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Research Report – Update

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

Perion Network Ltd.

Speculative Buy

John Nobile
February 19, 2019

PERI $3.01 — (NASDAQ)

	2017A	2018A	2019E	2020E
Revenues (millions)	$274.0	$252.8	$267.5	$285.4
Earnings (loss) per share	$(2.81)*	$0.31	$0.32	$0.53

52-Week range	$4.05 – $2.13	Fiscal year ends:	December
Common shares out as of 2/13/19	25.9 million	Revenue per share (TTM)	$9.42
Approximate float	15.6 million	Price/Sales (TTM)	0.3X
Market capitalization	$78 million	Price/Sales (FY2020)E	0.3X
Tangible book value/share	$0.64	Price/Earnings (TTM)	9.7X
Price/tangible book value	4.7X	Price/Earnings (FY2020)E	5.7X

** 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 our Speculative Buy rating on Perion and maintaining our twelve-month price target of $5.50 per share.

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. In 2H18, PERI's cash level exceeded its long-term debt level for the first time in four years.

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 $36.2 million cash ($1.35 per share) and debt of $8.4 million, down from $77.7 million in 2016.

In February 2019, Perion announced measurement results by System1 Research showing that Undertone's measured online ad creative achieved higher year-round levels of performance versus most TV ads that ran during Super Bowl LIII.

Perion reported (2/13/19) 4Q18 revenues decreased 6.9% to $72 million and EPS of $0.19 compared to a loss of $(1.62) per share in the year ago period. The loss in 4Q17 included $41.8 million or $(1.62) per share in impairment charges. We projected 4Q18 revenue of $74.3 million and EPS of $0.15.

For 2019, we project a 5.8% increase in revenue to $267.5 million and EPS of $0.32. We previously projected revenue of $267.9 million and EPS of $0.52. While our revenue projection is virtually unchanged, the reduction in our EPS forecast is primarily due to the company's decision to make a significant investment in its R&D.

For 2020, we project a 6.7% increase in revenue to $285.4 million and net income of $14.3 million or $0.53 per share. Growth should be driven primarily by increased ad placements in the company's advertising business.

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

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Recommendation and Valuation

Reiterating our Speculative Buy rating on Perion and maintaining our twelve-month price target of $5.50 per share.

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. In 2H18, PERI's cash level exceeded its long-term debt level for the first time in four years. 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 $36.2 million cash ($1.35 per share) and debt of $8.4 million, down from $77.7 million in 2016.

PERI trades at a forward EV/EBITDA multiple of approximately 3.1X (previously (2.1X). Industry peers trade at a forward EV/EBITDA multiple of 11X (previously 10.5X, 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 5X (up from 4.5X due to multiple expansion) to our 2020 EBITDA/share projection of $1.01, discounted to account for execution risk, suggests a year-ahead value of approximately $5.50 per share.

Undertone Online Ads Ranked More Effective than Super Bowl TV Ads

In February 2019, Perion announced measurement results by System1 Research, a research organization and Undertone partner. The results showed Undertone's measured online ads achieved higher year-round levels of performance versus most of the high-profile TV ads that ran during Super Bowl LIII.

Ranking all 80 ads that aired during the game played in February 2019, System1 found just 17% of Super Bowl ads scored 4 to 5-stars on their scale of emotional effectiveness, while over 60% of Undertone's ad inventory from the past two years achieved those top ratings.

System1 measures a campaign's emotional effectiveness by asking an online panel of consumers to identify the types and intensity of their emotional experience while viewing the ad.

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.

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 (KPIs) 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.

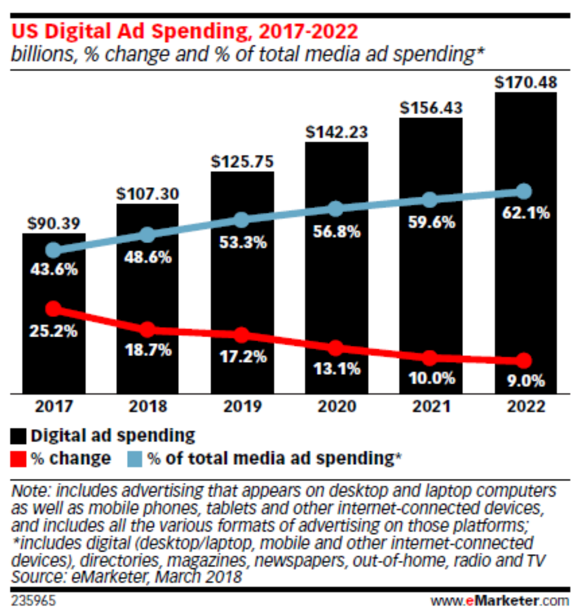
Perion's search related products under its CodeFuel division enables end users to replace their search assets with the company's. Perion's search related products allow publishers to track and monitor their business performance. Perion's relationship with Microsoft's Bing enables the company to claim that CodeFuel can offer higher search payouts than most competitors on the market 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. An April 2018 report by the research firm eMarketer projects digital ad spending in the US to grow 17.2% to $125.8 billion in 2019. Digital ad spending growth is projected to average 13.6% annually, reaching $170.5 billion by 2022 (see chart at right). Mobile ad spending is anticipated to drive growth powered by innovative formats from top ad sellers. eMarketer projects mobile will account for 77.1% of digital ad spending in 2022, up from 67.2% in 2017.

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 top right on next page). 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%.

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

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.

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 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 $25 million in 2020 from $18.9 million in 2018.

Economic Outlook

In January 2019, the IMF lowered its global economic growth estimate to 3.5% for 2019 and 3.6% for 2020, down from its October 2018 estimate of 3.7% for both 2019 and 2020. The downward revision was due to a weakening global expansion. Weakening financial market sentiment, trade policy uncertainty, and concerns about China's outlook continue to weigh on the global economy.

The IMF kept its economic growth estimate for the US at 2.5% for 2019 and 1.8% for 2020. The softening in 2020 is due primarily to the unwinding of fiscal stimulus.

Projections

2019 Forecast - We project a 5.8% increase in revenue to $267.5 million and net income of $8.5 million or $0.32 per share. We previously projected revenue of $267.9 million and net income of $13.8 million or $0.52 per share. While our revenue projection is virtually unchanged, our EPS projection reflects the company's decision to make a significant investment in its R&D to promote future revenue growth.

We project gross margins of 90%. Customer acquisition costs and media buy expenses are projected to increase 5% to $134.8 million as payments to publishers and developers increase. R&D should increase 27.1% to $24 million as the company enhances Undertone's technology. Selling and marketing expenses should increase by 7.9% to $42 million and general and administrative expenses should increase by 13.8% to $18.7 million in order to support sales growth.

We project an 11.4% decrease in operating income due primarily to the company's significant investment in R&D. We project the company paying $2.1 million in taxes for a 20% tax rate.

In 2019, we project $17.1 million cash from operations on cash earnings of $20.3 million and a $3.2 million increase in working capital. The increase in working capital reflects an increase in receivables. Cash from operations should not cover capital expenditures and the pay down of debt, decreasing cash by $4.2 million to $34.9 million at the end of 2019.

2020 Forecast - We project a 6.7% increase in revenue to $285.4 million and net income of $14.3 million or $0.53 per share. Growth should be driven primarily by increased ad placements in the company's advertising business.

We project gross margins of 90.5%. Customer acquisition costs and media buy expenses are projected to increase 6.7% to $143.8 million as payments to publishers and developers increase. R&D should increase 4.2% to $25 million as the company enhances Undertone's technology. Selling and marketing expenses should increase by 2.6% to $43.1 million and general and administrative expenses should increase by 2.1% to $19.1 million as the company continues to control costs while supporting sales growth.

We project a 46.2% increase in operating income as the company's significant investment in R&D begins to pay off. We project the company paying $3.6 million in taxes for a 20% tax rate.

In 2020, we project $20.9 million cash from operations on cash earnings of $25.5 million and a $4.6 million increase in working capital. The increase in working capital reflects an increase in receivables. Cash from operations should cover capital expenditures and the pay down of debt, increasing cash by $1.3 million to $36.2 million at the end of 2020.

4Q and FY 2018 Financial Results

4Q18 – Total revenues decreased 6.9% to $72 million from $77.3 million. Perion reported net income of $4.9 million or $0.19 per share versus a net loss of $37.3 million or $(1.44) per share. The loss in 4Q17 included $41.8 million or $(1.62) per share in impairment charges. We projected 4Q18 revenue of $74.3 million and net income of $4.1 million or $0.15 per share.

Advertising revenues decreased 13.4% to $37.3 million. Search and other revenues increased 1.3% to $34.7 million. The decrease in advertising revenue was primarily due to insufficient programmatic inventory to meet demand. The increase in search and other revenues was primarily due to higher revenue-per-mille (estimated earnings that accrue for every 1,000 impressions received) and the number of searches.

Gross profit decreased 7% to $65.5 million from $70.4 million while gross margins remained at 91.1%. Customer acquisition costs and media buy expenses increased by 4.2% to $36.6 million from $35.1 million.

Research and development costs decreased by 1.9% to $4.3 million from $4.4 million. Selling and marketing expenses decreased 26.6% to $10.5 million from $14.3 million. General and administrative expenses decreased 36.7% to $3.4 million from $5.4 million. Depreciation and amortization expenses decreased by 20.2% to $2.6 million from $3.3 million.

Financial expenses decreased by over 50% to $753,000 from $1.8 million. Perion paid $2.5 million in income tax for a 33.9% tax rate versus paying $1.8 million for a 4.7% tax rate in 4Q17.

FY 2018 - Total revenues decreased 7.7% to $252.8 million from $274 million. Perion reported net income of $8.1 million or $0.31 per share versus a net loss of $72.8 million or $(2.81) per share. The net loss in 2017 included $85.7 million or $(3.31) per share of impairment charges.

Advertising revenues decreased 6.3% to $126 million. Search and other revenues decreased 9.1% to $126.9 million.

Gross profit decreased 8.1% to $229.1 million from $249.3 million and gross margins increased to 90.6% from 89.6%. Customer acquisition costs and media buy expense decreased 1.9% to $128.4 million from $130.9 million.

Research and development costs increased by 9.9% to $18.9 million from $17.2 million. Selling and marketing expenses decreased 26.2% to $38.9 million from $52.7 million. General and administrative expenses decreased 24.9% to $16.5 million from $21.9 million. Depreciation and amortization expenses decreased 41.4% to $9.7 million from $16.6 million.

Financial expenses decreased by 35.9% to $3.8 million from $5.9 million. Perion paid $2.8 million in income tax for a 25.5% tax rate versus receiving an $8.8 million tax benefit in 2017.

Liquidity – As of December 31, 2018, Perion had $39.1 million cash, a current ratio of 1.3X, $40.5 million of total debt ($16.1 million short-term and $24.4 million long-term), and a debt equity ratio of 0.3X.

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.

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.

The company was in compliance with all financial covenants as of December 31, 2018.

At December 31, 2018, the company had cash earnings of $20 million and a $12.8 million decrease in working capital that resulted in $32.8 million cash provided by operations. Cash provided by operations was partially offset by $5.7 million of investing activities (primarily cash paid in connection with acquisitions and capital expenditures) and $19.7 million net reduction in debt. Cash increased by $7.5 million to $39.1 million as of December 31, 2018.

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 2017 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 15.6 million shares in the float and the average daily volume is approximately 80,000 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.

Consolidated Balance Sheets
(in thousands $)

	2016A	2017A	2018A	2019E	2020E
Cash and cash equivalents	23,962	31,567	39,109	34,872	36,156
Short-term bank deposits	8,414	5,913	4,000	4,000	4,000
Receivables	71,346	62,830	55,557	58,777	62,710
Prepaid expenses and other	10,036	13,955	5,227	5,227	5,227
Total current assets	113,758	114,265	103,893	102,877	108,093
Property and equipment	14,205	17,476	15,649	13,861	12,012
Goodwill and intangibles	234,755	136,360	131,547	131,547	131,547
Deferred taxes	4,117	4,798	4,414	4,414	4,414
Other	1,617	1,128	943	943	943
Total assets	**368,452**	**274,027**	**256,446**	**253,642**	**257,009**
Accounts payable	38,293	39,180	38,208	40,868	41,423
Accrued expenses and other	17,466	17,784	17,240	18,239	19,460
Short-term debt	17,944	13,989	16,059	8,059	-
Deferred revenues	5,354	5,271	3,794	3,794	3,794
Payment obligation related to acquisitions	7,653	5,146	1,813	-	-
Total current liabilities	86,710	81,370	77,114	70,960	64,676
Long-term debt	59,790	46,719	24,393	16,393	8,393
Deferred taxes	8,087	-	-	-	-
Other	5,721	7,606	6,158	6,158	6,158
Total liabilities	**160,308**	**135,695**	**107,665**	**93,511**	**79,227**
Total stockholders' equity	**208,144**	**138,332**	**148,781**	**160,130**	**177,782**
Total liabilities & stockholders' equity	**368,452**	**274,027**	**256,446**	**253,642**	**257,009**

Source: Company filings and Taglich Brothers' estimates

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

	2016A	2017A	2018A	2019E	2020E
Search and other	172,683	139,505	126,868	131,000	138,000
Advertising	140,111	134,481	125,977	136,500	147,400
Total revenue	312,794	273,986	252,845	267,500	285,400
Cost of revenue	25,924	24,659	23,757	26,750	27,113
Gross profit	286,870	249,327	229,088	240,750	258,287
Customer acquisition costs and media buy	140,210	130,885	128,351	134,820	143,842
Research and development	25,221	17,189	18,884	24,000	25,000
Selling and marketing	54,559	52,742	38,918	41,998	43,095
General and administrative	28,827	21,911	16,450	18,725	19,122
Depreciation and amortization	25,977	16,591	9,719	8,186	8,186
Impairment	-	85,667	-	-	-
Restructuring charges	728	-	2,075	-	-
Operating income (loss)	11,348	(75,658)	14,691	13,022	19,042
Financial expenses	8,288	5,922	3,794	2,335	1,150
Income (loss) before taxes	3,060	(81,580)	10,897	10,687	17,892
Income tax (benefit)	212	(8,826)	2,776	2,138	3,579
Net income (loss)	2,848	(72,754)	8,121	8,549	14,313
EPS	0.11	(2.81)	0.31	0.32	0.53
Shares Outstanding	25,558	25,850	26,855	26,855	26,855
EBITDA	37,325	(59,067)	24,410	21,208	27,228
Adjusted EBITDA**	45,435	28,917	29,554	24,008	30,028
Margin Analysis					
Gross margin	91.7%	91.0%	90.6%	90.0%	90.5%
Customer acquisition costs and media buy	44.8%	47.8%	49.4%	50.4%	50.4%
Research and development	8.1%	6.3%	7.5%	9.0%	8.8%
Selling and marketing	17.4%	19.2%	15.4%	15.7%	15.1%
General and administrative	9.2%	8.0%	6.5%	7.0%	6.7%
Operating margin	3.6%	(27.6)%	5.8%	4.9%	6.7%
Tax rate	6.9%	10.8%	25.5%	20.0%	20.0%
Year / Year Growth					
Total Revenues		(12.4)%	(7.7)%	5.8%	6.7%
Net Income		NMF	NMF	5.3%	67.4%
EPS		NMF	NMF	2.7%	67.4%

*From continuing operations

**Includes stock compensation, restructuring and other costs

Source: Company filings and Taglich Brothers' estimates

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

	3/18A	6/18A	9/18A	12/18A	2018A	3/19E	6/19E	9/19E	12/19E	2019E	3/20E	6/20E	9/20E	12/20E	2020E
Search and other	31,610	29,591	30,957	34,711	126,868	32,000	32,700	33,000	33,300	131,000	33,600	34,200	34,800	35,400	138,000
Advertising	29,295	33,206	26,224	37,251	125,977	29,000	34,750	29,500	43,250	136,500	31,315	37,525	31,855	46,705	147,400
Total revenue	60,905	62,797	57,181	71,962	252,845	61,000	67,450	62,500	76,550	267,500	64,915	71,725	66,655	82,105	285,400
Cost of revenue	6,056	5,811	5,474	6,416	23,757	6,100	6,745	6,250	7,655	26,750	6,167	6,814	6,332	7,800	27,113
Gross profit	54,849	56,986	51,707	65,546	229,088	54,900	60,705	56,250	68,895	240,750	58,748	64,911	60,323	74,305	258,287
Customer acquisition costs and media buy	31,885	31,105	28,808	36,553	128,351	30,744	33,995	31,500	38,581	134,820	32,717	36,149	33,594	41,381	143,842
Research and development	5,544	4,678	4,341	4,321	18,884	6,000	6,000	6,000	6,000	24,000	6,250	6,250	6,250	6,250	25,000
Selling and marketing	9,701	10,081	8,635	10,501	38,918	9,577	10,590	9,813	12,018	41,998	9,802	10,830	10,065	12,398	43,095
General and administrative	4,286	4,881	3,883	3,398	16,450	4,270	4,722	4,375	5,359	18,725	4,349	4,806	4,466	5,501	19,122
Depreciation and amortization	2,071	2,491	2,528	2,629	9,719	2,276	2,120	1,970	1,820	8,186	2,276	2,120	1,970	1,820	8,186
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restructuring charges	1,138	937	-	-	2,075	-	-	-	-	-	-	-	-	-	-
Operating income (loss)	224	2,813	3,512	8,144	14,691	2,033	3,279	2,593	5,117	13,022	3,353	4,756	3,978	6,955	19,042
Financial expenses	607	1,199	1,236	753	3,794	690	620	550	475	2,335	380	320	260	190	1,150
Income (loss) before taxes	(383)	1,614	2,276	7,391	10,897	1,343	2,659	2,043	4,642	10,687	2,973	4,436	3,718	6,765	17,892
Income tax (benefit)	(440)	628	84	2,504	2,776	269	532	409	928	2,138	595	887	744	1,353	3,579
Net income (loss)	57	986	2,192	4,887	8,121	1,074	2,127	1,634	3,714	8,549	2,378	3,549	2,974	5,412	14,313
EPS	0.00	0.04	0.08	0.19	0.31	0.04	0.08	0.06	0.14	0.32	0.09	0.13	0.11	0.20	0.53
Shares Outstanding	25,850	26,421	26,421	26,851	26,855	26,855	26,855	26,855	26,855	26,855	26,855	26,855	26,855	26,855	26,855
EBITDA	2,295	5,304	6,040	10,773	24,410	4,309	5,399	4,563	6,937	21,208	5,629	6,876	5,948	8,775	27,228
Adjusted EBITDA**	4,286	7,097	6,678	11,494	29,554	5,009	6,099	5,263	7,637	24,008	6,329	7,576	6,648	9,475	30,028
Margin Analysis															
Gross margin	90.1%	90.7%	90.4%	91.1%	90.6%	90.0%	90.0%	90.0%	90.0%	90.0%	90.5%	90.5%	90.5%	90.5%	90.5%
Customer acquisition costs and media buy	52.4%	49.5%	50.4%	50.8%	49.4%	50.4%	50.4%	50.4%	50.4%	50.4%	50.4%	50.4%	50.4%	50.4%	50.4%
Research and development	9.1%	7.4%	7.6%	6.0%	7.5%	9.8%	8.9%	9.6%	7.8%	9.0%	9.6%	8.7%	9.4%	7.6%	8.8%
Selling and marketing	15.9%	16.1%	15.1%	14.6%	15.4%	15.7%	15.7%	15.7%	15.7%	15.7%	15.1%	15.1%	15.1%	15.1%	15.1%
General and administrative	7.0%	7.8%	6.8%	4.7%	6.5%	7.0%	7.0%	7.0%	7.0%	7.0%	6.7%	6.7%	6.7%	6.7%	6.7%
Operating margin	0.4%	4.5%	6.1%	11.3%	5.8%	3.3%	4.9%	4.1%	6.7%	4.9%	5.2%	6.6%	6.0%	8.5%	6.7%
Tax rate	114.9%	38.9%	3.7%	33.9%	25.5%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Year / Year Growth															
Total Revenues	(1.7)%	(9.9)%	(12.1)%	(6.9)%	(7.7)%	0.2%	7.4%	9.3%	6.4%	5.8%	6.4%	6.3%	6.6%	7.3%	6.7%
Net Income	NMF	NMF	NMF	NMF	NMF	NMF	NMF	(25.5)%	(24.0)%	5.3%	NMF	NMF	82.1%	45.7%	67.4%
EPS	NMF	NMF	NMF	NMF	NMF	NMF	NMF	(26.7)%	(27.2)%	2.7%	NMF	NMF	82.1%	45.7%	67.4%

*From continuing operations
**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 $)

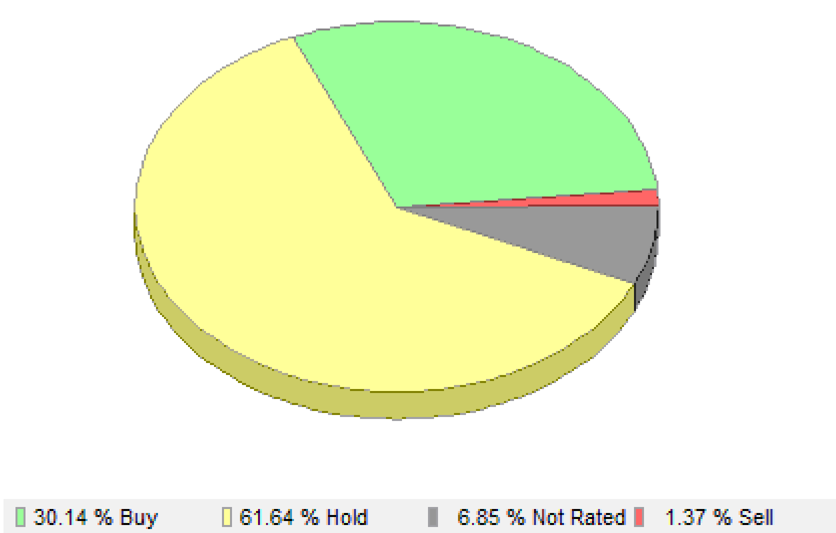
	2016A	2017A	2018A	2019E	2020E
Net income (loss)	2,848	(72,754)	8,121	8,549	14,313
Depreciation & amortization	25,977	16,591	9,719	8,985	8,426
Impairment	-	85,667	-	-	-
Restructuring costs	254	-	462	-	-
Stock-based compensation	6,844	2,112	2,718	2,800	2,800
Foreign currency translation	980	83	3	-	-
Accretion of payment obligation related to acquisition	320	43	-	-	-
Accrued interest	406	475	1,005	-	-
Deferred taxes	(3,268)	(8,877)	335	-	-
Accrued severance pay	214	801	(783)	-	-
Change in payment obligation related to acquisitions	983	-	-	-	-
Fair value revaluation - convertible debt	1,350	3,785	(1,585)	-	-
Loss from sale of property and equipment	149	-	-	-	-
Cash earnings (loss)	37,057	27,926	19,995	20,334	25,539
Changes in assets and liabilities					
Receivables	(5,333)	8,888		(3,220)	(3,933)
Prepaid expenses and other	8,613	(3,241)		-	-
Accounts payable	(1,702)	1,106		2,660	555
Accrued expenses and other	(2,486)	1,429		(2,641)	(1,262)
Deferred revenue	(2,365)	(95)		-	-
(Increase) decrease in working capital	(3,273)	8,087	12,806	(3,201)	(4,641)
Net cash provided by (used in) operations*	**33,784**	**36,013**	**32,801**	**17,132**	**20,899**
Purchase of property and equipment	(1,504)	(1,606)	(1,979)	(1,800)	(1,800)
Proceeds from sale of property and equipment	151	10	-	-	-
Capitalization of development costs	(4,591)	(5,756)	(1,756)	(1,756)	(1,756)
Change in restricted cash	647	-	(500)	-	-
Cash paid in connection with acquisitions	-	-	(3,333)	(1,813)	-
Short-term deposits	34,028	2,501	1,913	-	-
Net cash provided by (used in) investing	**28,731**	**(4,851)**	**(5,655)**	**(5,369)**	**(3,556)**
Exercise of options and restricted shares	2	1	-	-	-
Payments made in connection with acquisition	(29,537)	(2,551)	-	-	-
Proceeds from debt	40,000	5,000	25,000	-	-
Repayment of debt	(63,072)	(26,290)	(44,676)	(16,000)	(16,059)
Net cash provided by (used in) financing	**(52,607)**	**(23,840)**	**(19,676)**	**(16,000)**	**(16,059)**
Effect of currency exchange rates	(136)	283	72	-	-
Effect from discontinued operations on cash	(3,329)	-	-	-	-
Net change in cash	**6,443**	**7,605**	**7,542**	**(4,237)**	**1,284**
Cash - beginning of period	**17,519**	**23,962**	**31,567**	**39,109**	**34,872**
Cash - end of period	**23,962**	**31,567**	**39,109**	**34,872**	**36,156**

*From continuing operations

Source: Company filings and Taglich Brothers' estimates

Price Chart

Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	**2**	**8**
Hold		
Sell		
Not Rated	**2**	**50**

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.

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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.