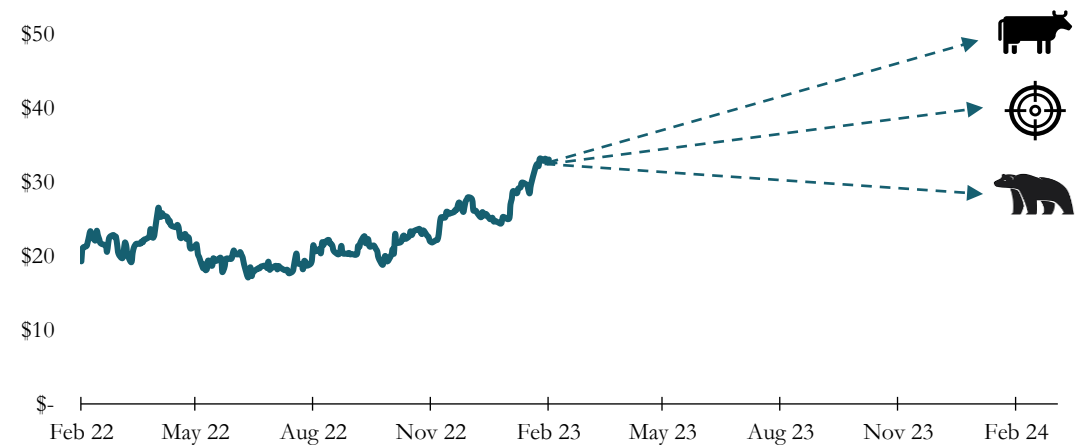
Football Field Analysis



Methodologies



Bull vs. Bear



Risks

- Prolonged economic weakness could limit advertising spending
- Ad-tech is a highly fragmented sector, opening the door for emerging competitors
- Continued regulatory focus on consumer privacy could change the advertising landscape and impact growth
- Partnership agreement issues with Microsoft could severely impact Bing-reliant portion of revenue
- Recent retirement of CEO could inhibit growth strategy

Bear Case

- EV/2024E EBITDA: **7.8x**
(share price of \$30.30)
- Supply chain shortages and/or labor shortages (can negatively impact advertising spending)
- Economic slowdown lasts longer than anticipated, causing consumer spending weakness

Base Case

- EV/2024E EBITDA: **11.7x**
(share price of \$40.10)
- Consistent EBITDA margin (19.30%), revenue growth of 15.50% and 11.00% in '23, '24
- CTV growth drives increasing display revenues despite ad expenditure weakening in '23

Bull Case

- EV/2024E EBITDA: **14.5x**
(share price of \$51.80)
- Cyclical upside from strong GDP growth and an ad spending recovery bounce
- Interactive CTV ad units drive upside to PERIs ARPU and margins

BUY:
PERI

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\$33.10

Target Price:
\$40.10

Upside:
21.10%

Thank You

Questions?

Appendix A: Income Statement

Perion								
Income Statement								
<i>FY Ends December 31st</i>	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
<i>(\$ in thousands)</i>								
Display Advertising	148,698	265,323	360,690	421,647	476,882	541,261	596,470	640,012
Search Advertising	179,365	213,175	279,566	317,587	350,934	386,378	419,993	427,649
Total Rev	328,063	478,498	640,256	739,234	827,816	927,639	1,016,463	1,067,661
Cost of revenue	22,477	25,197	30,404					
Traffic acquisition costs and media buy	197,626	288,018	372,601	449,378	502,484	563,077	616,993	648,070
Research and development	30,880	35,348	34,424	44,354	49,669	55,658	60,988	64,060
Selling and Marketing	39,085	53,209	56,014	73,923	82,782	92,764	101,646	106,766
General and Administrative	15,819	20,933	23,813	29,569	34,768	37,106	40,659	42,706
D&A	9,923	9,897	13,838	15,977	17,892	20,049	21,969	23,076
Total Expenses	315,810	432,602	531,094	613,202	687,595	768,654	842,255	884,678
Operating Income	12,253	45,896	109,162	126,032	140,221	158,985	174,208	182,983
Financial Expense (Income)	2,638	581	(4,502)	0	0	0	0	0
Pretax Income	9,615	45,315	113,664	126,032	140,221	158,985	174,208	182,983
Income Tax	(610)	6,609	14,439	17,644	19,631	22,258	24,389	25,618
Net Income	10,225	38,706	99,225	108,387	120,590	136,727	149,819	157,365
Basic EPS	0.38	1.13	2.23					
Diluted EPS	0.36	1.02	2.09					

Appendix B: Balance Sheet

Perion

Balance Sheet

FY Ends December 31st

(\$ in thousands)

	2020A	2021A	2022A
Cash	104,446	176,226	
Restricted Cash	1,089	1,295	
Short-term bank deposits	217,200	253,400	
Accounts Receivable	115,361	5,779	
Prepaid expenses and other current assets	8,075	12,049	
Total Current Assets	446,171	448,749	
PP&E	4,211	3,611	
Operating lease right-of-use assets	11,578	10,130	
Goodwill and intangibles	245,965	247,191	
Deferred Taxes	5,228	5,779	
Other assets	79	49	
Total Long-Term Assets	267,061	266,760	

Accounts Payable	107,730	155,854
Accrued expenses and other liabilities	40,331	37,869
Short-term operating lease liability	3,615	3,900
Short term loans and current maturities of long term		
Deferred revenues	3,852	2,377
Short-term payment obligations	38,179	34,608
Total current liabilities	193,707	234,608
Payment obligations	33,250	33,113
Long-term operating lease liability	9,774	7,580
Other long-term liabilities	9,541	11,783
Total Long-term liabilities	52,565	52,476
Total Liabilities	246,272	287,084
Ordinary Shares	375	398
APIC	496,154	513,354
Treasury shares at cost	(1,002)	(1,002)
Other gain	(128)	(582)
Retained Earnings	(28,439)	70,786
Shareholders Equity	466,960	582,954
Total Liabilities and Shareholders Equity	713,232	870,038

Appendix C: Cash Flow Statement

Perion		
Cash Flows		
<i>FY Ends December 31st</i>	2021A	2022A
<i>(\$ in thousands)</i>		
Cash beginning of period	48,878	105,535
Net Income	38,706	99,225
D&A	9,897	13,838
SBC	6,985	11,570
Foreign Currency Translation	(223)	20
Accrued Interest	(300)	(3,646)
Deferred Taxes	(2,755)	(1,428)
Accrued severance pay	663	(106)
Gain from sale of PP&E	121	(12)
Change in operating assets and liabilities	18,012	2,658
Net cash provided by operating activities	71,106	122,119
Cash from investing activities		
PP&E Purchase	(523)	(1,046)
Short-term deposits	(204,500)	(36,200)
Acquisitions, Net of cash acquired	(38,438)	(9,570)
Cash used in investing activities	(243,461)	(46,816)
Cash from financing activities		
Issuance of shares in private placement, net	230,489	0
Proceeds from exercise of stock-based compensation	6,898	5,833
Repayment of long-term loans	(8,333)	(9,091)
Net cash provided by financing activities	229,054	(3,258)
Effect of exchange rate changes on cash	(33)	(59)
Net change in Cash	56,666	71,986
Cash end of period	105,544	177,521

Appendix D: Revenue Build

Perion								
Revenue Build								
FY Ends December 31st	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
<i>(\$ in thousands)</i>								
Display Advertising	148,698	265,323	360,690	421,647	476,882	541,261	596,470	640,012
Search Advertising	179,365	213,175	279,566	317,587	350,934	386,378	419,993	445,468
Total Revenue	328,063	478,498	640,256	739,234	827,816	927,639	1,016,463	1,085,480
Revenue Drivers:								
<i>Display Advertising Growth</i>		78.4%	35.9%	16.9%	13.1%	13.5%	10.2%	7.3%
<i>Search Advertising Growth</i>		18.8%	31.1%	13.6%	10.5%	10.1%	8.7%	6.1%
<i>Total Revenue Growth</i>		45.9%	33.8%	15.5%	11.0%	12.8%	8.5%	6.8%
<i>As a % of total revenue</i>								
<i>Display Advertising</i>	45.3%	55.4%	56.3%	57.0%	57.6%	58.3%	58.7%	59.0%
<i>Search Advertising</i>	54.7%	44.6%	43.7%	43.0%	42.4%	41.7%	41.3%	41.0%

Appendix E: Cost Build

Perion								
Cost Build								
<i>FY Ends December 31st</i>	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
<i>(\$ in thousands)</i>								
COGS	220,103	313,215	403,005	449,378	502,484	563,077	616,993	648,070
Selling & Marketing	39,085	53,209	56,014	73,923	82,782	92,764	101,646	106,766
General & Administrative	15,819	20,933	23,813	29,569	34,768	37,106	40,659	42,706
Research & Development	30,880	35,348	34,424	44,354	49,669	55,658	60,988	64,060
Other Projections								
Capital Expenditures		38,961	10,616	10,250	11,835	13,131	14,812	16,071
Depreciation & Amortization	9,923	9,897	13,838	15,977	17,892	20,049	21,969	23,076
Income Tax	(610)	6,609	14,439	17,644	19,631	22,258	24,389	25,618
Cost Drivers:								
<i>COGS (% of sales)</i>	67.1%	65.5%	62.9%	60.8%	60.7%	60.7%	60.7%	60.7%
<i>S&M (% of sales)</i>	11.9%	11.1%	8.7%	10.0%	10.0%	10.0%	10.0%	10.0%
<i>G&A (% of sales)</i>	4.8%	4.4%	3.7%	4.0%	4.2%	4.0%	4.0%	4.0%
<i>R&D (% of sales)</i>	9.4%	7.4%	5.4%	6.0%	6.0%	6.0%	6.0%	6.0%
<i>Other Projection Drivers:</i>								
<i>Depreciation (% of revenue)</i>	3.0%	2.1%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%
<i>Tax Expense (% of pre-tax income)</i>	-6.3%	14.6%	12.7%	14.0%	14.0%	14.0%	14.0%	14.0%
<i>Capex (% of sales)</i>	0.0%	8.1%	1.7%	1.7%	1.7%	1.7%	1.8%	1.8%

Appendix F: FCF Calculation

Perion								
Discounted Cash Flow Model								
<i>FY Ends December 31st</i>	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
<i>(\$ in thousands)</i>								
EBIT	\$12,253	\$45,896	\$109,162	\$126,032	\$140,221	\$158,985	\$174,208	\$182,983
D&A	\$9,923	\$9,897	\$13,838	\$15,977	\$17,892	\$20,049	\$21,969	\$23,076
EBITDA (Including SBC)	\$22,176	\$55,793	\$123,000	\$142,009	\$158,113	\$179,034	\$196,177	\$206,059
Free Cash Flow to Firm (FCFF)								
Operating Profit	\$12,253	\$45,896	\$109,162	\$126,032	\$140,221	\$158,985	\$174,208	\$182,983
Less: Unlevered Taxes	(\$610)	\$6,609	\$14,439	\$17,644	\$19,631	\$22,258	\$24,389	\$25,618
Net Operating Profit After Tax (NOPAT)	\$12,863	\$39,287	\$94,723	\$108,387	\$120,590	\$136,727	\$149,819	\$157,365
Plus: Depreciation & Amortization	\$9,923	\$9,897	\$13,838	\$15,977	\$17,892	\$20,049	\$21,969	\$23,076
Less: Cash Capex	-	\$4,748	(\$9,570)	(\$10,250)	(\$11,835)	(\$13,131)	(\$14,812)	(\$16,071)
Plus: Changes in Net Working Capital			(\$434)	(\$2,950)	(\$1,369)	\$2,681	(\$1,877)	\$1,631
Free Cash Flow to Firm (FCFF)	\$22,786	\$53,932	\$98,557	\$111,164	\$125,278	\$146,327	\$155,099	\$166,002
Discount				0.5	1.5	2.5	3.5	4.5
PV of Cash Flows				106,194	109,214	116,411	112,603	109,982

Appendix G: DCF

Terminal Value Calculation			
Growth rate		Multiple method	
Terminal Cash Flow	166,002	Terminal EBITDA	206,059
WACC	9.58%	WACC	9.58%
Terminal growth rate	2.25%	EV / EBITDA	11.8x
Terminal value	2,315,643	Terminal value	2,431,492
PV of terminal value	1,534,196	PV of terminal value	1,610,950
Enterprise value	2,088,600	Enterprise value	2,165,354
Debt	11,000	Debt	11,000
Cash	171,000	Cash	171,000
Equity value	1,928,600	Equity value	2,005,354
Diluted shares outstanding	46,700	Diluted shares outstanding	46,700
Price/share	41.30	Price/share	42.94

Appendix H: Sensitivity Analysis

Sensitivity Analysis						
		Exit Multiple				
		9.8x	10.8x	11.8x	12.8x	13.8x
Discount Rate	11.6%	34.8	37.5	40.3	43.0	45.7
	10.6%	36.1	39.0	41.8	44.7	47.6
	9.6%	37.6	40.6	43.5	46.5	49.5
	8.6%	39.1	42.2	45.3	48.4	51.5
	7.6%	40.7	43.9	47.1	50.4	53.6
		Terminal Growth Rate				
		1.25%	1.75%	2.25%	2.75%	3.25%
Discount Rate	11.6%	29.3	30.5	31.8	33.2	34.9
	10.6%	32.8	34.3	36.0	37.9	40.1
	9.6%	37.1	39.1	41.4	44.0	47.0
	8.6%	42.7	45.4	48.5	52.1	56.4
	7.6%	50.0	53.8	58.2	63.6	70.2

Appendix I: Working Capital

Perion

Working Capital

<i>FY Ends December 31st</i>	2021A	2022A	2023E	2024E	2025E	2026E	2027E
<i>(\$ in thousands)</i>							
BOP	1/1/2021	1/1/2022	1/1/2023	1/1/2024	1/1/2025	1/1/2026	1/1/2027
EOP	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027
Days	365	365	365	366	365	365	365
Current assets:							
Accounts receivable	115,361	99,862	99,240	108,566	114,366	122,533	125,779
<i>A/R Days</i>	88	57	49	48	45	44	43
Short-term bank deposits	217,200	219,000	226,649	232,749	237,661	246,899	245,135
<i>As a % of SGM&A</i>	293%	274%	219.0%	198.0%	183.0%	173.5%	164.0%
Other current assets	8,075	10,587	12,626	14,341	15,844	17,361	18,236
<i>As a % of SGM&A</i>	10.9%	13.3%	12.2%	12.2%	12.2%	12.2%	12.2%
Total current assets	340,636	329,449	338,515	355,656	367,872	386,793	389,150
Current liabilities:							
Accounts payable	107,730	110,672	114,499	122,573	131,128	141,993	143,179
<i>A/P Days</i>	179	129	93	89	85	84	81
Accrued Expenses	40,331	29,376	32,083	35,529	38,272	40,888	41,874
<i>As a % of SGM&A</i>	54.4%	36.8%	31.0%	30.2%	29.5%	28.7%	28.0%
Short-term payment obligations	38,179	34,571	34,153	38,404	42,004	45,566	47,382
<i>As a % of SGM&A</i>	51.5%	43.3%	33.0%	32.7%	32.3%	32.0%	31.7%
Total current liabilities	186,240	174,619	180,734	196,506	211,403	228,447	232,435
NWC	154,396	154,830	157,780	159,150	156,468	158,346	156,715
Change in NWC	n/a	(434)	(2,950)	(1,369)	2,681	(1,877)	1,631

Appendix J: WACC

Perion	
WACC	
Target Capital Structure	
Proportion of Debt	4.1%
Proportion of Equity	95.9%
Debt / Equity	0.04x
Current Capital Structure	
Equity	\$466,960
Market Value of Debt	\$19,315
Debt / Equity	0.04x
Cost of Debt	
After-Tax Cost of Debt	5.9%
Cost of Equity	
Risk Free Rate	3.5%
Equity Risk Premium	5.1%
Size Premium	0.0%
Beta	1.22
Cost of Equity	9.7%
WACC	9.6%

Appendix K: Comps

(\$ in millions)

Company Name	Current Capitalization						Financial Estimates						Current Trading Multiples						
	Share Price	Shares ¹	Market Cap		Total Debt	Cash	Enterprise Value	Revenue		EBITDA		Earnings		EV/Revenue		EV/EBITDA		P/E	
								LTM	FY+1	LTM	FY+1	LTM	FY+1	LTM	FY+1	LTM	FY+1	LTM	FY+1
	[\$/sh.]	[MM]	[SMM]			[SMM]	[SMM]	[SMM]	[SMM]	[SMM]	[SMM]	[SMM]	[SMM]	[x]	[x]	[x]	[x]	[x]	[x]
Perion	\$33.0	47	1,480	10	176	1,314	640	730	123	140	99	128	2.1x	1.8x	10.7x	9.4x	15.5x	12.0x	
Direct Comps																			
AdTheorent	\$1.7	92	154	8	68	94	161	166	19	20	22	3	0.6x	0.6x	5.1x	4.8x	7.1x	48.6x	
Magnite	\$12.0	133	1,654	809	254	2,210	512	559	179	180	104	111	4.3x	4.0x	12.3x	12.3x	15.3x	14.3x	
Viant	\$4.5	14	293	25	200	118	197	200	12	17	(24)	(16)	0.6x	0.6x	9.8x	6.9x	-2.6x	-4.1x	
Taboola	\$3.9	2,555	1,050	357	189	1,218	1,398	1,427	155	151	70	52	0.9x	0.9x	7.9x	8.1x	142.3x	191.9x	
DoubleVerify	\$27.4	171	4,626	84	243	4,467	452	557	188	212	69	82	9.9x	8.0x	23.8x	21.1x	67.6x	57.0x	
Average: Direct Comps													3.3x	2.8x	11.8x	10.6x	45.9x	61.6x	
Median: Direct Comps													0.9x	0.9x	9.8x	8.1x	15.3x	48.6x	
1st Quartile: Direct Comps													0.6x	0.6x	7.9x	6.9x	7.1x	14.3x	
3rd Quartile: Direct Comps													4.3x	4.0x	12.3x	12.3x	67.6x	57.0x	
Average: Direct Comps													\$ 48.1	\$ 47.3	\$ 34.6	\$ 35.3			
Median: Direct Comps													\$ 15.5	\$ 16.9	\$ 29.5	\$ 27.6			
1st Quartile: Direct Comps													\$ 11.8	\$ 12.8	\$ 24.2	\$ 24.3			
3rd Quartile: Direct Comps													\$ 62.7	\$ 65.4	\$ 36.0	\$ 40.3			