

## 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

August 12, 2020

**PERI \$5.71 — (NASDAQ)**

	<u>2018A</u>	<u>2019A</u>	<u>2020E</u>	<u>2021E</u>
Revenues (millions)	\$252.8	\$261.5	\$282.4	\$311.0
Earnings (loss) per share	\$0.31	\$0.49	\$0.00	\$0.12

52-Week range	\$9.70 – \$3.43	Fiscal year ends:	December
Common shares out as of 8/5/20	26.6 million	Revenue per share (TTM)	\$9.92
Approximate float	16.3 million	Price/Sales (TTM)	0.6X
Market capitalization	\$152 million	Price/Sales (2021)E	0.5X
Tangible book value/share	\$0.07	Price/Earnings (TTM)	19.7X
Price/tangible book value	NMF	Price/Earnings (2021)E	47.6X

*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 and raising our twelve-month price target to \$11.00 per share from \$9.00 per share based on an increase in our sales forecasts through 2021 and higher industry multiples.*

*The company was able to mitigate the impact from COVID-19 in 2Q20 with its product diversity and cost saving efforts. Despite a projected industry wide decline of up to 15% in search advertising in 1H20 (eMarketer), Perion's search business grew by over 8%.*

*While reductions in ad spending has adversely impacted the company's ad business in 2Q20, it is seeing signs of recovery. 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 the COVID-19 pandemic and has recently (July 2020) acquired Pub Ocean, a digital publisher-focused technology company that is expected to generate more than \$25 million in revenue and \$5 million in adjusted EBITDA over the next 12 months.*

*Our forecast through 2021 anticipates significant cash earnings, continued pay down of debt, and growth in shareholder's equity.*

*Perion reported (8/5/20) 2Q20 revenues decreased 5.1% to \$60.3 million and a loss of \$(0.08) per share. We projected 2Q19 revenue of \$53 million and a loss per share of \$(0.09).*

*For 2020, we project an 8% increase in revenue to \$282.4 million and break-even per share. We previously projected revenue of \$257.1 million and EPS of \$0.08. Our revised estimates primarily reflect a reduction in ad spending related to COVID-19 offset by revenue contribution from the July 2020 acquisition of Pub Ocean.*

*For 2021, we project a 10.1% increase in revenue to \$311 million due to a recovery in ad spending and a full year's contribution from Pub Ocean. Net income is projected to increase to \$3.3 million or \$0.12 per share. We previously projected revenue of \$282 million and net income of \$4.7 million or \$0.17 per share.*

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

## ***Recommendation and Valuation***

**Reiterating Speculative Buy rating on Perion and raising our twelve-month price target to \$11.00 per share from \$9.00 per share** based on an increase in our sales forecasts through 2021 and higher industry multiples.

The company was able to mitigate the impact from COVID-19 in 2Q20 with its product diversity and cost saving efforts. Despite a projected industry wide decline of up to 15% in search advertising in 1H20 (eMarketer), Perion's search business grew by over 8%.

While reductions in ad spending has adversely impacted the company's ad business in 2Q20, it is seeing signs of recovery. 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 the pandemic and has recently (July 2020) acquired Pub Ocean, a digital publisher-focused technology company that is expected to generate more than \$25 million in revenue and \$5 million in adjusted EBITDA over the next 12 months.

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 (\$49.1 million or \$1.84 per share as of June 30, 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.

We are valuing the company using a price-to-sales multiple until PERI's earnings stabilize. PERI trades at a trailing-twelve-month (TTM) P/S multiple of approximately 0.6X. Industry peers trade at a TTM P/S multiple of 1.6X (previously 1.2X, source: finviz). We anticipate investors according PERI a multiple approaching that of the industry. Applying a multiple of 1.2X (up from 1X previously to account for a higher industry multiple) to our 2021 sales projection of \$11.02 per share, discounted for execution risk, implies a year-ahead value of approximately \$11.00 per share.

## ***Recent Developments***

***Pub Ocean Acquisition*** - On July 22, 2020, Perion announced the signing of an agreement to acquire the assets of Pub Ocean, a digital publisher-focused technology company with scalable content distribution and real-time revenue analytics technology.

The acquisition is for an aggregate cash consideration of up to \$22 million. The initial cash consideration to be paid is \$4 million with \$17 million in potential earn-outs tied to financial targets over a two-year period and \$1 million for two years of retention.

The company anticipates the acquisition to be accretive and contribute more than \$25 million in revenues and \$5 million in adjusted EBITDA in the first 12 months.

## ***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. IBISWorld reports that over the past five years, the digital ad industry has benefited from the rapid shift from traditional print advertising to digital advertisements. Strong demand for digital advertising services from the retail, financial services, automotive and telecommunication sectors have bolstered industry revenue. As more consumers generate Website traffic through the use of smartphones and tablets, many businesses have purchased digital advertising services to build brand awareness across multiple screens and platforms (such as Perion’s Synchronized Digital Advertising does).

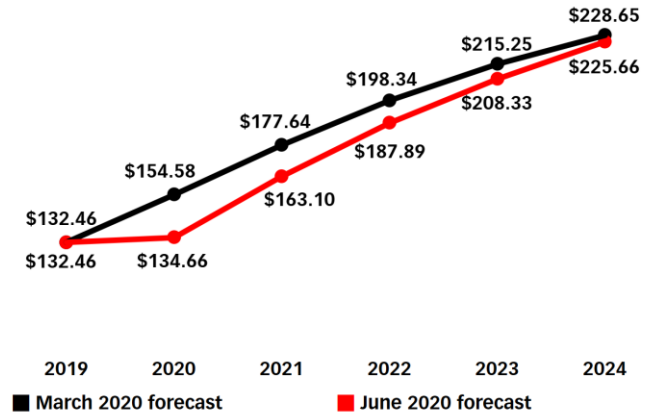
IBISWorld projects that many digital advertising agencies will attempt to implement tools that measure how an advertising campaign drives customer purchasing behavior across numerous digital platforms. The industry has contended with limited tools available to examine consumer demographics for individuals who may have switched from one device to another, potentially causing them to view an advertisement twice. The industry will benefit more from clients allocating their advertising budgets to advertisements that integrate with numerous technologies, including smartphones, tablets and computers.

IBISWorld projects the digital advertising industry will continue to grow through 2024 as more effective advertising tools are developed to measure consumer demographics.

The June 2020 report issued by research firm eMarketer projected digital ad spending in the US to grow 1.7% to \$134.7 billion in 2020. In March 2020, eMarketer projected revenue of \$154.6 billion. The decline in projections over the three month period stems from the adverse effects the COVID-19 pandemic is expected to have on ad spending. Robust growth of 21.1% is projected to return starting in 2021 with an average annual growth rate of almost 14% projected to 2024 (see chart at right).

**How Has the Forecast for Digital Ad Spending in the US Changed? 2019-2024**

billions, March 2020 vs. June 2020



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 ads such as Facebook's News Feed Ads and Twitter's Promoted Tweets  
Source: eMarketer, June 2020

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www.eMarketer.com

**Competition**

**Competitive Environment**

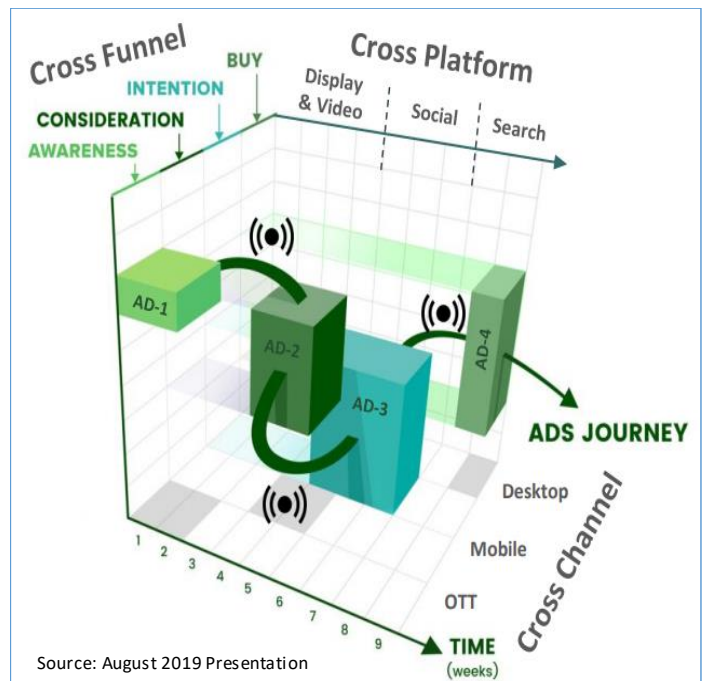
The markets in which the company operates are highly competitive. There are a large number of companies that compete with Perion's advertising solutions. Some of these companies are larger and have more financial resources than Perion including, Verizon Media, Google, and Facebook. New entrants and companies 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.



Source: August 2019 Presentation

“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 bottom right on previous page). 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 partnerships, acquisitions and new product launches over the past two years allows brands to create Synchronized Digital Branding experiences personalized across digital screens and platforms and enables programmatic access to all of Undertone’s high-impact digital advertising formats.

### ***Economic Outlook***

In June 2020, the International Monetary Fund (IMF) updated its global economic growth estimates to a decline of 4.9% for 2020 and growth of 5.4% for 2021, down from its April 2020 estimates calling for a decline of 3% for 2020 and growth of 5.8% for 2021. The revisions primarily reflect a more negative impact of the COVID-19 pandemic in 1H20 than originally anticipated and a more gradual recovery than previously forecast.

The IMF updated its economic growth estimate for the US to a decline of 8% for 2020 and growth of 4.5% for 2021. In April 2020, the IMF projected a decline in US growth of 5.9% for 2020 and growth of 4.7% for 2021.

The advance estimate of US GDP growth (released on July 30, 2020) showed the US economy decreased at an annual rate of 32.9% in 2Q20, greater than the 5% decline reported in 1Q19. The 2Q20 US GDP estimate primarily reflects decreases in consumer spending, exports, inventory investment, business investment, and housing investment, partially offset by an increase government spending.

### ***Projections***

2020 Forecast - We project an 8% increase in revenue to \$282.4 million and net income of \$89,000 or break-even per share. We previously projected revenue of \$257.1 million and net income of \$2.3 million or \$0.08 per share. Our revised estimates primarily reflect a reduction in ad spending related to COVID-19 offset by revenue contribution from the July 2020 acquisition of Pub Ocean (with expectations of over \$25 million in revenue and \$5 million in adjusted EBITDA in the first 12 months).

We project gross margins of 92.7%. Customer acquisition costs and media buy expenses are projected to increase 25.5% to \$170.5 million as payments to publishers and developers increase. R&D expense should increase by 32.1% to \$29.8 million as the company invests in new product development. Selling and marketing expenses should increase by 7.7% to \$37.4 million reflecting the build out of the company's sales team to support the launch of new products while maintaining cost discipline. We project a 4.5% decrease in general and administrative expenses to \$14.3 million.

We project operating income of \$247,000, down from \$18 million in 2019 due primarily to higher customer acquisition costs.

In 2020, we project \$4.4 million cash from operations due to \$11.7 million in cash earnings and a \$7.3 million increase in working capital. Cash from operations and short term deposits should be more than offset by cash paid for acquisitions and the pay down of debt, decreasing cash by \$12.4 million to \$27.2 million at the end of 2020.

*2021 Forecast* – We project a 10.1% increase in revenue to \$311 million due to a recovery in ad spending and a full year's contribution from Pub Ocean. Net income is projected to increase to \$3.3 million or \$0.12 per share. We previously projected revenue of \$282 million and net income of \$4.7 million or \$0.17 per share.

We project gross margins of 93.6%. Customer acquisition costs and media buy expenses are projected to increase 13.7% to \$193.8 million as payments to publishers and developers increase. R&D expense should increase by 7.3% to \$32 million as the company continues to invest in new product development while monitoring costs. Selling and marketing expenses should remain relatively flat at \$37 million. We project a 5% decrease in general and administrative expenses to \$13.6 million as the company continues to control costs.

We project operating income of \$4.6 million, up from \$247,000 in 2020 and the company paying \$836,000 in taxes for a 20% tax rate.

In 2021, we project \$15.9 million cash earnings and an \$8 million increase in working capital resulting in \$7.8 million cash from operations. Cash from operations is unlikely to cover payments related to acquisitions and the pay down of debt, decreasing cash by \$5.5 million to \$21.7 million at the end of 2021.

## ***2Q and 1H20 Financial Results***

*2Q20* - Perion reported a net loss of \$2.2 million or \$(0.08) per share on a 5.1% decrease in total revenue to \$60.3 million. We projected 2Q20 revenue of \$53 million and a net loss of \$2.4 million or \$(0.09) per share. In the year ago period, EPS was \$0.11 on revenue of \$63.6 million.

Advertising revenues decreased 12.3% to \$18.7 million. Search and other revenues decreased 1.4% to \$41.7 million. The decrease in advertising revenue was primarily due to the adverse impact of COVID-19 on ad spending partially offset by the acquisition of Content IQ on January 14, 2020. The decrease in search and other revenues was primarily due to lower paid search rates due to COVID-19 partially offset by a growing number of search queries.

Gross profit decreased 3.5% to \$55.5 million from \$57.5 million while gross margins increased to 91.9% from 90.5%. Customer acquisition costs and media buy expenses increased 10.9% to \$36.8 million from \$33.2 million due primarily to the acquisition of Content IQ and product mix.

Research and development costs increased by 27% to \$7.1 million from \$5.6 million. Selling and marketing expenses decreased by 5.2% to \$8.2 million. General and administrative expenses increased 4.7% to \$3.6 million from \$3.4 million. Depreciation and amortization expenses decreased by 1.5% to \$2.3 million.

The company reported financial expense of \$741,000 versus \$989,000 in 2Q19. Perion received a \$1 million tax benefit versus an expense of \$453,000 in 2Q19.

*1H20* - Perion reported a net loss of \$905,000 or \$(0.03) per share on a 7.6% increase in total revenue to \$126.4 million. In the year ago period, EPS was \$0.16 on revenue of \$117.4 million.

Advertising revenues increased 6.3% to \$42.4 million. Search and other revenues increased 8.3% to \$84 million. Gross profit increased 9.6% to \$115.7 million from \$105.6 million while gross margins increased to 91.6% from 89.9%. Customer acquisition costs and media buy expenses increased 20.3% to \$72.9 million from \$60.6 million.

Research and development costs increased by 36.8% to \$14.3 million from \$10.5 million. Selling and marketing expenses increased by 5.5% to \$17.9 million. General and administrative expenses increased 16.1% to \$7.5 million from \$6.5 million. Depreciation and amortization expenses decreased by 2.6% to \$4.6 million.

The company reported financial expense of \$733,000 versus \$2.3 million in 1H19. Perion received a \$1.3 million tax benefit versus a benefit of \$89,000 in 1H19.

*Liquidity* – As of June 30, 2020, Perion had \$49.1 million cash (includes \$16.9 million short-term bank deposit and \$1.2 million of restricted cash), a current ratio of 1.1X, \$12.5 million of debt (\$8.3 million short-term and \$4.2 million long-term), payment obligation related to acquisitions of \$26 million (\$13.9 million short-term and \$12.1 million long-term), and a debt equity ratio of 0.1X.

	Six Months Ended	
	6/20A	6/19A
Search and other Advertising	83,987	77,532
Advertising	42,407	39,884
Total revenue	126,394	117,416
Cost of revenue	10,646	11,834
Gross profit	115,748	105,582
Customer acquisition costs and media buy	72,939	60,608
Research and development	14,329	10,472
Selling and marketing	17,920	16,992
General and administrative	7,520	6,477
Depreciation and amortization	4,553	4,676
Operating income (loss)	(1,513)	6,357
Financial expenses	733	2,314
Income (loss) before taxes	(2,246)	4,043
Income tax (benefit)	(1,341)	(89)
Net income (loss)	(905)	4,132
EPS	(0.03)	0.16
Shares Outstanding	26,547	25,891
EBITDA	3,040	11,033
<u>Margin Analysis</u>		
Gross margin	91.6%	89.9%
Customer acquisition costs and media buy	57.7%	51.6%
Research and development	11.3%	8.9%
Selling and marketing	14.2%	14.5%
General and administrative	5.9%	5.5%
Operating margin	(1.2)%	5.4%
<u>Year / Year Growth</u>		
Total Revenues	7.6%	
Net Income	(121.9)%	
EPS	(121.4)%	
Source: Company filings		

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.

For the six months ended June 30, 2020, the company had cash earnings of \$3.7 million and a \$1.1 million increase in working capital that resulted in \$2.6 million cash provided by operations. Cash provided by operations was offset by \$7.5 million cash used in investing activities (primarily related to cash paid for acquisitions) and \$2.4 million cash used in financing (primarily due to the repayment of debt) resulted in a \$7.4 million decrease in cash to \$32.2 million (includes restricted cash) as of June 30, 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 COVID-19 that is likely to cause supply chain and demand issues which could adversely impact corporate operating results. 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 16.3 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.

Consolidated Balance Sheets  
(in thousands \$)

	<u>2017A</u>	<u>2018A</u>	<u>2019A</u>	<u>6/20A</u>	<u>2020E</u>	<u>2021E</u>
Cash and cash equivalents	31,567	39,109	38,389	30,986	25,998	20,503
Restricted cash	-	1,694	1,216	1,221	1,221	1,221
Short-term bank deposits	5,913	4,000	23,234	16,872	16,872	16,872
Receivables	62,830	55,557	49,098	35,862	47,850	52,697
Prepaid expenses and other	<u>13,955</u>	<u>3,533</u>	<u>3,170</u>	<u>3,369</u>	<u>3,369</u>	<u>3,369</u>
<b>Total current assets</b>	<b>114,265</b>	<b>103,893</b>	<b>115,107</b>	<b>88,310</b>	<b>95,310</b>	<b>94,662</b>
Property and equipment	17,476	15,649	10,918	8,611	8,666	5,426
Operating lease right-of-use assets	-	-	22,429	20,725	20,725	20,725
Goodwill and intangibles	136,360	131,547	128,444	166,369	181,369	181,369
Deferred taxes	4,798	4,414	6,171	5,872	5,872	5,872
Other	<u>1,128</u>	<u>943</u>	<u>708</u>	<u>582</u>	<u>582</u>	<u>582</u>
<b>Total assets</b>	<b><u>274,027</u></b>	<b><u>256,446</u></b>	<b><u>283,777</u></b>	<b><u>290,469</u></b>	<b><u>312,524</u></b>	<b><u>308,636</u></b>
Accounts payable	39,180	38,208	47,681	36,601	41,377	40,833
Accrued expenses and other	17,784	17,240	18,414	14,873	21,180	23,325
Short-term operating lease liability	-	-	3,667	3,806	3,806	3,806
Short-term debt	13,989	16,059	8,333	8,333	8,333	-
Deferred revenues	5,271	3,794	4,188	3,938	3,938	3,938
Payment obligation related to acquisitions	<u>5,146</u>	<u>1,813</u>	<u>1,025</u>	<u>13,946</u>	<u>18,699</u>	<u>14,699</u>
<b>Total current liabilities</b>	<b>81,370</b>	<b>77,114</b>	<b>83,308</b>	<b>81,497</b>	<b>97,333</b>	<b>86,601</b>
Long-term debt	46,719	24,393	8,333	4,167	-	-
Payment obligation related to acquisition	-	-	-	12,067	18,067	14,067
Long-term operating lease liability	-	-	20,363	18,386	18,386	18,386
Other	<u>7,606</u>	<u>6,158</u>	<u>6,591</u>	<u>6,025</u>	<u>6,025</u>	<u>6,025</u>
<b>Total liabilities</b>	<b><u>135,695</u></b>	<b><u>107,665</u></b>	<b><u>118,595</u></b>	<b><u>122,142</u></b>	<b><u>139,811</u></b>	<b><u>125,079</u></b>
<b>Total stockholders' equity</b>	<b><u>138,332</u></b>	<b><u>148,781</u></b>	<b><u>165,182</u></b>	<b><u>168,327</u></b>	<b><u>172,713</u></b>	<b><u>183,557</u></b>
<b>Total liabilities &amp; stockholders' equity</b>	<b><u>274,027</u></b>	<b><u>256,446</u></b>	<b><u>283,777</u></b>	<b><u>290,469</u></b>	<b><u>312,524</u></b>	<b><u>308,636</u></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	168,987	186,000
Total revenue	273,986	252,845	261,450	282,394	311,000
Cost of revenue	24,659	23,757	25,520	20,546	20,000
Gross profit	249,327	229,088	235,930	261,848	291,000
Customer acquisition costs and media buy	130,885	128,351	135,891	170,479	193,802
Research and development	17,189	18,884	22,585	29,829	32,000
Selling and marketing	52,742	38,918	34,736	37,420	37,000
General and administrative	21,911	16,450	14,999	14,320	13,600
Depreciation and amortization	16,591	9,719	9,711	9,553	10,000
Restructuring charges	-	2,075	-	-	-
Operating income (loss)	(75,658)	14,691	18,008	247	4,598
Financial expenses	5,922	3,794	3,470	1,250	417
Income (loss) before taxes	(81,580)	10,897	14,538	(1,003)	4,181
Income tax (benefit)	(8,826)	2,776	1,645	(1,092)	836
Net income (loss)	(72,754)	8,121	12,893	89	3,345
EPS	(2.81)	0.31	0.49	0.00	0.12
Shares Outstanding	25,850	26,855	26,358	27,817	28,213
EBITDA	(59,067)	24,410	27,719	9,800	14,598
Adjusted EBITDA*	28,917	29,554	32,393	21,162	25,998
<u>Margin Analysis</u>					
Gross margin	91.0%	90.6%	90.2%	92.7%	93.6%
Customer acquisition costs and media buy	47.8%	50.8%	52.0%	60.4%	62.3%
Research and development	6.3%	7.5%	8.6%	10.6%	10.3%
Selling and marketing	19.2%	15.4%	13.3%	13.3%	11.9%
General and administrative	8.0%	6.5%	5.7%	5.1%	4.4%
Operating margin	(27.6)%	5.8%	6.9%	0.1%	1.5%
Tax rate	10.8%	25.5%	11.3%	108.9%	20.0%
<u>Year / Year Growth</u>					
Total Revenues	(12.4)%	(7.7)%	3.4%	8.0%	10.1%

\*Includes stock compensation, restructuring and other costs

Source: Company filings and Taglich Brothers' estimates

Perion Network Ltd.

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

	<u>3/19A</u>	<u>6/19A</u>	<u>9/19A</u>	<u>12/19A</u>	<u>2019A</u>	<u>3/20A</u>	<u>6/20A</u>	<u>9/20E</u>	<u>12/20E</u>	<u>2020E</u>	<u>3/21E</u>	<u>6/21E</u>	<u>9/21E</u>	<u>12/21E</u>	<u>2021E</u>
Search and other	35,265	42,267	44,225	51,830	173,587	42,320	41,667	42,000	43,000	168,987	44,800	45,900	47,100	48,200	186,000
Advertising	<u>18,584</u>	<u>21,300</u>	<u>21,552</u>	<u>26,427</u>	<u>87,863</u>	<u>23,733</u>	<u>18,674</u>	<u>32,000</u>	<u>39,000</u>	<u>113,407</u>	<u>21,000</u>	<u>28,000</u>	<u>33,250</u>	<u>42,750</u>	<u>125,000</u>
Total revenue	53,849	63,567	65,777	78,257	261,450	66,053	60,341	74,000	82,000	282,394	65,800	73,900	80,350	90,950	311,000
Cost of revenue	<u>5,766</u>	<u>6,068</u>	<u>6,819</u>	<u>6,867</u>	<u>25,520</u>	<u>5,766</u>	<u>4,880</u>	<u>4,900</u>	<u>5,000</u>	<u>20,546</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>20,000</u>
Gross profit	48,083	57,499	58,958	71,390	235,930	60,287	55,461	69,100	77,000	261,848	60,800	68,900	75,350	85,950	291,000
Customer acquisition costs and media buy	27,433	33,175	34,170	41,113	135,891	36,138	36,801	45,880	51,660	170,479	40,467	45,818	50,219	57,299	193,802
Research and development	4,862	5,610	5,976	6,137	22,585	7,207	7,122	7,500	8,000	29,829	8,000	8,000	8,000	8,000	32,000
Selling and marketing	8,325	8,667	8,649	9,095	34,736	9,701	8,219	9,500	10,000	37,420	8,500	9,000	9,500	10,000	37,000
General and administrative	3,058	3,419	3,562	4,960	14,999	3,939	3,581	3,400	3,400	14,320	3,400	3,400	3,400	3,400	13,600
Depreciation and amortization	<u>2,390</u>	<u>2,286</u>	<u>2,628</u>	<u>2,407</u>	<u>9,711</u>	<u>2,302</u>	<u>2,251</u>	<u>2,500</u>	<u>2,500</u>	<u>9,553</u>	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>	<u>10,000</u>
Operating income (loss)	2,015	4,342	3,973	7,678	18,008	1,000	(2,513)	320	1,440	247	(2,067)	182	1,731	4,752	4,598
Financial expenses	<u>1,325</u>	<u>989</u>	<u>419</u>	<u>737</u>	<u>3,470</u>	<u>(8)</u>	<u>741</u>	<u>317</u>	<u>200</u>	<u>1,250</u>	<u>175</u>	<u>130</u>	<u>80</u>	<u>32</u>	<u>417</u>
Income (loss) before taxes	690	3,353	3,554	6,941	14,538	1,008	(3,254)	3	1,240	(1,003)	(2,242)	52	1,651	4,720	4,181
Income tax (benefit)	<u>(542)</u>	<u>453</u>	<u>680</u>	<u>1,054</u>	<u>1,645</u>	<u>(326)</u>	<u>(1,015)</u>	<u>1</u>	<u>248</u>	<u>(1,092)</u>	<u>(448)</u>	<u>10</u>	<u>330</u>	<u>944</u>	<u>836</u>
Net income (loss)	<u>1,232</u>	<u>2,900</u>	<u>2,874</u>	<u>5,887</u>	<u>12,893</u>	<u>1,334</u>	<u>(2,239)</u>	<u>2</u>	<u>992</u>	<u>89</u>	<u>(1,794)</u>	<u>42</u>	<u>1,321</u>	<u>3,776</u>	<u>3,345</u>
EPS	<u>0.05</u>	<u>0.11</u>	<u>0.11</u>	<u>0.22</u>	<u>0.49</u>	<u>0.05</u>	<u>(0.08)</u>	<u>0.00</u>	<u>0.04</u>	<u>0.00</u>	<u>(0.06)</u>	<u>0.00</u>	<u>0.05</u>	<u>0.13</u>	<u>0.12</u>
Shares Outstanding	25,885	25,897	26,895	27,288	26,358	28,213	26,630	28,213	28,213	27,817	28,213	28,213	28,213	28,213	28,213
EBITDA	4,405	6,628	6,601	10,085	27,719	3,302	(262)	2,820	3,940	9,800	433	2,682	4,231	7,252	14,598
Adjusted EBITDA*	5,125	7,435	7,618	12,215	32,393	6,238	2,464	5,670	6,790	21,162	3,283	5,532	7,081	10,102	25,998
<u>Margin Analysis</u>															
Gross margin	89.3%	90.5%	89.6%	91.2%	90.2%	91.3%	91.9%	93.4%	93.9%	92.7%	92.4%	93.2%	93.8%	94.5%	93.6%
Customer acquisition costs and media buy	50.9%	52.2%	51.9%	52.5%	52.0%	54.7%	61.0%	62.0%	63.0%	60.4%	61.5%	62.0%	62.5%	63.0%	62.3%
Research and development	9.0%	8.8%	9.1%	7.8%	8.6%	10.9%	11.8%	10.1%	9.8%	10.6%	12.2%	10.8%	10.0%	8.8%	10.3%
Selling and marketing	15.5%	13.6%	13.1%	11.6%	13.3%	14.7%	13.6%	12.8%	12.2%	13.3%	12.9%	12.2%	11.8%	11.0%	11.9%
General and administrative	5.7%	5.4%	5.4%	6.3%	5.7%	6.0%	5.9%	4.6%	4.1%	5.1%	5.2%	4.6%	4.2%	3.7%	4.4%
Operating margin	3.7%	6.8%	6.0%	9.8%	6.9%	1.5%	(4.2)%	0.4%	1.8%	0.1%	(3.1)%	0.2%	2.2%	5.2%	1.5%
Tax rate	(78.6)%	13.5%	19.1%	15.2%	11.3%	(32.3)%	31.2%	20.0%	20.0%	108.9%	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%	(5.1)%	12.5%	4.8%	8.0%	(0.4)%	22.5%	8.6%	10.9%	10.1%

\*Includes stock compensation, restructuring and other costs

Source: Company filings and Taglich Brothers' estimates

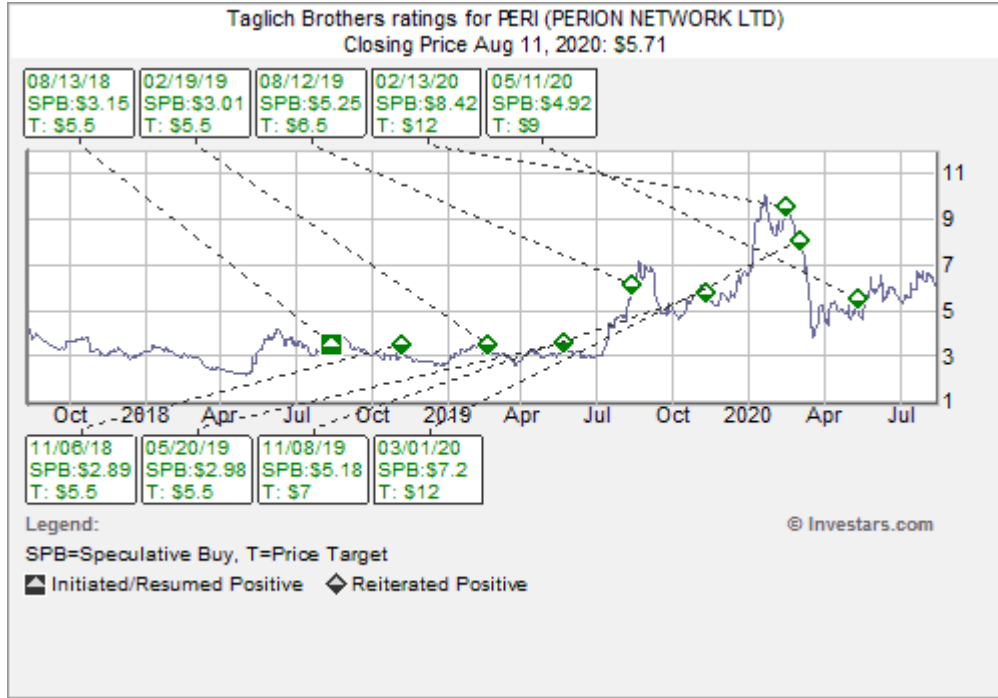
Perion Network Ltd.

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

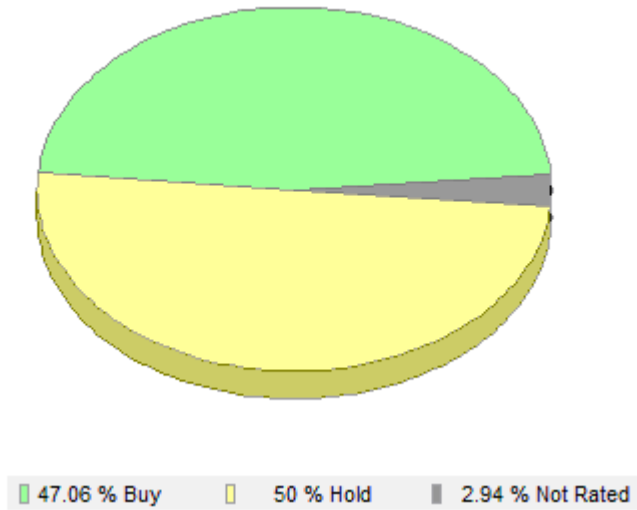
	2017A	2018A	2019A	6M20A	2020E	2021E
Net income (loss)	(72,754)	8,121	12,893	(905)	89	3,345
Depreciation & amortization	16,591	9,719	9,711	4,553	9,553	8,517
Impairment	85,667	-	-	-	-	-
Restructuring costs	-	462	-	-	-	-
Stock-based compensation	2,112	2,718	2,293	1,941	3,941	4,000
Foreign currency translation	83	3	(86)	(47)	(47)	-
Accretion of payment obligation related to acquisition	43	-	-	-	-	-
Accrued interest	475	1,005	(204)	-	-	-
Deferred taxes	(8,877)	335	(1,756)	(1,952)	(1,952)	-
Accrued severance pay	801	(783)	96	33	33	-
Fair value revaluation - convertible debt	3,785	(1,585)	600	-	-	-
Loss from sale of property and equipment	-	-	-	84	84	-
Cash earnings (loss)	27,926	19,995	23,547	3,707	11,701	15,862
<i>Changes in assets and liabilities</i>						
(Increase) decrease in working capital	8,087	12,806	21,194	(1,060)	(7,321)	(8,023)
<b>Net cash provided by (used in) operations</b>	<b>36,013</b>	<b>32,801</b>	<b>44,741</b>	<b>2,647</b>	<b>4,381</b>	<b>7,838</b>
Purchase of property and equipment	(1,606)	(2,038)	(717)	(113)	(500)	(500)
Proceeds from sale of property and equipment	10	59	-	-	-	-
Capitalization of development costs	(5,756)	(1,756)	-	-	-	-
Cash paid for acquisitions	-	-	(1,200)	(16,145)	(20,145)	-
Obligation in connection with acquisitions	-	-	-	2,349	2,349	-
Short-term deposits	2,501	1,913	(19,234)	6,362	6,362	-
<b>Net cash provided by (used in) investing</b>	<b>(4,851)</b>	<b>(1,822)</b>	<b>(21,151)</b>	<b>(7,547)</b>	<b>(11,934)</b>	<b>(500)</b>
Exercise of options and restricted shares	1	-	1,227	1,741	3,500	3,500
Payments made in connection with acquisition	(2,551)	(3,333)	(1,813)	-	-	(8,000)
Proceeds from debt	5,000	25,000	-	-	-	-
Repayment of debt	(26,290)	(44,676)	(24,182)	(4,166)	(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>(2,425)</b>	<b>(4,833)</b>	<b>(12,833)</b>
Effect of currency exchange rates	283	78	(20)	(73)	-	-
<b>Net change in cash</b>	<b>7,605</b>	<b>8,048</b>	<b>(1,198)</b>	<b>(7,398)</b>	<b>(12,386)</b>	<b>(5,495)</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>27,219</b>
<b>Cash - end of period</b>	<b>31,567</b>	<b>40,803</b>	<b>39,605</b>	<b>32,207</b>	<b>27,219</b>	<b>21,724</b>

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	11
Hold		
Sell		
Not Rated		

### **Important Disclosures**

As of the date of this report, an employee at Taglich Brothers, Inc. owns or has a controlling interest in 1,000 shares of PERI common stock. 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.

### **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.

**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.