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Research Report – Update

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

Perion Network Ltd.

Speculative Buy

John Nobile
November 2, 2020

PERI $6.93 — (NASDAQ)

	2018A	2019A	2020E	2021E
Revenues (millions)	$252.8	$261.5	$294.8	$324.0
Earnings (loss) per share	$0.31	$0.49	$0.15	$0.27

52-Week range	$9.70 – $3.43	Fiscal year ends:	December
Common shares out as of 10/28/20	26.7 million	Revenue per share (TTM)	$10.43
Approximate float	16.5 million	Price/Sales (TTM)	0.7X
Market capitalization	$185 million	Price/Sales (2021)E	0.6X
Tangible book value/share	NMF	Price/Earnings (TTM)	26.7X
Price/tangible book value	NMF	Price/Earnings (2021)E	25.7X

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 on Perion and maintaining twelve-month price target of 12.00 per share.

In 2020, the company was able to mitigate the impact from COVID-19 with its product diversity and cost saving efforts. Despite minimal growth projected for digital ad spending in 2020, Perion's revenue grew 14.5% year-to-date aided by strong growth in connected television (CTV) advertising.

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 ($61.2 million or $2.16 per share as of September 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.

Perion reported (10/28/20) 3Q20 revenues increased 26.8% to $83.4 million and EPS of $0.08. We projected 3Q20 revenue of $80 million and EPS of $0.08.

For 2020, we project a 12.8% increase in revenue to $294.8 million and EPS of $0.15. We previously projected revenue of $291.4 million and EPS of $0.23. Our revised estimates reflect 2H20 guidance.

For 2021, we project a 9.9% increase in revenue to $324 million and EPS of $0.27. We previously projected revenue of $320 million and EPS of $0.31. Our revised estimates are in line with revenue guidance and reflect higher customer acquisition costs and financial expenses than previously projected.

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

Recommendation and Valuation

Reiterating Speculative Buy rating on Perion and maintaining our twelve-month price target of 12.00 per share.

In 2020, the company was able to mitigate the impact from COVID-19 with its product diversity and cost saving efforts. Despite minimal growth projected for digital ad spending in 2020, Perion's revenue grew 14.5% year-to-date aided by strong growth in connected television (CTV) advertising.

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 ($61.2 million or $2.16 per share as of September 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.

PERI's trailing 12-month price-to-sales multiple is 0.7X. We believe investors are likely to accord PERI a multiple approaching the industry (which is currently 1.3X) given the company's strong growth in a tight market and our projected increases in cash flow and shareholder's equity. Applying a multiple of 1.2X (unchanged) to our 2021 sales projection of $11.48 per share, discounted for execution risk, implies a year-ahead value of approximately $12.00 per share.

Perion and Microsoft Renew Their Strategic Partnership for Four Years

On November 2, 2020, Perion Network Ltd. announced the renewal of a multi-year strategic partnership with Microsoft to drive search advertising business growth through Perion's search technology division, CodeFuel.

The continuing collaboration enables CodeFuel to further grow its publisher relationships offering, search technology solutions, and sophisticated expertise for monetizing digital properties. These include shopping, product comparison and content websites, applications, browser extensions, mobile launchers, and white label search engines. CodeFuel's publishers' network enables Microsoft to increase search advertising market share and to connect advertisers to millions of potential customers.

Organizational History

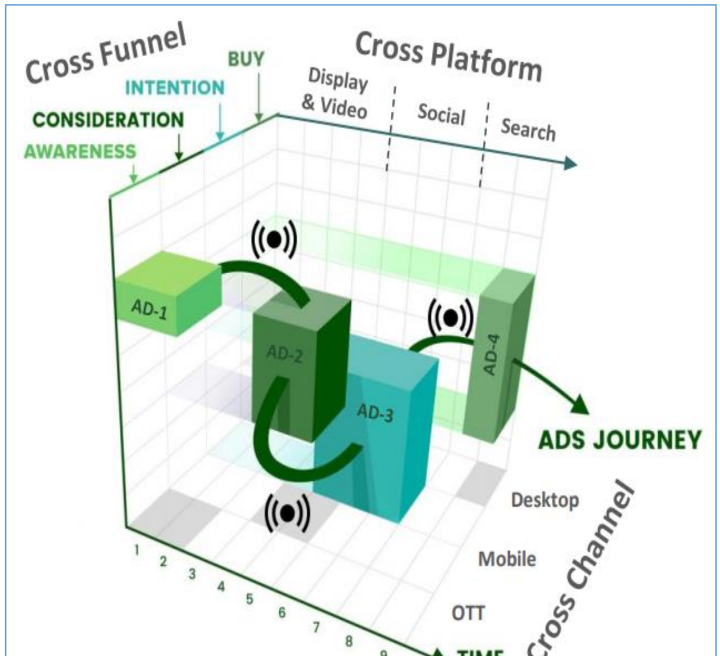
The company was incorporated in the State of Israel in November 1999 under the name Verticon Ltd. and changed its name to IncrediMail Ltd. in November 2000. In November 2011, the company changed its name to Perion Network Ltd. Since 2011, Perion completed several acquisitions, including the acquisitions 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 advertising solution is driven by its Synchronized Digital Branding platform that enables a brand to tell a complete story by delivering the right message to the right audience at the right time (see chart at top right on next 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 an optimal ad.



Source: August 2019 Presentation

The company's advertising division, Undertone, helps brands capture consumer attention via creative and proprietary ad formats served across top-tier publishers (see chart at lower right). Perion's search division, CodeFuel, enables developers to optimize search traffic and generate incremental revenue. The company's social advertising platform, MakeMeReach, drives marketing campaigns and demand generation at scale across Facebook, Twitter, Instagram, and Snapchat.

Undertone - 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, performance and insights.

Undertone's AI-driven cloud platform is designed for brands and agencies to help accomplish three critical objectives: to attract audiences on diverse channels such as Facebook, Instagram, Google, Amazon, LinkedIn, Snapchat, Pinterest, and Twitter; to distribute the execution of these campaigns to agencies and franchises; and to measure results in one unified, intuitive dashboard.

Social networks are expected to continue to be a major platform for digital advertising, and with a lot of innovation in the sector, advertisers will look for emerging platforms to reach existing and new audiences.

Perion acquired Pub Ocean in July 2020. Pub Ocean is a digital publisher-focused technology company with scalable content distribution and real-time revenue analytics technology. It is expected that the acquisition of Pub Ocean will offer significant and immediate synergies to Content IQ, which Perion acquired in January 2020. Content IQ stands to benefit from Pub Ocean's automated recommendations and analytics which sit between brands and channels.

Content IQ operates in the digital publishing space, utilizing data and analytic tools to deconstruct content, revenue and distribution in order to solve digital publishing challenges and drive traffic to owned and operated properties, as well as those of the company's network of publishers. Content IQ's page-level engagement solutions offer tools for extracting value from content, enabling publishers and brands to monetize their properties through real-time optimization.

CodeFuel - A search platform that allows 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.

As part of Perion's partnership with Microsoft Bing, in early 2020 the company launched Privado, a private search engine, enabling Perion to capitalize on the growing consumer trend for online privacy.

MakeMeReach - A social marketing platform that offers a dashboard for marketers to enable media buying to be more efficient. The platform enables global brands to standardize and centralize their advertising workflows in one place, so that they can easily manage distributed advertising activities, maintain control of their brand, and improve overall ad performance.

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.

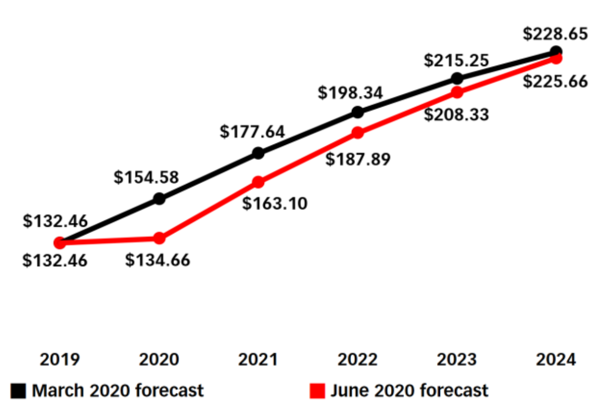
Industry

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.

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

billions, March 2020 vs. June 2020

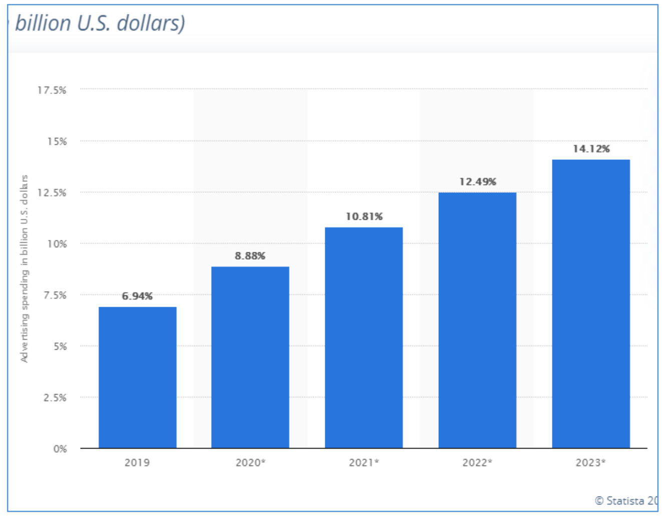


Note: includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets and other internet-connected devices, and includes all the various formats of advertising on those platforms; includes ads such as Facebook's News Feed Ads and Twitter's Promoted Tweets
Source: eMarketer, June 2020

T11104 www.eMarketer.com

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 of the COVID-19 pandemic 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 above right).



Helping to drive Perion's revenue growth has been strong growth in connected television (CTV) advertising. A connected television is wirelessly connected to the internet. In June 2020, Statista projected CTV advertising in the US to grow from $6.9 billion in 2019 to $14.1 billion in 2023 for a CAGR of 19.4% (see chart at right). Statista observed that advertising on CTV was a growing trend combining the ease of online advertising and reach of TV. Tailored ads can be served to target audiences while they are streaming video content on their TVs.

Competition

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.

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 October 2020, the International Monetary Fund (IMF) revised its global economic estimates to a decline of 4.4% for 2020 and growth of 5.2% for 2021. In June 2020, the IMF predicted a GDP decline of 5.2% for 2020 and growth of 5.4% for 2021. The 2020 upward revision primarily reflects better-than-anticipated 2Q20 GDP. The 2021 downward revision primarily reflects the more moderate downturn projected for 2020.

The IMF revised its economic growth estimate for the US to a decline of 4.3% for 2020 and growth of 3.1% for 2021. In June 2020, the IMF projected a decline in US growth of 8% for 2020 and growth of 4.5% for 2021.

The advance estimate of US GDP growth (released on October 29, 2020) showed the US economy increased at an annual rate of 33.1% in 3Q20, up from the 31.4% decline reported in 2Q20. The 3Q20 US GDP estimate primarily reflects increases in consumer spending, inventory investment, exports, business investment, and housing investment, partially offset by a decrease in government spending.

Projections

2020 Forecast - We project a 12.8% increase in revenue to $294.8 million and net income of $4.3 million or $0.15 per share. We previously projected revenue of $291.4 million and net income of $6.3 million or $0.23 per share. Our revised estimates reflect 3Q20 results and 2H20 guidance.

We project gross margins of 92.9%. Customer acquisition costs and media buy expenses are projected to increase 28.5% to $174.7 million as payments to publishers and developers increase. R&D expense should increase by 35% to $30.5 million as the company invests in new product development. Selling and marketing expenses should increase by 6.1% to $36.9 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 2.4% increase in general and administrative expenses to $15.4 million.

We project operating income of $6.5 million, down from $18 million in 2019 due primarily to higher customer acquisition costs.

In 2020, we project $13.3 million cash from operations due to $16.1 million in cash earnings and a $2.9 million increase in working capital. Cash from operations, short term deposits, and an increase in debt should more than cover cash paid for acquisitions, increasing cash by $16.1 million to $55.7 million at the end of 2020.

2021 Forecast – We project a 9.9% increase in revenue to $324 million and net income of $7.5 million or $0.27 per share. We previously projected revenue of $320 million and net income of $8.6 million or $0.31 per share. Our revised estimates are in line with revenue guidance calling for double digit revenue growth and reflect higher customer acquisition costs and financial expenses than previously projected.

We project gross margins of 93.8%. Customer acquisition costs and media buy expenses are projected to increase 13.2% to $197.6 million as payments to publishers and developers increase. R&D expense should increase by 4.9% to $32 million as the company continues to invest in new product development while monitoring costs. Selling and marketing expenses should increase 3.1% to $38 million from $36.9 million. We project a 3.6% decrease in general and administrative expenses to $14.8 million as the company continues to control costs.

We project operating income of $10.8 million, up from $6.5 million in 2020. We anticipate the company paying $1.9 million in taxes for a 20% tax rate.

In 2021, we project cash earnings of $23.1 million and an $8.7 million increase in working capital resulting in $14.4 million cash from operations. Cash from operations should cover payments related to acquisitions, the pay down of debt, and capital expenditures, increasing cash by $396,000 to $56.1 million at the end of 2021.

3Q and Nine-Months 2020 Financial Results

3Q20 - Perion reported net income of $2.1 million or $0.08 per share on a 26.8% increase in total revenue to $83.4 million. We projected 3Q20 revenue of $80 million and net income of $2.4 million or $0.08 per share. In the year ago period, EPS was $0.11 on revenue of $65.8 million.

Advertising revenues increased 75.8% to $37.9 million. Search and other revenues increased 2.9% to $45.5 million. The increase in advertising revenue was primarily due to a 200% increase in CTV related offerings and the acquisition of Content IQ in January 2020 and Pub Ocean in July 2020. The increase in search and other revenues was primarily due to a growing number of search queries.

Gross profit increased 32.5% to $78.1 million from $59 million while gross margins increased to 93.7% from 89.6%. Customer acquisition costs and media buy expenses increased 46% to $49.9 million from $34.2 million due primarily to the acquisitions of Content IQ and Pub Ocean.

Research and development costs increased by 35.1% to $8.1 million from $6 million. Selling and marketing expenses increased by 9.2% to $9.4 million. General and administrative expenses increased 19% to $4.2 million from $3.6 million. Depreciation and amortization expenses decreased by 2.5% to $2.7 million.

The company reported financial expense of $459,000 versus $419,000 in 3Q19. Perion paid $1.2 million in taxes versus 680,000 in 3Q19.

Nine-months 2020 - Perion reported net income of $1.2 million or $0.04 per share on a 14.5% increase in total revenue to $209.8 million. In the year ago period, EPS was $0.27 on revenue of $183.2 million.

Advertising revenues increased 30.7% to $80.3 million. Search and other revenues increased 6.4% to $129.5 million. Gross profit increased 17.8% to $193.9 million from $164.5 million while gross margins increased to 92.4% from 89.8%. Customer acquisition costs and media buy expenses increased 29.6% to $122.8 million from $94.8 million.

Research and development costs increased by 36.2% to $22.4 million from $16.4 million. Selling and marketing expenses increased by 6.7% to $27.4 million. General and administrative expenses increased 17.1% to $11.8 million from $10 million. Depreciation and amortization expenses were relatively flat at $7.2 million.

The company reported financial expense of $1.2 million versus $2.7 million in 2019. Perion received a $138,000 tax benefit versus paying $591,000 in 2019.

Liquidity – As of September 30, 2020, Perion had $61.2 million cash (includes $8.3 million short-term bank deposit and $1.2 million of restricted cash), a current ratio of 1X, $22.9 million of debt ($20.8 million short-term and $2.1 million long-term), payment obligation related to acquisitions of $36.7 million ($17.5 million short-term and $19.2 million long-term), and a debt equity ratio of 0.1X.

	Nine Months Ended	
	9/20A	9/19A
Search and other	129,509	121,757
Advertising	80,298	61,436
Total revenue	209,807	183,193
Cost of revenue	15,938	18,653
Gross profit	193,869	164,540
Customer acquisition costs and media buy	122,817	94,778
Research and development	22,400	16,448
Selling and marketing	27,368	25,641
General and administrative	11,759	10,039
Depreciation and amortization	7,248	7,304
Operating income (loss)	2,277	10,330
Financial expenses	1,192	2,733
Income (loss) before taxes	1,085	7,597
Income tax (benefit)	(138)	591
Net income (loss)	1,223	7,006
EPS	0.04	0.27
Shares Outstanding	28,318	26,054
EBITDA	9,525	17,634
Margin Analysis		
Gross margin	92.4%	89.8%
Customer acquisition costs and media buy	58.5%	51.7%
Research and development	10.7%	9.0%
Selling and marketing	13.0%	14.0%
General and administrative	5.6%	5.5%
Operating margin	1.1%	5.6%
Year / Year Growth		
Total Revenues	14.5%	
Net Income	(82.5)%	
EPS	(83.9)%	
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 nine months ended September 30, 2020, the company had cash earnings of $9.3 million and a $23,000 increase in working capital that resulted in $9.2 million cash provided by operations. Cash provided by operations and $8.3 million cash provided by financing (from a net increase in debt and the exercise of options) were partially offset by $4.3 million cash used in investing (primarily from cash paid for acquisitions partially offset by short-term deposits) increased cash by $13.3 million to $52.9 million (includes restricted cash) at September 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 16.5 million shares in the float and the average daily volume is approximately 220,000 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	9/20A	2020E	2021E
Cash and cash equivalents	31,567	39,109	38,389	51,660	54,491	54,886
Restricted cash	-	1,694	1,216	1,221	1,221	1,221
Short-term bank deposits	5,913	4,000	23,234	8,300	8,300	8,300
Receivables	62,830	55,557	49,098	51,687	52,410	57,600
Prepaid expenses and other	13,955	3,533	3,170	3,155	3,155	3,155
Total current assets	114,265	103,893	115,107	116,023	119,577	125,162
Property and equipment	17,476	15,649	10,918	7,667	6,583	2,748
Operating lease right-of-use assets	-	-	22,429	20,065	20,065	20,065
Goodwill and intangibles	136,360	131,547	128,444	178,289	178,289	178,289
Deferred taxes	4,798	4,414	6,171	6,297	6,297	6,297
Other	1,128	943	708	574	574	574
Total assets	**274,027**	**256,446**	**283,777**	**328,915**	**331,385**	**333,135**
Accounts payable	39,180	38,208	47,681	48,031	48,274	48,889
Accrued expenses and other	17,784	17,240	18,414	17,859	18,278	20,088
Short-term operating lease liability	-	-	3,667	3,913	3,913	3,913
Short-term debt	13,989	16,059	8,333	20,833	18,833	10,833
Deferred revenues	5,271	3,794	4,188	4,149	4,149	4,149
Payment obligation related to acquisitions	5,146	1,813	1,025	17,458	17,458	13,458
Total current liabilities	81,370	77,114	83,308	112,243	110,905	101,330
Long-term debt	46,719	24,393	8,333	2,083	2,083	2,083
Payment obligation related to acquisition	-	-	-	19,206	18,067	14,067
Long-term operating lease liability	-	-	20,363	17,623	17,623	17,623
Other	7,606	6,158	6,591	6,202	6,202	6,202
Total liabilities	**135,695**	**107,665**	**118,595**	**157,357**	**154,880**	**141,305**
Total stockholders' equity	**138,332**	**148,781**	**165,182**	**171,558**	**176,505**	**191,831**
Total liabilities & stockholders' equity	**274,027**	**256,446**	**283,777**	**328,915**	**331,385**	**333,135**

Source: Company filings and Taglich Brothers' estimates

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

	2017A	2018A	2019A	2020E	2021E
Search and other	139,505	126,868	173,587	175,509	181,000
Advertising	134,481	125,977	87,863	119,298	143,000
Total revenue	273,986	252,845	261,450	294,807	324,000
Cost of revenue	24,659	23,757	25,520	20,938	20,000
Gross profit	249,327	229,088	235,930	273,869	304,000
Customer acquisition costs and media buy	130,885	128,351	135,891	174,667	197,640
Research and development	17,189	18,884	22,585	30,500	32,000
Selling and marketing	52,742	38,918	34,736	36,868	38,000
General and administrative	21,911	16,450	14,999	15,359	14,800
Depreciation and amortization	16,591	9,719	9,711	9,948	10,800
Operating income (loss)	(75,658)	14,691	18,008	6,527	10,760
Financial expenses	5,922	3,794	3,470	1,583	1,352
Income (loss) before taxes	(81,580)	10,897	14,538	4,944	9,408
Income tax (benefit)	(8,826)	2,776	1,645	634	1,882
Net income (loss)	(72,754)	8,121	12,893	4,310	7,526
EPS	(2.81)	0.31	0.49	0.15	0.27
Shares Outstanding	25,850	26,855	26,358	27,848	28,213
EBITDA	(59,067)	24,410	27,719	16,475	21,560
Adjusted EBITDA*	28,917	29,554	32,393	27,001	32,360
Margin Analysis					
Gross margin	91.0%	90.6%	90.2%	92.9%	93.8%
Customer acquisition costs and media buy	47.8%	50.8%	52.0%	59.2%	61.0%
Research and development	6.3%	7.5%	8.6%	10.3%	9.9%
Selling and marketing	19.2%	15.4%	13.3%	12.5%	11.7%
General and administrative	8.0%	6.5%	5.7%	5.2%	4.6%
Operating margin	(27.6)%	5.8%	6.9%	2.2%	3.3%
Tax rate	10.8%	25.5%	11.3%	12.8%	20.0%
Year / Year Growth					
Total Revenues	(12.4)%	(7.7)%	3.4%	12.8%	9.9%

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

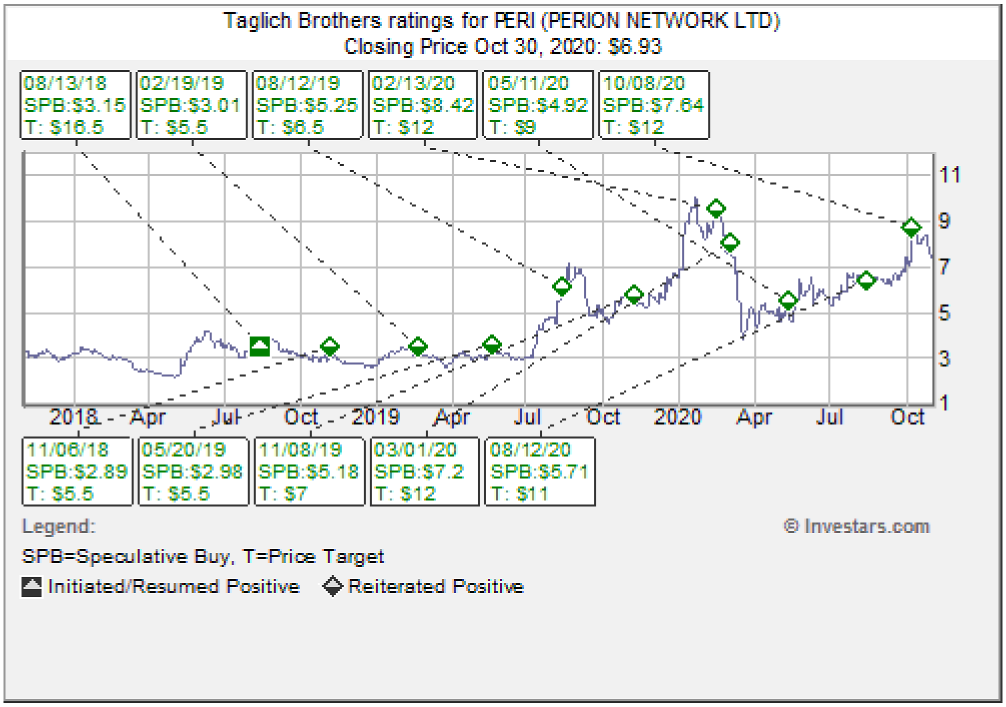
	3/19A	6/19A	9/19A	12/19A	2019A	3/20A	6/20A	9/20A	12/20E	2020E	3/21E	6/21E	9/21E	12/21E	2021E
Search and other	35,265	42,267	44,225	51,830	173,587	42,320	41,667	45,522	46,000	175,509	44,500	44,500	45,500	46,500	181,000
Advertising	18,584	21,300	21,552	26,427	87,863	23,733	18,674	37,891	39,000	119,298	28,000	32,000	39,000	44,000	143,000
Total revenue	53,849	63,567	65,777	78,257	261,450	66,053	60,341	83,413	85,000	294,807	72,500	76,500	84,500	90,500	324,000
Cost of revenue	5,766	6,068	6,819	6,867	25,520	5,766	4,880	5,292	5,000	20,938	5,000	5,000	5,000	5,000	20,000
Gross profit	48,083	57,499	58,958	71,390	235,930	60,287	55,461	78,121	80,000	273,869	67,500	71,500	79,500	85,500	304,000
Customer acquisition costs and media buy	27,433	33,175	34,170	41,113	135,891	36,138	36,801	49,878	51,850	174,667	44,225	46,665	51,545	55,205	197,640
Research and development	4,862	5,610	5,976	6,137	22,585	7,207	7,122	8,071	8,100	30,500	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	9,448	9,500	36,868	8,750	9,250	9,750	10,250	38,000
General and administrative	3,058	3,419	3,562	4,960	14,999	3,939	3,581	4,239	3,600	15,359	3,700	3,700	3,700	3,700	14,800
Depreciation and amortization	2,390	2,286	2,628	2,407	9,711	2,302	2,251	2,695	2,700	9,948	2,700	2,700	2,700	2,700	10,800
Operating income (loss)	2,015	4,342	3,973	7,678	18,008	1,000	(2,513)	3,790	4,250	6,527	125	1,185	3,805	5,645	10,760
Financial expenses	1,325	989	419	737	3,470	(8)	741	459	391	1,583	362	346	330	314	1,352
Income (loss) before taxes	690	3,353	3,554	6,941	14,538	1,008	(3,254)	3,331	3,859	4,944	(237)	839	3,475	5,331	9,408
Income tax (benefit)	(542)	453	680	1,054	1,645	(326)	(1,015)	1,203	772	634	(47)	168	695	1,066	1,882
Net income (loss)	1,232	2,900	2,874	5,887	12,893	1,334	(2,239)	2,128	3,087	4,310	(190)	671	2,780	4,265	7,526
EPS	0.05	0.11	0.11	0.22	0.49	0.05	(0.08)	0.08	0.11	0.15	(0.01)	0.02	0.10	0.15	0.27
Shares Outstanding	25,885	25,897	26,895	27,288	26,358	28,213	26,630	28,337	28,213	27,848	28,213	28,213	28,213	28,213	28,213
EBITDA	4,405	6,628	6,601	10,085	27,719	3,302	(262)	6,485	6,950	16,475	2,825	3,885	6,505	8,345	21,560
Adjusted EBITDA*	5,125	7,435	7,618	12,215	32,393	6,238	2,464	8,749	9,550	27,001	5,525	6,585	9,205	11,045	32,360
Margin Analysis															
Gross margin	89.3%	90.5%	89.6%	91.2%	90.2%	91.3%	91.9%	93.7%	94.1%	92.9%	93.1%	93.5%	94.1%	94.5%	93.8%
Customer acquisition costs and media buy	50.9%	52.2%	51.9%	52.5%	52.0%	54.7%	61.0%	59.8%	61.0%	59.2%	61.0%	61.0%	61.0%	61.0%	61.0%
Research and development	9.0%	8.8%	9.1%	7.8%	8.6%	10.9%	11.8%	9.7%	9.5%	10.3%	11.0%	10.5%	9.5%	8.8%	9.9%
Selling and marketing	15.5%	13.6%	13.1%	11.6%	13.3%	14.7%	13.6%	11.3%	11.2%	12.5%	12.1%	12.1%	11.5%	11.3%	11.7%
General and administrative	5.7%	5.4%	5.4%	6.3%	5.7%	6.0%	5.9%	5.1%	4.2%	5.2%	5.1%	4.8%	4.4%	4.1%	4.6%
Operating margin	3.7%	6.8%	6.0%	9.8%	6.9%	1.5%	(4.2)%	4.5%	5.0%	2.2%	0.2%	1.5%	4.5%	6.2%	3.3%
Tax rate	(78.6)%	13.5%	19.1%	15.2%	11.3%	(32.3)%	31.2%	36.1%	20.0%	12.8%	20.0%	20.0%	20.0%	20.0%	20.0%
Year / Year Growth															
Total Revenues	(11.6)%	1.2%	15.0%	8.7%	3.4%	22.7%	(5.1)%	26.8%	8.6%	12.8%	9.8%	26.8%	1.3%	6.5%	9.9%

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

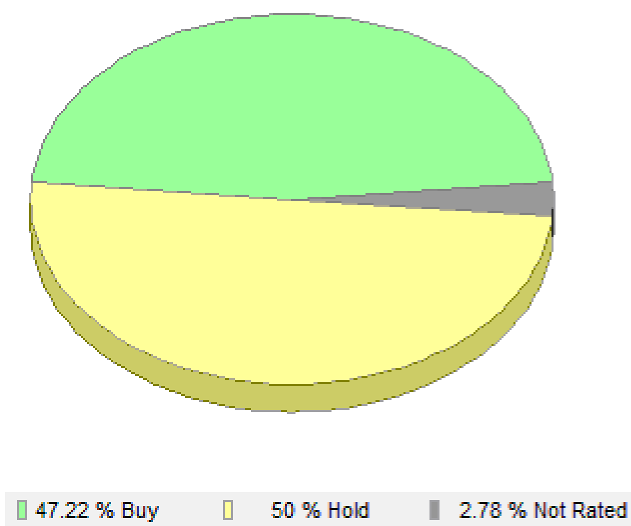
	2017A	2018A	2019A	9M20A	2020E	2021E
Net income (loss)	(72,754)	8,121	12,893	1,223	4,310	7,526
Depreciation & amortization	16,591	9,719	9,711	7,248	9,948	10,800
Impairment	85,667	-	-	-	-	-
Restructuring costs	-	462	-	-	-	-
Stock-based compensation	2,112	2,718	2,293	2,913	4,013	4,800
Foreign currency translation	83	3	(86)	(89)	(89)	-
Accretion of payment obligation related to acquisition	43	-	-	-	-	-
Accrued interest	475	1,005	(204)	13	13	-
Deferred taxes	(8,877)	335	(1,756)	(2,339)	(2,339)	-
Accrued severance pay	801	(783)	96	205	205	-
Fair value revaluation - convertible debt	3,785	(1,585)	600	-	-	-
Loss from sale of property and equipment	-	-	-	88	88	-
Cash earnings (loss)	27,926	19,995	23,547	9,262	16,149	23,126
Changes in assets and liabilities						
(Increase) decrease in working capital	8,087	12,806	21,194	(23)	(2,879)	(8,731)
Net cash provided by (used in) operations	**36,013**	**32,801**	**44,741**	**9,239**	**13,270**	**14,396**
Purchase of property and equipment	(1,606)	(2,038)	(717)	(386)	(500)	(1,000)
Proceeds from sale of property and equipment	10	59	-	-	-	-
Capitalization of development costs	(5,756)	(1,756)	-	-	-	-
Cash paid for acquisitions	-	-	(1,200)	(20,186)	(20,186)	-
Obligation in connection with acquisitions	-	-	-	1,347	1,347	-
Short-term deposits	2,501	1,913	(19,234)	14,934	14,934	-
Net cash provided by (used in) investing	**(4,851)**	**(1,822)**	**(21,151)**	**(4,291)**	**(4,405)**	**(1,000)**
Exercise of options and restricted shares	1	-	1,227	2,086	3,000	3,000
Payments made in connection with acquisition	(2,551)	(3,333)	(1,813)	-	-	(8,000)
Proceeds from debt	5,000	25,000	-	12,500	12,500	-
Repayment of debt	(26,290)	(44,676)	(24,182)	(6,249)	(8,249)	(8,000)
Net cash provided by (used in) financing	**(23,840)**	**(23,009)**	**(24,768)**	**8,337**	**7,251**	**(13,000)**
Effect of currency exchange rates	283	78	(20)	(9)	(9)	-
Net change in cash	**7,605**	**8,048**	**(1,198)**	**13,276**	**16,107**	**396**
Cash - beginning of period	**23,962**	**32,755**	**40,803**	**39,605**	**39,605**	**55,712**
Cash - end of period	**31,567**	**40,803**	**39,605**	**52,881**	**55,712**	**56,107**

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	**3**	**15**
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.

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

Public companies mentioned in this report:

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

Meaning of Ratings

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

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

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

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

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.

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.