

Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

Perion Network Ltd.

Speculative Buy

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August 12, 2019

PERI \$5.25 — (NASDAQ)

	<u>2017A</u>	<u>2018A</u>	<u>2019E</u>	<u>2020E</u>
Revenues (millions)	\$274.0	\$252.8	\$258.4	\$271.0
Earnings (loss) per share	\$(2.81)*	\$0.31	\$0.40	\$0.58

52-Week range	\$5.25 – \$2.47	Fiscal year ends:	December
Common shares out as of 8/9/19	25.9 million	Revenue per share (TTM)	\$9.39
Approximate float	15.7 million	Price/Sales (TTM)	0.6X
Market capitalization	\$136 million	Price/Sales (FY2020)E	0.5X
Tangible book value/share	\$0.90	Price/Earnings (TTM)	12.2X
Price/tangible book value	5.8X	Price/Earnings (FY2020)E	9.0X

* Includes \$85.7 million or \$(3.31) per share of impairment charges.

Perion Network Ltd., headquartered in Holon, Israel, is a global provider of online advertising and search technology to brands and publishers. The company provides data-driven execution, from high impact ad formats to branded search and a unified social and mobile programmatic platform.

Key investment considerations:

Reiterating Speculative Buy rating and increasing twelve-month price target to \$6.50 per share (from \$5.50 per share) based on our 2020 EBITDA estimate and an increased sector valuation.

While strong growth in the company's search revenue in 2Q19 has more than offset declines in advertising revenue, the company's transition from selling standard advertising formats to its integrated Synchronized Digital Branding advertising solution appears to be gaining traction. While the rate of decline in advertising revenue should narrow in 2H19, we project a return to growth in 2020 as agencies increasingly adopt Perion's new high impact ads.

In July 2019, Perion announced that its Undertone division and TV data company Alphonso, were partnering. The combination allows brands to create Synchronized Digital Branding experiences personalized across digital screens and platforms. In the 1st month of this partnership, Perion generated 28 request for proposals and has grown its pipeline by \$5 million.

Perion reported (8/7/19) 2Q19 revenues increased 1.2% to \$63.6 million and EPS of \$0.11 compared to \$0.04 in the year ago period. We projected 2Q19 revenue of \$57.3 million and EPS of \$0.02.

For 2019, we project a 2.2% increase in revenue to \$258.4 million and EPS of \$0.40. We previously projected revenue of \$250.6 million and EPS of \$0.38. The change in our estimates primarily reflects 2Q19 results.

For 2020, we project a 4.9% increase in revenue to \$271 million and EPS of \$0.58. We previously projected revenue of \$273 million and EPS of \$0.57.

***Please view our disclosures on pages 14 - 16.**

Recommendation and Valuation

Reiterating Speculative Buy rating on Perion and increasing our twelve-month price target to \$6.50 per share (from \$5.50 per share) based on our 2020 EBITDA estimate and an increased sector valuation.

While strong growth in the company's search revenue in 2Q19 has more than offset declines in advertising revenue, the company's transition from selling standard advertising formats to its integrated Synchronized Digital Branding advertising solution appears to be gaining traction. While the rate of decline in advertising revenue should narrow in 2H19, we project a return to growth in 2020 as agencies increasingly adopt Perion's new high impact ads.

Perion has been optimizing its cost structure through cuts in SG&A spending to focus on profitability while still increasing its R&D spending in an effort to accelerate growth in its advertising operations. Over the past two-and-one half years, PERI's strong cash flow allowed it to pay down debt while maintaining a relatively high cash position (\$1.63 per share as of June 30, 2019 - includes short-term bank deposits). Our forecast through 2020 anticipates strong cash earnings that should enable PERI to further strengthen its balance sheet. At the end of 2020, we project Perion to have \$42 million cash and debt of \$8.3 million, down from \$77.7 million in 2016.

PERI trades at a forward EV/EBITDA multiple of approximately 3.8X (3.1X previously). Industry peers trade at a forward EV/EBITDA multiple of 12.5X (previously 11.8X, source: Thomson Reuters). We anticipate investors according PERI a multiple approaching that of the industry with solid cash earnings forecasted through 2020. Applying an EV/EBITDA multiple of 5.5X (up from 5X previously based on a higher sector valuation) to our 2020 EBITDA/share projection of \$1.09 (up from \$1.07 previously), discounted to account for execution risk, implies a year-ahead value of approximately \$6.50 per share.

Recent Development

Perion Expands its Synchronized Digital Branding Offering to Connected Television – In July 2019, Perion announced that Undertone, a division of Perion, and TV data company Alphonso, were partnering. The combination allows brands to create Synchronized Digital Branding experiences personalized across digital screens and platforms.

eMarketer states that the average US consumer watches 3 hours and 35 minutes of television per day, breaking that up with 6 hours and 35 minutes each day across different digital devices. The ability to connect user-level data for seamless synchronization across TV to high-impact digital ad formats has previously not been available.

With this partnership, Undertone will be able to leverage user-level viewing and exposure data, powered by Alphonso's Video AI, to intelligently sequence campaigns across hundreds of high-quality publishers and mobile apps. Consumers are expected to get a more seamless and strategic experience compared to otherwise disconnected campaigns that don't account for a viewer's daily device-shifting habits. In the 1st month of this partnership, Perion generated 28 request for proposals and has grown its pipeline by \$5 million.

Organizational History


































The company was incorporated in the State of Israel in November 1999 under the name Verticon Ltd. and changed its name to IncrediMail Ltd. in November 2000. In November 2011, the company changed its name to Perion Network Ltd. Since 2011, Perion completed several acquisitions, including the acquisitions of ClientConnect Ltd. in 2014 and Interactive Holding Corp. in 2015, collectively referred to as Undertone.

The company completed its initial public offering of ordinary shares in the US in February 2006. Since November 2007, the company's ordinary shares also trade on the Tel-Aviv Stock Exchange (TASE).

Business

Perion Network Ltd., headquartered in Holon, Israel, is a global provider of online advertising and search technology to brands and publishers. The company provides data-driven execution, from high impact ad formats to branded search and a unified social and mobile programmatic platform. Programmatic advertising refers to the buying of digital advertising space automatically, with computers using data to decide which ads to buy and how much to pay for them.

The company’s Undertone division provides digital advertising across desktop, mobile (Web and App) and social channels. Undertone’s customers receive support throughout the full campaign cycle, including planning, creative services, client solutions, campaign management, performance and insights. Some of Perion’s advertising customers are shown in the table above.

AUTO	CPG	FIN SERVICES	PHARMACEUTICAL	RETAIL	TECH/TELECOM
					
					
					
					
					
					

Source: Perion Presentation

The company’s social marketing platform, MakeMeReach, offers a dashboard for marketers that enables media buying to be more efficient. The MakeMeReach platform is used by more than 4,000 companies worldwide and enables advertisers to increase campaign performance by an average of 30% compared to common social tools.

Perion delivers to its brand and agency clients a social marketing platform that enables fast and intelligent decision-making in order to optimize media and creative campaigns based on a variety of key performance indicators on Facebook, Snapchat, Twitter and Google, while efficiently acquiring new users.

Advertisers can control their marketing expenditures on Perion’s social marketing platform. The platform has tools that advertisers can utilize to create operational marketing efficiencies. Perion’s customers receive ongoing analysis and optimization of their campaigns with the goal of increasing return on investment and scaling key performance indicators.

Perion’s search related products under its CodeFuel division enables end users to replace their search assets with the company’s. Perion’s search related products allow publishers to track and monitor their business performance. Perion claims that its relationship with Microsoft’s Bing enables it to offer higher search payouts than most competitors using the desktop Chrome extension and mobile launcher and other browser apps.

The company’s consumer apps division delivers in-house mobile and desktop apps direct to consumers through its Smilebox and IncrediMail products. Smilebox is a photo sharing and social expression product, and IncrediMail is a unified messaging application that enables consumers to manage multiple email accounts in one place with an easy-to-use interface and extensive personalization features.

Industry

Perion operates in the digital advertising industry. A March 2019 report by the research firm eMarketer projects digital ad spending in the US to grow 19.1% to \$129.3 billion in 2019. Digital ad spending growth is projected to average 13.3% annually, reaching \$201.8 billion by 2023 (see chart at top right on next page). Mobile ad spending is anticipated to drive growth powered by innovative formats from top ad sellers. eMarketer projects US digital ad spending to surpass traditional as spending for the first time in 2019, accounting for 54.2% of total ad spending. eMarketer projects US digital ad spending to account for 66.8% of total ad spending by 2023, up from 48.6% in 2018.

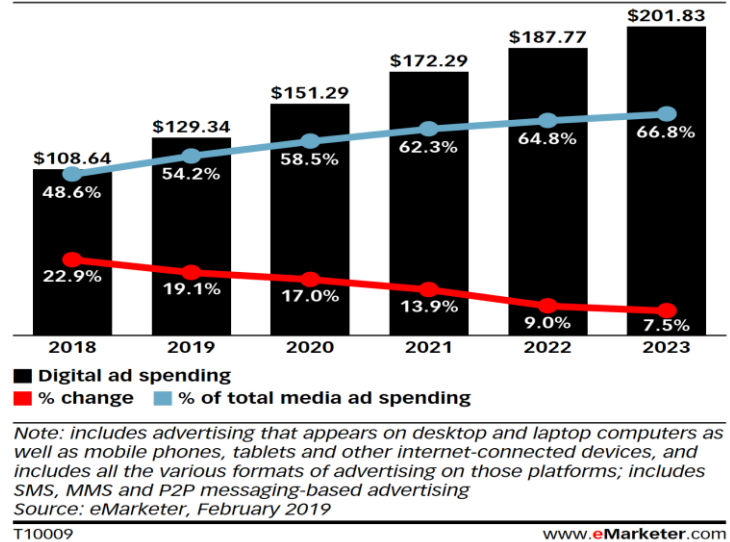
eMarketer projects mobile ad spending of \$90.3 billion in 2019, up 20.5% from 2018. Mobile ad spending growth is projected to average 16.8% annually, reaching \$131.4 billion in 2022 (see chart at middle right). Growth should be driven by increasing mobile commerce activity. eMarketer reports that mobile display ad placements have already surpassed those of desktop.

eMarketer observed that while traditional media was expected to account for 51.4% of ad spending in 2018, it is quickly losing ground to digital media (such that Perion provides), digital advertising is projected to surpass traditional media as a percentage of ad spending in 2019 with a 53.3% share. By 2022, digital's share is projected to climb to 62.1%.

eMarketer projected that more than 80% of display ad dollars will have gone through programmatic channels (such as Perion offers) in 2018. Of the \$46.6 billion spent on programmatic advertising in 2018, 42% will be via real-time bidding and 58% will go to direct deals.

Search ad spending was projected to have reached \$45.8 billion in 2018, representing 42.7% of total digital advertising. eMarketer observed that although search's share is smaller than that of display, it remains a more affordable alternative depending on campaign goals.

Digital Ad Spending in the US, 2018-2023
billions, % change and % of total media ad spending



US Mobile Ad Spending, 2017-2022

	2017	2018	2019	2020	2021	2022
Mobile ad spending (billions)	\$60.70	\$74.97	\$90.34	\$105.25	\$118.93	\$131.41
—% change	30.0%	23.5%	20.5%	16.5%	13.0%	10.5%
—% of digital ad spending	67.2%	69.9%	71.8%	74.0%	76.0%	77.1%
—% of total media ad spending	29.3%	33.9%	38.3%	42.0%	45.3%	47.9%

Note: includes classified, display (banners, rich media, video and other), email, lead generation, messaging-based advertising and search advertising; includes ad spending on tablets
Source: eMarketer, March 2018
235966 www.eMarketer.com

Competition

Competitive Environment

The markets in which the company operates in are highly competitive. There are a large number of companies that compete with Perion's advertising solutions. Some of these companies are larger and have more financial resources than Perion including, Google, and Facebook. New entrants and companies that do not currently compete with Perion's advertising technology such as Amazon and AT&T may compete in the future given the relatively low barriers to entry in the industry.

The company competes with search engine providers such as Google, Microsoft, Yahoo and companies offering consumer search software such as Interactive Corporation and others.

Many of the Perion's competitors may have significantly greater financial, research and development, manufacturing, and sales and marketing resources. These competitors could potentially use their greater financial resources to acquire other companies to gain name recognition and market share, as well as to develop new technologies, enhance systems and analytical capabilities and/or products or features that could effectively compete with Perion's solutions.

Competitive Advantages

The company aims to exploit the capabilities that differentiates its Undertone division's technology offering from competing technologies.

"Synchronized Digital Branding" platform - Enables a brand to tell a complete story by delivering the right message to the right audience at the right time. For example, a coffee brand could reach the same user with a "wake-up" message in the morning; a "keep you going" message in the afternoon; and a "decaf espresso for a good night's sleep" message in the evening. With multiple ads being placed for a particular brand, and immediate feedback being received, Perion is able to offer its clients the optimal ad.

"Synchronized Digital Branding" marketed alongside in-house "Pixl Studio" – Taking an advertiser's conventional advertising – for example, a thirty-second television commercial – and translating it into effective digital ads. Perion can create innovative ads and deliver them through its "Synchronized Digital Branding" to offer increased user relevance and performance.

Network of premium, vetted publishers – Perion's Synchronized Digital Branding is delivered to these publishers, as well as on Facebook and other social media channels.

Strategy

Perion aims to be the leader in high-quality advertising solutions by delivering messages that stand out through innovative and engaging ad units. The company offers "high impact" ad units (advertising that captures the attention of consumers) as well as standard and non-standard ad formats in desktop, mobile (Web and App), and social media channels. The company's Synchronized Digital Branding platform is an example of its high impact ad offering. Perion's July 2019 partnership with TV data company Alphonso should enable brands to create Synchronized Digital Branding experiences personalized across digital screens and platforms.

Perion strives to offer effective advertising solutions through creative ad units, quality media, proprietary technology, service and support, and innovation.

Creative Ad Units - The company aims to offer clients creative ads that capture a consumer's attention, as well as functionality that drives consumer engagement. Perion has an in-house, full-service team that works with clients to design, build and execute custom ad campaigns. The company's formats can be deployed across desktop, mobile and tablets and through Web, App and social media channels, depending on the specific needs of the customer.

Quality Media – Perion hand-picks a broad portfolio of premium media properties. Qualified publishers are put through a certification process to ensure the proper delivery of the company's formats. Approved publishers are continuously monitored for inappropriate content and suspicious traffic.

Proprietary Technology – Some of the key features of Perion's proprietary technology platform include an HTML5-based ad creation platform and production tools that allow for the rapid creation of high impact creative ads and the development of new ad formats. Other features of this platform include programmatically enabled buying and selling allowing clients to increase efficiency and campaign flexibility, providing brand safety and quality filters to ensure clients' messages are placed in safe and appropriate environments, and using the Undertone Data Management System (UDMS) which enables the company to capture, process and analyze data associated with ad campaigns in order to deliver better results to clients.

Service and Support – Perion provides its clients with service and support before, during and after the campaign cycle. The company utilizes a consultative approach to develop the appropriate campaign strategy. Perion then oversees all aspects of a client's campaign to ensure it meets the clients' objectives and provides clients with campaign results, key performance metrics and critical analysis.

Innovation – In order to remain competitive, Perion must continue to develop new solutions and services. To accomplish this, the company relies on its in-house research and development team which researches, prototypes and tests emerging technology in order to determine how best to reach and influence consumers. The team also conducts research on consumer interactions with ad formats, features and functionalities to determine preferences and usage behavior. We project R&D spending will increase to \$22.6 million in 2020 from \$18.9 million in 2018.

Economic Outlook

In July 2019, the IMF lowered its global economic growth estimate to 3.2% for 2019 and 3.5% for 2020 from earlier (April 2019) estimates of 3.3% for 2019 and 3.6% for 2020. The downward revisions reflect further tariffs on certain Chinese imports by the US and China retaliating by raising tariffs on certain US imports.

The IMF raised its 2019 economic growth estimate for the US to 2.6% from its April 2019 forecast of 2.3%. The 2020 estimate is unchanged at 1.9%. The upward revision for 2019 reflects stronger-than-anticipated first quarter performance.

The advance estimate of US GDP growth (released on July 26, 2019) showed the US economy grew at an annual rate of 2.1% in 2Q19, down from 3.1% in 1Q19. The 2Q19 US GDP growth estimate reflects increases in consumer and government spending while inventory investment, exports, and business and housing investments decreased.

Projections

2019 Forecast - We project a 2.2% increase in revenue to \$258.4 million and net income of \$10.4 million or \$0.40 per share. We previously projected revenue of \$250.6 million and net income of \$9.9 million or \$0.38 per share. Our revised estimates primarily reflect 2Q19 results.

We project gross margins of 90.2%. Customer acquisition costs and media buy expenses are projected to increase 6% to \$136.1 million as payments to publishers and developers increase. R&D should increase 19.5% to \$22.6 million as the company continues to enhance its technology platforms. Selling and marketing expenses should decrease by 6.2% to \$36.5 million and general and administrative expenses should decrease by 16.9% to \$13.7 million reflecting the company's cost optimization efforts.

We project a 4.1% increase in operating income to \$15.3 million due primarily to higher sales. Financial expenses should decrease 10% to \$3.4 million from \$3.8 million due to a projected reduction in debt. We project the company paying \$1.5 million in taxes for a 12.4% tax rate.

In 2019, we project \$22.8 million cash from operations on cash earnings of \$20.6 million and a \$2.2 million decrease in working capital. The decrease in working capital reflects a reduction in receivables offset in part by a decrease in payables and accruals. Cash from operations is unlikely to cover capital expenditures and the pay down of debt, decreasing cash by \$12.1 million to \$28.8 million at the end of 2019.

2020 Forecast - We project a 4.9% increase in revenue to \$271 million and net income of \$15.1 million or \$0.58 per share. We previously projected revenue of \$273 million and net income of \$14.7 million or \$0.57 per share.

We project gross margins of 91%. Customer acquisition costs and media buy expenses are projected to increase 7.5% to \$146.3 million as payments to publishers and developers increase. R&D should remain relatively flat at \$22.6 million. Selling and marketing expenses should remain relatively flat at \$36.6 million and general and administrative expenses should decrease by 6.4% to \$12.8 million as the company continues to control costs.

We project a 29.9% increase in operating income to \$19.9 million as the company's significant investments in R&D begin to pay off. We project the company paying \$3.8 million in taxes for a 20% tax rate.

In 2020, we project \$22.4 million cash from operations on cash earnings of \$25.4 million and a \$2.9 million increase in working capital. The increase in working capital reflects an increase in receivables offset in part by an increase in payables and accruals. Cash from operations should cover capital expenditures and the pay down of debt, increasing cash by \$7.3 million to \$36 million at the end of 2020.

2Q19 and 1H19 Financial Results

2Q19 - Perion reported net income of \$2.9 million or \$0.11 per share on a 1.2% increase in total revenue to \$63.6 million. We projected 2Q19 revenue of \$57.3 million and net income of \$513,000 or \$0.02 per share. In the year ago period, EPS was \$0.04 on revenue of \$62.8 million.

Advertising revenues decreased 35.9% to \$21.3 million. Search and other revenues increased 42.8% to \$42.3 million. The decrease in advertising revenue was primarily due to the company's transition from selling standard format advertising to an integrated solution (Synchronized Digital Branding – a sequence of ads that align with the consumer from awareness, to consideration, to intent, to a purchase). The increase in search and other revenues was primarily due to the addition of new publishers, higher revenue-per-mille (estimated earnings that accrue for every 1,000 impressions received) and an increased number of searches.

Gross profit increased less than 1% to \$57.5 million from \$57 million while gross margins decreased to 90.5% from 90.7%. Customer acquisition costs and media buy expenses increased 6.7% to \$33.2 million from \$31.1 million.

Research and development costs increased by 19.9% to \$5.6 million from \$4.7 million. Selling and marketing expenses decreased 14% to \$8.7 million from \$10.1 million. General and administrative expenses decreased 30% to \$3.4 million from \$4.9 million. Depreciation and amortization expenses decreased by 8.2% to \$2.3 million from \$2.5 million.

Financial expenses decreased 17.5% to \$989,000 from \$1.2 million. Perion paid \$453,000 in taxes versus \$628,000 in 2Q18.

1H19 - Total revenues decreased 5.1% to \$117.4 million from \$123.74 million and net income was \$4.1 million or \$0.16 per share versus net income of \$1 million or \$0.04 per share in the year-ago period.

Advertising revenues decreased 36.2% to \$39.9 million. Search and other revenues increased 26.7% to \$77.5 million.

Gross profit decreased 5.6% to \$105.6 million from \$111.8 million while gross margins decreased to 89.9% from 90.4%. Customer acquisition costs and media buy expenses decreased 3.8% to \$60.6 million from \$63 million.

	Six Months Ended	
	6/19A	6/18A
Search and other	77,532	61,201
Advertising	39,884	62,501
Total revenue	117,416	123,702
Cost of revenue	11,834	11,867
Gross profit	105,582	111,835
Customer acquisition costs and media buy	60,608	62,990
Research and development	10,472	10,222
Selling and marketing	16,992	19,782
General and administrative	6,477	9,167
Depreciation and amortization	4,676	4,562
Restructuring charges	-	2,075
Operating income (loss)	6,357	3,037
Financial expenses	2,314	1,806
Income (loss) before taxes	4,043	1,231
Income tax (benefit)	(89)	188
Net income (loss)	4,132	1,043
EPS	0.16	0.04
Shares Outstanding	25,891	25,852
EBITDA	11,033	7,599
<u>Margin Analysis</u>		
Gross margin	89.9%	90.4%
Customer acquisition costs and media buy	51.6%	50.9%
Research and development	8.9%	8.3%
Selling and marketing	14.5%	16.0%
General and administrative	5.5%	7.4%
Operating margin	5.4%	2.5%
<u>Year / Year Growth</u>		
Total Revenues	(5.1)%	
Net Income	NMF	
EPS	NMF	
Source: Company filings		

Research and development costs increased by 2.4% to \$10.5 million from \$10.2 million. Selling and marketing expenses decreased 14.1% to \$17 million from \$19.8 million. General and administrative expenses decreased 29.3% to \$6.5 million from \$9.2 million. Depreciation and amortization expenses increased by 2.5% to \$4.7 million from \$4.6 million.

Financial expenses increased 28.1% to \$2.3 million from \$1.8 million. Perion received an \$89,000 tax benefit in 1H19 versus paying \$188,000 in taxes in 1H18.

Liquidity – As of June 30, 2019, Perion had \$42.1 million cash (includes \$6 million short-term bank deposit), a current ratio of 1.3X, \$20.8 million of total debt (\$8.3 million short-term and \$12.5 million long-term), and a debt equity ratio of 0.1X.

In November 2015, concurrently with the closing of the Undertone acquisition, the company entered into a secured credit agreement for \$50 million due in quarterly installments from March 2016 to November 2019. The installments started at \$625,000 per quarter, and increased to \$1.25 million per quarter in March 2018, requiring a final payment of \$35 million upon maturity. The outstanding principal bears annual interest at LIBOR plus 5.5% and is secured by substantially all the assets of the companies in the Undertone group.

In May 2017, the company secured \$17.5 million under a new credit facility from an Israeli bank which includes a \$12.5 million revolving credit line and a \$5 million term loan, both guaranteed by Perion. The \$5 million long-term loan bears annual interest at LIBOR plus 5%, to be repaid in 36 equal installments starting from June 30, 2017, and the \$12.5 million revolving credit line bears annual interest at LIBOR plus 3.5%.

In September 2014, the company completed a public offering in Israel of its Series L convertible bonds. The bonds were issued at a purchase price equal to 96.5% of their par value and bear annual interest at a rate of 5%, payable semi-annually, subject to an increase up to 6% in the event of a debt rating downgrade. The bonds are convertible into the company's ordinary shares at a conversion price of \$9.69 until March 15, 2020. The bonds were redeemed in 2Q19.

In December 2018, Perion executed a new loan facility with an Israeli bank in the amount of \$25 million. The new loan facility will replace two debt facilities and be consolidated into a single debt facility with Bank Mizrahi. Principal on the loan is payable in 12 equal quarterly installments beginning March 2019 at an annual interest rate of three-month LIBOR plus 5.7% and matures on December 31, 2021.

At June 30, 2019, the company had cash earnings of \$9 million and a \$13.3 million decrease in working capital that resulted in \$22.4 million cash provided by operations. Cash provided by operations was offset by \$3.5 million of investing activities (primarily short-term deposits) and a \$20 million reduction in debt. Cash decreased by \$3 million to \$37.9 million (includes restricted cash) as of June 30, 2019.

Risks

In our view, these are the principal risks underlying the stock.

Lack of long-term contracts – Perion generally does not enter into long-term contracts with its advertising customers, and such customers do business on a non-exclusive basis with no minimum spending guarantees. Perion's advertising customers may reduce or terminate their business relationship with the company at any time which could have a material adverse effect on Perion's business, results of operations, and financial condition.

Technological obsolescence – Google, as an advertising publisher, accounts for most US online search-generated revenues while Microsoft and Yahoo account for substantially all of the rest. A small number of social network companies, such as Facebook, account for a large portion of digital advertising budgets.

These companies, along with other large and established Internet and technology companies, may also leverage their power to make changes to their Web browsers, operating systems, platforms, networks or other products or services in a way that impacts the entire digital advertising marketplace. If Perion is unable to adjust to those changes, the company's revenues and performance could be adversely impacted.

Demand for digital advertising – A substantial portion of the company's revenues is derived from the sale of digital advertising solutions. If the demand for digital advertising does not continue to grow or customers do not chose Perion's solutions, it could restrain the company's operations.

Competition - The advertising industry is highly competitive. There are a large number of digital media companies and advertising technology companies that offer services similar to Perion's that compete for finite advertising budgets and for limited inventory from publishers. Some of the company's competitors are better established have significantly more financial, technical, sales and marketing resources than Perion. Given that the barriers to entering the digital advertising market are relatively low, the number of competitors may increase. If Perion cannot compete effectively in this market, its revenues are likely to decline.

Desktop computer search services - The market related to desktop computers has accounted for substantially all of Perion's search revenues. Recently, the number of individuals who access the Internet through devices other than desktop computers, such as mobile phones, tablets, etc., has increased dramatically. If this trend towards using the Internet on non-desktop devices accelerates, some of Perion's services will become less relevant and may fail to attract advertisers and Web traffic.

Exchange rates - A significant portion of Perion's costs are incurred in new Israeli shekels (NIS). Exchange rate fluctuations may have an adverse effect on the company's earnings and asset base if it not able to effectively hedge against currency exchange risks.

Regulatory changes – Perion's business is conducted through the Internet and is subject to the laws and regulations that apply to e-commerce and online businesses around the world. These laws and regulations are becoming more prevalent in the US, Europe, Israel, Canada, and elsewhere and may impede the growth of the Internet and consequently the company's services.

Reliance on North American market – Perion's revenues have been concentrated within the North American market, accounting for approximately 78% of 2018 revenues. A significant reduction in the revenues generated in North America could have a material adverse effect on the company's results of operations.

Political, economic and military risks – Prion's principal executive offices are located in Israel. Accordingly, political, economic and military conditions in the Middle East may directly affect the company's business.

Liquidity risk - Shares of Perion have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 15.7 million shares in the float and the average daily volume is approximately 166,000 shares.

Miscellaneous risk - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Perion Network Ltd.

Consolidated Balance Sheets
(in thousands \$)

	2016A	2017A	2018A	6/19A	2019E	2020E
Cash and cash equivalents	23,962	31,567	39,109	36,144	28,753	36,043
Short-term bank deposits	8,414	5,913	4,000	6,000	6,000	6,000
Receivables	71,346	62,830	55,557	38,957	51,683	56,458
Prepaid expenses and other	10,036	13,955	5,227	4,897	4,897	4,897
Total current assets	113,758	114,265	103,893	85,998	91,333	103,399
Property and equipment	14,205	17,476	15,649	13,417	13,861	12,012
Operating lease right-of-use assets	-	-	-	24,342	24,342	24,342
Goodwill and intangibles	234,755	136,360	131,547	130,620	130,620	130,620
Deferred taxes	4,117	4,798	4,414	5,274	5,274	5,274
Other	1,617	1,128	943	771	771	771
Total assets	368,452	274,027	256,446	260,422	266,201	276,418
Accounts payable	38,293	39,180	38,208	36,748	36,792	37,263
Accrued expenses and other	17,466	17,784	17,240	13,693	16,797	17,615
Short-term operating lease liability	-	-	-	3,007	3,007	3,007
Short-term debt	17,944	13,989	16,059	8,333	8,333	8,333
Deferred revenues	5,354	5,271	3,794	3,531	3,531	3,531
Payment obligation related to acquisitions	7,653	5,146	1,813	347	347	347
Total current liabilities	86,710	81,370	77,114	65,659	68,807	70,096
Long-term debt	59,790	46,719	24,393	12,500	8,000	-
Deferred taxes	8,087	-	-	-	-	-
Long-term operating lease liability	-	-	-	22,387	22,387	22,387
Other	5,721	7,606	6,158	5,854	5,854	5,854
Total liabilities	160,308	135,695	107,665	106,400	105,048	98,337
Total stockholders' equity	208,144	138,332	148,781	154,022	161,153	178,081
Total liabilities & stockholders' equity	368,452	274,027	256,446	260,422	266,201	276,418

Source: Company filings and Taglich Brothers' estimates

Perion Network Ltd.

Income Statements for the Fiscal Years Ended
(in thousands \$)

	2016A	2017A	2018A	2019E	2020E
Search and other Advertising	172,683	139,505	126,868	161,532	168,000
Total revenue	312,794	273,986	252,845	258,416	271,000
Cost of revenue	25,924	24,659	23,757	25,229	24,390
Gross profit	286,870	249,327	229,088	233,187	246,610
Customer acquisition costs and media buy	140,210	130,885	128,351	136,108	146,340
Research and development	25,221	17,189	18,884	22,572	22,600
Selling and marketing	54,559	52,742	38,918	36,492	36,585
General and administrative	28,827	21,911	16,450	13,677	12,800
Depreciation and amortization	25,977	16,591	9,719	9,046	8,425
Impairment	-	85,667	-	-	-
Restructuring charges	728	-	2,075	-	-
Operating income (loss)	11,348	(75,658)	14,691	15,292	19,860
Financial expenses	8,288	5,922	3,794	3,414	1,000
Income (loss) before taxes	3,060	(81,580)	10,897	11,878	18,860
Income tax (benefit)	212	(8,826)	2,776	1,478	3,772
Net income (loss)	2,848	(72,754)	8,121	10,400	15,088
EPS	0.11	(2.81)	0.31	0.40	0.58
Shares Outstanding	25,558	25,850	26,855	25,894	25,897
EBITDA	37,325	(59,067)	24,410	24,338	28,285
Adjusted EBITDA*	45,435	28,917	29,554	26,785	30,125
<u>Margin Analysis</u>					
Gross margin	91.7%	91.0%	90.6%	90.2%	91.0%
Customer acquisition costs and media buy	44.8%	47.8%	50.8%	52.7%	54.0%
Research and development	8.1%	6.3%	7.5%	8.7%	8.3%
Selling and marketing	17.4%	19.2%	15.4%	14.1%	13.5%
General and administrative	9.2%	8.0%	6.5%	5.3%	4.7%
Operating margin	3.6%	(27.6)%	5.8%	5.9%	7.3%
Tax rate	6.9%	10.8%	25.5%	12.4%	20.0%
<u>Year / Year Growth</u>					
Total Revenues		(12.4)%	(7.7)%	2.2%	4.9%
Net Income		NMF	NMF	28.1%	45.1%
EPS		NMF	NMF	29.6%	45.1%

*Includes stock compensation, restructuring and other costs

Source: Company filings and Taglich Brothers' estimates

Perion Network Ltd.

Quarterly Income Statements 2018A - 2020E
(in thousands \$)

	3/18A	6/18A	9/18A	12/18A	2018A	3/19A	6/19A	9/19E	12/19E	2019E	3/20E	6/20E	9/20E	12/20E	2020E
Search and other Advertising	31,610	29,591	30,957	34,711	126,868	35,265	42,267	42,000	42,000	161,532	42,000	42,000	42,000	42,000	168,000
Total revenue	60,905	62,797	57,181	71,962	252,845	53,849	63,567	64,000	77,000	258,416	60,000	64,000	69,000	78,000	271,000
Cost of revenue	6,056	5,811	5,474	6,416	23,757	5,766	6,068	6,080	7,315	25,229	5,400	5,760	6,210	7,020	24,390
Gross profit	54,849	56,986	51,707	65,546	229,088	48,083	57,499	57,920	69,685	233,187	54,600	58,240	62,790	70,980	246,610
Customer acquisition costs and media buy	31,885	31,105	28,808	36,553	128,351	27,433	33,175	33,920	41,580	136,108	32,400	34,560	37,260	42,120	146,340
Research and development	5,544	4,678	4,341	4,321	18,884	4,862	5,610	5,900	6,200	22,572	5,800	5,700	5,600	5,500	22,600
Selling and marketing	9,701	10,081	8,635	10,501	38,918	8,325	8,667	9,300	10,200	36,492	8,100	8,640	9,315	10,530	36,585
General and administrative	4,286	4,881	3,883	3,398	16,450	3,058	3,419	3,500	3,700	13,677	3,200	3,200	3,200	3,200	12,800
Depreciation and amortization	2,071	2,491	2,528	2,629	9,719	2,390	2,286	2,195	2,175	9,046	2,175	2,125	2,075	2,050	8,425
Restructuring charges	1,138	937	-	-	2,075	-	-	-	-	-	-	-	-	-	-
Operating income (loss)	224	2,813	3,512	8,144	14,691	2,015	4,342	3,105	5,830	15,292	2,925	4,015	5,340	7,580	19,860
Financial expenses	607	1,199	1,236	753	3,794	1,325	989	600	500	3,414	400	300	200	100	1,000
Income (loss) before taxes	(383)	1,614	2,276	7,391	10,897	690	3,353	2,505	5,330	11,878	2,525	3,715	5,140	7,480	18,860
Income tax (benefit)	(440)	628	84	2,504	2,776	(542)	453	501	1,066	1,478	505	743	1,028	1,496	3,772
Net income (loss)	57	986	2,192	4,887	8,121	1,232	2,900	2,004	4,264	10,400	2,020	2,972	4,112	5,984	15,088
EPS	0.00	0.04	0.08	0.19	0.31	0.05	0.11	0.08	0.16	0.40	0.08	0.11	0.16	0.23	0.58
Shares Outstanding	25,850	26,421	26,421	26,851	26,855	25,885	25,897	25,897	25,897	25,894	25,897	25,897	25,897	25,897	25,897
EBITDA	2,295	5,304	6,040	10,773	24,410	4,405	6,628	5,300	8,005	24,338	5,100	6,140	7,415	9,630	28,285
Adjusted EBITDA*	4,286	7,097	6,678	11,494	29,554	5,125	7,435	5,760	8,465	26,785	5,560	6,600	7,875	10,090	30,125
<u>Margin Analysis</u>															
Gross margin	90.1%	90.7%	90.4%	91.1%	90.6%	89.3%	90.5%	90.5%	90.5%	90.2%	91.0%	91.0%	91.0%	91.0%	91.0%
Customer acquisition costs and media buy	52.4%	49.5%	50.4%	50.8%	50.8%	50.9%	52.2%	53.0%	54.0%	52.7%	54.0%	54.0%	54.0%	54.0%	54.0%
Research and development	9.1%	7.4%	7.6%	6.0%	7.5%	9.0%	8.8%	9.2%	8.1%	8.7%	9.7%	8.9%	8.1%	7.1%	8.3%
Selling and marketing	15.9%	16.1%	15.1%	14.6%	15.4%	15.5%	13.6%	14.5%	13.2%	14.1%	13.5%	13.5%	13.5%	13.5%	13.5%
General and administrative	7.0%	7.8%	6.8%	4.7%	6.5%	5.7%	5.4%	5.5%	4.8%	5.3%	5.3%	5.0%	4.6%	4.1%	4.7%
Operating margin	0.4%	4.5%	6.1%	11.3%	5.8%	3.7%	6.8%	4.9%	7.6%	5.9%	4.9%	6.3%	7.7%	9.7%	7.3%
Tax rate	114.9%	38.9%	3.7%	33.9%	25.5%	(78.6)%	13.5%	20.0%	20.0%	12.4%	20.0%	20.0%	20.0%	20.0%	20.0%
<u>Year / Year Growth</u>															
Total Revenues	(1.7)%	(9.9)%	(12.1)%	(6.9)%	(7.7)%	(11.6)%	1.2%	11.9%	7.0%	2.2%	11.4%	0.7%	7.8%	1.3%	4.9%
Net Income	NMF	NMF	NMF	NMF	NMF	NMF	NMF	(8.6)%	(12.7)%	28.1%	64.0%	2.5%	105.2%	40.3%	45.1%
EPS	NMF	NMF	NMF	NMF	NMF	NMF	NMF	(6.7)%	(13.3)%	29.6%	63.9%	2.5%	105.2%	40.3%	45.1%

*Includes stock compensation, restructuring and other costs

Source: Company filings and Taglich Brothers' estimates

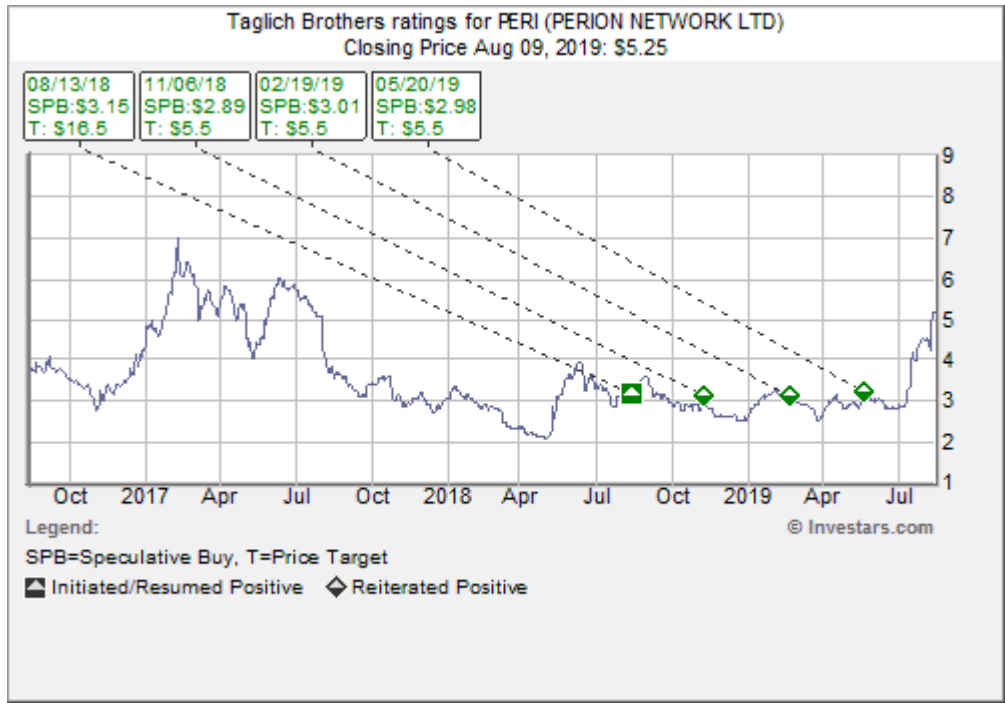
Perion Network Ltd.

Statement of Cash Flows for the Periods Ended
(in thousands \$)

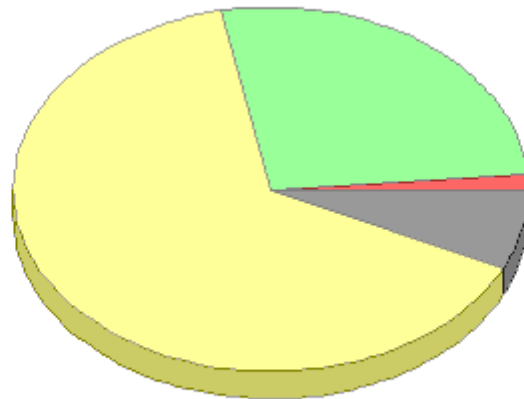
	2016A	2017A	2018A	6M19A	2019E	2020E
Net income (loss)	2,848	(72,754)	8,121	4,132	10,400	15,088
Depreciation & amortization	25,977	16,591	9,719	4,676	9,046	8,426
Impairment	-	85,667	-	-	-	-
Restructuring costs	254	-	462	-	-	-
Stock-based compensation	6,844	2,112	2,718	923	1,843	1,840
Foreign currency translation	980	83	3	(6)	(6)	-
Accretion of payment obligation related to acquisition	320	43	-	-	-	-
Accrued interest	406	475	1,005	(203)	(203)	-
Deferred taxes	(3,268)	(8,877)	335	(860)	(860)	-
Accrued severance pay	214	801	(783)	(218)	(218)	-
Change in payment obligation related to acquisitions	983	-	-	-	-	-
Fair value revaluation - convertible debt	1,350	3,785	(1,585)	600	600	-
Loss from sale of property and equipment	149	-	-	-	-	-
Cash earnings (loss)	37,057	27,926	19,995	9,044	20,602	25,354
<i>Changes in assets and liabilities</i>						
Receivables	(5,333)	8,888	7,423	-	3,874	(4,775)
Prepaid expenses and other	8,613	(3,241)	9,451	-	330	-
Accounts payable	(1,702)	1,106	(1,066)	-	(1,416)	470
Accrued expenses and other	(2,486)	1,429	(1,524)	-	(332)	1,397
Deferred revenue	(2,365)	(95)	(1,478)	-	(263)	-
(Increase) decrease in working capital	(3,273)	8,087	12,806	13,346	2,193	(2,908)
Net cash provided by (used in) operations	33,784	36,013	32,801	22,390	22,795	22,446
Purchase of property and equipment	(1,504)	(1,606)	(2,038)	(341)	(1,800)	(1,800)
Proceeds from sale of property and equipment	151	10	59	-	-	-
Capitalization of development costs	(4,591)	(5,756)	(1,756)	-	(1,756)	(1,756)
Change in restricted cash	647	-	-	-	-	-
Cash paid for acquisitions	-	-	-	(1,200)	(1,200)	-
Short-term deposits	34,028	2,501	1,913	(2,000)	(2,000)	-
Net cash provided by (used in) investing	28,731	(4,851)	(1,822)	(3,541)	(6,756)	(3,556)
Exercise of options and restricted shares	2	1	-	129	129	-
Payments made in connection with acquisition	(29,537)	(2,551)	(3,333)	(1,813)	(3,600)	(3,600)
Proceeds from debt	40,000	5,000	25,000	-	-	-
Repayment of debt	(63,072)	(26,290)	(44,676)	(20,016)	(24,516)	(8,000)
Net cash provided by (used in) financing	(52,607)	(23,840)	(23,009)	(21,700)	(27,987)	(11,600)
Effect of currency exchange rates	(136)	283	78	(102)	(102)	-
Effect from discontinued operations on cash	(3,329)	-	-	-	-	-
Net change in cash	6,443	7,605	8,048	(2,953)	(12,050)	7,290
Cash - beginning of period	17,519	23,962	32,755	40,803	40,803	28,753
Cash - end of period	23,962	31,567	40,803	37,850	28,753	36,043

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



26.76 % Buy 64.79 % Hold 7.04 % Not Rated 1.41 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	9
Hold		
Sell		
Not Rated	1	25

Important Disclosures

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company within the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. The company paid a monetary fee of \$6,000 (USD) in July 2018 for the creation and dissemination of research reports for the first three months. After the first three months from initial publication, the company will pay a monthly monetary fee of \$2,000 (USD) to Taglich Brothers, Inc., for a minimum of six months for the creation and dissemination of research reports.

General Disclosures

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Analyst Certification

I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public companies mentioned in this report:

Allot Communications (NASDAQ: ALLT)
Facebook (NASDAQ: FB)
Google (NASDAQ: GOOG)
Microsoft (NASDAQ: MSFT)
Stratasys (NASDAQ: SSYS)
Twitter (NYSE: TWTR)
Yahoo (NASDAQ: ABAA)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.