

Perion Network Ltd.

December 3, 2015

Research Update

Rating Placed On CreditWatch With Developing Implications on Undertone Acquisition

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Research Update

Rating Placed On CreditWatch With Developing Implications on Undertone Acquisition

Summary

- On December 1, 2015, Perion Network Ltd. ("Perion") announced the acquisition of the U.S.-based digital advertising company Undertone for \$180 million in total enterprise value. Undertone provides advertising solutions for mobile and desktop devices.
- Perion is expected to finance the acquisition, about \$130 million, from its internal sources and through debt. Perion will also assume Undertone's \$50 million long-term debt.
- Based on preliminary information published by Perion, we believe the acquisition may, on the one hand, lead to a deviation from the coverage ratio we consider commensurate with the current rating (an adjusted debt to EBITDA ratio of up to 1.5x), and, on the other hand, improve Perion's business risk profile.
- The extent of the acquisition's effect on Perion's credit rating is as yet uncertain, due to insufficient information regarding the nature of Undertone's operations, its past and expected operating results and the expected synergy between both companies.
- We are placing our 'iIA-' rating on Perion Network Ltd., operating in the fields of online advertising, program development and marketing and advanced services for email developers, distributors and users, on CreditWatch with developing implications.
- We intend to resolve the CreditWatch within ninety days, having gathered additional information on the acquired company and examined all implications of the acquisition on the rating.

Rating Action

On December 3, 2015, Standard & Poor's placed its 'iIA-' rating on Perion Network Ltd., operating in the fields of online advertising, program development and marketing and advanced services for email developers, distributors and users, on CreditWatch with developing implications.

Rationale

On December 1, 2015, Perion Network Ltd. ("Perion") announced the acquisition of the U.S.-based digital advertising company Undertone for \$180 million in total enterprise value. Undertone provides advertising solutions for mobile and desktop devices. We believe this to be a material acquisition that could affect Perion's credit rating. Perion is expected to finance the acquisition, about \$130 million, from its internal sources and through debt. Perion will also assume Undertone's \$50 million long-term debt.

Based on preliminary information made public by Perion regarding Undertone and the acquisition outline, we believe Perion may deviate from the debt coverage we consider commensurate with the current rating, namely, an adjusted debt to EBITDA of up to 1.5x. On the other hand, our preliminary assessment indicates that the acquisition will improve Perion's business risk profile via an increase in revenue base and a decrease in the company's dependency on the

volatile search sector. However, the extent of the acquisition's effect on Perion's credit rating is as yet uncertain, due to insufficient information regarding the nature of Undertone's operations, its past and expected operating results and the expected synergy between both companies.

Credit Watch

We intend to resolve the CreditWatch within ninety days, having gathered additional information on the acquired company. We may lower the rating if, after re-examining Perion's business risk profile, we estimate that the expected coverage ratios are not commensurate with the current rating. A rating affirmation or a positive rating action is subject to Perion's maintaining coverage ratios commensurate with the current rating while implementing a supportive financial policy.

Related Criteria And Research

- [National And Regional Scale Credit Ratings](#), September 22, 2014
- [Corporate Methodology](#), November 19, 2013
- [Criteria For Rating Non-Financial Corporate Issuances On Standard & Poor's Maalot's Local Rating Scale](#), September 22, 2014.
- [Standard & Poor's National And Regional Scale Mapping Tables](#), September 30, 2014
- [Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), December 16, 2014
- [Corporate Methodology: Ratios And Adjustments](#), November 19, 2013
- [Standard & Poor's Ratings Definitions](#), November 20, 2014
- [Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings](#), October 24, 2013

Rating Details (As of 3-Dec-2015)	
Perion Network Ltd.	
Issuer rating	iIA-/Watch Dev
<u>Senior Unsecured Debt</u>	
Series 12	iIA-/Watch Dev
Rating history	
03-March-2014	iIA-/Stable

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