

## 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

May 11, 2020

**PERI \$4.92 — (NASDAQ)**

	<u>2018A</u>	<u>2019A</u>	<u>2020E</u>	<u>2021E</u>
Revenues (millions)	\$252.8	\$261.5	\$257.1	\$282.0
Earnings (loss) per share	\$0.31	\$0.49	\$0.08	\$0.17

52-Week range	\$9.70 – \$2.76	Fiscal year ends:	December
Common shares out as of 5/6/20	26.2 million	Revenue per share (TTM)	\$10.11
Approximate float	16.4 million	Price/Sales (TTM)	0.5X
Market capitalization	\$129 million	Price/Sales (2021)E	0.5X
Tangible book value/share	\$0.07	Price/Earnings (TTM)	10.3X
Price/tangible book value	NMF	Price/Earnings (2021)E	28.9X

*Perion Network Ltd., headquartered in Holon, Israel, is a global technology company that provides agencies, brands and publishers with digital advertising solutions. The company provides its data-driven Synchronized Digital Branding platform and high-impact ad formats in the display domain, a social media platform, and a branded search network.*

#### **Key investment considerations:**

*Reiterating Speculative Buy rating but decreasing our twelve-month price target to \$9.00 per share from \$12.00 based on a reduction in our sales forecasts through 2021 as the effects from COVID-19 reduce global ad spending.*

*Industry participants suggest that 2Q20 will be the hardest hit quarter with improvement starting in 3Q20. The company has a strong balance sheet to offset diminished near-term results, as well as the ability to consider making strategic acquisitions.*

*In response to reduced levels of ad spending, Perion has implemented cost-saving measures that are expected to yield more than \$10 million in annualized savings. Our forecast through 2021 anticipates significant cash earnings, continued pay down of debt, and growth in shareholder's equity.*

*Once the concerns surrounding the recent pandemic start to subside, we believe the company's 2020 acquisition of Content IQ (CIQ) should provide a significant boost to top and bottom line results. In 2019, CIQ's revenue was estimated at approximately \$39 million with net income of approximately \$5.5 million. The synergies created with this acquisition through brand optimization should boost Perion's organic growth across its business units.*

*Perion reported (5/6/20) 1Q20 revenues increased 22.7% to \$66.1 million and EPS of \$0.05, equal to the year ago period. We projected 1Q19 revenue of \$66 million and EPS of \$0.02.*

*For 2020, we project a 1.7% decrease in revenue to \$257.1 million and EPS of \$0.08 per share. We previously projected 2020 revenue of \$317 million and EPS of \$0.71. For 2021, we project a 9.7% increase in revenue to \$282 million and EPS of \$0.17. We previously projected revenue of \$332.9 million and net income of \$23.7 million or \$0.86 per share. Our revised estimates primarily reflect a reduction in ad spending related to the COVID-19 Pandemic.*

***\*Please view our disclosures on pages 13 - 15.***

## ***Recommendation and Valuation***

**Reiterating Speculative Buy rating on Perion but decreasing our twelve-month price target to \$9.00 per share from \$12.00 per share** based on a reduction in our sales forecasts through 2021 as the effects from COVID-19 reduce global ad spending.

The decline in global ad spending brought on by COVID-19 should keep PERI's revenues under pressure for the next few quarters. However, industry participants suggest that 2Q20 will be the hardest hit quarter with improvement starting in 3Q20. The company has a strong balance sheet to get it through these times, is considering strategic acquisitions, and has filed a shelf registration statement to take advantage of any M&A candidates.

In response to reduced levels of ad spending, Perion has implemented cost-saving measures that are expected to yield more than \$10 million in annualized savings. Over the past three years, PERI's strong cash flow allowed it to pay down debt while maintaining a relatively high cash position (\$55.3 million or \$1.96 per share as of March 31, 2020 - includes short-term bank deposits and restricted cash). Our forecast through 2021 anticipates significant cash earnings, continued pay down of debt, and growth in shareholder's equity.

Once the concerns surrounding the recent pandemic start to subside, we believe the company's January 2020 acquisition of Content IQ (CIQ) should provide a significant boost to Perion's top and bottom line performance. CIQ's 2019 revenue was estimated at approximately \$39 million with net income of approximately \$5.5 million. The synergies created with this acquisition should boost Perion's organic growth across its business units since CIQ has the ability to optimize brand content through AI (Artificial Intelligence - a branch of computer science dealing with the simulation of intelligent behavior in computers) and machine learning (an application of AI that provides systems the ability to automatically learn and improve from experience without being explicitly programmed) capabilities.

We are valuing the company using a price-to-sales multiple until PERI's earnings stabilize. PERI trades at a TTM P/S multiple of approximately 0.5X. Industry peers trade at a TTM P/S multiple of 1.2X (source: finviz). We anticipate investors according PERI a multiple approaching that of the industry. Applying a multiple of 1X to our 2021 sales projection of \$10 per share, discounted for execution risk, implies a year-ahead value of approximately \$9.00 per share.

## ***Recent Developments***

*Check Point Software Technologies Chooses Perion's Code Fuel to Offer Consumers Enhanced Safe Search Experience* - On May 8, 2020, Perion announced a new collaboration between CodeFuel, its publisher solutions division, and ZoneAlarm, the consumer brand of Check Point® Software Technologies Ltd., a provider of cyber security solutions globally.

This collaboration enables ZoneAlarm to offer safe search capabilities for consumers while generating new revenue streams. The new offering is now part of ZoneAlarm's Internet security product line, which has nearly 100 million downloads to date and protects users from advanced malware, phishing, and zero-day attacks. By performing real-time analysis, ZoneAlarm scans websites before giving users permission to enter any personal information, alerting them in advance as to whether it is a genuine website or a phishing attempt.

*Undertone Adds Connected TV Offering* - On May 6, 2020, Undertone, a division of Perion, announced the release of its new connected TV (CTV) solution powering the delivery of cross-screen brand storytelling across all connected devices and channels.

Consumers are spending even more time than before the pandemic on CTV, while continuing to watch their tablets, smart phones, and laptops independently and sometimes simultaneously. Undertone's CTV platform delivers videos across premium channels, enabling brands to synchronize their messages at every stage of the users' individual journey.

## 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 technology company that provides agencies, brands and publishers with digital advertising solutions. The company provides its data-driven Synchronized Digital Branding platform and high-impact ad formats in the display domain, a social media platform, and a branded search network.

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

Perion's search related products under its CodeFuel division allow publishers to track and monitor their business performance. Publishers integrate CodeFuel's solutions into their products and services such as content Websites, browser extensions and mobile launcher applications and monetize their solutions by delivering Microsoft Bing's search results to validated traffic. End users can configure their browser settings through the search setting dialogue providing them convenient access to search-engine providers and the ability to conduct searches or follow links to relevant advertisements.

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 Instagram, 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.

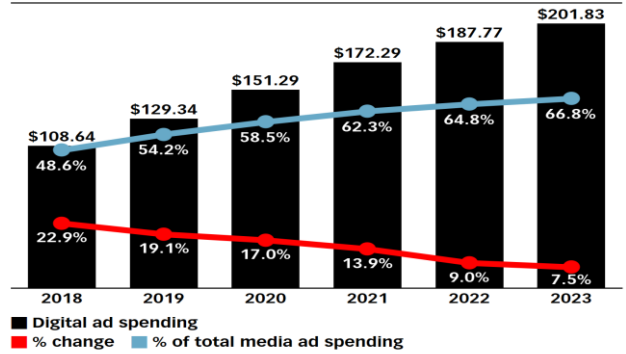
The company also generates a small portion of its revenues through its consumer product - Smilebox, a photo sharing and social expression product that enables people to tell the stories of their lives with fully customizable eCards, slideshows, invitations, collages and more.

**Industry**

Perion operates in the digital advertising industry. A 2019 report by the research firm eMarketer projects digital ad spending in the US to grow 17% to \$151.3 billion in 2020 and 13.9% to \$172.3 billion in 2021 (see chart at right).

Digital ad spending growth is projected to average 13.3% annually, reaching \$201.8 billion by 2023. 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 ad 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.

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



Note: includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets and other internet-connected devices, and includes all the various formats of advertising on those platforms; includes SMS, MMS and P2P messaging-based advertising  
Source: eMarketer, February 2019

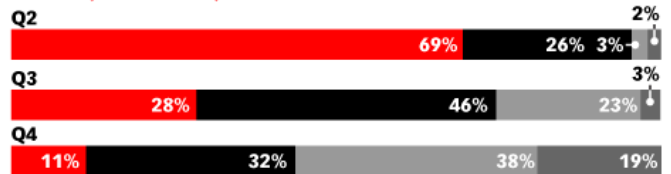
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While these projections suggest strong growth for the industry, the projections were made before the onslaught of the COVID-19 pandemic. In March 2020 and April 2020, the research firm Advertiser Perceptions conducted two surveys of advertisers and agencies in the US about the effects of the pandemic on their spending plans. eMarketer reported that the first wave conducted between March 17 and 20, 2020, found that approximately seven in ten respondents thought there would be a major impact on 2Q20 spending (see chart on right). The second wave conducted between April 1 and 4, 2020 found that the 2Q20 impact rose to 86%. However, respondents believe that the major impact will dissipate over the remaining quarters with only 13% anticipating a major impact in 4Q20.

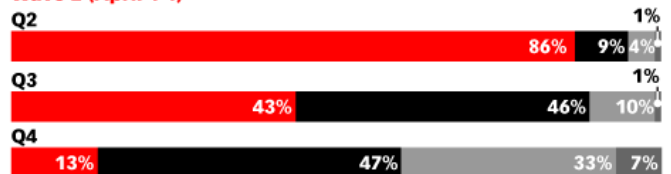
**Which Quarters Do US Agencies and Brand Marketers\* Anticipate Will Be Impacted Most by the Coronavirus Pandemic?**

% of respondents, Q2-Q4 2020

**Wave 1 (March 17-20)**



**Wave 2 (April 1-4)**



■ Major impact ■ Moderate impact ■ Minor impact ■ No impact

Note: numbers may not add up to 100% due to rounding; \*among those who are decreasing ad spending

Source: Advertiser Perceptions, "Coronavirus Effect on Advertising Report: Wave 2," April 13, 2020

254646 www.eMarketer.com

IBISWorld reports that the digital ad industry has contended with limited tools available to examine consumer demographics for individuals who may have switched from one device to another. IBISWorld said that the industry will benefit from more clients allocating their budgets to advertisements that integrate with numerous technologies, including smartphones, tablets and computers (such as Perion's Synchronized Digital Advertising does). IBISWorld projects that over the next five years, fewer consumers will use computers as their only form of Internet access resulting in many businesses purchasing streamlined digital advertising services that integrate numerous screens and platforms.

**Competition**

**Competitive Environment**

The markets in which the company operates 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, Verizon Media, Google, and Facebook. New entrants and companies that do not currently compete with Perion's advertising technology such as Amazon and Samsung 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, Verizon Media, IAC and companies offering consumer search software such as Interactive Corporation and others.

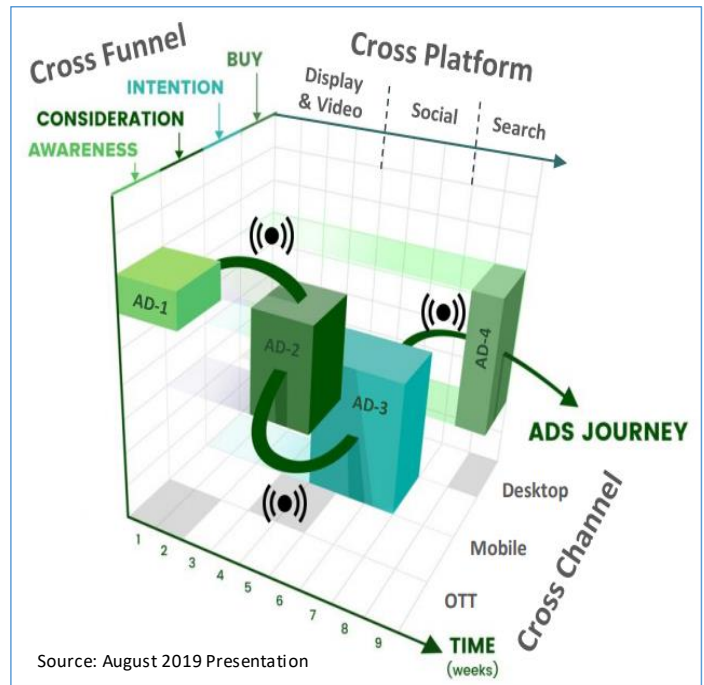
Many of Perion’s competitors may have significantly greater financial, research and development, manufacturing, and sales and marketing resources. These competitors could potentially use their greater financial resources to acquire other companies to gain name recognition and market share, as well as 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 (see chart at right). 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 2019 partnerships with TV data companies Alphonso and TVadSync should enable brands to create Synchronized Digital Branding experiences personalized across digital screens and platforms. The company’s September 2019 launch of its Synchronatic Marketplace should enable programmatic access to all of Undertone’s high-impact digital advertising formats.

Perion’s January 2020 acquisition of Content IQ should create synergies across Perion’s business units and enable brands to optimize their content through the use of AI and machine learning. CodeFuel’s February 2020 launch of its new search engine, Privado, should offer new ways to protect a users’ right for online privacy.

## ***Economic Outlook***

In April 2020, the International Monetary Fund (IMF) changed its global economic growth estimates to a decline of 3% for 2020 and growth of 5.8% for 2021, down from its January 2020 estimates calling for growth of 3.3% for 2020. The IMF previously forecasted 2021 GDP growth of 3.4%. The revisions primarily reflect the severe impact of the COVID-19 pandemic and the assumption that the pandemic will fade in 2H20 and containment efforts can be gradually unwound helping to normalize economic activity.

The IMF changed its economic growth estimate for the US to a decline of 5.9% for 2020 and growth of 4.7% for 2021. In January 2020, the IMF projected US growth of 2% for 2020 and 1.7% for 2021.

The advance estimate of US GDP growth (released on April 29, 2020) showed the US economy decreased at an annual rate of 4.8% in 1Q20, down from the 2.1% growth reported in 4Q19. The 1Q20 US GDP estimate primarily reflects decreases in consumer spending, business investment, exports, and inventory investment, partially offset by increases in housing investment and government spending.

## ***Projections***

2020 Forecast - We project a 1.7% decrease in revenue to \$257.1 million and net income of \$2.3 million or \$0.08 per share. We previously projected revenue of \$317 million and net income of \$19.6 million or \$0.71 per share. Our revised estimates primarily reflect a reduction in ad spending related to COVID-19.

We project gross margins of 91.8%. Customer acquisition costs and media buy expenses are projected to increase 5.5% to \$143.4 million as payments to publishers and developers increase. R&D should increase by 24.9% to \$28.2 million as the company invests in new product development. Selling and marketing expenses should increase by 10% to \$38.2 million as the company builds out its sales team to support the launch of new products while monitoring costs. We project an 11.1% decrease in general and administrative expenses to \$13.3 million.

We project operating income of \$3.7 million, down from \$18 million in 2019 due primarily to the reduction in ad spending.

In 2020, we project \$8.5 million cash from operations due to \$16.3 million in cash earnings and a \$7.8 million increase in working capital. Cash from operations and short term deposits should cover cash paid for acquisitions, capital expenditures and the pay down of debt, increasing cash by \$5.5 million to \$45.1 million at the end of 2020.

2021 Forecast - We project a 9.7% increase in revenue to \$282 million as ad spending starts to recover and net income of \$4.7 million or \$0.17 per share. We previously projected revenue of \$332.9 million and net income of \$23.7 million or \$0.86 per share.

We project gross margins of 92.5%. Customer acquisition costs and media buy expenses are projected to increase 12.1% to \$160.7 million as payments to publishers and developers increase. R&D should increase by 2.8% to \$29 million as the company continues to invest in new product development while monitoring costs. Selling and marketing expenses should increase by 8.6% to \$41.5 million as the company continues to grow its sales team. We project a 6.5% increase in general and administrative expenses to \$14.2 million.

We project operating income of \$6.8 million, up from \$3.7 million in 2020 and the company paying \$1.2 million in taxes for a 20% tax rate.

In 2021, we project \$18.4 million cash earnings and a \$1.9 million increase in working capital resulting in \$16.5 million cash from operations. Cash from operations is unlikely to cover cash obligations related to acquisitions, capital expenditures and the pay down of debt, decreasing cash by \$8.6 million to \$36.6 million at the end of 2021.

## ***1Q 2020 Financial Results***

Perion reported net income of \$1.3 million or \$0.05 per share on a 22.7% increase in total revenue to \$66.1 million. We projected 1Q20 revenue of \$66 million and net income of \$610,000 or \$0.02 per share. In the year ago period, EPS was \$0.05 on revenue of \$53.8 million.

Advertising revenues increased 27.7% to \$23.7 million. Search and other revenues increased 20% to \$42.3 million. The increase in advertising revenue was primarily due to the consolidation of Content IQ which was acquired on January 14, 2020. The increase in search and other revenues was primarily due to an increased number of unique searches and the addition of new publishers.

Gross profit increased 25.4% to \$60.3 million from \$48.1 million while gross margins increased to 91.3% from 89.3%. Customer acquisition costs and media buy expenses increased 31.7% to \$36.1 million from \$27.4 million due primarily to the acquisition of Content IQ and product mix.

Research and development costs increased by 48.2% to \$7.2 million from \$4.9 million. Selling and marketing expenses increased by 16.5% to \$9.7 million. General and administrative expenses increased 28.8% to \$3.9 million from \$3.1 million. Depreciation and amortization expenses decreased by 3.7% to \$2.3 million from \$2.4 million.

The company reported financial income of \$8,000 versus an expense of 1.3 million in 1Q19. Perion received a \$326,000 tax benefit versus a benefit of \$542,000 in 1Q19.

Liquidity – As of March 31, 2020, Perion had \$55.3 million cash (includes \$7.7 million short-term bank deposit and \$1.2 million of restricted cash), a current ratio of 1.1X, \$14.6 million of debt (\$8.3 million short-term and \$6.3 million long-term), payment obligation related to acquisitions of \$25.2 million (\$13.7 million short-term and \$11.5 million long-term), and a debt equity ratio of 0.1X.

In December 2018, Perion executed a new loan facility with an Israeli bank in the amount of \$25 million. The loan facility replaced two debt facilities consolidating them 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 March 31, 2020 the company had cash earnings of \$4.4 million and a \$1.9 million increase in working capital that resulted in \$2.5 million cash provided by operations. Cash provided by operations, \$6.1 million cash from investing activities (primarily related to an obligation in connection with acquisitions) and a \$2.1 million reduction in debt resulted in an \$8 million increase in cash to \$47.6 million (includes restricted cash) as of March 31, 2020.

## ***Risks***

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

Pandemic concerns – The outbreak of the coronavirus presents concerns that may dramatically affect the company's ability to conduct business effectively. The trajectory of the coronavirus remains uncertain and it is becoming increasingly plausible that Perion's business may be directly affected. In the event that the economic effect of the outbreak deepens and has a long term effect on the global economy, the company's business and operations may be adversely effected.

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 a substantial part 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 75% of 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 – A potential disruption of US economic conditions lies in the global spread of the coronavirus that is likely to cause supply chain and demand issues which could adversely impact corporate operating results. Perion'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 16.4 million shares in the float and the average daily volume is approximately 416,000 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 \$)

	2017A	2018A	2019A	3/20A	2020E	2021E
Cash and cash equivalents	31,567	39,109	38,389	46,374	43,918	35,361
Restricted cash	-	1,694	1,216	1,220	1,220	1,220
Short-term bank deposits	5,913	4,000	23,234	7,748	7,748	7,748
Receivables	62,830	55,557	49,098	40,778	43,556	47,783
Prepaid expenses and other	13,955	3,533	3,170	3,363	3,363	3,363
<b>Total current assets</b>	<b>114,265</b>	<b>103,893</b>	<b>115,107</b>	<b>99,483</b>	<b>99,806</b>	<b>95,476</b>
Property and equipment	17,476	15,649	10,918	9,801	9,011	5,771
Operating lease right-of-use assets	-	-	22,429	21,465	21,465	21,465
Goodwill and intangibles	136,360	131,547	128,444	167,463	167,463	167,463
Deferred taxes	4,798	4,414	6,171	4,216	4,216	4,216
Other	1,128	943	708	673	673	673
<b>Total assets</b>	<b>274,027</b>	<b>256,446</b>	<b>283,777</b>	<b>303,101</b>	<b>302,634</b>	<b>295,064</b>
Accounts payable	39,180	38,208	47,681	41,133	42,425	43,283
Accrued expenses and other	17,784	17,240	18,414	20,797	21,850	22,560
Short-term operating lease liability	-	-	3,667	3,680	3,680	3,680
Short-term debt	13,989	16,059	8,333	8,333	8,333	-
Deferred revenues	5,271	3,794	4,188	3,393	3,393	3,393
Payment obligation related to acquisitions	5,146	1,813	1,025	13,699	12,200	11,500
<b>Total current liabilities</b>	<b>81,370</b>	<b>77,114</b>	<b>83,308</b>	<b>91,035</b>	<b>91,880</b>	<b>84,416</b>
Long-term debt	46,719	24,393	8,333	6,250	-	-
Payment obligation related to acquisition	-	-	-	11,537	11,537	-
Long-term operating lease liability	-	-	20,363	19,085	19,085	19,085
Other	7,606	6,158	6,591	6,014	6,014	6,014
<b>Total liabilities</b>	<b>135,695</b>	<b>107,665</b>	<b>118,595</b>	<b>133,921</b>	<b>128,516</b>	<b>109,515</b>
<b>Total stockholders' equity</b>	<b>138,332</b>	<b>148,781</b>	<b>165,182</b>	<b>169,180</b>	<b>174,117</b>	<b>185,548</b>
<b>Total liabilities &amp; stockholders' equity</b>	<b>274,027</b>	<b>256,446</b>	<b>283,777</b>	<b>303,101</b>	<b>302,634</b>	<b>295,064</b>

Source: Company filings and Taglich Brothers' estimates

Perion Network Ltd.

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

	2017A	2018A	2019A	2020E	2021E
Search and other Advertising	139,505	126,868	173,587	148,320	163,000
Advertising	134,481	125,977	87,863	108,733	119,000
Total revenue	273,986	252,845	261,450	257,053	282,000
Cost of revenue	24,659	23,757	25,520	21,066	21,200
Gross profit	249,327	229,088	235,930	235,987	260,800
Customer acquisition costs and media buy	130,885	128,351	135,891	143,352	160,740
Research and development	17,189	18,884	22,585	28,207	29,000
Selling and marketing	52,742	38,918	34,736	38,201	41,500
General and administrative	21,911	16,450	14,999	13,339	14,200
Depreciation and amortization	16,591	9,719	9,711	9,208	8,517
Restructuring charges	-	2,075	-	-	-
Operating income (loss)	(75,658)	14,691	18,008	3,680	6,843
Financial expenses	5,922	3,794	3,470	1,492	1,000
Income (loss) before taxes	(81,580)	10,897	14,538	2,188	5,843
Income tax (benefit)	(8,826)	2,776	1,645	(90)	1,169
Net income (loss)	(72,754)	8,121	12,893	2,278	4,674
EPS	(2.81)	0.31	0.49	0.08	0.17
Shares Outstanding	25,850	26,855	26,358	28,213	28,213
EBITDA	(59,067)	24,410	27,719	12,888	15,360
Adjusted EBITDA*	28,917	29,554	32,393	19,824	20,560
<u>Margin Analysis</u>					
Gross margin	91.0%	90.6%	90.2%	91.8%	92.5%
Customer acquisition costs and media buy	47.8%	50.8%	52.0%	55.8%	57.0%
Research and development	6.3%	7.5%	8.6%	11.0%	10.3%
Selling and marketing	19.2%	15.4%	13.3%	14.9%	14.7%
General and administrative	8.0%	6.5%	5.7%	5.2%	5.0%
Operating margin	(27.6)%	5.8%	6.9%	1.4%	2.4%
Tax rate	10.8%	25.5%	11.3%	(4.1)%	20.0%
<u>Year / Year Growth</u>					
Total Revenues	(12.4)%	(7.7)%	3.4%	(1.7)%	9.7%
Net Income	NMF	NMF	58.8%	(82.3)%	105.2%
EPS	NMF	NMF	57.8%	(83.5)%	105.2%

Perion Network Ltd.

Quarterly Income Statements 2019A - 2021E  
(in thousands \$)

	3/19A	6/19A	9/19A	12/19A	2019A	3/20A	6/20E	9/20E	12/20E	2020E	3/21E	6/21E	9/21E	12/21E	2021E
Search and other Advertising	35,265	42,267	44,225	51,830	173,587	42,320	33,000	35,000	38,000	148,320	39,300	40,300	41,200	42,200	163,000
Total revenue	53,849	63,567	65,777	78,257	261,450	66,053	53,000	64,000	74,000	257,053	59,300	66,900	72,800	83,000	282,000
Cost of revenue	5,766	6,068	6,819	6,867	25,520	5,766	5,100	5,100	5,100	21,066	5,300	5,300	5,300	5,300	21,200
Gross profit	48,083	57,499	58,958	71,390	235,930	60,287	47,900	58,900	68,900	235,987	54,000	61,600	67,500	77,700	260,800
Customer acquisition costs and media buy	27,433	33,175	34,170	41,113	135,891	36,138	29,150	36,032	42,032	143,352	33,801	38,133	41,496	47,310	160,740
Research and development	4,862	5,610	5,976	6,137	22,585	7,207	7,000	7,000	7,000	28,207	7,250	7,250	7,250	7,250	29,000
Selling and marketing	8,325	8,667	8,649	9,095	34,736	9,701	9,000	9,500	10,000	38,201	10,000	10,250	10,500	10,750	41,500
General and administrative	3,058	3,419	3,562	4,960	14,999	3,939	3,000	3,200	3,200	13,339	3,400	3,500	3,600	3,700	14,200
Depreciation and amortization	2,390	2,286	2,628	2,407	9,711	2,302	2,302	2,302	2,302	9,208	2,130	2,129	2,129	2,129	8,517
Restructuring charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating income (loss)	2,015	4,342	3,973	7,678	18,008	1,000	(2,552)	866	4,366	3,680	(2,581)	338	2,525	6,561	6,843
Financial expenses	1,325	989	419	737	3,470	(8)	500	500	500	1,492	400	300	200	100	1,000
Income (loss) before taxes	690	3,353	3,554	6,941	14,538	1,008	(3,052)	366	3,866	2,188	(2,981)	38	2,325	6,461	5,843
Income tax (benefit)	(542)	453	680	1,054	1,645	(326)	(610)	73	773	(90)	(596)	8	465	1,292	1,169
Net income (loss)	1,232	2,900	2,874	5,887	12,893	1,334	(2,442)	293	3,093	2,278	(2,385)	30	1,860	5,169	4,674
EPS	0.05	0.11	0.11	0.22	0.49	0.05	(0.09)	0.01	0.11	0.08	(0.08)	0.00	0.07	0.18	0.17
Shares Outstanding	25,885	25,897	26,895	27,288	26,358	28,213	28,213	28,213	28,213	28,213	28,213	28,213	28,213	28,213	28,213
EBITDA	4,405	6,628	6,601	10,085	27,719	3,302	(250)	3,168	6,668	12,888	(451)	2,467	4,654	8,690	15,360
Adjusted EBITDA*	5,125	7,435	7,618	12,215	32,393	6,238	1,150	4,468	7,968	19,824	849	3,767	5,954	9,990	20,560
<u>Margin Analysis</u>															
Gross margin	89.3%	90.5%	89.6%	91.2%	90.2%	91.3%	90.4%	92.0%	93.1%	91.8%	91.1%	92.1%	92.7%	93.6%	92.5%
Customer acquisition costs and media buy	50.9%	52.2%	51.9%	52.5%	52.0%	54.7%	55.0%	56.3%	56.8%	55.8%	57.0%	57.0%	57.0%	57.0%	57.0%
Research and development	9.0%	8.8%	9.1%	7.8%	8.6%	10.9%	13.2%	10.9%	9.5%	11.0%	12.2%	10.8%	10.0%	8.7%	10.3%
Selling and marketing	15.5%	13.6%	13.1%	11.6%	13.3%	14.7%	17.0%	14.8%	13.5%	14.9%	16.9%	15.3%	14.4%	13.0%	14.7%
General and administrative	5.7%	5.4%	5.4%	6.3%	5.7%	6.0%	5.7%	5.0%	4.3%	5.2%	5.7%	5.2%	4.9%	4.5%	5.0%
Operating margin	3.7%	6.8%	6.0%	9.8%	6.9%	1.5%	(4.8)%	1.4%	5.9%	1.4%	(4.4)%	0.5%	3.5%	7.9%	2.4%
Tax rate	(78.6)%	13.5%	19.1%	15.2%	11.3%	17.5%	20.0%	20.0%	20.0%	(4.1)%	20.0%	20.0%	20.0%	20.0%	20.0%
<u>Year / Year Growth</u>															
Total Revenues	(11.6)%	1.2%	15.0%	8.7%	3.4%	22.7%	(16.6)%	(2.7)%	(5.4)%	(1.7)%	(10.2)%	26.2%	13.8%	12.2%	9.7%
Net Income	NMF	NMF	31.1%	20.5%	58.8%	8.3%	(184.2)%	(89.8)%	(47.5)%	(82.3)%	(278.8)%	(101.2)%	535.2%	67.1%	105.2%
EPS	NMF	NMF	28.8%	13.5%	57.8%	(0.7)%	(177.3)%	(90.3)%	(49.2)%	(83.5)%	(278.8)%	(101.2)%	535.2%	67.1%	105.2%

\*Includes stock compensation, restructuring and other costs

Source: Company filings and Taglich Brothers' estimates

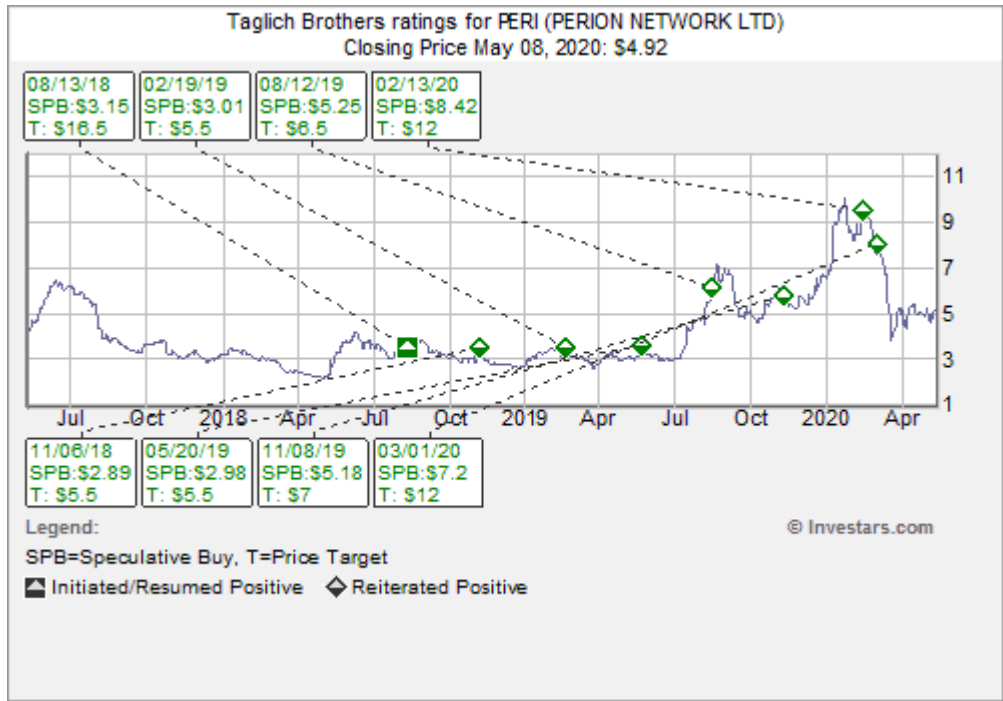
Perion Network Ltd.

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

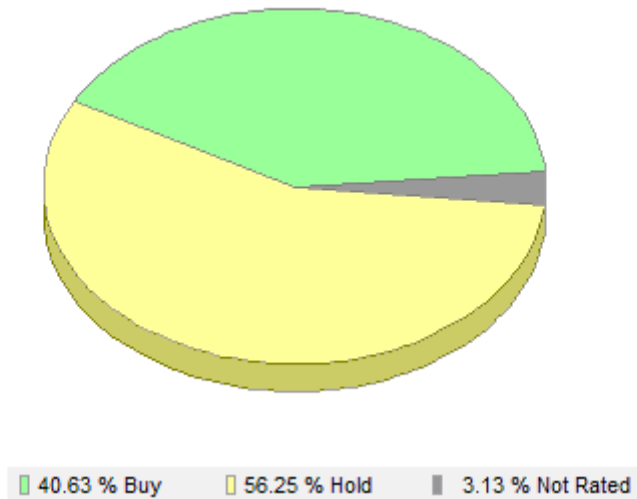
	2017A	2018A	2019A	3M20A	2020E	2021E
Net income (loss)	(72,754)	8,121	12,893	1,334	2,278	4,674
Depreciation & amortization	16,591	9,719	9,711	2,302	9,208	8,517
Impairment	85,667	-	-	-	-	-
Restructuring costs	-	462	-	-	-	-
Stock-based compensation	2,112	2,718	2,293	1,100	5,100	5,200
Foreign currency translation	83	3	(86)	(29)	(29)	-
Accretion of payment obligation related to acquisition	43	-	-	-	-	-
Accrued interest	475	1,005	(204)	-	-	-
Deferred taxes	(8,877)	335	(1,756)	(315)	(315)	-
Accrued severance pay	801	(783)	96	25	25	-
Change in payment obligation related to acquisitions	-	-	-	-	-	-
Fair value revaluation - convertible debt	3,785	(1,585)	600	-	-	-
Loss from sale of property and equipment	-	-	-	-	-	-
Cash earnings (loss)	27,926	19,995	23,547	4,417	16,267	18,391
<i>Changes in assets and liabilities</i>						
(Increase) decrease in working capital	8,087	12,806	21,194	(1,921)	(7,808)	(1,859)
<b>Net cash provided by (used in) operations</b>	<b>36,013</b>	<b>32,801</b>	<b>44,741</b>	<b>2,496</b>	<b>8,459</b>	<b>16,532</b>
Purchase of property and equipment	(1,606)	(2,038)	(717)	(71)	(500)	(500)
Proceeds from sale of property and equipment	10	59	-	-	-	-
Capitalization of development costs	(5,756)	(1,756)	-	-	-	-
Change in restricted cash	-	-	-	-	-	-
Cash paid for acquisitions	-	-	(1,200)	(15,100)	(15,100)	-
Obligation in connection with acquisitions	-	-	-	5,777	5,777	(16,000)
Short-term deposits	2,501	1,913	(19,234)	15,486	15,486	-
<b>Net cash provided by (used in) investing</b>	<b>(4,851)</b>	<b>(1,822)</b>	<b>(21,151)</b>	<b>6,092</b>	<b>5,663</b>	<b>(16,500)</b>
Exercise of options and restricted shares	1	-	1,227	1,557	1,557	1,557
Payments made in connection with acquisition	(2,551)	(3,333)	(1,813)	-	(1,813)	(1,813)
Proceeds from debt	5,000	25,000	-	-	-	-
Repayment of debt	(26,290)	(44,676)	(24,182)	(2,083)	(8,333)	(8,333)
<b>Net cash provided by (used in) financing</b>	<b>(23,840)</b>	<b>(23,009)</b>	<b>(24,768)</b>	<b>(526)</b>	<b>(8,589)</b>	<b>(8,589)</b>
Effect of currency exchange rates	283	78	(20)	(73)	-	-
Effect from discontinued operations on cash	-	-	-	-	-	-
<b>Net change in cash</b>	<b>7,605</b>	<b>8,048</b>	<b>(1,198)</b>	<b>7,989</b>	<b>5,533</b>	<b>(8,557)</b>
<b>Cash - beginning of period</b>	<b>23,962</b>	<b>32,755</b>	<b>40,803</b>	<b>39,605</b>	<b>39,605</b>	<b>45,138</b>
<b>Cash - end of period</b>	<b>31,567</b>	<b>40,803</b>	<b>39,605</b>	<b>47,594</b>	<b>45,138</b>	<b>36,581</b>

Source: Company filings and Taglich Brothers' estimates

**Price Chart**



**Taglich Brothers' Current Ratings Distribution**



<b>Investment Banking Services for Companies Covered in the Past 12 Months</b>		
Rating	#	%
Buy	1	5
Hold		
Sell		
Not Rated	1	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.

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 pays 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.

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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.

**Discontinued** – Research coverage discontinued due to the acquisition of the company, termination of research services (includes 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.**

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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.