TAGLICH BROTHERS

MEMBER: FINRA, SIPC | WWW.TAGLICHBROTHERS.COM

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 20, 2019

PERI $2.98 — (NASDAQ)

	2017A	2018A	2019E	2020E
Revenues (millions)	$274.0	$252.8	$250.6	$273.0
Earnings (loss) per share	$(2.81)*	$0.31	$0.38	$0.57

52-Week range	$4.05 – $2.47	Fiscal year ends:	December
Common shares out as of 5/16/19	25.9 million	Revenue per share (TTM)	$9.31
Approximate float	15.7 million	Price/Sales (TTM)	0.3X
Market capitalization	$77 million	Price/Sales (FY2020)E	0.3X
Tangible book value/share	$0.73	Price/Earnings (TTM)	8.5X
Price/tangible book value	4.1X	Price/Earnings (FY2020)E	5.2X

** 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:

Maintaining our Speculative Buy rating on Perion and 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. Over the past twelve months, PERI's strong cash flow allowed it to pay down debt while maintaining a relatively high cash position ($1.74 per share as of March 31, 2019 - includes short-term bank deposit).

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 $42.4 million cash ($1.64 per share – includes short-term bank deposit) and debt of $8.4 million, down from $77.7 million in 2016.

Perion reported (5/15/19) 1Q19 revenues decreased 11.6% to $53.8 million and EPS of $0.05 compared to break-even per share in the year ago period. We projected 1Q19 revenue of $61 million and EPS of $0.04.

For 2019, we project a 0.9% decrease in revenue to $250.6 million and EPS of $0.38. We previously projected revenue of $267.5 million and EPS of $0.32. While our revenue projection has decreased, our EPS projection reflects a significant decrease in the company's operating costs.

For 2020, we project an 8.9% increase in revenue to $273 million and EPS of $0.57. We previously projected revenue of $285.4 million and EPS of $0.53. Our revised forecast reflects a slower ramp in advertising sales than originally anticipated and a full year's impact from cost reductions implemented in 2018 and 2019.

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

790 New York Avenue, Huntington, N.Y. 11743
(800) 383-8464 • Fax (631) 757-1333

Recommendation and Valuation

Maintaining our Speculative Buy rating on Perion and 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. Over the past twelve months, PERI's strong cash flow allowed it to pay down debt while maintaining a relatively high cash position ($1.74 per share as of March 31, 2019 - includes short-term bank deposit). 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 $42.4 million cash ($1.64 per share – includes short-term bank deposit) 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 (unchanged). Industry peers trade at a forward EV/EBITDA multiple of 11.8X (previously 11X, 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 (unchanged) to our 2020 EBITDA/share projection of $1.07 (up from $1.01 previously), discounted to account for execution risk, implies a year-ahead value of approximately $5.50 per share.

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.

AUTO	CPG	FIN SERVICES	PHARMACEUTICAL	RETAIL	TECH/TELECOM
CHRYSLER	Coca-Cola	MasterCard	Abbott	THE HOME DEPOT	Microsoft
GM	Nestlé	CHASE	AstraZeneca	TARGET	at&t
BMW	General Mills	American Express	Pfizer	STAPLES	comcast
TOYOTA	DIAGEO	DISCOVER	Shire	Abercrombie & Fitch	SAMSUNG
Ford	L'ORÉAL	SunTrust	Bayer HealthCare	Walgreens	dish
Bla Bla Car	L'OCCITANE			BIRCHBOX	

Source: Perion Presentation

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.

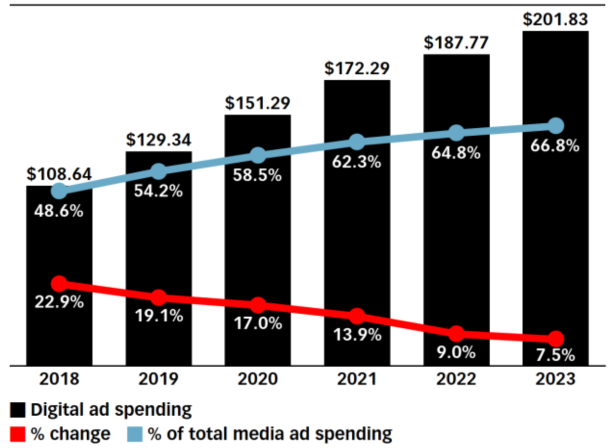
Perion's search related products under its CodeFuel division enables end users to replace their search assets with the company's. Perion's search related products allow publishers to track and monitor their business performance. Perion's relationship with Microsoft's Bing enables the company to claim 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. 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 right). 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.

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
T10009 www.eMarketer.com

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 bottom 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.

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

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 April 2019, the IMF lowered its global economic growth estimate to 3.3% for 2019, down from its January 2019 estimate of 3.5%, but kept it unchanged at 3.6% for 2020. The downward revision for 2019 was due to the likely hood that the slow momentum of global growth in 2H18 will continue in early 2019.

The IMF lowered its economic growth estimate for the US to 2.3% for 2019, down from its January 2019 estimate of 2.5%, but raised it to 1.9% for 2020, up from 1.8%. The downward revision to 2019 growth reflects the impact of the government shutdown and somewhat lower fiscal spending than previously anticipated. The upward revision to 2020 growth reflects a more accommodative stance of monetary policy than previously forecast.

The advance estimate of US GDP growth (released on April 26, 2019) showed the US economy grew at an annual rate of 3.2% in 1Q19, up from 2.2% in 4Q18. The 1Q19 US GDP growth estimate reflects increases in consumer spending, inventory investment, exports, government spending, and business investment, partly offset by a decline in housing investment.

Projections

2019 Forecast - We project a 0.9% decrease in revenue to $250.6 million and net income of $9.9 million or $0.38 per share. We previously projected revenue of $267.5 million and net income of $8.5 million or $0.32 per share. While our revenue projection has decreased, our EPS projection reflects a significant decrease in the company's operating costs.

We project gross margins of 89.8%. Customer acquisition costs and media buy expenses are projected to increase 2.6% to $131.7 million as payments to publishers and developers increase. R&D should increase 16.3% to $22 million as the company continues to enhance its technology. Selling and marketing expenses should decrease by 6.4% to $36.4 million and general and administrative expenses should decrease by 26.7% to $12.1 million reflecting the company's cost optimization efforts.

We project a 4.5% decrease in operating income due primarily to lower sales. Financial expenses should decrease 35% to $2.5 million from $3.8 million due to a projected reduction in debt. We project the company paying $1.6 million in taxes for a 14.1% tax rate.

In 2019, we project $22.1 million cash from operations on cash earnings of $20.4 million and a $1.7 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 should not cover capital expenditures and the pay down of debt, decreasing cash by $12.7 million to $28.1 million at the end of 2019.

2020 Forecast - We project an 8.9% increase in revenue to $273 million and net income of $14.7 million or $0.57 per share. We previously projected revenue of $285.4 million and net income of $14.3 million or $0.53 per share. Our revised forecast reflects a slower ramp in advertising sales than originally anticipated and a full year's impact from costs reductions implemented in 2018 and 2019.

We project gross margins of 90.5%. Customer acquisition costs and media buy expenses are projected to increase 9.8% to $144.7 million as payments to publishers and developers increase. R&D should increase 3.8% to $22.8 million as the company continues to enhance its technology. Selling and marketing expenses should increase by 7.2% to $39 million and general and administrative expenses should increase by 6.2% to $12.8 million as the company continues to control costs while supporting sales growth.

We project a 37.6% increase in operating income as the company's significant investments in R&D begin to pay off. We project the company paying $3.7 million in taxes for a 20% tax rate.

In 2020, we project $23.3 million cash from operations on cash earnings of $25 million and a $1.7 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 $7.6 million to $35.7 million at the end of 2020.

1Q 2019 Financial Results

Total revenues decreased 11.6% to $53.8 million from $60.9 million. Perion reported net income of $1.2 million or $0.05 per share versus net income of $57,000 or break-even per share. We projected 1Q19 revenue of $61 million and net income of $1.1 million or $0.04 per share.

Advertising revenues decreased 36.6% to $18.6 million. Search and other revenues increased 11.6% to $35.3 million. The decrease in advertising revenue was primarily due to the company's transition from selling standard format advertising to a holistic 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 increased number of searches.

Gross profit decreased 12.3% to $48.1 million from $54.8 million while gross margins decreased to 89.3% from 90.1%. Customer acquisition costs and media buy expenses decreased 14% to $27.4 million from $31.9 million.

Research and development costs decreased by 12.3% to $4.9 million from $5.5 million. Selling and marketing expenses decreased 14.2% to $8.3 million from $9.7 million. General and administrative expenses decreased 28.7% to $3.1 million from $4.3 million. Depreciation and amortization expenses increased by 15.4% to $2.4 million from $2.1 million.

Financial expenses more than doubled to $1.3 million from $607,000. Perion received a $542,000 income tax benefit in 1Q19 versus a benefit of $440,000 in 1Q18.

Liquidity – As of March 31, 2019, Perion had $38.4 million cash, a current ratio of 1.2X, $31 million of total debt ($16.4 million short-term and $14.6 million long-term), and a debt equity ratio of 0.2X.

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 March 31, 2019.

At March 31, 2019, the company had cash earnings of $3.7 million and a $10.2 million decrease in working capital that resulted in $14 million cash provided by operations. Cash provided by operations was offset by $2.9 million of investing activities (primarily short-term deposits) and a $10 million reduction in debt. Cash decreased by $717,000 to $40.1 million as of March 31, 2019.

In May 2019, Perion announced the redemption of its 5% Series L convertible bonds due 2020. The redemption date will be June 6, 2019. The redemption amount will be the sum of approximately $8 million in principal, a prepayment charge of approximately $0.3 million, and accrued interest of approximately $0.07 million, amounting to an aggregate redemption amount of approximately $8.4 million.

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 32,000 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	3/19A	2019E	2020E
Cash and cash equivalents	23,962	31,567	39,109	38,386	28,113	35,725
Short-term bank deposits	8,414	5,913	4,000	6,700	6,700	6,700
Receivables	71,346	62,830	55,557	40,159	50,130	56,875
Prepaid expenses and other	10,036	13,955	5,227	5,420	5,420	5,420
Total current assets	113,758	114,265	103,893	90,665	90,363	104,720
Property and equipment	14,205	17,476	15,649	14,537	13,861	12,012
Operating lease right-of-use assets	-	-	-	24,889	24,889	24,889
Goodwill and intangibles	234,755	136,360	131,547	131,661	131,661	131,661
Deferred taxes	4,117	4,798	4,414	4,960	4,960	4,960
Other	1,617	1,128	943	723	723	723
Total assets	**368,452**	**274,027**	**256,446**	**267,435**	**266,457**	**278,965**
Accounts payable	38,293	39,180	38,208	35,297	37,109	39,623
Accrued expenses and other	17,466	17,784	17,240	14,514	16,292	17,745
Short-term operating lease liability	-	-	-	4,226	4,226	4,226
Short-term debt	17,944	13,989	16,059	16,385	8,385	8,385
Deferred revenues	5,354	5,271	3,794	3,417	3,417	3,417
Payment obligation related to acquisitions	7,653	5,146	1,813	1,200	1,200	1,200
Total current liabilities	86,710	81,370	77,114	75,039	70,629	74,596
Long-term debt	59,790	46,719	24,393	14,583	8,000	-
Deferred taxes	8,087	-	-	-	-	-
Long-term operating lease liability	-	-	-	21,367	21,367	21,367
Other	5,721	7,606	6,158	5,762	5,762	5,762
Total liabilities	**160,308**	**135,695**	**107,665**	**116,751**	**105,758**	**101,725**
Total stockholders' equity	**208,144**	**138,332**	**148,781**	**150,684**	**160,699**	**177,240**
Total liabilities & stockholders' equity	**368,452**	**274,027**	**256,446**	**267,435**	**266,457**	**278,965**

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	143,065	157,000
Advertising	140,111	134,481	125,977	107,584	116,000
Total revenue	312,794	273,986	252,845	250,649	273,000
Cost of revenue	25,924	24,659	23,757	25,446	25,935
Gross profit	286,870	249,327	229,088	225,203	247,065
Customer acquisition costs and media buy	140,210	130,885	128,351	131,737	144,690
Research and development	25,221	17,189	18,884	21,962	22,800
Selling and marketing	54,559	52,742	38,918	36,425	39,039
General and administrative	28,827	21,911	16,450	12,058	12,800
Depreciation and amortization	25,977	16,591	9,719	8,985	8,425
Impairment	-	85,667	-	-	-
Restructuring charges	728	-	2,075	-	-
Operating income (loss)	11,348	(75,658)	14,691	14,036	19,311
Financial expenses	8,288	5,922	3,794	2,465	950
Income (loss) before taxes	3,060	(81,580)	10,897	11,571	18,361
Income tax (benefit)	212	(8,826)	2,776	1,634	3,672
Net income (loss)	2,848	(72,754)	8,121	9,937	14,689
EPS	0.11	(2.81)	0.31	0.38	0.57
Shares Outstanding	25,558	25,850	26,855	25,885	25,885
EBITDA	37,325	(59,067)	24,410	23,021	27,736
Adjusted EBITDA*	45,435	28,917	29,554	24,873	29,588
Margin Analysis					
Gross margin	91.7%	91.0%	90.6%	89.8%	90.5%
Customer acquisition costs and media buy	44.8%	47.8%	50.8%	52.6%	53.0%
Research and development	8.1%	6.3%	7.5%	8.8%	8.4%
Selling and marketing	17.4%	19.2%	15.4%	14.5%	14.3%
General and administrative	9.2%	8.0%	6.5%	4.8%	4.7%
Operating margin	3.6%	(27.6)%	5.8%	5.6%	7.1%
Tax rate	6.9%	10.8%	25.5%	14.1%	20.0%
Year / Year Growth					
Total Revenues		(12.4)%	(7.7)%	(0.9)%	8.9%
Net Income		NMF	NMF	22.4%	47.8%
EPS		NMF	NMF	23.8%	47.8%

*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	3/19A	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	35,265	35,300	35,500	37,000	143,065	37,750	38,750	39,750	40,750	157,000
Advertising	29,295	33,206	26,224	37,251	125,977	18,584	22,000	29,000	38,000	107,584	20,000	23,700	31,300	41,000	116,000
Total revenue	60,905	62,797	57,181	71,962	252,845	53,849	57,300	64,500	75,000	250,649	57,750	62,450	71,050	81,750	273,000
Cost of revenue	6,056	5,811	5,474	6,416	23,757	5,766	5,730	6,450	7,500	25,446	5,486	5,933	6,750	7,766	25,935
Gross profit	54,849	56,986	51,707	65,546	229,088	48,083	51,570	58,050	67,500	225,203	52,264	56,517	64,300	73,984	247,065
Customer acquisition costs and media buy	31,885	31,105	28,808	36,553	128,351	27,433	30,369	34,185	39,750	131,737	30,608	33,099	37,657	43,328	144,690
Research and development	5,544	4,678	4,341	4,321	18,884	4,862	5,700	5,700	5,700	21,962	5,700	5,700	5,700	5,700	22,800
Selling and marketing	9,701	10,081	8,635	10,501	38,918	8,325	9,000	9,300	9,800	36,425	8,258	8,930	10,160	11,690	39,039
General and administrative	4,286	4,881	3,883	3,398	16,450	3,058	3,000	3,000	3,000	12,058	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	2,225	2,195	2,175	8,985	2,175	2,125	2,075	2,050	8,425
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restructuring charges	1,138	937	-	-	2,075	-	-	-	-	-	-	-	-	-	-
Operating income (loss)	224	2,813	3,512	8,144	14,691	2,015	1,276	3,670	7,075	14,036	2,323	3,463	5,509	8,016	19,311
Financial expenses	607	1,199	1,236	753	3,794	1,325	635	255	250	2,465	245	240	235	230	950
Income (loss) before taxes	(383)	1,614	2,276	7,391	10,897	690	641	3,415	6,825	11,571	2,078	3,223	5,274	7,786	18,361
Income tax (benefit)	(440)	628	84	2,504	2,776	(542)	128	683	1,365	1,634	416	645	1,055	1,557	3,672
Net income (loss)	57	986	2,192	4,887	8,121	1,232	513	2,732	5,460	9,937	1,662	2,579	4,219	6,229	14,689
EPS	0.00	0.04	0.08	0.19	0.31	0.05	0.02	0.11	0.21	0.38	0.06	0.10	0.16	0.24	0.57
Shares Outstanding	25,850	26,421	26,421	26,851	26,855	25,885	25,885	25,885	25,885	25,885	25,885	25,885	25,885	25,885	25,885
EBITDA	2,295	5,304	6,040	10,773	24,410	4,405	3,501	5,865	9,250	23,021	4,498	5,588	7,584	10,066	27,736
Adjusted EBITDA*	4,286	7,097	6,678	11,494	29,554	4,868	3,964	6,328	9,713	24,873	4,961	6,051	8,047	10,529	29,588
Margin Analysis															
Gross margin	90.1%	90.7%	90.4%	91.1%	90.6%	89.3%	90.0%	90.0%	90.0%	89.8%	90.5%	90.5%	90.5%	90.5%	90.5%
Customer acquisition costs and media buy	52.4%	49.5%	50.4%	50.8%	50.8%	50.9%	53.0%	53.0%	53.0%	52.6%	53.0%	53.0%	53.0%	53.0%	53.0%
Research and development	9.1%	7.4%	7.6%	6.0%	7.5%	9.0%	9.9%	8.8%	7.6%	8.8%	9.9%	9.1%	8.0%	7.0%	8.4%
Selling and marketing	15.9%	16.1%	15.1%	14.6%	15.4%	15.5%	15.7%	14.4%	13.1%	14.5%	14.3%	14.3%	14.3%	14.3%	14.3%
General and administrative	7.0%	7.8%	6.8%	4.7%	6.5%	5.7%	5.2%	4.7%	4.0%	4.8%	4.7%	4.7%	4.7%	4.7%	4.7%
Operating margin	0.4%	4.5%	6.1%	11.3%	5.8%	3.7%	2.2%	5.7%	9.4%	5.6%	4.0%	5.5%	7.8%	9.8%	7.1%
Tax rate	114.9%	38.9%	3.7%	33.9%	25.5%	(78.6)%	20.0%	20.0%	20.0%	14.1%	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)%	(11.6)%	(8.8)%	12.8%	4.2%	(0.9)%	7.2%	9.0%	10.2%	9.0%	8.9%
Net Income	NMF	NMF	NMF	NMF	NMF	NMF	NMF	24.6%	11.7%	22.4%	34.9%	402.9%	54.4%	14.1%	47.8%
EPS	NMF	NMF	NMF	NMF	NMF	NMF	NMF	27.2%	11.0%	23.8%	34.9%	402.9%	54.4%	14.1%	47.8%

*Includes stock compensation, restructuring and other costs

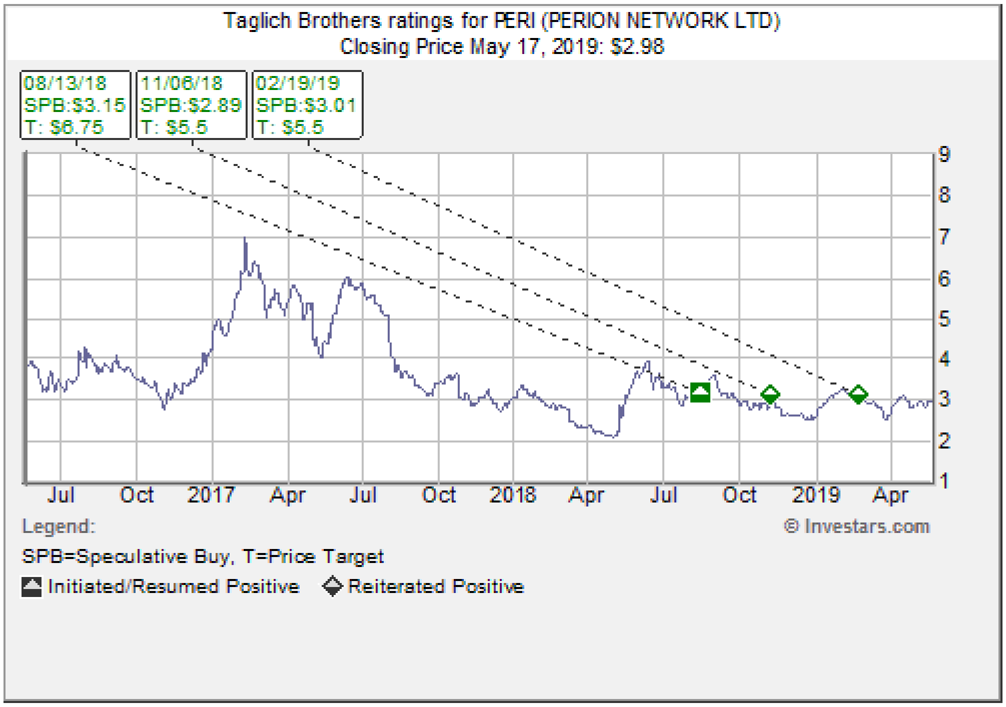
Source: Company filings and Taglich Brothers' estimates

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

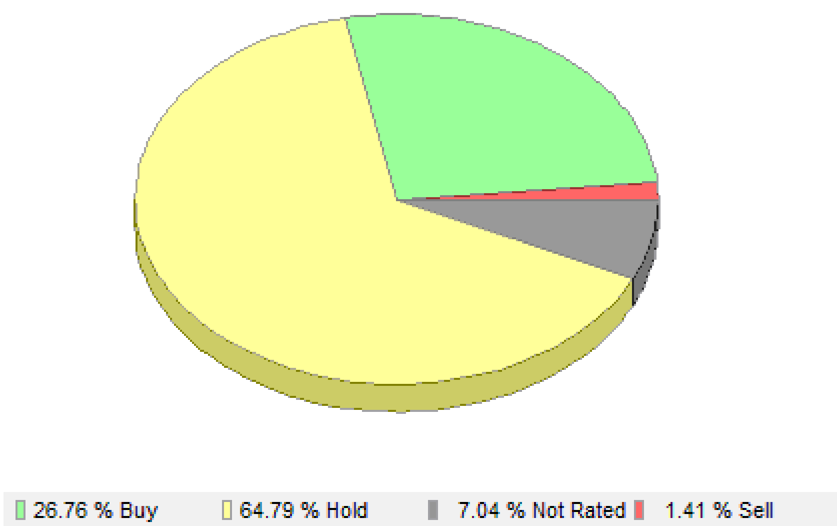
	2016A	2017A	2018A	3M19A	2019E	2020E
Net income (loss)	2,848	(72,754)	8,121	1,232	9,937	14,689
Depreciation & amortization	25,977	16,591	9,719	2,390	8,985	8,426
Impairment	-	85,667	-	-	-	-
Restructuring costs	254	-	462	-	-	-
Stock-based compensation	6,844	2,112	2,718	463	1,852	1,852
Foreign currency translation	980	83	3	19	19	-
Accretion of payment obligation related to acquisition	320	43	-	-	-	-
Accrued interest	406	475	1,005	(199)	(199)	-
Deferred taxes	(3,268)	(8,877)	335	(546)	(546)	-
Accrued severance pay	214	801	(783)	(316)	(316)	-
Change in payment obligation related to acquisitions	983	-	-	-	-	-
Fair value revaluation - convertible debt	1,350	3,785	(1,585)	699	699	-
Loss from sale of property and equipment	149	-	-	-	-	-
Cash earnings (loss)	37,057	27,926	19,995	3,742	20,431	24,967
Changes in assets and liabilities						
Receivables	(5,333)	8,888	7,423		5,427	(6,745)
Prepaid expenses and other	8,613	(3,241)	9,451		(193)	-
Accounts payable	(1,702)	1,106	(1,066)		(1,099)	2,514
Accrued expenses and other	(2,486)	1,429	(1,524)		(2,070)	2,547
Deferred revenue	(2,365)	(95)	(1,478)		(377)	-
(Increase) decrease in working capital	(3,273)	8,087	12,806	10,246	1,688	(1,684)
Net cash provided by (used in) operations	**33,784**	**36,013**	**32,801**	**13,988**	**22,119**	**23,283**
Purchase of property and equipment	(1,504)	(1,606)	(2,038)	(227)	(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	-	-	-	-	-
Short-term deposits	34,028	2,501	1,913	(2,700)	(2,700)	-
Net cash provided by (used in) investing	**28,731**	**(4,851)**	**(1,822)**	**(2,927)**	**(6,256)**	**(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)	(4,115)	(4,115)
Proceeds from debt	40,000	5,000	25,000	-	-	-
Repayment of debt	(63,072)	(26,290)	(44,676)	(9,984)	(24,567)	(8,000)
Net cash provided by (used in) financing	**(52,607)**	**(23,840)**	**(23,009)**	**(11,668)**	**(28,553)**	**(12,115)**
Effect of currency exchange rates	(136)	283	78	(110)	-	-
Effect from discontinued operations on cash	(3,329)	-	-	-	-	-
Net change in cash	**6,443**	**7,605**	**8,048**	**(717)**	**(12,690)**	**7,612**
Cash - beginning of period	**17,519**	**23,962**	**32,755**	**40,803**	**40,803**	**28,113**
Cash - end of period	**23,962**	**31,567**	**40,803**	**40,086**	**28,113**	**35,725**

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.

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

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

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.