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Perion Network Ltd.

Fourth Quarter 2020 Earnings Conference Call

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PRESENTATION

Operator

Welcome to the Perion Networks Fourth Quarter and Full Year 2020 Earnings Conference Call. Today's conference is being recorded. The 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 statements. 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 6-K.

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, everyone. Twenty-twenty was a great year for Perion in so many ways. We exceeded our revised guidance for both revenue and Adjusted EBITDA. Despite COVID, 2020's revenue were 25% higher than 2019.

More than anything else, Q4 2020 results demonstrate the huge momentum behind the Company. We achieved record-breaking quarter revenue of $118.3 million, representing a 51% increase from Q4 2019 and highest quarter Adjusted EBITDA of $15.3 million in the last six years.

From a capital position, we've bolstered and deleveraged our balance sheet. We completed a successful and oversubscribed follow-on offering of $61 million, three weeks ago, positioning Perion to continue to capitalize on the growth opportunities in front of us.

Strong numbers, executional success and a powerful balance sheet, that's the trifecta headline here. We accomplished all of this in the face of the global pandemic market by unparalleled volatility, disruption and change across the evolving digital media industry and ad tech ecosystem.

Let me further point out our strong growth numbers are in the face of a sudden decline of travel and hospitality industry, which accounted for 15% or more than $10 million of our 2019 revenue. What I've just shared is a testimony to the last and probably the most critical reason for our fourth quarter results and annual performance. Our incredible team across all our business units.

When the pandemic hit in the second quarter, they quickly adjusted to the new reality, working with collaboration and excellent agility. All of them work from home and all of them work from their heart. You have my thanks and the thanks of all our shareholders. I attribute our success in 2020 to three critical trends that will be Perion's growth catalyst in 2021 and beyond.

Trend number one, is the struggle for attention. Brands increasingly recognize they need our high-impact ad units to increase their brand equity with creativity and (inaudible) through the command attention across screens. Our ads are unignorable, which is why, when delivered by our AI engine, they attract Fortune 500 enterprises like Mercedes, constantly deliver higher return on ad spend and engagement metrics, the conventional standard formats. In fact, our ability to bring our clients this attention-grabbing advertising in interactive CTV is unequaled. Our intelligent high-impact ads and the technology behind it has enabled us to decommodify digital advertising with noticeable results.

Trend number two, is the struggle of publisher to generate revenue. In 2020, publishers continue to face growing monetization challenges. This will continue our rapidly growing content monetization engine, growth brands and publisher a unique ability to engage users for minutes versus the second of commodified programmatic display standard advertising. This platform is working so well for our own and operated site, which brought first-tier publishers such as Newsweek, Entrepreneur magazines and the Bonnier group of clients. It's just the beginning. As the growing number of publishers we can support via our content monetization platform allow us to establish our own strategically controlled world garden. This is an efficient way and scalable way to generate first-party data and drive revenue in a cookie-less world.

Trend number three, everyone is searching. The year of COVID-19 accelerated the growing trend of shopping online. It's obvious, but there is a repetition. The number of consumers who researched before buying significantly increased the number of searches. Perion’s average daily searches reached 15.7 million during the fourth quarter and is an increase of 32% year-over-year, an all-time record. These type in keywords are what online retailers are most interested in because they are consumer who express the highest possible intent to buy. These signals are more valuable than what is obtainable from any other media channel. This growing number of searches compensated for the short-term decline in RPM, aligned our search advertising business to provide steady income with healthy margins.

The further good news behind the Microsoft Bing renewal announcement is that extension for additional four years wasn't just a continuation. We added geographies, a new collaborative features at even more favorable terms. The renewal is a result of the strong and healthy partnership we have cultivated with Microsoft advertising over the last 10 years. The continuing collaboration between our companies will enable to further grow its network of publishers, offering lucrative search technology solutions and sophisticated experience for monetizing their digital property. We estimate that the revenue contribution in the next four years under the new agreement with Bing will be $800 million.

The macro context behind these trends is a massive shift in behavior as consumers are spending an increasing amount of time online, including, but not limited to shopping. They are turning to digital sources for sports and entertainment and news consumption, as well as a new platform like CTV. This was before the pandemic, but it has dramatically accelerated the consumers are social distancing and spending more time at home. Advertisers are responding to this monitoring consumer behavior and adjusting their digital advertising budget allocation based on shifts in which platforms are winning the ward for attention. As an example, just recently, Pinterest reported 76% growth in revenue after a long period where it disappoints analysts.

Perion is perfectly poised to capitalize on any ad budget shift between the three main pillars of digital advertising; search, social, display and video. Our diversification strategy let us pivot where the growth is, whether it's Pinterest or Facebook or Bing ad search, CTV or whatever is next.

Stepping back for just a moment. It's now been over three years since my first earnings call as Perion's CEO. I've been consistent about our three phases transformation strategy to establish Perion as the unique player in the digital media ecosystem. I quickly review that plan, not so much to get ourselves on the back, but because our ability to carefully stick to what we said should give you confidence in our ability to realize the aggressive goals we have set for the future.

In our first phase, we had strengthened our balance sheet and put in place a sustainable capital structure. We have done that. We've increased our net cash position from minus $41 million when I joined April 2017 to plus $52 million at the end of the fourth quarter 2020.

Growth in net cash is a result of our endless efforts during the last three years to leverage our expenses while grow our top line. In the fourth quarter of 2020, we decreased SG&A expenses from 18% from revenue in the last year—from 18% from revenue in last year to 13% in 2020.

On top of that, last month, we completed a follow-on offering, which was both upsized and oversubscribed, generating net proceeds of more than $61 million. This further solidified our balance sheet and provided optionality to capitalize on the growth opportunities in front of us. We've demonstrated throughout the acquisition of both Content IQ and Pub Ocean, our ability to develop a unique acquisition model, a model that assures long-term engagement with the leadership team of the acquired company, and most importantly, an accretive transaction, which its majority tail is based on earnout when meeting business goal, with only 20% to 30% paying upfront.

At the second phase, we've increased our investment in research and development from $23 million in 2019 to $31 million in 2020, ability to personalize our ad units on the flight, adding an interactive layer to CTV advertising, developing our own content management system or building AI mediation platform for our publisher are some of the examples how we are widening our technology mode.

We are now dipping in the third phase of our strategy, financial excellence. We've laid the foundation for a sustainable and profitable revenue growth in 2021 and beyond. We are beyond—highly confident in our ability to deliver.

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

Maoz Sigron

Thank you, Doron. Perion's strong financial performance during 2020 in unprecedented and volatile year for the digital advertising industry is a testament to our disciplined financial management before viewing and after the onset of the pandemic. We expect it to build upon this strong results, and the systems we developed to drive predictable and profitable growth in 2021 and beyond. The successful follow-on offering we completed during January 2021, significantly strengthened our balance sheet and supports funding of potential growth opportunities in the future.

Turning to the results. During the fourth quarter of 2020, revenues for Perion totaled $118.3 million, an increase of 51% from $78.3 million in the fourth quarter of last year. These revenues are composed of $68.4 million from display and social advertising, representing 58% of 2020 fourth quarter revenues with search advertising and other revenues contributing $49.9 million and represent 42%. This increase was primarily attributable to a 159% increase in display and social advertising revenues, primarily resulting from the acceleration of our Connected TV advertising offering and the contribution of our content monetization offering.

Search advertising and other revenues decreased by 4% as a result of lower RPMs, partially offset by a higher number of daily sales queries we deliver to Microsoft Bing and others.

During the fourth quarter, the number of sales kept improving and achieved the highest level of the average sales per day. The renewed contract with Microsoft Bing for additional four years will continue to help us to increase the activity with existing and new publishers. Customer acquisition cost and media buy in the fourth quarter of 2020 were $74.8 million or 63% of revenue, compared to $41.1 million or 53% of revenues in the fourth quarter of 2019. The increase as a percentage of revenue is primarily due to the acquisition of Content IQ and Pub Ocean with sharing higher customer acquisition costs, overall product mix change as well as lower RPMs in search advertising.

While total revenues increased significantly during the fourth quarter of 2020 compared to the fourth quarter of 2019, GAAP SG&A totaled $15.8 million or 13% of revenues compared to $14.1 million or 18% of revenues during the fourth quarter of 2019.

Perion's net income for the fourth quarter of 2020 was $9 million or $0.30 per diluted share compared to $5.9 million or $0.22 per diluted share in the fourth quarter of 2019. Non-GAAP net income in the fourth quarter of 2020 was $13.8 million or $0.45 per diluted share compared to $8.9 million or $0.32 per diluted share in the fourth quarter of 2019. Adjusted EBITDA increased to $15.3 million in the fourth quarter of 2020 from $12.2 million in the fourth quarter of 2019. Net cash provided by operating activities in the fourth quarter was $12.8 million compared to $11.2 million last year.

As of December 31, 2020, we had cash, cash equivalent and short-term bank deposits of $60.4 million compared to $61.6 million as of December 31, 2019. As of December 31, 2020, total debt was $8.3 million, down from $22.9 million as of September 30, 2020, and $16.7 million as of December 31, 2019.

During the fourth quarter of 2020, the Company returned $12.5 million drawn during the third quarter of 2020, out of its secured credit line and made scheduled paydown of $2.1 million of its credit facilities balance.

Turning to our 2020 full year results. Total revenue for 2020 was $328.1 million compared to $261.5 million in 2019, representing an increase of 25%. Search advertising and other revenues represented 55% of revenue for the full year 2020, with display and social advertising contributing 45%, compared to the full year of 2019 when search advertising and other revenues contributed 66% and display and social advertising contributed 34%.

This increase was driven by 69% growth in display and social advertising, primarily resulting from the acceleration of our Connected TV advertising offering and the contribution of our content monetization offering, which we acquired in 2020, offset by the overall COVID-19 impact on ad spends across the industry during the second quarter of 2020. This impressive growth was achieved despite a $10 million reduction in travel ad spend with us due to the COVID pandemic compared to 2019.

Search advertising and other revenues increased by 3% due to higher number of daily search, partially offset by lower RPMs impacted by COVID-19. Customer acquisition cost and media buy for 2020 were $197.6 million or 60% of revenue, compared to $135.9 million or 52% of revenue in 2019. The increase as a percentage of revenue is primarily due to the acquisition of Content IQ and Pub Ocean with sharing higher customer acquisition cost, overall product mix change as well as lower RPMs in search advertising.

On a GAAP basis, Perion's full year net income was $10.2 million or $0.36 per diluted share compared to $12.9 million or $0.49 per diluted share in 2019. Non-GAAP net income for the full year 2020 was $26.6 million or $0.91 per diluted share compared to $21.6 million or $0.83 per diluted share in 2019.

During 2020, Adjusted EBITDA was $32.8 million or 10% of revenues compared to $32.4 million or 12% of revenues in 2019. Net cash by operating activities for the full year 2020 was $22 million compared to $44.7 million in 2019. The primary reason for the decrease compared to the prior year is mainly due to the—a onetime improvement in working capital during 2019 and approximately $10 million working capital need in 2020 in connection with the acquisition of CIQ and Pub Ocean.

This concludes my financial overview for the fourth quarter and the full year 2020. I will now turn the call back to Doron for closing statements.

Doron Gerstel

Thank you, Maoz. Despite the global pandemic and all the associated and unexpected challenges, 2020 was a monumental year for Perion. We successfully integrated two accretive acquisitions and achieved greater-than-expected synergies. We experienced strong demand in the fast-growing CTV and video market for our interactive CTV ad units. We extended our technological mode and further diversified our offering.

We locked in and extended our strategic partnership with Microsoft Bing for additional four years. We entered 2021 on an exceptionally strong footing that was further fortified by the closing of the upsized and oversubscribed offering that's generating more than $61 million in gross proceeds.

Looking forward, we remain laser-focused on achieving sustainable and highly profitable double-digit annual revenue growth, targeting $500 million in annual sales by 2023. Our technology mode, established and advanced by R&D center of excellence, enable all our business units to first capture the attention, imagination and the interest of user, and then convince them with a proprietary combination, ad units, content and layouts that are optimized in real time.

We're taking an important step by launching our new Capture and Convince brand narrative for Perion. For the first time, we're establishing powerful connective tissue that makes all our business units operating under the same narrative. The market fit and the marketing power of Capture and Convince bring us the perfect recipe of consistency and agility. It is the combination as delivered by our current business units and potential synergistic acquisitions that gives me the confidence to hold out $0.5 billion as our revenue north star.

For 2021, we are targeting revenue in $350 million to—for 2021, we are targeting revenue in $350 million to $370 million range and working to achieve Adjusted EBITDA in the range of $35 million to $37 million.

Lastly, I would like to, again, thank the amazing Perion team to their resiliency and agility during the unprecedented year. I couldn't be prouder of our collective accomplishments and more appreciative of our collective efforts.

With that said, Operator, will you please open the call for questions. Operator?

Operator

Thank you. If you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again that’s star, one to ask a question.

We will now take our first question from Jason Helfstein from Oppenheimer. Please go ahead. Your line is open.

Jason Helfstein

Hey, thanks everybody. Three questions. Doron, first, you talked about kind of the success of patronizing promotion integration. Maybe just elaborate a bit more, talk about—are you already cross-selling that, just what are the synergistic benefits you're seeing from any metrics you can share for client—Perion client penetration and client cross-selling, etc.

Question number two, maybe you can help us understand organic advertising growth in the fourth quarter. So, kind of adjusting for Content IQ and Pub Ocean, what was organic advertising in the fourth quarter? How are you thinking about kind of organic advertising growth for 2021?

Then last question, you are targeting $500 million in 2023 revenue with $420 million organic. I think it was the last presentation employing $80 million for future acquisition. Maybe just talk about M&A plan for this year, maybe help us understand timing? Is it something that would be kind of more first half, second half? Then also, we have clearly seen an increase in APAC valuation. How is that kind of playing into your thinking? Kind of would that impact your ability to close acquisitions this year in fact?

Doron Gerstel

Very good. Okay. One by one. First and foremost, I think that the Content IQ and the Pub Ocean contribution and—is not just on what they're able to generate, but also the synergy. I would like to focus on the synergy capability. Pub Ocean has its own on and operated site. As I basically stated, they are extending and externalized their content optimization platform to other first year publisher. I mentioned Newsweek, I mentioned Entrepreneur and Bonnier, are just the first one.

But collectively, when you're looking about those—these first tier sites as well as the own and operate site, this created an—a great large supply that is definitely can be a great opportunity for other business units that just generate demand. At this point, this demand was very much targeted network outside that we have to pay, for instance, take Undertone. Undertone is working with brands and agencies to deliver their campaigns. We're getting an insertion order and where we can work with Undertone and Pub network.

Now, when we have such a great internal publisher network that we control, the tech that we are paying outside will go in-house, and that will be a huge synergy saving. So that is, for instance, one example. That apply, of course, to the demand that can be generated from our partnership with Microsoft Bing. In a way, we are trying very much to develop here, as we said, our own world garden, where, at the same time, we're increasing our demand capability, we are increasing our supply capability and that gives us a great opportunity to definitely reduce our tech, and this will increase our margin.

As far as our plans for M&A, and—I can tell you that we are looking at few areas that has to do with what we believe are the main key growth factors behind our success in 2020.

In the creativity side, we are looking for ability to enhance our DCO, dynamic creative optimization. In other words, in what extent we are able to personalize the ad units based on the data that we're getting. This is—was and will remain one of the major factor for advertiser. We are currently working with our own platform, smart flow, but we believe that there are great opportunities out there for that as well.

Another area, which is interest a lot, has to do with blockchain, blockchain in a way in our world of advertising. It's more on the search monetization world, and we believe that while the number of searches is growing exponentially, our partner is looking to increase the safety and safety of the searchers and safety of the keywords and all of that. We believe that blockchain can be a very interesting way. Those are the two examples of what we're looking.

As far as the last question that has to do with our goal for the next three years. The north star is to get to $500 million. What we basically said during the following meetings that we have, that we're looking about the minimum CAGR of 10% in the next three years, which gets us into the $430 million. I underline the word minimum. But no matter if it's $430 or above that we are shooting for, we believe that in the next three years we are going to do an acquisition. That's why we did the follow-on transaction, and this is why we're going to have at the end of Q1 something close to $140 million in cash.

We set a very rigid framework of acquisition, as I mentioned in the call, which is majority of the procedures to earn-out and only 20% to 30% is upfront cash. We are planning to continue with it because it was definitely something that we believe brings value not just to us, but also to the companies that we acquired and allow us to retain talent of the acquired company for a long period of time.

Jason Helfstein

Just think—Maoz, do you want to just comment on organic growth in the fourth quarter for advertising?

Maoz Sigron

So yes, we can say that this is not something that we have on the public, but we can say that if we're looking on pro forma basis, it will be above 20% growth.

Jason Helfstein

Thank you.

Operator

We'll now move to our next question from Eric Martinuzzi from Lake Street. Please go ahead. Your line is open.

Eric Martinuzzi

Congratulations on a real strong year. Just amazing how it finished out when we think back to the dark days of April. So kudos to you, Doron, pulling it together. I have a question regarding the Connected TV business. First of all, I want to understand the difference between CTV and iCTV. But then, second of all, I want to ask about kind of percentage of revenue. It looks like in Q4 we had around $6.5 million CTV of the $118 million, so a relatively small part of your overall revenue. But where do you think that can go percentage-wise, either in 2021 or beyond?

Doron Gerstel

The main difference between CTV and the iCTV, the interactive, is definitely—first and foremost, from the advertising standpoint, is the ability to gauge the interaction level between the viewer and the screen. As you already can understand when the video is running, who knows what is the—it's like any other ad units that you see on a conventional or linear TV, who knows where is your attention? Is it to your mobile or to anything that is around you other than the TV—other than the video itself.

The interaction part of it is—ensured that you—we grab your attention, we capture your attention, capture attention that you need to react with an action. The action is that you need to click on your remote and basically run a video out of few options that we are promoting while the main video is running. You need to choose between fewer options. Once you choose—the video that you choose starts running. But the most important part is the interaction. If you are not interesting—if you're not interested on learning more, you will not click on your remote.

For advertiser, this factor of clicking the remote demonstrates engagement. Everything here is all about engagement that they know to very much appreciate the return on their ad spend. So, that's the layer of interaction above that the conventional video that you basically see in CTV. Of course, not everyone is clicking on those small boxes with video. But those that click, they know that 100% are engaged with the new—with the ad or with the video, and that we need to pay way more for it. We need to pay more in terms of CPM because they can ensure that the engagement level is very high.

Now, in terms of the percentage of CTV for the entire, this is something that we are going to keep reporting. The number is growing. I can tell you that we are definitely in par with what is all CTV from the entire display and $6.5 million out of our overall advertising is—percentage-wise is 10%. If you're looking about the entire display and video, which is close to $200 billion, I don't think that CTV reached $20 billion. It's way, way less.

We are happy with the 10%. When we're looking it about the overall display and video spend. But definitely, this is going to get more and more because we're now working on iCTV 2.0. The iCTV 2.0 is not just adding those boxes with additional information that you need to click. Once you will click on them, it will be personalized dynamically. In other words, the video of the—the creative will change based on the data, based on gender, based on location and so on and so forth in order to very much increase your retention and ability to engage with this video.

Eric Martinuzzi

Understand. Then a follow-up, any signs of light in the travel, hospitality and entertainment verticals?

Doron Gerstel

No. At this point, the—definitely the market is very much on hold. We are looking forward to what's going to happen during the summer. But, I must say that our forecast and guidance for 2021 is not taking any consideration at all of the recovery of this segment.

Eric Martinuzzi

Understand. Thanks for taking my questions.

Doron Gerstel

Thank you.

Operator

We'll now move to our next question from Laura Martin from Needham. Please go ahead. Your line is open.

Laura Martin

Hi, there. Thanks for taking the questions. Great numbers. Congratulations.

Doron Gerstel

Thank you Laura, thank you.

Laura Martin

I want to ask a question about guidance. You reported this really accelerating revenue growth of 50% in the fourth quarter and 25% revenue growth for the full year. What is decelerating so massively in 2021 that this guidance gets us down to 10% for the full year.

Building on that question, when an investor call and every other competitor that you have in this space is projected 30% or were projecting 30% revenue growth, what would you say to them that they should buy this stock, which is going to grow 10% at the top line, whereas most of the competitors are going to grow 30%? How would you answer that?

Doron Gerstel

That's a very good question, and thanks for that.

First and foremost, this is the third year that we are providing guidance, and Company management is quite conservative with their estimate. Keep in mind that this is the first quarter, and keep in mind that there are some still unknowns. We are—all our eyes are very much where we want to be three years from now. First and foremost, I think that we are one of the fewer, I have been listening to all of our competitors. One of the fewer that basically can even think about providing estimates where they want to be three years from now. This is one.

The second thing, I think that we are in a very unique situation from our offering. While most of our arrivals are very much offering a point solution, we proved in the past, and I think that this is very important to say now, that we are offering a diversification strategy. Diversification strategy that allows us very much to very much deliver based on—or capitalize on any changes that are happening among those three main pillars.

With that, I basically said that we are preparing very much for growth and that's the $500 million that are representing a 17% CAGR. As I said, we would very much like to start the year with a conservative number.

Laura Martin

Okay. Then my second question is on cookies. I am interested in how you think this cookies drama plays out over the next five years? What do you think happened with cookies in the marketplace?

Doron Gerstel

Yes. First, we need to ask ourselves how much out of—how much the companies are very much dependent on cookies from a retargeting standpoint. This is definitely a critical question, how much of the businesses are depending on a third-party cookies? Our way of overcoming the cookie was very much on the—on developing our own or controlled supply network, which turned to be our first-party cookie instead of very much rely on the outside of third-party cookie.

It is—in a way, it was a sudden move because usually an ad network rely on other publishers, but we believe that, that will give us a tremendous advantage. As we are growing our supply, not just internally, but also the fact that we will sign such agreement with the first-tier publisher, and the idea is to continue with it. It gives us—has become our own world garden and less even depend on the third-party cookies.

At the same time, the other part of the business, if it has to do with search advertising or social advertising are not part of this gain because they're not effective for the cookie. That's something that needs to take into consideration. Because again, if we were only on display and not having our own supply network, I think that, that will definitely get the concern to a way higher level.

Laura Martin

Okay. Just staying on the market part. Do you think third-party cookies goes away, and if not your company, so just in the general ecosystem? Do you think third party cookies actually go away and get replaced by a (inaudible)? Or, do you think they actually don't go away because regulators are going to force people to keep them out there? Shifting the marketplace outside of your dependence on cookies, what do you think…

Doron Gerstel

From outside of Perion, I think that we definitely see this trend. It's started with all the regulation that is happening in Europe and then follow it with what's happening with the CCPA in the West Coast and then others in other location, look what Apple just announced last week. I think it's part of an overall trend, which has to do with privacy, overall trend. I don't think that the issue of cookie-less will be behind. Definitely IAB and others that very much care about consumer privacy needs to match. If it's—it's not even a question of if. In my opinion, it's just a question of when.

Laura Martin

That's super helpful. My recommendation is you just go off of CTV and then you cannot have cookies at all. That solves a lot of problems. Anyway, thank you.

Doron Gerstel

Thank you. Thank you.

Operator

We'll now move to our next question from Jeff Martin from ROTH Capital Partners. Please go ahead. Your line is open.

Jeffrey Martin

Thanks. Good day, everyone.

Doron Gerstel

Thank you.

Jeffrey Martin

I wanted to focus on—you've increased your R&D spend significantly over the years. Wanted to get a sense of what your focus is from an R&D standpoint in 2021 and then also draws out to 2023? What does that road map look like?

Doron Gerstel

Yes. Thank you. First of all, I never mentioned it. But in my background, I'm coming from an enterprise software business. So—and one of the main reasons for me joining Perion was the fact that I do believe that technology makes the difference. There is a reason we call it moat, and there is a reason we increase our spend to widen and make it deeper, believe this is definitely something which gets us high, high return on investing on technology. That's why we're increasing it year-over-year.

Keep in mind that what we are investing now is first and foremost, and I'm taking here our content monetization systems. We reached a point that we understand through the acquisition of Content IQ that the current content management system that they have, which was based on an open source, our content management system is not enough for scale. We have to develop our own content monetization system in order to take content optimization into a different level; a different level when it comes to optimization and keep the visitor in more than—between 6 to 8 minutes in our side. Not just that, you—we build it, and the idea was how we're able to externalize it to our partners. That was a huge investment on our side. That's one example.

The other example was very much the investment that we did on, I think was, two years ago, acquiring an AI center in Ukraine that we further invest more and more on it. That served very much all BUs on AI modeling that now become—on anything—everything that we're doing has definitely an AI service or AI model that is very much generating there.

As I mentioned before, personalization and using the huge amount of data that we have that is coming from all different touch-points; from the social to the search, to—of course, to the display, it all comes to a huge data lake that allows us to serve any part of our business and with the right data, the right signal, which is so essential in our business. This is a huge investment, and I'm very happy that we are very much able to grow our business based on this investment.

Jeffrey Martin

Okay. Great. Then curious with RPM down in Q4, offset by a significant increase in searches, are you seeing that trend continue so far in Q1? What's embedded in your guidance for the balance of the year in terms of those two metrics?

Doron Gerstel

So, first of all, as far as January to—not even to our surprise, but we—the COVID hit us—started in March last year. April and May was the worst. It's a good comparison to see January 2019—2020 to January 2021. I definitely can tell you that the trends continue in terms of number of searches, which is great. It's compensated on the decrease on RPM, allow us to very much deliver sustained revenue from search advertising. Our assumption that this trend will continue even if we were able to very much overcome COVID. I think that most—our consumer very much enjoy about both the online—shopping online or doing things online, and this is—this trend is definitely to continue.

The other thing that we think is going to improve the RPM is the huge amount of online retailers. We're able to see a new type of online retailers that's not just—and they don't have their brick and mortar store, but in most cases, they don't have even an inventory. Their spend is only on ad search, looking for consumer with a very high intent. That's a very, very, very interesting, compelling moment for them.

So overall, we definitely see that this trend will stay even if COVID will not be with us somewhere in later 2021.

Jeffrey Martin

Great. Then final question, looking at your presentation that's up on your Investor Relations site here, it looks like CTV—how (inaudible) 50% from the third quarter and customers grew in the 45% range. Wondering, if you could comment on that? Are you seeing increased interest continuing so far this year in CTV?

Doron Gerstel

Yes, definitely. We grow two things into—between the third quarter when we just launched it and the fourth quarter of 2020. Both in absolute numbers of revenue, the number of customers, but more importantly on the average deal size. The average deal size grow significantly, which is—for us is one of the major KPI because customers see and evaluate the return on ad spend on CTV, especially with the factor of interactive CTV and global spend. This trend is continuing, and definitely what started as an experiment in the third quarter, they increased the spend on the fourth quarter, and they further increased it so far in the first few weeks of the year. We believe they will continue and do so when we are going to launch, as we said, the iCTV 2.0, which has a personalization level on top of what we're doing right now with iCTV. There is a nice slide since you referred to our prior presentation that we definitely demonstrate how DCO, dynamic creative optimization, played so well in the CTV space.

Jeffrey Martin

Thank you for that and congratulations on a strong year.

Doron Gerstel

Thank you.

Operator

We will now take our final question from Chris McGinnis from Sidoti & Company. Please go ahead. Your line is open.

Christopher McGinnis

Good morning. Thanks for taking my questions. Nice quarter. I was just wondering, Doron, if you could just maybe expand a little bit on Microsoft and relationship you felt some more collaborations coming through, and can you just highlight some more coming—how that's changed from the last content everyone just found at the end of the event.

Doron Gerstel

Yes. Yes. Thanks for the question. I was honored to do the—not the last one, but also the previous one. We did the previous one in October 2017 for three years. We did this one—announced it in November 2, 2020, and it's quite a difference, quite a difference not just in duration. The last one was for three years. This is a four year. For those who know Microsoft doing a four years' agreement is we are part of a very few vendors that being able to engage for such a long period of time. That's why they require for us not just to renew or extend the agreement in terms of amendment, but definitely writing the new agreement from scratch.

But it's not just about four years or more years in terms of contract. I think the main important factor has to do with better rev share, that's one. We have higher tiers that represent where we are right now. We are going to get more margin from Microsoft, one. Second, expanded to new geography. In the previous agreement, we were limited to six countries, currently to 34 countries, which is part of Microsoft advertising overall geography expansion strategy. The third is that we are now able to offer our market new products, new products that we were not able to do on the previous agreement.

So, all in all, this is why we basically share that our estimate that in the course of the next four years, we were able to generate $800 million from this agreement, and $200 million in average on annual revenue. Currently, we're in the level of $172 million. That's definitely a significant increase. What I'm more happy with is the fact that it's a sustainable, predictable stream of revenue that has to do with this pillar, search advertising. That based on any KPI that we're looking, and I shared one of them, which is the average daily traffic, it's definitely moving in the right direction, and it is generating for us a substantial revenue.

Christopher McGinnis

Thanks for taking my questions and good luck in Q1.

Doron Gerstel

Thank you.

Operator

That concludes today's question-and-answer session. I'd like to hand back to Doron Gerstel for any closing remarks.

Doron Gerstel

Yes. Thank you very much for your participation, and stay well. Bye-bye.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.