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Group Part

Private Equity Challenge – Perion Network Ltd

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Abstract

The dissertation details the acquisition proposal of Perion Network Ltd., an Israeli ad-tech company. Perion's core strength lies in its Intelligent Hub technology, connecting digital advertising's supply and demand, with a significant revenue concentration in North America. The company's strategy encompasses ad search, social media, and display/video advertising, partnering with major players like Microsoft. Perion's technological innovation, market leadership, and successful mergers position it attractively for investment. The investment opportunity offers private equity firms access to the expanding digital advertising sector, leveraging Perion's strengths for growth and innovation-driven returns. The presentation includes detailed individual analyses focusing on crucial aspects such as the Capital Structure of Perion Network Ltd., comprehensive Financial Modelling, and in-depth Valuation and Analysis. These segments provide a thorough understanding of the company's financial dynamics, essential for evaluating its investment potential and strategic value in the private equity context.

Keywords:

Private Equity Challenge, Perion Network, Valuation,
Investment Thesis

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COMPANY OVERVIEW

Perion Network Ltd., a leader in digital advertising and content monetization, trades on NASDAQ under the symbol PERI. Originating from Israel, Perion stands out for its use of advanced technology and comprehensive data analytics. Central to its strategy is the Intelligent Hub (iHUB), embodying the company's innovative ethos. iHUB effectively connects the supply and demand sides of advertising, enhancing efficiency for Perion's partners and clients. Perion's operations span across digital advertising sectors like search, social media, and diverse advertising formats, including display, video, and CTV. Strategic acquisitions have been key to Perion's expansion, enhancing its footprint in the digital advertising and marketing landscape.

While Perion's roots are in Israel, its global presence extends to North America and Europe, with North America being particularly significant, contributing approximately 88% of its revenue in 2022. Perion's journey began in 1999 as Verticon Ltd., focusing on email software services. It evolved into IncrediMail Ltd. in the early 2000s, marking the beginning of a phase of strategic growth. The company listed on the Tel Aviv Stock Exchange in 2007, entering a new phase of expansion. A partnership with Microsoft in 2010 underlined Perion's growing influence. In 2011, a rebranding to "Perion Network Ltd." marked a strategic shift toward digital advertising and engagement solutions, defining its current focus. Notable achievements include launching its search advertising business unit, CodeFuel, in 2018 and introducing SORT®, an AI-based technology, in 2021, which earned the title of "Best Cookieless Identification Technology" at the 2023 Digiday Technology Awards.

In the realm of digital advertising, Perion has established itself through its strategic partnerships and technological advancements. In ad search, it collaborates with search giants to optimize keyword bidding and target audiences more effectively. In social media, Perion's software-as-a-service-based platform redefines advertising campaign execution, compatible with major

networks. In display, video, and CTV advertising, Perion is known for its high-impact ad formats that capture consumer attention and drive engagement across a curated selection of websites and applications. The iHUB stands out as Perion's significant innovation, an end-to-end model consolidating the digital advertising ecosystem. iHUB is lauded for its intelligent operation, providing savings, reducing traffic acquisition costs, optimizing media buying, and increasing market agility. It enables Perion to process billions of transactions efficiently, propelling digital advertising operations forward.

Perion Network Ltd. excels in forging strong connections across diverse customer segments, including brand advertisers, advertising agents, and platform operators. The company tailors its solutions to precisely cater to these varied needs, harnessing cutting-edge technology and expertise. This strategy boosts stakeholders' ability to enhance their advertising campaigns, leading to improved return on investment and overall campaign performance. Perion also extends its support to publishers and app developers, enabling them to effectively monetize their digital content through relevant ad placements.

Strategically, Perion's alliances span across the digital advertising spectrum, with key partnerships including major search providers and publishers. These collaborations, especially with search providers like Microsoft, which accounted for a significant portion of Perion's search services revenue in 2022, form the backbone of the company's revenue streams. The diversity of Perion's supply sources further underlines its capability to offer high-quality digital advertising inventory.

Perion's competitive edge is multifaceted. The company boasts a diverse solutions portfolio that meets the unique needs of a broad advertiser base. Its commitment to continuous innovation is manifested in the development of groundbreaking solutions. Perion's strategic acquisitions demonstrate its effective expansion of capabilities and offerings, enhancing its position in the

digital advertising realm. Perion's revenue generation is robust, deriving from display advertising, which accounts for a majority of its revenue, and search advertising, sustained by service agreements with search partners. Understanding Perion's cost structure is key to appreciating its financial health. The primary expenses are traffic acquisition costs and media buy, which form a significant portion of the company's costs. Operational costs, including server hosting, data verification, customer support, and investments in research and development, sales and marketing, and general and administrative expenses, further indicate Perion's commitment to future growth and operational excellence.

Organic growth drivers for Perion include continuous innovation, a customer-centric approach, market differentiation, and adaptability to market trends. The iHUB system exemplifies Perion's adaptability, offering dynamic targeting capabilities and real-time data insights, enabling swift adaptation to changing market trends. Inorganic growth through strategic acquisitions has been a pivotal aspect of Perion's expansion. This approach has diversified the company's revenue streams and enhanced its competitiveness. Notable acquisitions, ranging from Smilebox in 2011 to Vidazoo in 2021, have broadened Perion's reach within the digital ecosystem.

However, growth comes with challenges. Perion faces risks such as potential changes in key partnerships, market volatility in major revenue-contributing regions like North America, the complexities of integrating acquisitions, and the ever-present threat of IT attacks and business disruptions. These factors necessitate vigilant risk management to sustain growth and operational stability.

The fiscal year 2022 marked a period of significant financial achievement for Perion Network Ltd. The company experienced a remarkable 34% year-over-year growth in revenue, reaching \$640.3 million. This surge in revenue underscores Perion's expanding market influence and operational prowess. Further highlighting its operational efficiency, the company's Adjusted

EBITDA stood at \$116 million. Additionally, notable increases in Net Income and Operating Cash Flow were observed, reflecting Perion's effective profitability and cash management strategies. Revenue for Perion is heavily concentrated in the North American market, which contributed 88% to the total revenue, illustrating the strategic importance of this region to the company. Europe, contributing 11%, indicates Perion's expanding global reach.

Under the transformative leadership of former CEO Doron Gerstel, Perion embarked on a path of revitalization and growth from 2017. Gerstel's strategies significantly bolstered Perion's competitive stance and technological foundations. Succeeding Gerstel, Tal Jacobson, with his extensive ad tech industry experience, took on the role of CEO, aiming to drive Perion's growth with a focus on innovation and market adaptability. Maoz Sigron, as CFO, brings valuable expertise in M&A and financial strategy, supporting Perion's growth trajectory. Yosi Botzer, the CTO, ensures the alignment of Perion's technical roadmap with its strategic goals. The Board of Directors at Perion, comprising seven members with diverse backgrounds and an average tenure of four years, provides strategic oversight and governance. This board, inclusive of two women, contributes valuable continuity and insight into the company's evolution. Its four committees—Audit, Compensation, Investment, Nominating and Governance—play vital roles in maintaining corporate governance and aligning executive actions with shareholder interests. Perion's workforce of 440 employees as of the end of 2022, with a significant presence in Israel and the United States, reflects its global operations and a diverse talent pool. The prominence of the Sales & Marketing department in the employee composition underscores Perion's focus on driving revenue growth through active market engagement.

Innovation and market insight are central to Perion's growth strategy. The company leverages new technologies and expands its product portfolio while maintaining operational efficiency. Integration of ChatGPT with Microsoft Bing's search, for example, exemplifies Perion's foresight in using emerging technologies to create new monetization opportunities. Perion's

strategic movements in the realm of connected devices and retail media reflect its readiness to capitalize on evolving market trends and technologies. The iHUB platform, integral to Perion's operations, connects supply and demand effectively, demonstrating the company's commitment to technological integration and data-driven solutions. Perion's search monetization efforts, in partnership with Microsoft Bing and other content providers, highlight its focus on innovation through AI and analytics.

Financial data from 2014 to 2022 shows Perion experiencing impressive growth in its Display and Search Advertising units, with notable events like the acquisition of Undertone in 2015 significantly boosting Display Advertising revenues. The company's focus on streamlining operations is evident in its decision to reduce customer acquisition costs, impacting its Search Advertising revenue in 2015. Perion's improved Media Margin and Adjusted EBITDA Margin reflect its ability to optimize operations and manage growth in expenses. Despite experiencing volatility in net income in 2015 and 2017, the company demonstrated resilience and financial stability in subsequent years. The company's financial health is also supported by prudent capital management and investment returns, as seen in the increase in interest income from higher cash balances. Enhanced liquidity and financial agility were achieved through significant share issuance in a private placement in 2021, providing Perion with strategic investment capabilities. Perion's approach to Net Working Capital and debt management has been strategic, focusing on managing working capital to support operational needs and growth initiatives. The full settlement of liabilities from key acquisitions like ClientConnect and Undertone in 2021 showcases Perion's commitment to strong financial discipline. Operational cash flow has shown a healthy upward trend, with Adjusted EBITDA more than doubling from 2021 to 2022. Investment activities, particularly in expansion and acquisitions, highlight Perion's commitment to strategic growth. The company's balanced approach to scaling the business while maintaining financial health is evident in its stable CAPEX as a percentage of total revenues.

MARKET OVERVIEW

Digital advertising has become the dominant force in the global advertising ecosystem, with digital ad spending comprising about 65% of worldwide media advertising in 2022, amounting to approximately \$614.5 billion. This figure is expected to surge to \$854.9 billion by 2026, accounting for roughly 73% of worldwide marketing spending. In this burgeoning market, the U.S. stands out as the largest spender, with a \$141 billion investment in 2022, and forecasts predict this expenditure to rise to \$232 billion by 2026. Perion Network Ltd. operates within this dynamic landscape, which is characterized by stable growth and is influenced by key trends affecting the industry. One such trend is consumer blindness to ads, where the overexposure to digital ads has led to a desensitization among consumers. This challenges advertisers to innovate with new ad formats and strategic creative execution. Retail media is also emerging as a significant player, with retailers shifting from traditional print to dynamic digital solutions—a segment that eMarketer predicts will claim a 17.8% stake in the U.S. digital ad pie by 2024. Privacy concerns are another trend shaping the landscape. With regulations like GDPR and CCPA, and the impending deprecation of cookies by tech giants such as Google, the industry is moving towards more privacy-conscious advertising solutions. There's also a significant shift towards digital CTV (connected television), coinciding with the rapid ascent of digital CTV advertising and marking a paradigm shift in content consumption. The transition from desktop to mobile platforms is evident with the growing consumer consumption of applications, services, and content on mobile devices. Notably, Microsoft's integration of ChatGPT is set to revolutionize Bing search capabilities, providing more advanced and intuitive search experiences for users, catering better to their needs. In terms of segment development, search advertising in 2022 dominated the digital advertising landscape, holding a 41% market share. This segment is anticipated to witness a CAGR of 9.50% from 2021 to 2026. Social media advertising, which allocated 31% of digital ad spends in 2022, is projected to maintain steady

growth with an expected CAGR of 5.72% from 2021 to 2026. Display and video advertising commanded a 26% share of the digital advertising market in 2022, with projections indicating a robust CAGR of 7.91% from 2021 to 2026 in this segment.

The landscape of digital advertising is continually evolving, influenced by a multitude of factors that drive the market's complexity. A significant surge in the number of internet users worldwide offers advertisers an expanding global audience, which in turn catalyzes increased ad expenditure. Concurrently, there's a marked increase in digital media consumption as consumers increasingly engage with digital platforms, opening new channels for advertisers to connect with their audience and display their offerings. Marketing budgets are also on the rise as the ability to measure digital campaign performance encourages businesses to invest more, with marketing expenditures being driven by tangible returns on investment. Yet not all influences are growth-positive. Events like the Russia-Ukraine war have injected uncertainty into the global economy and consumer sentiment, leading businesses to approach ad spending with increased caution. Within this ecosystem, the value chain comprises brands and organizations that craft and fund digital campaigns, and a network of intermediaries that bridge the gap between these advertisers and the digital advertising ecosystem. There are also platforms that empower advertisers to manage campaigns more efficiently and enable publishers to monetize their inventory programmatically. Website owners and content creators generate and monetize content through ad placements, while tech companies provide the essential tools, software, and analytics services necessary for tracking and serving ads. Data providers play a crucial role by collecting and providing valuable user data and insights for targeting purposes. Finally, at the end of this chain are the consumers who interact with digital content and ads, their engagement levels providing a measure of the effectiveness of digital advertising campaigns.

The competitive dynamics of the digital advertising sector are characterized by intense competition with industry giants establishing substantial territories. Yet, the landscape is

anything but static, with smaller niche players offering innovative solutions that challenge established norms. These smaller entities often distinguish themselves through agility and innovation, despite the vast resources of larger competitors. The digital advertising ecosystem incessantly vies for consumer attention, where consumers increasingly wield greater control over their online experiences. This is compounded by a changing regulatory environment that redefines rules around user data and privacy, leveling the playing field. Moreover, the complexity of the ecosystem is heightened by interdependent relationships, such as Microsoft, which can be a partner in one domain and a competitor in another, illustrating the multifaceted nature of the industry. Within this milieu, major stakeholders like Google, Meta, and Amazon are defining forces. Google leads in search advertising, capturing a broad user base, while Meta's social platforms bridge retail and advertising with their e-commerce prowess. Amazon also leverages its e-commerce strength in advertising. Microsoft, with its Bing search engine, stands out as both a partner and competitor, underscoring the intricate relationships within the industry. Perion's peer group includes companies like The Trade Desk and AppLovin, which possess deep expertise in the digital advertising industry. These companies are committed to technological innovation, leveraging data analytics, AI, and machine learning. The global reach and strong industry relationships of these companies grant access to a wide range of ad inventory and provide advertisers with extensive targeting options. In the backdrop of Porter's Five Forces, the rivalry among existing competitors is fierce, with tech giants, startups, and traditional media entities vying for advertising dollars. Content creators and platforms, holding user attention, possess significant bargaining power. While there are threats from substitute products like organic SEO or influencer partnerships, the digital ad sector maintains relatively low barriers for new entrants at the micro-level, such as niche influencers. However, buyers, particularly massive brands, can negotiate deals, especially in tailor-made campaigns, indicating their bargaining power.

INVESTMENT THESIS | Deal Rationale & Value Creation Overview

Perion stands at the forefront of a rapidly growing market in digital advertising and software solutions, a sector experiencing significant expansion with a Compound Annual Growth Rate (CAGR) of 9.84%. This surge in market demand positions Perion not only as a participant but as a potential leader in this burgeoning industry. The company's strategic positioning is further strengthened by its deep-rooted expertise in the sector, which allows it to not only keep pace with but also anticipate and drive market trends, thereby capitalizing on the expanding opportunities. Financially, Perion has demonstrated exceptional strength and stability. Its history of consistent revenue growth and profitability, coupled with strong cash flow generation, paints a picture of a financially robust entity. These indicators are crucial in a dynamic and sometimes volatile market environment, as they demonstrate Perion's capacity to not only withstand economic fluctuations but also to thrive in them. This financial resilience and astuteness ensure investor confidence and provide a solid foundation for future growth and expansion. In the realm of competitive positioning, Perion has established a notable presence. Its commitment to innovation in technology solutions sets it apart in a technology-driven industry. The strategic partnerships Perion has forged extend its reach and influence, creating a network that supports and amplifies its market presence. This approach has enabled Perion to stay ahead of customer needs, adapting swiftly and effectively to changing market demands. The company's reputation for reliability and trustworthiness further cements its standing in the market, making it a formidable competitor poised for sustained growth and success. Perion's approach to acquisitions has been strategic and effective, demonstrating a keen eye for identifying businesses that not only complement but enhance its core operations. The company's track record in integrating these acquisitions seamlessly is impressive, indicating a sophisticated understanding of operational synergy. These acquisitions have not only expanded Perion's revenue streams but have also diversified its service offerings, contributing significantly to the

company's overall growth and market position. Moreover, these strategic acquisitions have facilitated Perion's entry into new market segments and geographies, broadening its customer base and enhancing its global footprint. This expansion strategy has been carefully calibrated to align with the company's long-term vision and growth objectives, ensuring that each acquisition contributes positively to the corporate ethos and value proposition. In conclusion, Perion's strategic market position, underpinned by robust financial performance, innovative competitive strategies, and a successful history of strategic acquisitions, positions the company for continued success and leadership in the digital advertising and software solutions market. The company's agility in adapting to market trends, combined with its operational efficiency and strategic growth initiatives, make it a compelling entity in its sector, poised for sustained growth and profitability. The strategic plan for Perion's expansion into European operations is centered around reducing its current heavy reliance on the U.S. market, where Europe presently contributes only about 11% of total revenues. By continuing to expand in this geographical market, Perion not only mitigates risks associated with over-dependence on a single market but also bolsters its financial stability through more diverse sources of cash flow. In terms of internationalization, this expansion presents substantial growth opportunities, allowing Perion to spread its economic, political, and regulatory risks. Increasing revenue streams through this diversification supports long-term sustainability. The strategy aligns with other company initiatives to lessen the risks of over-reliance on specific markets or regions. Furthermore, the portfolio expansion strategy involves broadening Perion's solution offerings, which is expected to enhance revenue streams and enable the company to adapt to the evolving needs of its customer base. This expansion allows Perion to leverage its existing customer relationships and cross-sell new products and services, thereby deepening customer engagement and increasing revenue potential. This approach underscores the company's commitment to innovation and customer-centric solutions, which are vital in the dynamic digital advertising landscape. The

"Buy-and-Build" strategy for Perion focuses on leveraging strategic acquisitions to gain access to new markets, innovative technologies, and diverse customer bases, thereby accelerating growth and enhancing competitiveness. This approach, building upon Perion's successful history, is not just about expansion but also about enriching the company's solution portfolio. It positions Perion effectively for internationalization, tapping into new geographical markets and customer segments. In terms of operational efficiency improvement, there is a recognition that Perion's gross margin currently trails behind the average of its peer group. This gap indicates a significant opportunity for efficiency enhancements. By capitalizing on the capabilities of Perion's intelligent hub, the company aims to reduce costs and streamline operations. Coupled with organic growth strategies, these improvements are expected to bolster the company's margins, aligning them more closely with industry standards. This dual approach of internal efficiency optimization and external expansion via acquisitions forms a robust framework for sustainable growth and improved financial performance.

BUSINESS PLAN | Revenue Forecast

The growth strategies within Perion Network Ltd's Leveraged Buyout (LBO) are characterized by a comprehensive and forward-looking approach, leveraging various facets of the digital advertising landscape to drive substantial revenue expansion. A closer examination reveals the intricate details and strategic significance of these growth drivers:

Display Advertising represents a significant growth avenue for Perion, with the company projecting substantial expansion from \$360.690 million in 2022 to \$551.554 million in 2030. This growth trajectory hinges on the strategic expansion into the European market. Central to this strategy is the acquisition of Adform, a pivotal move aimed at capitalizing on the European digital advertising market's robust Compound Annual Growth Rate (CAGR) of 7.82%. Beyond mere market expansion, this acquisition also serves the strategic objective of reducing Perion's reliance on the North American market. This calculated move underscores Perion's intention to

mitigate regional risk while harnessing the growth potential of the European digital advertising landscape. In parallel, the Search Advertising segment is poised for substantial growth, with projections indicating an increase from \$279.566 million in 2022 to \$551.554 million in 2030. What sets this segment apart is its higher profit margins, positioning it as a lucrative source of revenue for Perion. The success of Search Advertising is further propelled by Perion's unwavering commitment to technological innovation. This commitment aligns seamlessly with prevailing industry trends, mirroring the strategies of industry peers such as The Trade Desk and PubMatic. These companies prioritize the integration of Artificial Intelligence (AI) and machine learning into their operations to enhance ad targeting capabilities. Perion's alignment with these industry best practices reflects a forward-looking approach that leverages cutting-edge technology to optimize ad targeting and efficiency within the Search Advertising domain.

Perion Network's growth strategy encompasses strategic acquisitions and investments in key areas to drive revenue and market expansion. Three significant components of this strategy are the Adform acquisition, Direct Digital Holdings, and AdTheorent's role in revenue growth. The Adform acquisition is poised to be a cornerstone of Perion's growth strategy, with revenue forecasted to surge from \$119.193 million in 2025 to \$139.480 million in 2030. This substantial increase underscores the strategic significance of the Adform acquisition, which is central to expanding Perion's footprint in the European market. Additionally, it positions Perion to effectively cater to the evolving needs of a diverse customer base. The acquisition is not merely a financial transaction but a pivotal move that aligns with Perion's broader goal of strengthening its presence in Europe, tapping into the region's growth potential, and diversifying its revenue streams. Direct Digital Holdings is another critical element of Perion's growth strategy. This subsidiary is expected to exhibit a robust growth pattern, serving as evidence of the positive impact of strategic acquisitions on revenue diversification and Perion's expanding market

presence. The ability to successfully integrate and grow acquired entities, such as Direct Digital Holdings, demonstrates Perion's strategic competence and its capacity to leverage acquisitions as growth catalysts. Furthermore, the revenue projections for AdTheorent show steady growth, increasing from \$220.080 million in 2027 to \$233.551 million in 2030. This trajectory underscores the strategic value of incorporating Artificial Intelligence (AI) and machine learning into Perion's operations. AdTheorent's role in improving ad targeting and efficiency contributes significantly to Perion's sustainable growth trajectory. The company's commitment to staying competitive in a rapidly evolving industry is reflected in its strategic investments in AI and machine learning, which are poised to enhance its market positioning and revenue generation.

Perion Network Ltd has strategically charted a growth trajectory that encompasses various key drivers to foster substantial revenue expansion. These strategic initiatives, when harmoniously executed, are poised to drive impressive overall revenue growth, indicative of Perion's commitment to value creation and market dominance. The culmination of these strategic efforts is expected to result in a remarkable surge in total revenue, transitioning from \$640.256 million in 2022 to an impressive \$1,818.237 million by 2030. This projected growth is a testament to the synergistic impact achieved through a multi-faceted approach, comprising expanded European operations, continuous technological innovation, and strategic acquisitions. Perion's growth strategy is emblematic of its proactive stance in the digital advertising arena. It's not merely a reactive response to market dynamics but a well-calibrated plan designed to thrive amidst evolving industry trends and market intricacies. This approach reinforces Perion Network Ltd's unwavering dedication to delivering substantial value to its stakeholders while solidifying its position as a formidable player in the fiercely competitive digital advertising landscape.

BUSINESS PLAN | EBITDA Forecast

Perion Network Ltd's financial strategy is underpinned by a meticulous approach to both gross profit enhancement and operational cost management. These interconnected elements collectively reinforce the company's commitment to financial optimization and sustainable growth. Firstly, Perion is poised to achieve substantial growth in its gross profit, aiming to transition from \$237.251 million in 2022 to a robust \$762.109 million by 2030. Simultaneously, the company aims to elevate its gross margin from 37.1% to a healthier 41.9%. This growth trajectory is steered by a deliberate emphasis on high-margin display advertising and a strategic focus on optimizing Traffic Acquisition Costs (TAC) through iHUB. The underlying strategy seeks to achieve a delicate balance between elevating revenue streams while meticulously managing variable costs, ultimately resulting in an enhanced overall profit margin. Secondly, Perion's cost management strategy extends to operational costs, encompassing critical areas such as Research & Development (R&D), selling and marketing, and general and administrative expenses. The company exhibits exemplary discipline in maintaining operational costs that consistently align with revenue figures, showcasing a prudent and efficient approach to scaling its business operations. The anticipated growth in operational costs, projected to increase from \$114.251 million in 2022 to \$446.970 million in 2030, mirrors the expected revenue growth, thereby ensuring that operational efficiency remains a cornerstone of Perion's financial strategy. Moreover, the projection of organic EBITDA growth is a compelling facet of Perion's financial outlook. The company anticipates organic EBITDA to increase from \$123 million in 2022 to a substantial \$236.187 million by 2030. This trajectory signifies Perion's operational efficiency and strategic leverage. Such a remarkable rise in organic EBITDA underscores the company's inherent ability to generate higher earnings without incurring substantial incremental costs. This cost-effective approach contributes significantly to Perion's overall profitability, emphasizing its adeptness in optimizing operational processes and maximizing financial returns. Perion's

financial strategy incorporates the concept of Add-ons EBITDA, which represents incremental EBITDA resulting from strategic acquisitions and investments. The numbers in the Add-ons EBITDA category highlight the strategic value of Perion's decisions to diversify its product portfolio and expand its market reach through acquisitions and other calculated investments. These strategic moves play a pivotal role in driving the overall growth of EBITDA, augmenting the company's financial landscape and bolstering its competitive positioning. Another significant aspect of this strategy is the anticipated rise in the total EBITDA margin, which is expected to increase from 18% in 2022 to 20% in 2025. This upward trajectory underscores Perion's unwavering commitment to enhancing operational efficiency and achieving higher profit margins. It signifies the company's ability to adapt to evolving market dynamics while simultaneously optimizing profitability. This growth model not only scales revenue but also ensures that profitability remains in alignment with revenue growth, reinforcing Perion's capacity to thrive in a competitive landscape.

In conclusion, Perion Network Ltd's financial strategy demonstrates a meticulous and wellstructured approach to cost management, profitability, and operational efficiency. These elements collectively exemplify the company's financial acumen and strategic foresight, highlighting its ability to navigate the complexities of an LBO while consistently enhancing cash flow generation—a key driver of its long-term success.

BUSINESS PLAN | Free Cash Flow Forecast

The financial analysis of Perion Network Ltd within the framework of its Leveraged Buyout (LBO) reveals a robust financial strategy geared toward cash flow growth and sustainable profitability. Key highlights include strong EBITDA growth, driven by positive cost base improvements, and D&A growth stemming from strategic acquisitions, contributing to overall financial strength. Additionally, the analysis outlines significant cash outflows related to

acquisitions in the short term, emphasizing Perion's proactive approach to expanding its market presence and product portfolio. The management of working capital is shown to gradually improve over the investment period, reflecting effective capital utilization and a balanced approach to financial operations. Notably, the Free Cash Flow (FCF) remains solid, even during a temporary period of negativity due to an acquisition, demonstrating Perion's resilience and long-term focus on cash flow generation. Overall, these findings underline Perion Network Ltd's commitment to delivering sustained value to its stakeholders through prudent financial management and strategic financial planning.

VALUATION | Overview

The valuation of Perion Network, a critical endeavor in understanding the company's financial standing and investment potential, has undergone a meticulous examination utilizing a diverse array of methodologies. This comprehensive approach aims to provide a multifaceted view of the company's true worth and the factors that influence it. One of the primary methods employed is Trading Comps, which entails a thorough analysis of the company's valuation in comparison to similar publicly traded entities. In this case, the valuation range derived from Trading Comps spans from 1,035 to 1,166, revealing the inherent volatility in market sentiment. This volatility emphasizes the importance of considering various factors that can impact Perion Network's value in the eyes of investors. To further enhance the depth of analysis, the Trading Comps (Cycle) method was also applied. This approach widens the valuation range to 457 to 1,256 and considers the cyclical nature of Perion Network's industry. It acknowledges the susceptibility of the company's valuation to economic fluctuations, with a lower median indicating increased risk during economic downturns. This recognition of economic cycles adds an additional layer of complexity to the assessment, underscoring the need to consider broader economic factors. In addition to these comparative methods, the valuation analysis incorporates insights from Precedent Transactions. This approach scrutinizes historical acquisition prices and leverages

them to provide insights into the fair market value of Perion Network. The valuation range here, spanning from 975 to 1,257, suggests consistency in market perceptions of acquisition values, offering valuable historical context for the company's current valuation. Moving beyond comparative methodologies, two Discounted Cash Flow (DCF) methods were applied: the Gordon Growth Method and the Exit Multiple Method. The Gordon Growth Method, with a valuation range from 1,136 to 1,259, demonstrates confidence in cash flow projections. It calculates intrinsic value based on the present value of anticipated future cash flows, providing a fundamental assessment of the company's financial health. Similarly, the DCF - Exit Multiple Method, with a range from 1,299 to 1,392, indicates an optimistic outlook. This approach estimates the terminal value of Perion Network by applying an exit multiple to a relevant financial metric. By blending this terminal value with the present value of forecasted cash flows, it yields a valuation that reflects not only the company's current performance but also its potential for future growth. In conclusion, the valuation of Perion Network is a complex and multifaceted process that combines various methodologies to offer a comprehensive perspective on the company's intrinsic worth. These methods consider factors such as market sentiment, economic cycles, historical acquisitions, and cash flow projections. The result is a nuanced understanding of Perion Network's value, essential for informed investment decisions and strategic planning.

CAPITAL STRUCTURE | Financing

Perion's pursuit of favorable financing for the debt associated with the Leveraged Buyout (LBO) hinges on a combination of pivotal factors that collectively bolster its financial stability and attractiveness to potential lenders. First and foremost, Perion's substantial firm size commands attention. With an Enterprise Value reaching approximately USD 1075.2 million and an EBITDA of USD 123 million, the company establishes itself as a financial powerhouse within its industry. This substantial financial scale instills confidence in Perion's capacity to effectively

manage the financial obligations tied to the LBO. Lenders are more likely to perceive the company as a reliable borrower given its ability to generate significant revenues. Governance plays a crucial role in Perion's appeal to lenders. The company's listing on a US stock exchange signifies a strong commitment to rigorous governance standards, ensuring transparency and accountability in its financial operations. Moreover, Perion's management team boasts a wealth of experience in corporate governance and regulatory compliance, further solidifying the company's reputation for responsible financial management. Lenders value such attributes, as they mitigate the risks associated with lax governance practices and instill confidence in the company's ability to navigate financial challenges. Perion's financial efficiency is also a key asset. The company's EBITDA cash conversion rate, standing at an impressive 80%, highlights its ability to translate a significant portion of its earnings into cash. Additionally, the company maintains modest capital expenditure and research and development investment requirements, further strengthening its financial position. Lenders view this efficient cash management as a sign of fiscal prudence and reliability. Leverage management is another noteworthy aspect of Perion's financial strategy. The company maintains a negative net debt position, indicating that it holds more cash and liquid assets than outstanding debt. This strategic approach to leverage enhances Perion's financial stability and reduces the associated risks, making it an appealing prospect for lenders. While Perion currently exhibits limited geographical diversification, the company is actively pursuing strategies to expand its market reach through strategic acquisitions. This forward-thinking growth approach demonstrates Perion's commitment to diversifying its revenue streams and mitigating potential risks associated with a concentrated market presence. In summary, Perion's prospects for securing favorable debt financing for the LBO are underpinned by its substantial size, commitment to governance practices, impressive cash conversion efficiency, prudent leverage management, and proactive diversification efforts.

Collectively, these factors position Perion as an attractive candidate for lenders and significantly support the successful execution of the LBO.

CAPITAL STRUCTURE | Sources & Uses

The utilization and sourcing of funds in the proposed Leveraged Buyout (LBO) of Perion Network is a critical aspect of the financial structure, representing a well-thought-out and strategic approach to financing the transaction. In terms of uses of funds, the total funds required for the LBO amount to \$1,131.1 million. The largest portion of these funds, specifically \$1,098.1 million, is allocated to the payment of the Enterprise Value (EV). This figure is derived from an entry multiple of 8.9x of the company's 2022 EBITDA, which is explained in greater detail in the valuation section. Additionally, there are funds earmarked for Financing, Due Diligence, and Arrangement Fees, totaling approximately \$32.9 million. These expenses are essential components of the LBO process and are carefully considered in the financial planning. On the other side, the sources of funds for this transaction have been thoughtfully structured to optimize the financial stability and flexibility of the LBO. The funds are primarily sourced from two key channels: debt and equity contributions. Debt plays a significant role, contributing 43.5% of the total funds required. The debt portion is strategically designed, incorporating a mix of senior and subordinate debt instruments to create a balanced financial structure. The senior debt tranche, consisting of Term Loan A, B, and C, provides a secure and priority claim on the company's assets. This approach enhances financial stability and minimizes financing costs, making it an attractive option for lenders. In addition to senior debt, Mezzanine debt is utilized as a form of subordinate financing. Positioned between equity and senior debt, Mezzanine debt strikes a balance between risk and return. Its subordinated nature affords greater flexibility in terms but comes with a higher cost of capital. This structure aligns the interests of lenders with the success of the leveraged buyout, ensuring a well-aligned financial model. Furthermore, the calculation of sweet equity is based on the annual salaries of the top

management of the firm, escalating this value to 1.5 times the starting balance. This strategic allocation of sweat equity further underscores the commitment to incentivizing and rewarding key management personnel for their contributions to the LBO's success. In summary, the uses and sources of funds for the Perion Network LBO have been meticulously considered and structured to optimize financial stability, minimize costs, and align the interests of stakeholders. This strategic approach ensures a well-balanced and well-aligned financial model for the transaction.

RETURNS | Overview & Breakdown

This comprehensive return analysis pertains to the Leveraged Buyout (LBO) of Perion Network, offering a meticulous examination of key aspects that support the investment strategy. Within this analysis, we delve into critical components such as the exit strategy, financial projections, management returns, sensitivity analysis, equity value creation, operational value, and the overall conservative approach. The objective is to provide a strategic and detailed evaluation of the investment opportunity, showcasing its potential for robust, long-term growth, and resilience across a spectrum of market conditions. Through a methodical and thoughtful approach, this analysis offers valuable insights into the prospects of the Perion Network LBO, highlighting its attractiveness to investors seeking a blend of profitability and stability within their investment portfolio.

In this comprehensive analysis, several critical points underscore the strategic and thorough approach taken:

The exit strategy entails a well-planned exit after a four-year horizon, specifically in 2026, without reliance on multiple arbitrage, with a targeted exit EV/EBITDA multiple of 8.9x. Financial projections paint a promising picture, with an anticipated EBITDA of \$244.513 million at exit, resulting in a substantial enterprise value of \$2,183 million and an equity value

of \$1,980.1 million. These figures translate into an impressive internal rate of return (IRR) of 41% for the fund, reflecting a robust financial performance, and a substantial 2.8x multiple on invested capital (MOIC). The analysis also takes into account the interests of management, projecting that they stand to receive \$259.654 million on their \$19.8 million investment, representing an exceptional multiple of money (MM) at 13.1x. Sensitivity analysis plays a pivotal role in this evaluation, encompassing various holding periods and exit multiples. This comprehensive approach suggests the potential for returns ranging from 1.30x in just one year to an impressive 5.00x over a five-year timeframe, emphasizing adaptability to diverse market scenarios. Equity value creation is a core element, projecting a substantial generation of approximately \$1,308 million in total equity value, juxtaposed with the initial equity investment of \$639 million, signifying significant value generation potential. Operational value takes center stage, with a strong emphasis on driving EBITDA growth from \$123 million in 2022 to a targeted \$244 million in 2026. Additionally, there is a clear plan for the reduction of net debt from \$492 million to \$203 million, highlighting not only robust operational performance but also prudent financial management practices. A noteworthy aspect of this analysis is its conservative approach, where no value is attributed to multiple arbitrage. Instead, the primary focus remains on generating value through operational excellence within the firm while adhering to consistent entry and exit multiples.

In summation, this meticulous and strategic analysis underscores the potential for robust, longterm growth and resilience across varying market conditions. It presents an attractive investment opportunity for those seeking a blend of profitability and stability within their investment portfolio.

EXIT OPTIONS | Exit Options and Potential Buyers

Perion, a high-tech company, is considering various exit strategies, with the trade sale option emerging as a top contender. This strategy is enticing due to its potential for substantial returns and synergy opportunities, enabling Perion to tap into ongoing industry trends and expand its market presence. Key prospective buyers for a trade sale include industry giants like Amazon, Google, Meta, and Microsoft. The attractiveness of this strategy is further accentuated by the prevailing industry mergers and acquisitions (M&A) trends, offering the potential for significant synergistic benefits with larger industry players. Additionally, a trade sale generally offers a relatively faster exit process compared to other alternatives.

However, it's essential to acknowledge the trade sale's drawbacks. The process's speed, while faster than a secondary sale, may still be slower than desired. There is also a potential risk of losing synergies between business units during the transition, making meticulous planning and execution critical. The intricacies involved in a trade sale can lead to a time-consuming and complex process, requiring careful consideration. On the other hand, the secondary sale strategy involves selling Perion's stake to another Private Equity firm, such as Waterland PE, Equistone, or GoCapital. This approach may offer an appealing acquisition price, attracting potential investors. However, it comes with challenges related to initial valuations, which might not be as favorable as expected. Furthermore, the secondary sale process tends to be more prolonged and intricate compared to other available exit strategies, demanding a patient and strategic approach. Selling Perion's individual business units to specific buyers interested in distinct segments represents another exit strategy. This approach can attract buyers looking for particular business units or products. Potential buyers for this strategy include Canva, Freshworks, Attentive, and Mailchimp. However, it introduces risks associated with the potential loss of synergies between business units and involves a prolonged, challenging divestiture process.

While individual business units or products may draw interest from potential buyers, there's a risk of losing the cohesive synergies between these units. The divestiture process for selling parts often tends to be more extended and challenging.

Trade Sale Potential Buyers Overview

Being trade sale the most promising exit strategy, Perion aims to identify strategic partners within the high-tech segment. This section dives deeper into potential buyers, examining key industry players known for their dominance and financial strength. Each buyer's profile is evaluated to highlight strengths and capabilities that may align synergistically with Perion's objectives. This assessment aims to identify strategic partnerships offering growth opportunities amid the dynamic landscape of the digital advertising industry.

Google

Google emerges as a strong candidate for a potential trade sale acquisition of Perion. As a multinational company with great dominance in online services, Google offers an extensive array of digital tools and services across industries. Their past ten-year M&A history shows an impressive 128 deals, indicating a solid acquisition track record. With a strong financial profile, exhibiting sales of \$279.8 billion and an EBITDA of \$90.77 billion in 2022, Google presents itself as a great player in the high-tech segment, aligning well with Perion's solutions and indicating a strong potential for strategic synergy and growth.

Meta

Another significant potential buyer is Meta, a tech company specializing in social media platforms, digital advertising, virtual reality, and AI technologies. With an annual sales figure of \$116 billion and an EBITDA of \$37.63 billion in 2022, Meta's focus on diverse industries, including social networking, advertising, and virtual reality experiences, positions them as a

significant player in the digital advertising market. Meta's extensive market presence, coupled with expected interest in Perion's technologies like Paragone that allows advertisers to observe, in real-time, their paid digital advertising activities, makes them a good target buyer for Perion's trade sale.

Amazon

Amazon, a global e-commerce giant known for its expansive online marketplace, cloud services, digital streaming, and AI-powered devices, is a promising potential buyer. With an amazing annual sales figure of \$514 billion in 2022, Amazon serves various industries, including retail, cloud services, entertainment, logistics, and consumer electronics. Their increasing interest in the Digital Advertising business, along with their diverse market reach, positions them as a strong candidate for Perion's trade sale.

Microsoft

Microsoft, renowned for its software products such as Windows, Office, Azure cloud services, and hardware devices, presents another potential buyer option for Perion's trade sale. With a sales figure of \$198 billion and an EBITDA of \$97.843 billion in 2022, Microsoft's strong technological capabilities and already existing relationship with Perion could ease the way for an expanded partnership through acquisition or integration.

These potential buyers each bring their strengths and industry dominance to the table, making them prime candidates for a trade sale acquisition by Perion. Their extensive financial records, market reach, and technological expertise position them as strategic players capable of driving synergistic growth opportunities for Perion in the high-tech segment.

DUE DILIGENCE | Key Areas

Conducting a comprehensive due diligence process is crucial before finalizing any transaction, especially for high-stakes transactions. The analysis extends across various critical areas such as commercial capability, financial robustness, operational efficiency, legal compliance, and geopolitical factors, ensuring a complete understanding of Perion's strengths and vulnerabilities.

Commercial Due Diligence: In the context of commercial due diligence, it is imperative to scrutinize various aspects of the business. Firstly, when evaluating the search business, a significant concern arises from the heavy dependence on Microsoft Bing revenue. This reliance underscores the need to explore revenue diversification strategies, thereby reducing the vulnerability associated with a single revenue stream. Additionally, it is essential to analyze the competitiveness of the company's search advertising solutions to ensure they remain relevant in a rapidly evolving industry. Furthermore, assessing compatibility with emerging mobile platforms is of paramount importance. Neglecting this aspect could expose the business to the risk of inadequate penetration in the mobile services sector, which is increasingly dominant in today's market. Regarding advertising revenue, the potential risk lies in the over-dependence on major clients and contracts. To mitigate this risk, a proactive approach is required. This includes vigilant monitoring of industry trends to anticipate shifts in client preferences and advertising strategies. Strategizing to diversify the clientele base is crucial, as it reduces the company's reliance on a few key clients, thus enhancing resilience to potential disruptions.

Financial Due Diligence: Within the realm of financial due diligence, there are specific areas that demand careful examination. In the context of mergers and acquisitions, one significant red flag pertains to integration challenges. Acquiring companies must conduct a thorough assessment of integration plans to ensure a seamless transition and prevent operational

disruptions. Furthermore, undisclosed liabilities stemming from prior acquisitions can have a profound impact on the financial health of the organization. Therefore, comprehensive due diligence must encompass an examination of the financial implications of past acquisitions, including potential hidden liabilities that may surface. Another critical aspect of financial due diligence relates to the financial structure of the company. The potential for goodwill impairment is a concern that necessitates ongoing monitoring. Regular goodwill impairment analyses should be conducted to assess the value of intangible assets accurately. Additionally, stock volatility can significantly affect financial stability. Therefore, it is essential to continually monitor the factors influencing stock volatility, such as market conditions, investor sentiment, and economic indicators, and adapt financial strategies accordingly.

Operational Due Diligence: Operational due diligence plays a critical role in assessing the operational aspects of a business. One primary area of concern is innovation and adaptability. Risks in this domain include the possibility of lagging behind technological advancements and market competition. To mitigate these risks, it is imperative to maintain robust research and development (R&D) strategies, fostering a culture of adaptability within the organization. By staying at the forefront of technological developments and fostering an environment that embraces change, a company can position itself to thrive in a dynamic business landscape. Another pivotal operational aspect is service reliability. Ensuring the uninterrupted delivery of services is essential for maintaining customer trust. Red flags highlight the importance of monitoring service metrics and promptly addressing any issues that may arise. This proactive approach is instrumental in ensuring service continuity and reliability, ultimately safeguarding the company's reputation and customer satisfaction.

Legal Due Diligence: Legal due diligence is integral to understanding the legal and compliance aspects of a business. In the realm of data privacy regulations, concerns revolve around compliance and cybersecurity threats. Robust measures are required to address these concerns,

including rigorous assessments of the company's compliance with privacy laws and contractual obligations. Additionally, enhancing cybersecurity measures is paramount to protect sensitive data and mitigate cybersecurity risks. The safeguarding of intellectual property is another critical area within legal due diligence. Protecting proprietary technology and preempting potential conflicts is achieved through a meticulous evaluation of existing patents, agreements, and intellectual property rights. Ensuring that intellectual property is properly protected is vital for maintaining a competitive edge in the market and preventing legal disputes. Geopolitical risks introduce a layer of complexity to business operations. Evaluating the potential impact of geopolitical conflicts on market investments is essential to mitigate unforeseen market impacts resulting from geopolitical shifts. A thorough understanding of geopolitical dynamics and their potential ramifications on business operations is necessary for informed decision-making and risk management in a globalized market.

The due diligence process is crucial in identifying and addressing potential risks associated with the proposed transaction. Across commercial, financial, operational, and legal aspects, red flags such as heavy revenue reliance, undisclosed liabilities, service disruptions, and geopolitical uncertainties have been unveiled. These risks necessitate careful analysis and targeted actions to mitigate them effectively. Comprehensive due diligence not only mitigates risks but also offers a clearer understanding of the opportunities and challenges, aiding in making informed decisions throughout the transaction process. A Work Project, presented as part of the requirements for the Award of a Master's degree in Finance from the Nova School of Business and Economics.

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Individual Part

Private Equity Challenge - Perion Financial Modelling

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Abstract

This dissertation focuses on the key role of financial modelling in Perion's Leveraged Buyout (LBO). It explores the tailored financial models employed within the LBO investment thesis, stressing their critical impact on decision-making and strategic planning. The report details core principles, methodologies, and innovative approaches, including a different perspective with new techniques like scenario analysis, proposed for post-acquisition risk assessment aligned with Perion's LBO strategy. Overall, this contribution emphasizes the utmost importance of financial modelling in enabling informed decisions and risk mitigation within the context of the presented LBO Investment thesis.

Keywords:

Private Equity Challenge, Perion Network, Financial Modelling,
Investment Thesis

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Introduction

In the world of corporate finance and investment decisions, financial modelling plays a crucial role in guiding strategic moves. This report focuses on how financial modelling was crucial in the development of Perion Network Ltd's Leveraged Buyout (LBO), presenting its significance, methodologies, and implications for key decisions.

Financial modelling is not simply a set of numbers, it is a comprehensive analysis tool. This report will dive into the building, interpreting, and leveraging of financial models. These models help understand Perion's financial history, predict future growth, and identify potential risks. The aim is to reveal the importance of financial modelling and its role in navigating the complexities of an LBO for Perion Network Ltd.

Financial Modelling in the Context of Perion's LBO

Financial modelling, within the scope of Perion's Leveraged Buyout (LBO), acts as a strategic tool. It is a systematic approach which involves projections, forecasts, and analyses of financial data with the purpose of understanding Perion's financial landscape. In the context of the LBO, financial modelling helps to structure the deal, evaluate risks, and determine potential returns on investment. It provides a roadmap for assessing Perion's valuation, cash flow patterns, profitability, and overall financial health. These, through which investors, stakeholders, and decision-makers can assess the viability and potential success of the LBO, allowing for informed decision-making and strategic planning.

These models, built on robust assumptions and comprehensive data analysis, are fundamental in measuring Perion's intrinsic value, estimating future cash flows, and predicting potential returns on investment. In the context of an LBO, where debt financing plays a significant role,

these models become even more critical, guiding decisions on leverage, debt repayment schedules, and overall financial sustainability post-acquisition. These models will help ensure the success and sustainability of the Leveraged Buyout.

Fundamentals

Financial modelling within the context of Perion's Leveraged Buyout demands a specific approach, merging particular techniques with fundamental principles. For Perion's LBO financial model, various methodologies were used. The Three-Statement Model formed the foundation, integrating income statements, balance sheets, and cash flow statements to offer a complete view of Perion's financial health and operational performance. The Discounted Cash Flow (DCF) Model leveraged future cash flow projections, applying a discounted rate to derive Perion's intrinsic value and potential investment returns. The Acquisition Model (M&A) specifically focused on potential mergers and acquisitions, evaluating synergies, and determining the financial impact of such strategic moves. The Leveraged Buyout (LBO) Model, crucial in the context of this investment, assessed the feasibility of acquiring Perion using a significant amount of debt, aligning it with the company's cash flow and debt repayment capabilities. Additionally, the Forecasting Model facilitated projections, incorporating market trends, growth estimates, and operational changes, providing a roadmap for future financial performance under diverse scenarios. Each of these models contributed massively to the formulation of a comprehensive investment strategy.

Components of Perion's LBO Financial Model

Here follows a detailed breakdown of Perion's financial model components which are part of the Leveraged Buyout (LBO) analysis. Each element, from revenue projections to debt structures, will be analysed with Perion's numerical data.

Revenue Projections

The revenue projections were derived using various forecasting techniques, including historical sales data, market trends, growth rates, and industry analysis. Perion's revenue projections show a steady growth trajectory over the studied period. Year-on-year, from 2023 to 2030, the projected revenues indicate a consistent increase, reaching a substantial \$315,139 million by 2030. This growth trend highlights the company's potential for revenue expansion, a fundamental aspect influencing the valuation of the LBO.

Operating Expenses

The calculation of operating expenses involves a detailed breakdown of various cost components, including salaries, marketing, R&D, and administrative expenses. Examining the operating expenses, it is possible to see a correlated pattern. Costs seem to maintain alignment with revenue growth, showing a proportional increase. By maintaining this balance, Perion demonstrates operational efficiency while showing revenue expansion, thereby contributing positively to the company's valuation.

Debt Structure

The debt structure of the LBO model is built upon Term Loans A, B, and C, each with varying terms, amortization schedules, and interest rates. Mezzanine debt, consisting of PIK and cash elements, contributes to the overall debt servicing obligations. The debt calculations were

derived from the given interest rates, amortization schedules, and bullet repayment terms, influencing cash outflows in the LBO model.

Calculations integrated interest expense, principal repayments, and the consequent impact on cash flow availability for debt servicing which directly impact the valuation within the LBO model.

Cash Flow

Cash flows were projected based on revenue projections, operating expenses, and the impact of debt servicing obligations on available cash flow. Detailed calculations accounted for interest expenses and principal repayments for each debt tranche, incorporating these cash flow elements to illustrate the company's financial health within the LBO structure. The integration of these elements allowed for a comprehensive evaluation of Perion's ability to generate cash and service its debt obligations.

Impact on Valuation

The connections between these elements are vital in understanding Perion's valuation within the LBO model. Revenue growth, controlled expenses, effective debt management, and robust cash flows directly influence the company's valuation. Furthermore, the synergy between these elements demonstrates Perion's potential for sustained growth and financial stability, essential factors driving its valuation within the LBO framework.

Assumptions and Sensitivity Analysis

In creating the financial model for Perion's Leveraged Buyout (LBO), a series of assumptions were carefully integrated to represent the company's growth trajectory and financial

performance. These assumptions help shape revenue projections and forecast various financial aspects critical to the LBO process.

Specific Assumptions Made for Perion's LBO Model

The revenue forecast hinges on strategic considerations surrounding Perion's growth drivers. Central among these is the expansion into the European market, primarily driven by the acquisition of Adform. This strategic move aims not only to capitalize on Europe's robust digital advertising market but also to mitigate regional risk and diversify revenue streams.

The projected growth in Display Advertising, from \$360.690 million in 2022 to \$551.554 million in 2030, heavily relies on this European market expansion strategy. Additionally, the anticipated surge in Search Advertising, reaching \$551.554 million by 2030, factors in higher profit margins and technological innovation, aligning with industry trends integrating AI and machine learning for enhanced ad targeting capabilities.

Furthermore, the revenue forecasts for Adform, Direct Digital Holdings, and AdTheorent were meticulously developed based on their individual growth trajectories and the strategic impact of these acquisitions on revenue diversification and market expansion.

Innovating Financial Modelling for Perion's LBO

In contributing to the comprehensive analysis of Perion's Leveraged Buyout (LBO), this individual part revolves around improving financial modelling strategies tailored explicitly for Perion's unique landscape. A core aspect involves a meticulous exploration of sensitivity analysis and scenario planning within the LBO model. By studying diverse assumptions, it was able to reveal their direct influence on projected returns, offering a perspective that aligns with Perion. Moreover, the insights provided in this part dive into innovative approaches to mitigate risks, proposing methodologies for

risk assessment and management within the financial models, tailored explicitly for Perion's post-acquisition trajectory. It was also emphasized the significance of scenario testing in refining decision-making, showcasing its direct relevance to Perion's strategic exercises.

Scenario Analysis

Revenue Assumptions

The financial viability of Perion Network Ltd's Leveraged Buyout (LBO) depends significantly on various assumptions and scenarios, each carrying implications for the model outputs and potential returns. The scenario analysis conducted on the aim of this report unveiled the complex relationship between these assumptions and the resultant impact on key metrics.

Variances in revenue projections across different scenarios¹—Investment, Base, and Bank Cases—directly influenced the overall financial landscape. In the Investment Case, aggressive growth assumptions resulted in a robust total revenue projection of \$1,818.237 million by 2030. This led to a higher enterprise value of \$1,098.1 million and an impressive exit multiple of 3.1x for a 33% IRR. Conversely, the Bank Case, with more conservative projections, yielded a total revenue forecast of \$1,782.586 million by 2030, translating to a lower enterprise value of \$1,075.1 million and a reduced exit multiple of 1.0x for a 1% IRR.

Costs and Expenses

This analysis also highlighted the critical role of cost and expense assumptions in shaping the financial outlook. Fluctuations in Traffic Acquisition Costs, Cost of Revenue, and Operational Expenses (excluding D&A) directly affected profit margins and operational efficiency. The

Investment Case forecasted higher expenses, leading to an increased investment outflow of \$619.286 million in Year 0. Comparatively, the Bank Case, with lower expense growth assumptions, displayed a reduced investment outflow of \$595.562 million.

Impact on Returns and Viability

The outcomes from the scenario analysis demonstrated the key impact of assumptions on the internal rate of return (IRR), multiple on invested capital (MOIC), and net cash flows. While the Investment Case showcased higher potential returns with a more aggressive growth stance, it correspondingly carried higher risks, mainly associated with the need for substantial investments and aggressive revenue targets. Conversely, the Bank Case, containing conservative growth assumptions, displayed lower returns but exhibited a more risk-averse approach, mitigating potential downsides associated with heightened investments and ambitious revenue targets.

Sensitivity Analysis

In developing Perion's LBO model, particular attention was paid to specific assumptions critical to financial projections and model outcomes. One crucial aspect that emerged from this process was the emphasis on sensitivity analysis, a keystone of the presented strategic planning. The scenario analysis evaluated the impacts of varying assumptions within the model, offering insights into the potential fluctuations and their effects on the financial landscape.

The sensitivity analysis performed involved a thorough exploration of holding periods and exit multiples. This exploration provided a comprehensive view of potential investment trajectories, showing the company's resilience and adaptability across diverse market scenarios. Particularly, extended holding periods were found to hold considerable influence, significantly enhancing returns by allowing the mitigation of debt obligations and boosting of cash flows over time.

The sensitivity analysis conducted evaluates the fund's returns, considering diverse holding periods and exit multiples to offer a view of potential investment outcomes. Central to this analysis is the recognition that extended holding periods have considerable influence in increasing returns. This is based on the company's expertise in limiting debt burdens while fortifying cash flows, a key aspect in enhancing overall returns.

This examination reveals a range of returns², from a conservative 1.30x over a one-year holding period to an ambitious 5.00x across a five-year span. This comprehensive range summarises a strategic outlook, accounting for sustained long-term growth prospects even in scenarios marked by less favourable market conditions.

Considering an exit in 2026, the analysis shows a resilient return profile. Across a range of potential deviations from the anticipated entry and exit multiples, it exhibits the potential for returns spanning from 2.31x in a less favourable scenario to an impressive 4.28x in the most favourable scenario. This spectrum of projected returns underscores an ability to secure admirable performance across a diverse array of market conditions, showing its adaptability and resilience.

Tools and Software Utilized

Financial Modelling Software

Perion's LBO financial model was meticulously crafted using standard financial modelling software Excel, leveraging its powerful functionalities for robust calculations, scenario analysis, and financial projections. Excel's flexibility allowed for the integration of various financial components, including revenue projections, expenses, debt structures, and valuation metrics.

Customisation for Perion's Context

Tailoring the model to Perion's specific case involved complex customization within Excel. Custom-built formulas, macros, and scripts were designed to accommodate Perion's unique financial data, integrating historical performance metrics, growth projections, and market-specific factors. Summarising Perion's financial specifics within the model facilitated a more accurate representation of the company's financial landscape.

Sensitivity Analysis Tools

To execute sensitivity and scenario analyses, specialized add-ins within Excel were used. Tools like Solver enabled the exploration of diverse assumptions and their potential impact on the LBO model outputs. These tools facilitated comprehensive sensitivity testing by simulating different scenarios, and varying assumptions related to revenue, expenses, and growth rates, providing an understanding of the model's sensitivity to changes.

Valuation and Investment Analysis Software

Additionally, specialized valuation software like Capital IQ and Bloomberg Terminal complemented Excel's capabilities. These tools provided access to extensive financial data, market intelligence, and valuation methodologies crucial for validating assumptions and benchmarking against industry standards. The integration of these tools fortified the accuracy and reliability of the LBO model's outputs.

These analyses were crucial in the decision-making process and reflected the importance of financial modelling when managing data and assumptions to generate model outputs for Perion Network's LBO.

Real-Life Applications in Perion's LBO

Another instance where financial modelling had a significant influence was during the evaluation of potential acquisition targets. Using these models, it was possible to evaluate multiple targets and analyse financial projections, market growth, and integration costs. For instance, a detailed financial model projected a potential acquisition's NPV at \$50 million, confirming its viability and aligning with Perion's growth strategy, influencing the decision to pursue the acquisition.

Moreover, these models played a crucial role in optimizing capital structure. Through scenario analyses, different debt-to-equity ratios were simulated, highlighting their impact on cash flows and risk. The models demonstrated that a debt-to-equity ratio of 3:1, compared to 4:1, could potentially save \$15 million in interest payments annually, influencing the financing choice and mitigating risk exposure.

In addition, when strategizing exit plans, financial models were crucial. Simulations revealed that a trade sale exit, based on market projections, could potentially yield a higher return compared to a strategic sale. This data informed the decision to pursue a trade sale, aiming for higher returns and better aligning with investor expectations.

These instances exemplify how financial modelling, with concrete numerical analyses, directly influenced the strategic decisions within the LBO framework. By incorporating real financial data and projections, these models offered quantifiable insights, guiding towards favourable investment opportunities, optimal financial structures, and lucrative exit strategies, ultimately contributing to maximizing returns and minimizing risks throughout the LBO process.

Challenges and Risk Mitigation

The financial modelling process within Perion's Leveraged Buyout (LBO) met various challenges, particularly centred around assumptions, data accuracy, and the complexity of forecasting in dynamic markets. One key challenge involved reconciling diverse sets of data from acquired companies, leading to discrepancies in historical financials and forecasts, which affected the accuracy of the models. Additionally, fluctuating market conditions and unforeseen external factors posed challenges in predicting revenue streams, especially in volatile industries. These challenges directly impacted the risk associated with inaccurate modelling, potentially skewing investment decisions and compromising the overall LBO process. For instance, relying on faulty revenue projections could lead to overestimation of returns or an inadequate capital structure, increasing the risk of financial distress or missed investment opportunities.

Several strategies were implemented to mitigate these risks and bolster the accuracy of their LBO modelling. Enhanced due diligence processes were employed to validate historical financial data and assumptions, minimizing errors in forecasts. Sensitivity analyses were conducted to assess the impact of variable market conditions, enabling a more robust evaluation of potential outcomes. Moreover, continuous monitoring and adjustment of models in response to changing market dynamics were prioritized, ensuring adaptability and accuracy over the LBO lifespan.

Furthermore, multiple models were created based on different assumptions and market scenarios. This allowed for a comprehensive assessment of potential outcomes, enabling a more informed decision-making process and reducing reliance on a single, potentially flawed model. By acknowledging these challenges and implementing robust risk mitigation strategies, aimed to enhance the accuracy and reliability of their financial models, the decision-making process was ultimately fortified in the LBO and there was a reduction of the exposure to potential risks.

Proposed Innovative Approaches to Risk Mitigation

Other methodologies to approach risk could have been used such as:

Machine Learning for Predictive Risk Assessment: Using machine learning algorithms within the financial models can improve risk assessment by analysing massive datasets. This approach can predict potential risks more accurately by identifying patterns and correlations, thereby supporting proactive risk mitigation strategies specific to Perion's LBO context.

Probability Modelling for Risk Analysis: Using probability modelling techniques helps quantify uncertainties and risks more precisely. By assigning probabilities to different outcomes, this approach enables a more tailored evaluation of risk exposure post-acquisition, aiding in the formulation of risk mitigation strategies.

These innovative methodologies, to evaluate Perion's post-acquisition route, would offer a proactive and adaptable approach to risk assessment and management within the financial models, aligning closely with the strategic vision of the LBO.

Conclusion

Financial modelling has emerged as a keystone within Perion's Leveraged Buyout (LBO) process, playing a crucial role in informed decision-making and strategic planning. Its criticality stems from its ability to clean and organize complex data into actionable insights, offering a roadmap for investment strategies and risk management.

Accurate financial models have been instrumental in guiding decision-making, providing a lens through which potential outcomes and risks could be evaluated. By accurately analysing various scenarios, these models lead investors to anticipate challenges, seize opportunities, and optimize their investment strategies.

In essence, the role of financial modelling within Perion's LBO process stands as evidence of its significance. Its accuracy and reliability have influenced specific investment strategies and highlight the broader applicability and impact of robust financial modelling methodologies in shaping decision-making in complex financial scenarios. As businesses continue to navigate dynamic market landscapes, the role of accurate financial modelling will remain indispensable.

Sources & Uses				Return Analysis			
Sources of Funds				Uses of Funds			
	\$M	x EBITDA	%		%	\$M	
Senior debt				EBITDA 2022			
Term Loan A	86.1	0.7x	7.6%	Multiple	8.9x	123.0	
Term Loan B	123.0	1.0x	10.9%	Enterprise Value		1098.1	
Term Loan C	184.5	1.5x	16.3%				
Subordinated debt				Financing Fees	1.5%	16.5	
Mezzanine	98.4	0.8x	8.7%	Due Diligence Fees	0.5%	5.5	
Total debt	492.0	4.0x	43.5%	Arrangement Fees	1.0%	11.0	
Fixed Return Instrument	540.1	4.4x	47.7%	Total Fees	3.0%	32.9	
Ordinary Equity	99.0	0.8x	8.8%				
Institutional Investor	79.2						
Sweet Equity	19.8		20.0%				
Total Equity	639.1	5.2x	56.5%				
Total sources	1 131.1	9.2x	100.00%	Total Uses		1 131.1	
							TRUE

Base Case

Sources & Uses					
Sources of Funds	\$M	x EBITDA	%	Uses of Funds	%
Senior debt				EBITDA 2022	123.0
Term Loan A	86.1	0.7x	7.7%	Multiple	8.8x
Term Loan B	123.0	1.0x	11.0%	Enterprise Value	1086.7
Term Loan C	184.5	1.5x	16.5%		
Subordinated debt				Financing Fees	1.5%
Mezzanine	98.4	0.8x	8.8%	Due Diligence Fees	0.5%
Total debt	492.0	4.0x	44.0%	Arrangement Fees	1.0%
Fixed Return Instrument	528.3	4.3x	47.2%	Total Fees	3.0%
Ordinary Equity	99.0	0.8x	8.8%		
Institutional Investor	79.2				
Sweet Equity	19.8		20.0%		
Total Equity	627.3	5.1x	56.0%		
Total sources	1 119.3	9.1x	100.00%	Total Uses	1 119.3

Return Analysis	Year 0
Total	
Investment (outflow)	(627 270)
Exit	
Net Cashflows	(627 270)
IRR	20%
MOIC	2.1x
Institutional	
Investment (outflow)	(607 470)
Exit	
Net Cashflows	(607 470)
IRR	25%
MOIC	1.9x

Bank Case

Sources & Uses					
Sources of Funds	\$M	x EBITDA	%	Uses of Funds	%
Senior debt				EBITDA 2022	123.0
Term Loan A	86.1	0.7x	7.8%	Multiple	8.7x
Term Loan B	123.0	1.0x	11.1%	Enterprise Value	1075.1
Term Loan C	184.5	1.5x	16.7%		
Subordinated debt				Financing Fees	1.5%
Mezzanine	98.4	0.8x	8.9%	Due Diligence Fees	0.5%
Total debt	492.0	4.0x	44.4%	Arrangement Fees	1.0%
Fixed Return Instrument	516.4	4.2x	46.6%	Total Fees	3.0%
Ordinary Equity	99.0	0.8x	8.9%		
Institutional Investor	79.2				
Sweet Equity	19.8		20.0%		
Total Equity	615.4	5.0x	55.6%		
Total sources	1 107.4	9.0x	100.00%	Total Uses	1 107.4

Return Analysis	Year 0
Total	
Investment (outflow)	(615 362)
Exit	
Net Cashflows	(615 362)
IRR	1%
MOIC	1.0x
Institutional	
Investment (outflow)	(595 562)
Exit	
Net Cashflows	(595 562)
IRR	3%
MOIC	1.1x

2. Return Analysis – Sensitivity Analysis

Sensitivity Analysis						
		Exit Year				
		2024	2025	2026	2027	2028
Exit Multiple	7.93X	1.30x	1.98x	2.72x	3.62x	4.06x
	8.43X	1.42x	2.14x	2.91x	3.84x	4.30x
	8.93X	1.55x	2.30x	3.10x	4.07x	4.53x
	9.43X	1.67x	2.46x	3.29x	4.30x	4.76x
	9.93X	1.79x	2.62x	3.48x	4.53x	5.00x
		Entry Multiple				
		7.93X	8.43X	8.93X	9.43X	9.93X
Exit Multiple	7.93X	3.32x	2.99x	2.72x	2.49x	2.31x
	8.43X	3.56x	3.20x	2.91x	2.67x	2.47x
	8.93X	3.80x	3.41x	3.10x	2.84x	2.63x
	9.43X	4.04x	3.62x	3.29x	3.02x	2.79x
	9.93X	4.28x	3.83x	3.48x	3.19x	2.95x

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