



Perion Network Ltd.

Third Quarter 2020 Earnings Conference Call

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CORPORATE PARTICIPANTS

Doron Gerstel, *Chief Executive Officer, Director*

Maoz Sigron, *Chief Financial Officer*

Daniel Aks, *President, Undertone Networks*

CONFERENCE CALL PARTICIPANTS

Jason Helfstein, *Oppenheimer*

Eric Martinuzzi, *Lake Street*

Chris McGinnis, *Sidoti & Company*

Derek Bobbe, *Private Investor*

John Nobile, *Taglich Brothers*

PRESENTATION

Operator

Welcome to the Perion Network Third Quarter 2020 Earnings Conference Call.

Today's conference is being recorded.

A press release detailing the financial results is available on the Company's website at perion.com.

Before we begin, I'd like to read the following Safe Harbor statement.

Today's discussion includes forward-looking statements. These statements reflect the Company's current views with respect to future events. These forward-looking statements involve known and unknown risks, uncertainties and other factors, including those discussed under the heading Risk Factors and elsewhere in the Company's Annual Report on Form 20-F that may cause actual results, performance or achievements to be materially different and any future results, performance or achievements anticipated or implied by these forward-looking statements. The Company does not undertake to update any forward-looking statements to reflect future events or circumstances.

As in prior quarters, the results reported today will be analyzed both on a GAAP and non-GAAP basis. While mentioning EBITDA, we will be referring to Adjusted EBITDA. We have provided a detailed

reconciliation of non-GAAP measures to their comparable GAAP measures in our earnings release, which is available on our website and has also been filed on Form K (phon).

Hosting the call today are Doron Gerstel, Perion's Chief Executive Officer; and Maoz Sigron, Perion's Chief Financial Officer.

I would now like to turn the call over to Doron Gerstel. Please go ahead.

Doron Gerstel

Thank you, and good morning.

I hope everyone is healthy and that your families are doing well. Our team has performed valiantly during these strange difficult times and the results of their efforts speak for themselves. I want to take this moment to recognize and thank them for their dedication and effectiveness as they supported our business across the three pillars of digital advertising.

During the third quarter, Perion increased total revenues by 27% year-over-year, driven by 200% year-over-year revenue growth in CTV, along with the acquisition of Content IQ and Pub Ocean. This inarguably demonstrates our ability to outperform the digital advertising industry even as it recovers. Our growth was led by a 76% increase in our advertising division as a result of increased spending, mainly towards CTV.

In today's data-rich world, consumers are increasingly demanding brands deliver more focused relevant messaging. This was the main trigger for the growing demand for CTV, which is defined as any ad for website that stream content over the internet capable to serve one ad to one household as opposed to broadcasting an ad to all households.

As a result, advertisers shift away for simple competing providers to creating meaningful, engaging experience that first capture and truly convince audience. We are focusing on leveraging our creative capability and enhance CTV offering by providing CTV interactive ads to better align awareness and performance driven content for the right persona at the right time at the right stage of performance.

Our search business grew by 3% due to the increased volume of monetized queries we delivered to Microsoft Bing. I have a strong confidence on our ability to extend current agreements by the end of the year, with Microsoft Bing in a better term than what we currently have.

Our results are also triggered by the fact that we are becoming an even more efficient company as we grow, thanks to the scalability of our operating model, tight management of expense and our synergistic acquisitions.

The forcing factor of the pandemic has amplified the economic value of our \$10 million cost saving plan, which was implemented in the first half of the year. Our increased efficiency resulting from ongoing investment in automation has helped in driving a 15% year-over-year growth in Adjusted EBITDA to \$8.7 million.

To be honest, I'm sure many of you didn't expect to see results like this. Our accomplishments are all the more impressive because we've done this during a 100-year pandemic that had upended the digital media marketplace and has left many previous successful ad companies and advertising agencies wounded and bleeding.

Our success top line and bottom line during this time demonstrate that our focused and relentlessly implemented plan of diversification across the three main pillars of digital advertising was, is and will be the roadmap for our growth. Perion is, without a doubt, turning its strategic flame of diversification into a successful action.

We have a clear path to sustainable and consistent double-digit growth going forward. Let me repeat: we have a clear path to sustainable and consistent double-digit growth going forward. I've articulated our ability to benefit from the invariable and continuing spending shift between the three pillars - search, social, and display and video - since July 2017, three months after I joined Perion.

The technologies we have developed, the acquisition we have made is successfully integrated and the team we have built all these months have positioned us to capitalize on having strong solution wherever the dollars play.

Our social platform and offering growth opportunities within the newest social advertising universe, from Facebook to Twitter, Snap and TikTok; as they grow, we grow. As brands seek to grow their DTC business, we grow. I'm sure you saw Snap's results last week.

Our CodeFuel business allows us to benefit from the simple fact that more consumers are searching and shopping online and are also looking for important information about the pandemic and its impact of their lives. Our display video and our focus on CTV business are able to capitalize on the inherent growth of this digital format as brands are investing seeking a full funnel solution. When all of these categories grow, we benefit. And when dollars shift from one to other, we are hedged, and benefit as well.

Our diversification strategy also allowed us to capitalize on the major trends in the industry, the demand for third-party cookie, the acceleration of in-housing by brands and the need to turn awareness dollars into action. As we look to the future as defined by macro industry trends, we will be strengthening our technology moat by accelerating the integration of Perion's business unit.

Our strategic roadmap is led by development of a full funnel experience to accommodate current trends of marketers who are looking for holistic, one-stop shopping vendor who can maximize reach and build a brand across the three pillars with even stronger solutions. This is an exciting business model evolution for us. We know that when facing the massive challenge of attracting and retaining users engaging their franchise and generating third-party data in social media is increasingly limited in its ability to meet those goals. We are calling these synergistic solutions capture and convince.

It leverages our unique and proprietary buying technology, AI-driven decision engine and ability to deliver personalized real-time advertising, layout and content, all in all to create a level of marketing funnel optimization that is exactly what brands need.

We are showing that we can keep new user in our capture and convince advertising loop for more than six minutes, a truly revolutionary approach in an epic world where the attention of consumer is measured in seconds. The combination of well-diverse financial strategy and our capture and convince business offering will work hand-in-hand to drive growth and revenue beyond the current performance metrics.

With that, I'd like to turn the call over to Maoz to review the financial results for the third quarter. Maoz?

Maoz Sigron

Thank you, Doron.

The strong financial results during the third quarter despite the pandemic affect strong business execution and the successful implementation of the efficiency measures and cost-saving efforts we took at the beginning of the second quarter.

These achievements result in higher revenue while keeping the level of our operational expenses, which improved our profitability and cash flow. Such improved results, reflected also in the second half increased guidance we provided earlier this month, underscore that Perion has the earning power and financial strength that is key to execute on the strategy that Doron articulated just a moment ago.

Turning to the results. In the third quarter of 2020, revenue increased by 27% to \$83.4 million, composed of \$37.9 million from advertising and \$45.5 million from search and other revenue. Advertising represented 45% of third quarter revenue, with sales in other contributing 55%.

In the third quarter of 2020, advertising revenue grew by 76% year-over-year, driven by a 200% revenue growth in CTV, along with the acquisition of Content IQ and Pub Ocean from earlier this year. Sales revenues increased by 3% due to a larger number of monetized search queries we delivered to Microsoft Bing.

Customer acquisition cost and media buy in the third quarter of 2020 was \$49.9 million or 60% of revenue compared to \$34.2 million or 52% of revenue in the third quarter of 2019. The increase as a percentage of revenue is primarily due to the acquisitions of CIQ and Pub Ocean.

Operational expenses in the third quarter of 2020 were \$29.7 million or 36% of revenue compared to \$27.6 million or 42% of revenues in the third quarter of 2019. The efficiency measures we took together with the synergistic acquisition of CIQ and Pub Ocean are being (inaudible) and translated to our profitability.

Net income for the third quarter of 2020 was \$2.1 million or \$0.08 per diluted share compared to net income of \$2.9 million or \$0.11 per diluted share in the third quarter of 2019. Perion's non-GAAP net income in the third quarter of 2020 was \$5.9 million or \$0.21 diluted share compared to \$5 million or \$0.18 per diluted share in the third quarter of 2019. Adjusted EBITDA in the third quarter of 2020 was \$8.7 million or 10% of revenue compared to \$7.6 million or 12% of revenue in the third quarter of 2019.

Cash flow from operating activities in the third quarter was \$6.6 million, inclusive of approximately \$4 million negative impact due to working capital mix in connection with the acquisitions of CIQ and Pub Ocean, compared to \$11.1 million in the third quarter of 2019.

As of September 30, we had cash, cash equivalent and short-term bank deposit of \$60 million compared to \$61.6 million as of December 31, 2019. As of September 30, 2020, total debt comprised of a \$10.4 million credit facility and \$12.5 million withdrawn from the secured credit line and used as a short-term precaution measure related to COVID-19, compared to \$16.7 million as of December 31, 2019.

During the third quarter of 2020, the credit facility decreased by \$2.1 million due to the scheduled pay-down.

This concludes my financial overview for the third quarter of 2020. I will now turn the call back to Doron for closing statements.

Doron Gerstel

Thank you, Maoz.

Perion's diversification strategy and our steady course of managing profitability were a key success factor, beginning before the pandemic and continuing thereafter. That discipline has been extraordinarily beneficial, especially during these challenging times. The combination of our ability to react fast, fine tune our business and successfully execute a prudent cost-saving plan and acquisition strategy, together with encouraging market trend and improved visibility, has allowed us to announce earlier in October that we are raising our expectation for the second half of 2020 to revenue of \$164 million to \$174 million and Adjusted EBITDA of \$16 million to \$18 million.

Looking further out, we are confident that we are on the path to achieve sustainable and highly profitable double-digit annual revenue growth.

Operator, now you can open the call for questions.

Operator

Thank you. If you would like to ask a question, please press star, one on your telephone keypad. That's star, one to ask a question.

We can now take our first question from Jason Helfstein from Oppenheimer. Please go ahead.

Jason Helfstein

Thanks. I will ask two.

Can you talk a bit more about the performance of Content IQ and Pub Ocean sequentially, maybe from second quarter to third quarter, and perhaps give some more color on the trends in these brands? And then second, we are seeing increased momentum around unified IDs as the world's kind of preparing for IDSA and cookie to potentially go away or be less diminished, but definitely more momentum around unified IDs. What opportunities does this create for Perion, or just how are you thinking about unified IDs? Thanks.

Doron Gerstel

Yes. Hi, Jason. Thanks for the question.

As far as the comparison, Maoz, on the Content IQ, on the formal basis, we are doing better than last year and also better than previous quarter. Looking, of course, of the two acquisitions, this is one business unit that we are running. So in all different parameters, we are doing better.

In terms of our preparation for cookie-less, I mentioned it on a previous call, the fact that we are creating our own walled garden using our own owned and operated site, both by Content IQ and Pub Ocean, giving us the ability not to depend on third-party cookies. That's one aspect of the way we are trying to prepare ourselves for the cookie-less era.

Another thing that we are doing is, what we call the—developing our own ID, which is driven very much by all different business units that have a touch point with consumers. It has to do with consumer that search and it has to do with consumer that are looking for social, and others that are very much part of coming to our own owned and operated and creating a unified ID there that allows us to enjoy the fact that millions of consumer is leaving their ID within our assets.

Jason Helfstein

And let me ask one follow-up. So there seems to be building pressure on Apple to consider finding a way to make it more practical for consumers not to use Google. I don't know how practical it is. But if there is movement, I don't know how much Apple is going to want to take—whether Bing is more highlighted, or Apple launches their you know—tries to launch their own search. I mean are there partner opportunities? Just have you had any discussion with Apple or anything you can share about if there is kind of movement on the iPhone to make Google less of the featured search? Is there any opportunity for Perion?

Doron Gerstel

Yes. The only thing that we can share - we are very much under very strict NDA - is the fact that while Google is losing market share, others are in a great opportunity to gain market share. And Bing is definitely one of them. There is not so many that has the capability to provide the quality search on the level of Google and definitely Bing and Yahoo!, which is very much related to Bing, is two out of, let's say, three or four candidates. So we definitely welcome this trend.

Jason Helfstein

Okay, great. And we look forward to fourth quarter results. Thanks.

Doron Gerstel

Thank you.

Operator

We can now take our next question from Eric Martinuzzi from Lake Street, please.

Eric Martinuzzi

Yes. Doron, I wanted to dive into the capture and convince technology. Is this a go-to market strategy? In other words, as your advertising sales force is going out into the market and talking with brands and talking with agencies, is capture and convince the new strategy that you are offering to them, which incorporates the search and display, video and the social, or is it really kind of an in-house expression, a name for the platform?

Doron Gerstel

No. I think that first of all, that's going to be a narrative which is applied across all BUs because they are very much integrated into this transit. It's not just limited to what we are doing on our own site. It definitely has to do with Undertone. And in a way, that's our ability to connect awareness to performance and providing the full funnel attribution.

The emphasis of capture and convince has to do with capturing completely new users. It's not the way of retarget. It's a way to completely go after new users through our great buying system that is on social media on one hand and on content reorganization on the other hand. So that's very much going to be the narrative of our advertising business unit.

Eric Martinuzzi

Okay. And then you talked—I don't know if it was in the theoretical or in the explicit about profitable double-digit growth. If I look at what your guidance is for 2020, the midpoint of the full year is \$295 million.

If I put a double-digit growth rate on that, a minimum double-digit growth rate, that 10% growth would be—imply \$325 million of revenue in Fiscal '21. Right now, consensus is around \$320 million. So just curious to know if you are comfortable with that consensus, do you feel like there's upside to that? Let's talk about that double-digit growth commentary.

Doron Gerstel

Yes. We are very much behind it, and we believe that we are very much behind the double-digit, and accordingly the model needs to be updated.

Eric Martinuzzi

Okay. And I looked at the... You have been pretty consistent on the Microsoft contract renewal ever—I mean, probably over the last 12 months, you have given the same message regarding a Q4 renewal, hopefully on better terms. What can you tell us about the negotiations that are—I realize it's a sensitive topic, but what can you tell investors about how things are progressing in those discussions?

Doron Gerstel

So thanks for the question.

Even though I shared my confidence over this course of the 2020, I must say that our confidence, my confidence level is growing. And it's growing because we definitely know that we are getting close to the finish line. They have got close to the finish line, and we know basically what is the negotiation and what we are doing so on and so forth. We can't announce because it's not signed yet, but the only thing that I can say that we are in a very, very advanced stage.

Eric Martinuzzi

Okay. I look forward to the completion of an announcement of that very important agreement. Congratulations on the good numbers for Q3. It's good to see the business rebound so quickly in the COVID environment. Good luck in Q4.

Doron Gerstel

Yes, very much. Thanks so much.

Operator

We can now take our next question from Chris McGinnis from Sidoti & Company.

Chris McGinnis

Good morning, and thank you taking my questions. Nice quarter.

Doron Gerstel

Thank you.

Chris McGinnis

I want to just starting off here just on CTV, obviously, you highlighting that it is a really strong position to be in. Can you just talk about maybe the offering and what's attracting the people? Is it stay-at-home? And is that kind of the driving factor? Can you just talk about the strength that you are seeing there?

Doron Gerstel

Yes, absolutely. I knew that this question will come because we took, in the last year, tremendous efforts at this stage. I invited Dan Aks, the President of Undertone, to this call.

Dan, are you there?

Daniel Aks

Yes. I am, Doron.

Doron Gerstel

Great. Can you take this question and elaborate more on the tremendous success you guys are doing around CTV?

Daniel Aks

Yes, happily. And thanks for the question.

On this call last year, we talked a bit about new products that Undertone will be doing. CTV was one of the ones that we had in mind. And we say that because CTV is an important part of Undertone's mission in articulating client campaigns across the funnel, which allows efficient effective use of creative assets and data.

CTV, of course, carries many of the benefits of linear TV, particularly awareness. But it could do a lot more than that. CTV helps to advertise its high-impact channel to find quality prospects. And you can actually retarget viewers of CTV ads across other devices, driving it further down the funnel. We do that through things like automated content recognition, ACR. We have talked much about that over the last year. But also a whole interactive capability allows us to also use CTV to drive people to a transaction.

For example, just one small use of that would be QR code that allows also—the benefit of it allows us to actually participate in the whole direct-to-consumer advertising market who use our QR codes and the likes extensively for campaigns.

CTV has been a success for us. It's a very important part of our mission, and it's growing rapidly and it allows us actually now to step into a new pool of revenue, which was linear TV which wasn't part of our mission, which is now accessible to us as these terms become linear TV evolves into more of a digital format.

Chris McGinnis

Great. I appreciate that. And I guess just the strength of the revenue, can you maybe parse out acquisition-based growth versus maybe organic just on the advertising?

Maoz Sigron

We can say that year-over-year, the organic—there is organic, of course, growth. But if you are looking on the pro forma basis year-over-year, we are talking about growth for more than 10% if you are looking Q3 to Q2.

Chris McGinnis

Okay. And how much do you think maybe there's some pent up demand, or is this more about just the strength of your product offering resonating in this kind of changing environment?

Doron Gerstel

What we basically can see that advertiser slowly is coming back, as we basically said. We see a substantial improvement in ad spend as the quarter progressed, with the fact that emphasized on connected TV. But we see something else, which is very interesting, is that agencies and the brands are looking to reduce the number of vendors that they are talking with. They are looking for one-stop shopping when it comes to the different channels, which fits very well our model since we cover, as we said, the three main pillars, and that's coming from one location. So it's not just that they do (inaudible). We are able to demonstrate how the different channels really very much interact with each other to generate higher lift, as they call it, or better engagement for their consumer.

I think this is a very, very important trend that is caused by the pandemic and difficult times that advertising has trying very much to, on the one hand, increase the revenue but doing it way smarter. And this change is very much playing well the way we very much set our strategy.

Chris McGinnis

Yes. I appreciate you answering my questions, and good luck in Q4, and again, congrats on the strong quarter.

Doron Gerstel

Thank you. Thank you very much.

Operator

We will take the next question from Derek Bobbe (phon) who is a Private Investor. Please go ahead.

Derek Bobbe

Hi, thank you. Congratulations, Doron and team, on a strong quarter. It's great to see such a significant rebound so quickly on COVID-19.

Doron Gerstel

Thank you.

Derek Bobbe

You are welcome. So, curious if you are going to get to a point where you can provide some Adjusted EBITDA guidance for 2021? I know it's still maybe a little bit early coming out of the crisis, but that is something that you have provided in the past.

Doron Gerstel

Yes. It's a bit too early. First and foremost, we need to meet the guidance that we just raised for the 2020 and hopefully to beat. And so this is—as you know, in our industry, Q4 is the most significant quarter due to the holiday season. And we have good visibility on the quarter since almost one month is behind us. But again, our focus is to finish and finish as strong as possible. So this is one.

The second known that we have and knowing—and trying to look behind our shoulder to 2021, we came with this very important statement about growing our business in double digits going forward we are very much behind. It's not specific guidance, but it provides a framework where we want to be in next year.

Derek Bobbe

Thank you. And then looking at Microsoft commentary from yesterday, they said that search revenue ex TAC was down 11% in constant currency; and yet today, you are reporting 6% increase in search revenue. So first of all, great job on driving additional search revenue from the Microsoft ecosystem. And then secondly, curious if you could provide a little bit of commentary there in terms of how you are able to grow despite Microsoft Bing search falling a bit?

Doron Gerstel

Yes, that is a good question. I think that first and foremost, we are not working only with Microsoft in the selected countries which are not working with Microsoft. So we are able to optimize. And I must say that in areas where we're working with both, we have the capability of really optimizing the search. And then this is a very interesting technology that we are developing, wherefore a given keyword, we basically can direct or redirect (inaudible) to the most—to optimize the results from a revenue standpoint.

We are putting a lot of technology to optimize it, and I think the results are there. And we are very glad that we are able to leverage the technology that we have in order to optimize the results.

Derek Bobbe

Great, thank you. And then you also mentioned grabbing users' attention for more than six minutes. I am curious: in a world where typically user engagement is measured in seconds, how are you possibly keeping their (phon) attention for six minutes?

Doron Gerstel

That is a great question. So one of the things which we are really proud is the technology that we developed that has to do with—it's trying to create a personalization on three elements that will very much capture your attention or user attention for over 6 minutes. One very much has to do with the layout of the page. The layout is very much different between genders, age, that's the layout. Second has to do with the right content. It's not just the topic. It's also the length of the content, the type of the content and the way we deliver the content. The third element has just to do with the creativity or has to do with the ad. And proportion of ad to content, type of ad, everything here needs to provide an experience that the user will scroll and scroll more and more. And what is really interesting is what we are doing with this data.

The capture of new user that stay for a long time allow us to develop a very sophisticated predictive analytics, which we call, the convince is to put the right action at the right time. And in order to get the most out of this very useful time that we are able to learn the user and able to optimize this period of time into the maximum revenue. We call it a session, and the KPI that we very much measure is called the revenue per session. And the revenue per session is a session that starts from once the user is landing

on our landing page, all the way till its exit after six or more minutes, and that's the revenue that is being captured during this time.

Derek Bobbe

Great. Thank you very much. Very helpful. And then last question: you mentioned wounded and bleeding competition - very heavy rhetoric as usual, I love that from you, Doron. On that note, are you looking at additional M&A?

Doron Gerstel

So we are always looking, let's put it this way. We are always looking for opportunities. Unfortunately, this company that didn't make it attractive for us to buy, we developed a certain type of framework of acquisition that we feel more comfortable.

As I mentioned in previous call, which is, yes, on an upfront and heavy on the earnout, that's the model that we are going after. It's the third acquisition that we did that followed this model. Not every company is willing to go after this model. We are looking for something which will be substantial in its revenue, it needs to be accretive. And I can definitely say that there are lots of opportunities now. And I think the fact that we have the financial resources, it definitely gives us a great appetite doing it and being picky on what we are trying to get.

Derek Bobbe

Great. Thank you very much, Doron. Congratulations again on exhibiting resilience and showing that revenue growth, which we have been looking for for quite some time.

Doron Gerstel

Yes. Thanks.

Operator

As a reminder if you would like to ask a question, please press star, one on your telephone keypad, that's star, one.

We will now take our next question from John Nobile from Taglich Brothers. Please go ahead.

John Nobile

Hi. Good morning, Doron and Maoz, and thanks for the call and taking my questions.

I would like to know how much did U.S. election advertising impact your third quarter, and what impact do you believe it would have on your fourth quarter?

Doron Gerstel

First of all, which segment of advertising?

John Nobile

Well, overall U.S. election advertising. Obviously, there is a big pick up on advertising with U.S. elections. So I just wanted to know how that played into the third quarter, and what do you feel that would impact your fourth quarter?

Doron Gerstel

Yes. And so advertising is, in the last three months, is almost 35% of the revenue. It's \$37.9 million. And this segment is growing, and growing rapidly. As I basically said, we have seen that substantial improvement in ad spend versus, let's say, the second quarter for sure, but even from the first half.

Traditionally, the first quarter is the largest quarter, and that's true for advertising as well. But I truly believe that now when we are having way more holistic solution, as Dan pointed out, we have seen more and more brands that are spending more for us. As an evidence, we definitely look at the KPI of our average deal size; this is growing, and the amount of dollars that a specific account is spending over the year.

I can mention that we follow closely about the different verticals. And at this point, we definitely can say that retail is a growing segment. It's very helpful because the traditional segment as cruise line, airlines, travel, hotels, so on and so forth, are still not back yet; and I definitely expect that once we'll find the vaccine and the corona will be behind us, those segments will be back, which will create another boost into our advertising revenue growth.

John Nobile

And actually, speaking of advertising, that segment, you break advertising and search and other into two segments here, that showed very strong growth so far this year. But looking into the next 12 months, where do you see the most growth - I'm talking organically now - in your search and your advertising segment, and what do you believe would be driving that growth?

Doron Gerstel

We believe that the growth definitely will come from the advertising. I think that we would put a huge effort in developing the technology. I mentioned the capture and convince loop that we developed, which will attract brands to go after new user, capture new users, and basically have been in our owned and operated site and doing the convincing efforts. That's definitely a growth driver.

The comprehensive solution that we have, including CTV, which is definitely a growth driver for us and our ability and to integrate it into a one offering, and as I mentioned, very much play nicely with the trend that we see that those agency and brands are looking to reduce their number of vendors and looking for a vendor that is able and capable to provide solution on the three new pillars: the social, the search and, of course, the display. There not many like this, as you can imagine, and that's definitely another growth driver.

I think it—all those play very well that we are expecting to see and continue to see higher growth from our advertising revenue segment.

John Nobile

Well thank you for that. And I was hoping you could talk a little about the integration of Pub Ocean and CIQ and how that process has been going? And more specifically, if you could provide some details on the synergies that this integration would offer.

Doron Gerstel

Yes. So first of all, the synergy of between Pub Ocean and Content IQ, we are all looking about adding the capability of content recommendation. And content recommendation is a way to capture audience. Before the acquisition of Pub Ocean, we were solely depending on capturing new users from Facebook. And we were thinking that in order to add another capability of capturing, we have to add a capturing that is based on content recommendation. So this integration plays very well to what Content IQ is doing, and let's put it this way, accretive to logistic from day one - day one of our business.

As far as the integration of Content IQ into our business, the whole concept that we have been developing, this is good 10 months after we announced the acquisition that was in January, is that we are working on this capture and convince. And this capture and convince, this gives us a way to integrate assets from different business units. And assets from Undertone that has to do with prominent brands that putting the ads on our own owned and operated sites, this is one. It even gives us a great opportunity to integrate it with what our search business is doing because we are able to integrate what we call display to search ad into our owned and operated site.

All in all, it all has to do with a very important development that we did. And we call it internally the brain, which we are able to navigate a new user after six or more minutes into a different type of revenue channel. It can be a display, which comes from Undertone; it can be display to search that will come from CodeFuel; and it can be lead or action that is coming from Content IQ.

We are very happy because not just on the revenue that—the potential revenue that this concept can provide, but also the fact that we were able to really integrate assets from the different business unit that's able to optimize more the investment that we did on this technology.

John Nobile

Thank you, Doron.

I have one final question. It's actually for Maoz. I was hoping that you could comment on the 36% tax rate in the quarter. I noticed that it's much higher than the norm. So I just wanted to get a feel for what we should expect going forward and the reasons for this tax rate in this quarter?

Maoz Sigron

There is a part of the acquisition that we did and some other movements we did in the last 10 months. There are some noises in the model in Q2 and in Q3 reflected deferred tax and other elements related to the acquisition. If we are looking we are moving forward to the normal tax, it should keep around 20% for the fourth (phon) quarter and also for the next year.

John Nobile

Okay, great. Thanks for answering that question. That's all I have. Thank you.

Operator

There are no further questions on the line at this time. I would now like to turn the call back to Doron for any closing remarks.

Doron Gerstel

Guys, thank you very much for joining us for this call. We are excited here. And as I mentioned, it's a great opportunity.

Thanks again the entire Perion's employees that worked really, really hard to demonstrate these results in a very challenging time.

With that, I would like to thank you again. Thanks so much. Bye-bye.

Operator

Thank you. That concludes today's call. Thank you for your connection (phon). You may now disconnect.