
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE SECURITIES
EXCHANGE ACT OF 1934**

For the month of November 2022

Commission File Number: 001-40566

TABOOLA.COM LTD.

(Exact name of registrant as specified in its charter)

16 Madison Square West 7th Floor

New York, NY 10010

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F

Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes

No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes

No

EXPLANATORY NOTE

This report on Form 6-K is being filed and shall be incorporated by reference in any registration statement filed by Taboola.com Ltd. under the Securities Exchange Act of 1934, as amended, that permits incorporation by reference.

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99.1	Consolidated Interim Financial Statements (Unaudited) as of and for the three and nine months ended September 30, 2022
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TABOOLA.COM LTD.

By: /s/ Stephen Walker

Name: Stephen Walker

Title: Chief Financial Officer

Date: November 16, 2022

TABOOLA.COM LTD.
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2022
UNAUDITED
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CONSOLIDATED INTERIM BALANCE SHEETS

U.S. dollars in thousands, except share and per share data

	September 30, 2022	December 31, 2021
	<u>Unaudited</u>	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 188,477	\$ 319,319
Short-term investments	119,840	—
Restricted deposits	750	1,000
Trade receivables (net of allowance for credit losses of \$4,947 and \$3,895 as of September 30, 2022, and December 31, 2021, respectively)	184,794	245,235
Prepaid expenses and other current assets	70,743	63,394
Total current assets	<u>564,604</u>	<u>628,948</u>
NON-CURRENT ASSETS		
Long-term prepaid expenses	40,652	32,926
Restricted deposits	4,052	3,897
Deferred tax assets, net	2,909	1,876
Operating lease right of use assets	65,217	65,105
Property and equipment, net	73,758	63,259
Intangible assets, net	205,122	250,923
Goodwill	557,559	550,380
Total non-current assets	<u>949,269</u>	<u>968,366</u>
Total assets	<u>\$ 1,513,873</u>	<u>\$ 1,597,314</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade payables	\$ 207,775	\$ 259,941
Short-term operating lease liabilities	13,456	12,958
Accrued expenses and other current liabilities	100,978	124,662
Current portion of long-term loan	3,000	3,000
Total current liabilities	<u>325,209</u>	<u>400,561</u>
LONG-TERM LIABILITIES		
Deferred tax liabilities, net	42,563	51,027
Warrants liability	4,239	31,227
Long-term loan, net of current portion	284,270	285,402
Long-term operating lease liabilities	56,075	61,526
Total long-term liabilities	<u>387,147</u>	<u>429,182</u>
COMMITMENTS AND CONTINGENCIES (Note 13)		
SHAREHOLDERS' EQUITY		
Ordinary shares with no par value- Authorized: 700,000,000 as of September 30, 2022 and December 31, 2021; 247,348,424 and 234,031,749 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively.	—	—
Additional paid-in capital	887,845	824,016
Accumulated other comprehensive loss	(2,724)	—
Accumulated deficit	(83,604)	(56,445)
Total shareholders' equity	<u>801,517</u>	<u>767,571</u>
Total liabilities and shareholders' equity	<u>\$ 1,513,873</u>	<u>\$ 1,597,314</u>

The accompanying notes are an integral part of these unaudited consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENTS OF INCOME (LOSS)

U.S. dollars in thousands, except share and per share data

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
	Unaudited			
Revenues	\$ 332,462	\$ 338,768	\$ 1,029,883	\$ 970,790
Cost of revenues:				
Traffic acquisition cost	203,125	211,899	619,109	621,137
Other cost of revenues	26,649	19,184	79,695	52,224
Total cost of revenues	229,774	231,083	698,804	673,361
Gross profit	102,688	107,685	331,079	297,429
Operating expenses:				
Research and development	36,237	29,946	100,728	83,889
Sales and marketing	63,216	43,518	190,989	146,962
General and administrative	24,685	34,345	78,062	98,489
Total operating expenses	124,138	107,809	369,779	329,340
Operating loss	(21,450)	(124)	(38,700)	(31,911)
Finance income (expenses), net	(3,570)	13,960	12,389	13,077
Income (loss) before income taxes	(25,020)	13,836	(26,311)	(18,834)
Income tax benefit (expenses)	(1,006)	3,460	(848)	(6,699)
Net income (loss)	\$ (26,026)	\$ 17,296	\$ (27,159)	\$ (25,533)
Less: Undistributed earnings allocated to participating securities	—	—	—	(11,944)
Net income (loss) attributable to Ordinary shares – basic and diluted	(26,026)	17,296	(27,159)	(37,477)
Net income (loss) per share attributable to Ordinary shareholders, basic	\$ (0.10)	\$ 0.08	\$ (0.11)	\$ (0.35)
Weighted-average shares used in computing net income (loss) per share attributable to Ordinary shareholders, basic	255,160,597	229,024,803	251,865,831	107,884,927
Net income (loss) per share attributable to Ordinary shareholders, diluted	\$ (0.10)	\$ 0.07	\$ (0.11)	\$ (0.35)
Weighted-average shares used in computing net income (loss) per share attributable to Ordinary shareholders, diluted	255,160,597	259,262,529	251,865,831	107,884,927

The accompanying notes are an integral part of the unaudited consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

U.S. dollars in thousands

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	Unaudited			
Net income (loss)	\$ (26,026)	\$ 17,296	\$ (27,159)	\$ (25,533)
Other comprehensive income (loss):				
Unrealized losses on available-for-sale marketable securities	(445)	—	(704)	—
Unrealized gains (losses) on derivative instruments, net	1,504	—	(2,020)	—
Other comprehensive income (loss)	1,059	—	(2,724)	—
Comprehensive income (loss)	\$ (24,967)	\$ 17,296	\$ (29,883)	\$ (25,533)

The accompanying notes are an integral part of the unaudited consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENTS OF CONVERTIBLE PREFERRED SHARES AND SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share and per share data

	Ordinary shares		Additional paid-in capital	Accumulated deficit	Accumulated Other Comprehensive income (loss)	Total shareholders' equity
	Number	Amount				
Balance as of June 30, 2022 (unaudited)	240,679,908	\$ —	\$ 869,201	\$ (57,578)	\$ (3,783)	\$ 807,840
Share-based compensation expenses	—	—	19,150	—	—	19,150
Exercise of options and vested RSUs	5,441,506	—	1,419	—	—	1,419
Connexity issuance of Holdback	1,227,010	—	—	—	—	—
Payments of tax withholding for share-based compensation	—	—	(1,925)	—	—	(1,925)
Other comprehensive income	—	—	—	—	1,059	1,059
Net loss	—	—	—	(26,026)	—	(26,026)
Balance as of September 30, 2022 (unaudited)	247,348,424	\$ —	\$ 887,845	\$ (83,604)	\$ (2,724)	\$ 801,517

	Convertible Preferred shares		Ordinary shares		Additional paid-in capital	Accumulated deficit	Total shareholders' equity
	Number	Amount	Number	Amount			
Balance as of June 30, 2021 (unaudited)	—	\$ —	211,198,259	\$ —	\$ 621,664	\$ (74,326)	\$ 547,338
Issuance of Ordinary shares	—	—	17,328,049	—	157,689	—	157,689
Share-based compensation expenses	—	—	—	—	20,075	—	20,075
Exercise of options and vested RSUs	—	—	3,114,238	—	2,560	—	2,560
Net income	—	—	—	—	—	17,296	17,296
Balance as of September 30, 2021 (unaudited)	—	\$ —	231,640,546	\$ —	\$ 801,988	\$ (57,030)	\$ 744,958

The accompanying notes are an integral part of the unaudited consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENTS OF CONVERTIBLE PREFERRED SHARES AND SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share and per share data

	Ordinary shares		Additional paid-in capital	Accumulated deficit	Accumulated Other Comprehensive loss	Total shareholders' equity
	Number	Amount				
Balance as of December 31, 2021	234,031,749	\$ —	\$ 824,016	\$ (56,445)	\$ —	\$ 767,571
Share-based compensation expenses	—	—	60,431	—	—	60,431
Exercise of options and vested RSUs	12,089,665	—	7,508	—	—	7,508
Connexity issuance of Holdback	1,227,010	—	—	—	—	—
Payments of tax withholding for share-based compensation	—	—	(4,110)	—	—	(4,110)
Other comprehensive loss	—	—	—	—	(2,724)	(2,724)
Net loss	—	—	—	(27,159)	—	(27,159)
Balance as of September 30, 2022 (unaudited)	247,348,424	\$ —	\$ 887,845	\$ (83,604)	\$ (2,724)	\$ 801,517

	Convertible Preferred shares		Ordinary shares		Additional paid-in capital	Accumulated deficit	Total shareholders' equity
	Number	Amount	Number	Amount			
Balance as of December 31, 2020	121,472,152	\$ 170,206	41,357,049	\$ —	\$ 78,137	\$ (31,497)	\$ 46,640
Conversion of Preferred shares to Ordinary shares	(121,472,152)	(170,206)	121,472,152	—	170,206	—	170,206
Issuance of Ordinary shares	—	—	61,299,565	—	442,171	—	442,171
Share-based compensation expenses	—	—	—	—	103,995	—	103,995
Exercise of options and vested RSUs	—	—	7,511,780	—	7,479	—	7,479
Net loss	—	—	—	—	—	(25,533)	(25,533)
Balance as of September 30, 2021 (unaudited)	—	\$ —	231,640,546	\$ —	\$ 801,988	\$ (57,030)	\$ 744,958

The accompanying notes are an integral part of the unaudited consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Nine months ended	
	September 30,	
	2022	2021
	Unaudited	
<u>Cash flows from operating activities</u>		
Net loss	\$ (27,159)	\$ (25,533)
Adjustments to reconcile net loss to net cash flows provided by operating activities:		
Depreciation and amortization	68,711	30,050
Share-based compensation expenses	58,971	103,594
Net loss (gain) from financing expenses	7,733	(1,857)
Revaluation of the Warrants liability	(26,988)	(17,091)
Amortization of loan issuance costs	1,006	119
Amortization of premium and accretion of discount on short-term investments, net	(322)	—
<u>Change in operating assets and liabilities:</u>		
Decrease in trade receivables	60,672	14,544
Increase in prepaid expenses and other current assets and long-term prepaid expenses	(13,921)	(38,379)
Decrease in trade payables	(54,659)	(27,185)
Increase (decrease) in accrued expenses and other current liabilities	(25,516)	1,380
Increase (decrease) in deferred taxes, net	(9,676)	2,716
Change in operating lease right of use assets	11,536	10,878
Change in operating lease liabilities	(16,962)	(12,683)
Net cash provided by operating activities	<u>33,426</u>	<u>40,553</u>
<u>Cash flows from investing activities</u>		
Purchase of property and equipment, including capitalized internal-use software	(28,476)	(28,774)
Cash paid in connection with acquisitions, net of cash acquired	(7,981)	(583,286)
Proceeds from restricted deposits	98	2,325
Purchase of short-term investments	(126,382)	—
Proceeds from sales and maturities of short-term investments	6,160	—
Net cash used in investing activities	<u>(156,581)</u>	<u>(609,735)</u>
<u>Cash flows from financing activities</u>		
Exercise of options and vested RSUs	7,467	7,479
Issuance of Ordinary shares, net of offering costs	—	286,170
Payments of tax withholding for share-based compensation expenses	(4,110)	—
Proceeds from long-term loan, net of debt issuance costs	—	288,750
Repayment of current portion of long-term loan	(2,250)	—
Costs associated with entering into a revolving credit facility	(1,061)	—
Issuance of Warrants	—	53,883
Net cash provided by financing activities	<u>46</u>	<u>636,282</u>
Exchange differences on balances of cash and cash equivalents	(7,733)	1,857
Increase (decrease) in cash and cash equivalents	(130,842)	68,957
Cash and cash equivalents - at the beginning of the period	319,319	242,811
Cash and cash equivalents - at end of the period	<u>\$ 188,477</u>	<u>\$ 311,768</u>
Supplemental disclosures of cash flow information:		
<u>Cash paid during the year for:</u>		
Income taxes	\$ 22,599	\$ 7,647
Interest	\$ 15,094	\$ —
<u>Non-cash investing and financing activities:</u>		
Purchase of property, plant and equipment and intangible assets	\$ 2,764	\$ 1,500
Share-based compensation included in capitalized internal-use software	\$ 1,460	\$ 401
Deferred offering costs incurred during the period included in long-term prepaid expenses	\$ —	\$ 1,688
Creation of operating lease right-of-use assets	\$ 11,648	\$ 2,382

The accompanying notes are an integral part of the unaudited consolidated interim financial statements.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data****NOTE 1:- GENERAL**

- a. Taboola.com Ltd. (together with its subsidiaries, the “Company” or “Taboola”) was incorporated under the laws of the state of Israel on September 3, 2006.

Taboola is a technology company that powers recommendations across the Open Web with an artificial intelligence-based, algorithmic engine developed over the 14 years since the company began operations in 2007. Taboola partners with websites, devices, and mobile apps (collectively referred to as “digital properties”), to recommend editorial content and advertisements on the Open Web. Digital properties use Taboola’s technology platforms to achieve their business goals, such as driving new audiences to their sites and apps or increasing engagement with existing audiences. Taboola also provides monetization opportunities to digital properties by surfacing paid recommendations by advertisers. Taboola is a business-to-business company with no competing consumer interests. Taboola empowers advertisers to leverage its proprietary AI-powered recommendation platform to reach targeted audiences utilizing effective, native ad-formats across digital properties. As part of the Company e-Commerce offerings, it also syndicates its retailer advertisers’ monetized product listings and links (clickable advertisements) into commerce content-oriented consumer experiences on both the Open Web and within the dominant traditional ad platforms. Taboola generates revenues when people (consumers) click on, purchase from or, in some cases, view the ads that appear within its recommendation platform. The Company’s customers are the advertisers, merchants and affiliate networks that advertise on the Company’s platform (“Advertisers”). Advertisers pay Taboola for those clicks, purchases or impressions, and Taboola shares a portion of the resulting revenue with the digital properties who display those ads.

- b. On January 25, 2021, The Company entered into a merger agreement with ION Acquisition Corp. 1 Ltd. (“ION”) (the “Merger Agreement”). Under the Merger Agreement, one of Taboola’s subsidiaries merged with and into ION, with ION continuing as the surviving company and becoming our direct, wholly-owned subsidiary which was accounted for as a recapitalization, with no goodwill or other intangible assets recorded, in accordance with U.S. GAAP (the “Business Combination”).

On June 29, 2021 (the “Transaction Date”), the Business Combination closed and the Company’s ordinary shares, no par value per share (the “Ordinary Shares”) and Public Warrants (as defined in our Annual Report on Form 20-F for the year ended December 31, 2021 filed with the SEC on March 24, 2022, and together with the Private Warrants, the “Warrants”) began trading on The Nasdaq Global Market LLC on June 30, 2021, among other things. .

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES***Basis of Presentation***

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States (“GAAP”), and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting and include the accounts of Taboola.com Ltd. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The consolidated balance sheet as of December 31, 2021, was derived from the audited consolidated financial statements as of that date, but does not include all of the disclosures, including certain notes required by GAAP on an annual reporting basis. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Therefore, these unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and the related notes thereto as of and for the year ended December 31, 2021, included in the Company's Annual Report on Form 20-F for the year ended December 31, 2021, filed with the SEC on March 24, 2022.

In the opinion of the Company's management, the unaudited consolidated interim financial statements have been prepared on a basis consistent with the annual consolidated financial statements and reflect all adjustments, which include only normal recurring adjustments necessary for the fair presentation of the Company's unaudited consolidated interim financial statements. The results of operations for the three and nine months ended September 30, 2022, are not necessarily indicative of the results to be expected for the full year ending December 31, 2022, or any other future interim or annual period.

Use of Estimates

The preparation of the consolidated interim financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the interim consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period and accompanying notes. Actual results could differ from those estimates. On an ongoing basis, the Company's management evaluates estimates, including those related to accounts receivable and allowance for credit losses, acquired intangible assets and goodwill, the useful life of intangible assets, capitalized internal-use software, property and equipment, the incremental borrowing rate for operating leases, share-based compensation including the determination of the fair value of the Company's share-based awards, the fair value of financial assets and liabilities, including the fair value of marketable securities, the Private Warrants and derivative instruments, and the valuation of deferred taxes and uncertain tax positions. The Company bases these estimates on historical and anticipated results, trends and various other assumptions that it believes are reasonable under the circumstances, including assumptions as to future events. Actual results could differ from those estimates.

Significant Accounting Policies

The Company's significant accounting policies are discussed in Note 2, *Summary of Significant Accounting Policies*, in the Company's Annual Report on Form 20-F as of and for the year ended December 31, 2021, as filed with the SEC dated March 24, 2022. There have been no significant changes to these policies during the nine months ended September 30, 2022, except as noted below.

Cash and cash equivalents

Cash and cash equivalents consist of cash in banks and highly liquid marketable securities investments, money market account and funds, commercial paper and corporate debt securities, with an original maturity of three months or less at the date of purchase and are readily convertible to known amounts of cash.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTSU.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)***Derivative Financial Instruments***

The Company accounts for derivatives and hedging based on ASC 815 (“Derivatives and Hedging”). ASC 815 requires the Company to recognize all derivatives on the consolidated balance sheets at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on their intended use and their designation.

Changes in the fair value of these derivatives are recorded in accumulated other comprehensive income (loss) as a component of shareholders’ equity in the consolidated balance sheets until the forecasted transaction occurs. Upon occurrence, the Company reclassifies the related gains or losses on the derivative to the same financial statement line item in the consolidated statements of income (loss) to which the derivative relates. In case the Company discontinues cash flow hedges, it records the related amount in finance income (expenses), net, on the consolidated statements of income (loss).

The Company accounts for its derivative financial instruments as either prepaid expenses and other current assets or accrued expenses and other current liabilities in the consolidated balance sheets at their fair value.

Marketable Securities

The Company classifies its marketable securities as available-for-sale at the time of purchase and reevaluates such classification at each balance sheet date. The Company may sell these securities at any time for use in current operations even if they have not yet reached maturity. As a result, the Company classifies its marketable securities, including those with maturities beyond 12 months, as current assets in the consolidated balance sheets.

The Company carries these securities at fair value and records unrealized gains and losses, net of taxes, in accumulated other comprehensive income (loss) as a component of shareholders’ equity, except for changes in allowance for expected credit losses, which are recorded in finance income (expenses), net.

The Company periodically evaluates its available-for-sale debt securities for impairment. If the amortized cost of an individual security exceeds its fair value, the Company considers its intent to sell the security or whether it is more likely than not that it will be required to sell the security before recovery of its amortized basis. If either of these criteria are met, the Company writes down the security to its fair value and records the impairment charge in finance income (expenses), net, in the consolidated statements of income (loss).

If neither of these criteria are met, the Company determines whether credit loss exists. Credit loss is estimated by considering changes to the rating of the security by a rating agency, any adverse conditions specifically related to the security, as well as other factors.

Realized gains and losses on available-for-sale marketable securities are included in the consolidated statements of income (loss).

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 3:- CASH AND CASH EQUIVALENTS

The following table presents for each reported period, the breakdown of cash and cash equivalents:

	September 30, 2022	December 31, 2021
	<u>Unaudited</u>	
Cash	\$ 153,205	\$ 137,050
Time deposits	30,115	57,205
Money market accounts and funds	5,157	125,064
Total Cash and cash equivalents	\$ 188,477	\$ 319,319

NOTE 4:- FAIR VALUE MEASUREMENTS

The Company evaluates assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level to classify them for each reporting period. The Company did not have any transfers between fair value measurements levels in the nine months ended September 30, 2022.

The following table sets forth the Company's assets and liabilities that were measured at fair value as of September 30, 2022 and December 31, 2021, by level within the fair value hierarchy:

Description	Fair Value Hierarchy	Fair value measurements as of	
		September 30, 2022	December 31, 2021
		<u>Unaudited</u>	
Assets:			
<u>Cash equivalents:</u>			
Money market accounts and funds	Level 1	\$ 5,157	\$ 125,064
<u>Short-term investments:</u>			
U.S. government treasuries	Level 2	\$ 59,970	\$ —
Corporate debt securities	Level 2	\$ 23,618	\$ —
U.S. agency bonds	Level 2	\$ 20,769	\$ —
Commercial paper	Level 2	\$ 15,483	\$ —
Liabilities:			
<u>Warrants liability:</u>			
Public Warrants	Level 1	\$ (2,328)	\$ (8,963)
Private Warrants	Level 3	\$ (1,911)	\$ (22,264)
<u>Derivative instruments liability:</u>			
Derivative instruments designated as cash flow hedging instruments	Level 2	\$ (2,020)	\$ —

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 4:- FAIR VALUE MEASUREMENTS (Cont.)

The Company classifies its money market accounts and funds as Level 1 based on quoted market prices in active markets.

The Company classifies its U.S. government treasuries, corporate debt securities, commercial paper, U.S. agency bonds and derivative financial instruments within Level 2 as they are valued using inputs other than quoted prices which are directly or indirectly observable in the market, including readily-available pricing sources for the identical underlying security which may not be actively traded.

The Company measures the fair value for Warrants by using a quoted price for the Public Warrants, which are classified as Level 1, and a Black-Scholes simulation model for the Private Warrants, which are classified as Level 3, due to the use of unobservable inputs.

The key inputs into the Black-Scholes model for the Private Warrants were as follows:

<u>Input</u>	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Risk-free interest rate	4.09% - 4.16%	1.07% - 1.18%
Expected term (years)	3.01 - 3.75	3.75 - 4.50
Expected volatility	74.1% - 76.5%	66.1% - 68.6%
Exercise price	\$ 11.50	\$ 11.50
Underlying Stock Price	\$ 1.81	\$ 7.78

The Company's use of a Black-Scholes model required the use of subjective assumptions:

- The risk-free interest rate assumption was interpolated based on constant maturity U.S. Treasury rates over a term commensurate with the expected term of the Warrants.
- The expected term was based on the maturity of the Warrants five years following June 29, 2021, the Merger Transaction date, and for certain Private Warrants the maturity was determined to be five years from the date of the October 1, 2020, ION initial public offering effective date.
- The expected share volatility assumption was based on the implied volatility from a set of comparable publicly-traded companies as determined based on size and proximity.

The following table presents the changes in the fair value of Warrants liability:

<u>Input</u>	<u>Private Warrants</u>	<u>Public Warrants</u>	<u>Total Warrants</u>
Fair value as of December 31, 2021	\$ 22,264	\$ 8,963	\$ 31,227
Change in fair value	(20,353)	(6,635)	(26,988)
Fair value as of September 30, 2022 (unaudited)	\$ 1,911	\$ 2,328	\$ 4,239

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 5:- SHORT-TERM INVESTMENTS

The following is a summary of available-for-sale marketable securities:

	September 30, 2022			
	Unaudited			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government treasuries	\$ 60,335	\$ —	\$ (365)	\$ 59,970
Corporate debt securities	23,787	—	(169)	23,618
U.S. agency bonds	20,899	—	(130)	20,769
Commercial paper	15,523	—	(40)	15,483
Total	\$ 120,544	\$ —	\$ (704)	\$ 119,840

As of December 31, 2021 the Company did not have any available-for-sale marketable securities.

For the nine months ended September 30, 2022, the unrealized losses related to marketable securities (which were accumulated in a period of less than 12 months) were determined not due to credit related losses, therefore, the Company did not record an allowance for credit losses for its available-for-sale marketable securities.

As of September 30, 2022, all of the Company's available-for-sale marketable securities were due within one year.

NOTE 6:- DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company enters into foreign currency forward and option contracts with financial institutions to protect itself against the foreign exchange risks, mainly exposure to changes in the exchange rate of the New Israeli Shekel ("NIS") against the U.S. dollar that are associated with forecasted future cash flows for up to twelve months. The Company's risk management strategy includes the use of derivative financial instruments to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates; these derivative instruments are designated as cash flow hedges. The Company does not enter into derivative transactions for trading or speculative purposes.

As of September 30, 2022, the notional amounts of the Company's derivative instruments designated as cash flow hedging instruments outstanding in U.S. dollars, which are translated and calculated based on forward rates, amounted to \$16,168.

The Company records all cash flow hedging instruments on the consolidated balance sheets at fair value. The fair value of cash flow hedging instruments recorded as liabilities as of September 30, 2022, was \$2,020, which were recorded in accrued expenses and other current liabilities in the consolidated interim balance sheets.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 6:- DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (Cont.)

The changes related to cash flow hedging instruments, recorded in the consolidated interim statements of income (loss), for the three and nine months ended September 30, 2022, were as follows:

	Three months ended September 30, 2022	Nine months ended September 30, 2022
	Unaudited	
Cost of revenues	\$ 145	\$ 290
Research and development	992	1,971
Sales and marketing	190	376
General and administrative	165	329
Total losses recognized in the consolidated interim statements of income (loss), net	\$ 1,492	\$ 2,966

Effect of Foreign Currency Contracts on Accumulated Other Comprehensive Loss

Net unrealized losses of foreign currency contracts designated as cash flow hedging instruments are recorded in accumulated other comprehensive losses.

The changes in unrealized losses on the Company's derivative instruments recorded in accumulated other comprehensive loss were as follows:

	Nine months ended September 30, 2022
	Unaudited
Unrealized losses on derivative instruments as of December 31, 2021	\$ —
Changes in fair value of derivative instruments	(4,986)
Reclassification of losses recognized in the consolidated interim statements of income (loss) from accumulated other comprehensive loss	2,966
Unrealized losses on derivative instruments as of September 30, 2022 (unaudited)	\$ (2,020)

As of December 31, 2021 the Company did not have any derivative instruments or hedging activities.

All net deferred losses in accumulated other comprehensive loss as of September 30, 2022, are expected to be recognized over the next twelve months as operating expenses in the same financial statement line item in the consolidated interim statements of income (loss) to which the derivative relates.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 7:- BUSINESS COMBINATION***Connexity***

On September 1, 2021, the Company completed the acquisition of Shop Holding Corporation (“Connexity”) (“Connexity Acquisition”), an independent e-Commerce media platform in the open web, from Shop Management, LLC (“Seller”). Connexity is a technology and data-driven integrated marketing services company focused on the e-commerce ecosystem. Through a focus on performance-based retail marketing, Connexity enables retailers and brands to understand their consumers better, acquire new customers at a lower cost, and increase sales from their target consumers. Connexity offers a comprehensive range of marketing services to online retailers and brands in the U.S. and Europe, including syndicated product listings, search marketing, and customer insights. Connexity corporate headquarters is in Santa Monica, California, and the Company also maintains an office in Karlsruhe, Germany.

In accordance with the acquisition method of accounting, the total purchase price for the Connexity Acquisition was \$753,217, comprised of \$593,894 in cash and \$157,689 based on the fair value of 17,328,049 shares of the Company’s ordinary shares on the closing date and additional subsequent payment of \$1,634 made during 2022 (of which \$431 were accrued in December 2021) as final settlement for net working capital adjustments.

Gravity R&D Zrt.

In July 2022, the Company completed the acquisition of Gravity R&D Zrt. ("Gravity R&D") a privately-held company based in Budapest, Hungary, which provides personalization recommendation services for a total consideration of \$6,982, net of cash acquired. As part of a preliminary purchase price allocation, \$1,790 was attributed to identified intangible assets, \$5,976 to goodwill.

Total acquisition costs of \$742 were incurred in relation to the acquisition, which were recognized as an expense and included in general and administrative expenses in the consolidated interim statements of income (loss).

The results of Gravity R&D operations were consolidated in the Company's consolidated interim financial statements commencing on the date of the acquisition and were immaterial to the Company’s results of operations for the three and nine months ended September 30, 2022.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 8:- GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill

The following table represents the changes in the carrying amounts of the Company's total goodwill:

	<u>Carrying Amount</u>
Balance as of December 31, 2021	\$ 550,380
Purchase accounting adjustment (1)	1,203
Additions from acquisition (2)	5,976
Balance as of September 30, 2022 (unaudited)	<u>\$ 557,559</u>

(1) Additional payment related to final settlement for net working capital adjustments for the Connexity Acquisition.

(2) Related to the Gravity R&D acquisition.

Intangible Assets, Net

Definite-lived intangible assets, net consist of the following:

	<u>Gross Fair Value</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
September 30, 2022 (unaudited)			
Merchant/ Network affiliate relationships	\$ 146,547	\$ (35,279)	\$ 111,268
Technology	74,193	(29,167)	45,026
Publisher relationships	42,933	(11,628)	31,305
Tradenames	24,097	(8,672)	15,425
Customer relationship	13,156	(11,058)	2,098
Total	<u>\$ 300,926</u>	<u>\$ (95,804)</u>	<u>\$ 205,122</u>
December 31, 2021			
Merchant/ Network affiliate relationships	\$ 146,547	\$ (10,879)	\$ 135,668
Technology	73,403	(20,616)	52,787
Publisher relationships	42,933	(3,640)	39,293
Tradenames	23,997	(2,711)	21,286
Customer relationship	12,256	(10,367)	1,889
Total	<u>\$ 299,136</u>	<u>\$ (48,213)</u>	<u>\$ 250,923</u>

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 8:- GOODWILL AND INTANGIBLE ASSETS, NET (Cont.)

Amortization expenses for intangible assets were \$15,983 and \$5,908, for the three months ended September 30, 2022 and 2021, respectively, and \$47,591 and \$7,186, for the nine months ended September 30, 2022 and 2021, respectively.

The estimated future amortization expense of definite-lived intangible assets as of September 30, 2022, is as follows (unaudited):

Year Ending December 31,	
2022 (Remainder)	\$ 15,977
2023	63,910
2024	60,565
2025	51,479
2026	13,191
Total	<u>\$ 205,122</u>

NOTE 9:- FINANCING ARRANGEMENTS***Long-term loan***

Concurrently with the closing of the Connexity Acquisition, on September 1, 2021, the Company entered into a \$300,000 senior secured term loan credit agreement (the "Credit Agreement"), among the Company, Taboola Inc., a wholly-owned Company's subsidiary (the "Borrower"), the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent. The Credit Agreement provides for borrowings in an aggregate principal amount of up to \$300,000 (the "Facility").

The Facility was fully drawn at closing, net of issuance expenses of \$11,250, and the proceeds were used by the Company to finance a portion of the Connexity Acquisition.

The Facility is subject to customary borrowing conditions and bears interest at a variable annual rate based on LIBOR or Base Rate plus a fixed margin. The Facility will mature on the seventh anniversary of the closing date and amortizes at a rate of 1.00% per annum payable in equal quarterly installments, with the remaining principal amount due at maturity.

The Facility is mandatorily prepayable with a portion of the net cash proceeds of certain dispositions of assets, a portion of Taboola's excess cash flow and the proceeds of incurrences of indebtedness not permitted under the Credit Agreement.

The Credit Agreement also contains customary representations, covenants and events of default. Failure to meet the covenants beyond applicable grace periods could result in acceleration of outstanding borrowings and/or termination of the Facility. As of September 30, 2022, the Company was in compliance with the Facility covenants.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 9:- FINANCING ARRANGEMENTS (Cont.)

As of September 30, 2022, the total future principal payments related to Facility loan are as follows (unaudited):

Year Ending December 31,	<u>Amount</u>
2022 (current maturities)	\$ 750
2023	3,000
2024	3,000
2025	3,000
2026	3,000
2027	3,000
2028	281,250
Total	<u>\$ 297,000</u>

The Facility is guaranteed by the Company and all of its wholly-owned material subsidiaries, subject to certain exceptions set forth in the Credit Agreement (collectively, the “Guarantors”). The obligations of the Borrower and the Guarantors are secured by substantially all the assets of the Borrower and the Guarantors including stock of subsidiaries, subject to certain exceptions set forth in the Credit Agreement.

The total interest expenses recognized in connection with the long-term loan for the three and nine months ended September 30, 2022, were \$5,028 and \$12,700, respectively.

Revolving Credit Agreement

On August 9, 2022, the Company amended its Credit Agreement to provide for a five-year senior secured revolving credit facility (the “Revolving Credit Agreement”), among the Company, Taboola Inc., a wholly-owned Company’s subsidiary (the “Borrower”), and the lenders party thereto, with Citibank N.A., as lead arranger and JPMorgan Chase Bank, N.A., as administrative agent. The Revolving Credit Agreement provides for revolving loans in an aggregate committed principal amount of up to \$90,000 (the “Revolving Loans”).

Certain representations, events of default and covenants of the Revolving Credit Agreement are substantially the same as those in the Credit Agreement. However, the Revolving Credit Agreement contains a financial covenant requiring the Company to maintain a Total Net Leverage Ratio (as defined in the Credit Agreement) as at the last day of each fiscal quarter. Borrowings under the Revolving Credit Agreement are subject to customary conditions and will bear interest at a variable annual rate based on Term SOFR or Base Rate plus a fixed margin. The lenders under the Credit Agreement and the lenders under the Revolving Credit Agreement are secured by the same collateral, including substantially all the assets of the Borrower and the Guarantors (as defined in the Credit Agreement) including shares of subsidiaries, subject to certain exceptions in the governing documents.

The proceeds of any Revolving Loans may be used for the working capital, capital expenditures and other general corporate purposes of Taboola and its subsidiaries and may also be used for Restricted Payments, Investments (including permitted acquisitions) and Restricted Debt Payments (each, as defined in the Credit Agreement) to the extent permitted under the Credit Agreement.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 9:- FINANCING ARRANGEMENTS (Cont.)

As of September 30, 2022, the Company was in compliance with the financial covenants and had no outstanding borrowings under the Revolving Credit Agreement.

As of September 30, 2022, deferred financing costs associated with entering into a Revolving Credit Agreement in the total amount of \$1,061, were included in short and long-term prepaid expenses in the Company's consolidated interim balance sheet.

The deferred financing costs are amortized on a straight-line basis over the term of the Revolving Credit Agreement. For the three and nine months ended September 30, 2022, deferred financing costs amortization amounted to \$34.

NOTE 10:- RESTRUCTURING

In September 2022, the Company announced and implemented a cost restructuring program impacting approximately 6% of the Company's global headcount. This strategic reduction was intended to manage the Company's operating expenses in response to market conditions and ongoing business prioritization efforts.

The restructuring expenses recognized in the consolidated interim statements of income (loss) for the three and nine months ended September 30, 2022, primarily consisting of one-time incremental employee termination benefits and other costs related to Company's business prioritization, were as follows:

	Three and nine months ended September 30, 2022
	Unaudited
Cost of revenues	\$ 99
Research and development	1,815
Sales and marketing	1,176
General and administrative	293
Total restructuring expenses recognized in the consolidated interim statements of income (loss)	<u>\$ 3,383</u>

As of September 30, 2022, \$1,142 related to restructuring expenses were included in "Accrued expenses and other current liabilities" in the consolidated interim balance sheet.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 11:- SHAREHOLDERS' EQUITY AND SHARE INCENTIVE PLANS*Share Incentive Plans*

- a. On May 19, 2022, the Company received the approval of the Israeli court for its motion to extend its former motion to allow the Company to utilize the net issuance mechanism to satisfy tax withholding obligations related to equity-based compensation on behalf of its directors, officers and other employees and possible future share repurchases (the "Program") of up to \$60,000. The Company's board of directors will have the authority to determine the amount to be utilized for the Program. The Company intends to continue filing extension requests for the court approval on an ongoing basis as required.

For the nine months ended September 30, 2022, the Company utilized the net issuance mechanism in connection with equity-based compensation for certain Office Holders, which resulted in a tax withholding payment by the Company of \$4,110 which was recorded as a reduction of additional paid-in capital.

- b. The following is a summary of share option activity and related information for the nine months ended September 30, 2022 (including employees, directors, officers and consultants of the Company):

	Outstanding Share Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Balance as of December 31, 2021	47,532,923	\$ 2.64	5.73	\$ 247,734
Granted	20,000	6.52		
Exercised	(6,515,494)	1.11		\$ 21,189
Forfeited	(1,290,684)	4.80		
Balance as of September 30, 2022 (unaudited)	<u>39,746,745</u>	<u>\$ 2.82</u>	6.37	\$ 23,130
Exercisable as of September 30, 2022 (unaudited)	<u>36,116,645</u>	<u>\$ 1.88</u>	5.74	\$ 20,694

The aggregate intrinsic value in the table above represents the total intrinsic value that would have been received by the option holders had all option holders exercised their options on the last date of the period.

The weighted-average grant date fair value of options granted during the nine months ended September 30, 2022, was \$3.80.

As of September 30, 2022, unrecognized share-based compensation cost related to unvested share options was \$30,090, which is expected to be recognized over a weighted-average period of 1.5 years.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 11:- SHAREHOLDERS' EQUITY AND SHARE INCENTIVE PLANS (Cont.)

- c. The following is a summary of the RSU activity and related information for the nine months ended September 30, 2022:

	Outstanding Restricted Shares Unit	Weighted Average Grant Date Fair Value
Balance as of December 31, 2021	21,613,189	\$ 8.16
Granted	14,717,795	5.52
Vested (*)	(5,574,171)	6.98
Forfeited	(3,085,786)	6.90
Balance as of September 30, 2022 (unaudited)	<u>27,671,027</u>	<u>\$ 6.60</u>

(*) A portion of the shares that vested were netted out to satisfy the tax obligations of the recipients. During the nine months ended September 30, 2022, a total of 1,213,643 RSUs were canceled to satisfy tax obligations, resulting in net issuance of 1,074,782 shares.

The total release date fair value of RSUs was \$23,945, during the nine months ended September 30, 2022.

As of September 30, 2022, unrecognized share-based compensation cost related to unvested RSUs was \$118,966, which is expected to be recognized over a weighted-average period of 2.92 years.

The total share-based compensation expense related to all of the Company's share-based awards recognized for the three and nine months ended September 30, 2022 and 2021, was comprised as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	Unaudited			
Cost of revenues	\$ 673	\$ 443	\$ 2,227	\$ 1,023
Research and development	7,343	7,749	20,888	20,134
Sales and marketing	5,654	3,997	18,351	40,168
General and administrative	5,040	7,751	17,505	42,269
Total share-based compensation expense	<u>\$ 18,710</u>	<u>\$ 19,940</u>	<u>\$ 58,971</u>	<u>\$ 103,594</u>

- d. On September 1, 2022, pursuant to Connexity three years holdback agreement with certain Connexity employees, the Company issued 1,227,010 Ordinary shares.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 12:- INCOME TAXES

The Company's effective tax rate is highly dependent upon the geographic distribution of its worldwide earnings or losses and tax regulations. The Company's effective tax rates were (3.2%) and (35.5%) for the nine months ended September 30, 2022 and 2021, respectively. The difference between the Company's effective tax rate and the 23% statutory rate in Israel for the nine months ended September 30, 2022, resulted primarily from valuation allowance in Israel, tax expenses in multiple jurisdictions which were offset against tax benefits derived from losses incurred in the U.S.

NOTE 13:- COMMITMENTS AND CONTINGENCIES***Commercial Commitments***

In the ordinary course of the business, the Company enters into agreements with certain digital properties, under which, in some cases it agrees to pay them a guaranteed amount, generally per thousand page views on a monthly basis. These agreements could cause a gross loss on digital property accounts in which the guarantee is higher than the actual revenue generated. These contracts generally range in duration from 2 to 5 years, though some can be shorter or longer.

Non-cancelable Purchase Obligations

In the normal course of business, the Company enters into non-cancelable purchase commitments with various parties to purchase primarily software and IT related-based services. As of September 30, 2022, the Company had outstanding non-cancelable purchase obligations in the amount of \$21,840.

Legal Proceedings

- a. In April 2021, the Company became aware that the Antitrust Division of the U.S. Department of Justice is conducting a criminal investigation of hiring activities in the Company's industry, including the Company. The Company is cooperating with the Antitrust Division. While there can be no assurances as to the ultimate outcome, the Company does not believe that its conduct violated applicable law.
- b. In the ordinary course of business, the Company may be subject from time to time to various proceedings, lawsuits, disputes, or claims. The Company investigates these claims as they arise and record a provision, as necessary. Provisions are reviewed and adjusted to reflect the impact of negotiations, estimated settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter. Although claims are inherently unpredictable, the Company is currently not aware of any matters that, it believes would individually, or in the aggregate, have a material adverse effect on its business, financial position, results of operations, or cash flows.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 14:- GEOGRAPHIC INFORMATION

The following table represents total revenue by geographic area based on the Advertisers' billing address:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	Unaudited			
Israel	\$ 48,157	\$ 48,715	\$ 147,953	\$ 133,762
United Kingdom	16,134	16,344	54,079	49,080
United States	129,616	125,239	393,833	369,710
Germany	25,073	37,967	92,558	106,342
Rest of the world	113,482	110,503	341,460	311,896
Total	\$ 332,462	\$ 338,768	\$ 1,029,883	\$ 970,790

NOTE 15:- NET INCOME (LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS

The following table sets forth the computation of basic and diluted net income (loss) per share attributable to Ordinary shareholders for the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	Unaudited			
Basic net income (loss) per share				
<u>Numerator:</u>				
Net income (loss)	\$ (26,026)	\$ 17,296	\$ (27,159)	\$ (25,533)
Less: Undistributed earnings allocated to participating securities	—	—	—	(11,944)
Net income (loss) attributable to Ordinary shares – basic	\$ (26,026)	\$ 17,296	\$ (27,159)	\$ (37,477)
<u>Denominator:</u>				
Weighted-average shares used in computing net income (loss) per share attributable to Ordinary shareholders, basic	255,160,597	229,024,803	251,865,831	107,884,927
Net income (loss) per share attributable to Ordinary shareholders, basic	\$ (0.10)	\$ 0.08	\$ (0.11)	\$ (0.35)
Diluted net income (loss) per share				
<u>Numerator:</u>				
Net income (loss) attributable to Ordinary shares – diluted	\$ (26,026)	\$ 17,296	\$ (27,159)	\$ (37,477)
<u>Denominator:</u>				
Weighted-average shares used in computing net income (loss) per share attributable to Ordinary shareholders, basic	255,160,597	229,024,803	251,865,831	107,884,927
Weighted-average effect of dilutive securities - effect of share-based awards	—	30,237,726	—	—
Weighted-average shares used in computing net income (loss) per share attributable to Ordinary shareholders, diluted	255,160,597	259,262,529	251,865,831	107,884,927
Net income (loss) per share attributable to Ordinary shareholders, diluted	\$ (0.10)	\$ 0.07	\$ (0.11)	\$ (0.35)

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 15:- NET INCOME (LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS

The potential number of Ordinary shares that were excluded from the computation of diluted net income (loss) per share attributable to Ordinary shareholders for the periods presented because including them would have been anti-dilutive is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	Unaudited			
Warrants	12,349,990	12,350,000	12,349,990	12,350,000
RSUs	20,135,294	—	17,994,340	8,825,040
Outstanding share options	34,666,838	—	34,666,838	46,705,718
Issuable Ordinary shares related to business combination under holdback arrangement	2,454,020	—	2,454,020	—
Total	69,606,142	12,350,000	67,465,188	67,880,758

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with Taboola's audited consolidated financial statements and the related notes appearing in our Annual Report on Form 20-F for the year ended December 31, 2021 filed with the U.S. Securities and Exchange Commission (the "SEC") on March 24, 2022 and the pro forma financial information as of and for the year ended December 31, 2021 under the heading "Unaudited Pro Forma Condensed Combined Financial Information" included in our Prospectus dated September 29, 2022 forming part of our registration statement on Form F-3 filed with the SEC, as it may be further amended from time to time. Some of the information contained in this discussion and analysis is set forth elsewhere in our registration statement on Form F-3, including information with respect to Taboola's plans and strategy for Taboola's business, and includes forward-looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth in the sections titled "Risk Factors" and "Special Note Regarding Forward-Looking Statements," Taboola's actual results could differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. Throughout this section, unless otherwise noted or the context requires otherwise, "we," "us," "our" and the "Company" refer to Taboola and its consolidated subsidiaries, and in references to monetary amounts, "dollars" and "\$" refer to U.S. Dollars, and "NIS" refers to New Israeli Shekels.

Overview

Taboola is a technology company that powers recommendations across the Open Web with an artificial intelligence, or AI-based, algorithmic engine that we have developed over the past 14 years. Taboola has also recently expanded more directly into e-Commerce, allowing its partners with digital properties the ability to use its platforms to display advertising suited to the audiences of those partners' websites or other digital services.

We think of ourselves as a search engine, but in reverse — instead of expecting people to search for information, we recommend information to people or enable our partners to use our technology. You've seen us before: we partner with websites, devices, and mobile apps, which we collectively refer to as digital properties, to recommend editorial content and advertisements on the Open Web, outside of the closed ecosystems of the walled gardens such as Facebook, Google, and Amazon.

Digital properties use our technology platforms to achieve their business goals, such as driving new audiences to their sites and apps, or increasing engagement on site — and we don't charge them for these services. We also provide a meaningful monetization opportunity to digital properties by surfacing paid recommendations by advertisers. Unlike walled gardens, we are a business-to-business, or B2B, company with no competing consumer interests. We only interact with consumers through our partners' digital properties, hence we do not compete with our partners for user attention. Our motivations are aligned. When our partners win, we win, and we grow together.

We empower advertisers, merchants, and affiliate networks, which we individually and collectively refer to as advertisers ("Advertisers"), to leverage our proprietary AI-powered recommendation platform to reach targeted audiences utilizing effective, native ad formats across digital properties. We generate revenues primarily when people (consumers) click on, purchase from or, in some cases, view the ads that appear within our partners' digital experiences via our recommendation platform. Advertisers pay us for those clicks, purchases or impressions, and we share the resulting revenue with the digital properties who display those ads and generate those clicks and downstream consumer actions.

Our powerful recommendation platform was built to address a technology challenge of significant complexity: predicting which recommendations users would be interested in, without explicit intent data or social media profiles. Search advertising platforms have access, at a minimum, to users' search queries which indicate intent, while social media advertising platforms have access to rich personal profiles created by users. In contrast, we base our recommendations on an extensive dataset of context and user behavior derived from the intersection of thousands of digital properties and millions of recommended items, including ads and editorial content.

ION Merger

On January 25, 2021, we and one of our subsidiaries entered into a merger agreement with ION Acquisition Corp. 1 Ltd. (“ION”) (the “Merger Agreement”). Under the Merger Agreement, our subsidiary merged with and into ION, with ION continuing as the surviving company and becoming our direct, wholly-owned subsidiary (the “Business Combination”). On June 29, 2021, the Business Combination closed and the Company’s ordinary shares, no par value per share (the “Ordinary Shares”) and Public Warrants (as defined in our Annual Report on Form 20-F for the year ended December 31, 2021 filed with the SEC on March 24, 2022, and together with the Private Warrants, the “Warrants”) began trading on The Nasdaq Global Market LLC on June 30, 2021, among other things. In connection with the Merger Agreement, we also obtained commitments for the purchase in private transactions that closed concurrently with the Business Combination of approximately \$285 million of our Ordinary Shares, of which approximately \$150 million was purchased directly from certain of our existing shareholders, primarily from early investors.

Connexity Acquisition

On September 1, 2021 we completed our previously announced acquisition of Shop Holding Corporation, which we refer to as Connexity. The total consideration amounted to approximately \$800 million, including retention incentives and was subject to customary purchase price adjustments for working capital and indebtedness.

In connection with the closing, we issued 17,328,049 of our Ordinary Shares based on a fair value of shares at the closing date of \$157.7 million and also paid approximately \$595.5 million in cash.

An additional 3,681,030 shares are deliverable to Connexity employees in installments over three years following the closing as part of holdback arrangements, subject to continued employment with Taboola. Separately, certain employees of Connexity have been granted incentive equity awards of approximately \$40 million that will settle in our Ordinary Shares and will vest subject to their continued employment with Taboola over the next approximately five years.

At the closing we also entered into a \$300 million senior secured term loan credit agreement and used the full proceeds of the loan, net of issuance cost, to finance a portion of the Connexity acquisition.

See Notes 7, 8 and 9 of Notes to Unaudited Consolidated Interim Financial Statements.

For further information please refer to the “*Unaudited Pro Forma Condensed Combined Financial Information*” and other information regarding the Connexity acquisition included in our Prospectus dated September 29, 2022 forming part of our registration statement on Form F-3, as it may be amended from time to time, filed with the SEC.

Key Factors and Trends Affecting our Performance

We believe that our performance and future success depend on several factors that present significant opportunities for us but also pose risks and challenges, including those discussed below and other risks and uncertainties set forth in the Company’s Annual Report on Form 20-F for the year ended December 31, 2021 under Item 3.D. “Information About the Company - Risk Factors,” the Company’s Registration Statement on Form F-3 filed on September 29, 2022, as it may be amended or supplemented from time to time, under the sections entitled “Cautionary Note Regarding Forward-looking Statements” and “Risk Factors” and in the Company’s subsequent filings with the SEC.

Maintaining and Growing Our Digital Property Partners

We engage with a diverse network of digital property partners, substantially all of which have contracts with us containing either an evergreen term or an exclusive partnership with us for multi-year terms at inception. These agreements typically require that our code be integrated on the digital property web page because of the nature of providing both editorial and paid recommendations. This means that in the vast majority of our business, we do not bid for ad placements, as traditionally happens in the advertising technology space, but rather see all users that visit the pages on which we appear. Due to our multi-year exclusive contracts and high retention rates, our supply is relatively consistent and predictable. We had approximately 16,000, 9,000 and 7,000 digital property partners in the fourth quarter of 2021, 2020 and 2019, respectively.

We have a strong record of growing the revenue generated from our digital property partners. We grow our digital property partner relationships in four ways. First, we grow the revenue from these partnerships by increasing our yield over time. We do this by improving our algorithms, expanding our Advertiser base and increasing the amount of data that helps target our ads. Second, we continuously innovate with new product offerings and features that increase revenue. Third, we innovate by launching new advertising formats. Fourth, we work closely with our digital property partners to find new placements and page types where we can help them drive more revenue.

For the majority of our digital properties partners, we have two primary models for sharing revenue. The most common model is a straight revenue share model. In this model, we agree to pay our partner a percentage of the revenue that we generate from advertisements placed on their digital properties. The second model includes guarantees. Under this model, we pay our partners the greater of a fixed percentage of the revenue we generate and a guaranteed amount per thousand page views. In the past, we have and may continue to be required to make significant payments under these guarantees.

Growing Our Advertiser Client Base

We have a large and growing network of Advertisers, across multiple verticals. We had approximately 15,000, 13,000 and 12,000 Advertiser clients working with us directly, or through advertising agencies, worldwide during the fourth quarter of 2021, 2020 and 2019, respectively. A large portion of our revenue comes from Advertisers with specific performance goals, such as obtaining subscribers for email newsletters or acquiring leads for product offerings. These performance advertisers use our service when they obtain a sufficient return on ad spend to justify their ad spend. We grow the revenue from performance advertisers in three ways. First, we improve the performance of our network by developing new product features, improving our algorithms and optimizing our supply. Second, we obtain increased budgets from existing Advertisers by offering new ad formats and helping them achieve additional goals. Third, we grow our overall Advertiser base by bringing on new Advertisers that we have not worked with previously. In addition to our core performance advertisers, video brand Advertisers are a small but growing portion of our revenue.

Improving Network Yield

One way that we grow our revenue is by increasing the yield on our network, which is a general term for the revenue that we make per advertising placement. Because we generally fill close to 100% of advertising impressions available, yield is generally not affected by changing fill rates, but rather is impacted in four ways.

First, we increase our yield by improving the algorithms that select the right ad for a particular user in a particular context. These algorithms are based on Deep Learning technology and are a key competitive advantage. Second, we continuously innovate and develop new product offerings and features for Advertisers, which help increase their success rates on our network and improve yield. Third, as we grow our Advertiser base and mix of Advertisers, including adding Advertisers able to pay higher rates, our yields increase because of increasing competitive pressure in our auction. Finally, we increase our yield by optimizing the way we work with digital properties, including changing formats and placements. Increasing yield drives higher revenues on all digital property partners. Increasing yield also generally increases margins for ex-TAC Gross Profit, a non-GAAP measure, for those digital property partners to whom we are paying guarantees. Macroeconomic factors including ones affecting advertiser demand may cause yield to decline in certain periods, but the decline may be mitigated to the extent that our yield enhancing strategies are effective.

Product and Research & Development

We view research and development expenditures as investments that help grow our business over time. These investments, which are primarily in the form of employee salaries and related expenditures and hardware infrastructure, can be broken into two categories. This first category includes product innovations that extend the capabilities of our current product offerings and help us expand into completely new markets. This includes heavy investment in AI (specifically Deep Learning) in the form of server purchases and expenses for data scientists. This category of investment is important to maintain the growth of the business but can also generally be adjusted up or down based on management's perception of the potential value of different investment options. The second category of investments are those that are necessary to maintain our core business. These investments include items such as purchasing servers and other infrastructure necessary to handle increasing loads of recommendations that need to be served, as well as the people necessary to maintain the value delivered to our customers and digital property partners, such as investments in code maintenance for our existing products. This type of investment scales at a slower rate than the growth of our core business.

Managing Seasonality

The global advertising industry has historically been characterized by seasonal trends that also apply to the digital advertising ecosystem in which we operate. In particular, Advertisers have historically spent relatively more in the fourth quarter of the calendar year to coincide with the year-end holiday shopping season, and relatively less in the first quarter. We expect these seasonality trends to continue, and our operating results will be affected by those trends with revenue and margins being seasonally strongest in the fourth quarter and seasonally weakest in the first quarter.

Privacy Trends and Government Regulation

We are subject to U.S. and international laws and regulations regarding privacy, data protection, digital advertising and the collection of user data. In addition, large Internet and technology companies such as Google and Apple are making their own decisions as to how to protect consumer privacy, which impacts the entire digital ecosystem. Because we power editorial recommendations, digital properties typically integrate our scripts or code directly on their web pages. This makes us less susceptible to impact by many of these regulations and industry trends because the digital properties we work with are able to drop Taboola cookies as first party cookies. In addition, because of this integration on our partners' pages, we have rich contextual information to use to further refine the targeting of our recommendations.

Macroeconomic Conditions

Global economic and geopolitical conditions have been increasingly volatile due to factors such as the war in Ukraine, inflation, rising interest rates, supply chain disruptions and the ongoing COVID-19 pandemic which has impacted and may continue to impact certain regions. The economic uncertainty resulting from these factors has negatively impacted global yields and our advertising business. Further, the impacts of inflation, which have persisted during the third quarter of 2022, has increased the costs of equipment and labor needed to operate our business and could continue to adversely affect us in future periods. These factors, among others, including continued supply chain disruptions, make it difficult for us and our Advertisers to accurately forecast and plan future business activities, and could cause our Advertisers to reduce or delay their advertising spending with us, which, in turn, could have an adverse impact on our business, financial condition and results of operations. We are monitoring these macroeconomic conditions closely and may continue to take actions in response to such conditions to the extent they adversely affect our business.

Cost Restructuring Program

In September 2022, in response to macroeconomic conditions, the Company announced and implemented a cost restructuring program impacting approximately 6% of the Company's global headcount. Restructuring expenses were approximately \$3.4 million for the three months ended September 30, 2022 primarily consisting of one-time incremental employee termination benefits and other costs related to the Company's business prioritization.

See Note 10 to our consolidated interim financial statements for additional details regarding the cost restructuring program.

Key Financial and Operating Metrics

We regularly monitor a number of metrics in order to measure our current performance and project our future performance. These metrics aid us in developing and refining our growth strategies and making strategic decisions.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
	Unaudited			
(dollars in thousands, except per share data)				
Revenues	\$ 332,462	\$ 338,768	\$ 1,029,883	\$ 970,790
Gross profit	\$ 102,688	\$ 107,685	\$ 331,079	\$ 297,429
Net income (loss)	\$ (26,026)	\$ 17,296	\$ (27,159)	\$ (25,533)
EPS diluted (1)	\$ (0.10)	\$ 0.07	\$ (0.11)	\$ (0.35)
Ratio of net income (loss) to gross profit	(25.3%)	16.1%	(8.2%)	(8.6%)
Cash flow provided by operating activities	\$ 23,219	\$ 26,573	\$ 33,426	\$ 40,553
Cash, cash equivalents and short-term investments	\$ 308,317	\$ 311,768	\$ 308,317	\$ 311,768
Non-GAAP Financial Data (2)				
ex-TAC Gross Profit	\$ 129,337	\$ 126,869	\$ 410,774	\$ 349,653
Adjusted EBITDA	\$ 24,157	\$ 39,734	\$ 93,181	\$ 114,080
Non-GAAP Net Income	\$ 10,215	\$ 48,299	\$ 48,104	\$ 95,991
IPO Pro forma Non-GAAP EPS diluted (3)	\$ 0.040	\$ 0.186	\$ 0.189	\$ 0.375
Ratio of Adjusted EBITDA to ex-TAC Gross Profit	18.7%	31.3%	22.7%	32.6%
Free Cash Flow	\$ 10,995	\$ 19,474	\$ 4,950	\$ 11,779

- (1) The weighted-average shares used in this computation for the three months ended September 30, 2022 and 2021 are 255,160,597 and 259,262,529, respectively, and for the nine months ended September 30, 2022 and 2021 are 251,865,831 and 107,884,927, respectively. Outstanding shares for the nine month periods increased significantly year-over-year as a result of the Company going public.
- (2) Refer to "Non-GAAP Financial Measures" below for an explanation and reconciliation to GAAP metrics.
- (3) Refer to "IPO Pro forma Non-GAAP EPS basic and diluted" below for a description and calculation of IPO Pro forma Non-GAAP EPS basic and diluted.

Revenues

All of our Revenues are generated from Advertisers with whom we enter into commercial arrangements, defining the terms of our service and the basis for our charges. Generally, our charges are based on a CPC, CPM or CPA basis. For campaigns priced on a CPC basis, we recognize these Revenues when a user clicks on an advertisement we deliver. For campaigns priced on a CPM basis, we recognize these Revenues when an advertisement is displayed. For campaigns priced on a performance-based CPA basis, the Company generates revenue when a user makes an acquisition. Certain revenues are recognized net of traffic acquisition costs.

Gross profit

Gross profit is calculated as presented on our consolidated statements of income (loss) for the periods presented.

Net income (loss)

Net income (loss) is calculated as presented on our consolidated statements of income (loss) for the periods presented.

EPS diluted

EPS diluted is calculated as presented on our consolidated statements of income (loss) for the periods presented.

Ratio of net income (loss) to gross profit

We calculate Ratio of net income (loss) to gross profit as net income (loss) divided by gross profit.

Cash flow provided by operating activities

Net cash provided by our operating activities is calculated as presented on our consolidated statements of cash flows for the periods presented.

Cash, cash equivalents and short-term investments

Cash equivalents are short-term highly liquid marketable securities investments, money market account and funds, commercial paper and corporate debt securities, with an original maturity of three months or less at the date of purchase and are readily convertible to known amounts of cash.

Short-term investments are marketable securities classified as available-for-sale at the time of purchase.

ex-TAC Gross Profit

We calculate ex-TAC Gross Profit as gross profit adjusted to include other cost of revenues.

Adjusted EBITDA

We calculate Adjusted EBITDA as net income (loss) before finance income (expenses), net, income tax benefit (expenses) for income taxes and depreciation and amortization, further adjusted to exclude share-based compensation and other noteworthy income and expense items such as certain merger or acquisition related costs and restructuring costs which may vary from period-to-period.

Non-GAAP Net Income

We calculate Non-GAAP Net income as net income (loss) adjusted to exclude revaluation of our Warrants liability, share-based compensation expense including Connexity holdback compensation expenses, M&A costs and amortization of acquired intangible assets, foreign currency exchange rate gains (losses), net, and other noteworthy items that change from period to period and related tax effects.

IPO Pro forma Non-GAAP EPS basic and diluted

IPO Pro forma Non-GAAP EPS basic and diluted are presented for the three and nine months ended September 30, 2021. We calculate IPO Pro forma Non-GAAP EPS basic and diluted by adjusting EPS to exclude revaluation of our Warrants liability, share-based compensation expense including Connexity holdback compensation expenses, foreign currency exchange rate gains (losses), net, M&A costs and amortization of acquired intangible assets, other noteworthy items that change from period to period, related tax effects per calculated net income (loss) and weighted-average shares used in computing net income per share attributable to ordinary shareholders, basic and diluted; and further adjusting on a pro forma basis assuming Taboola went public and consummated the related transactions as of January 1, 2021.

The following table provides a reconciliation of the numbers of shares used to calculate the Non-GAAP EPS to IPO Pro forma Non-GAAP EPS basic and diluted:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	Unaudited			
GAAP weighted-average shares used to compute net income (loss) per share, basic	255,160,597	229,024,803	251,865,831	107,884,927
Add: Non-GAAP adjustment for Ordinary shares issued in connection with going public	—	—	—	114,313,773
IPO Pro forma Non-GAAP weighted-average shares used to compute net income per share, basic	255,160,597	229,024,803	251,865,831	222,198,700
GAAP weighted-average shares used to compute net income (loss) per share, diluted	255,160,597	259,262,529	251,865,831	107,884,927
Add: Non-GAAP adjustment for Ordinary shares issued in connection with going public	—	—	—	114,313,773
Add: Dilutive Ordinary share equivalents	870,513	—	2,358,472	33,980,786
IPO Pro forma Non-GAAP weighted-average shares used to compute net income per share, diluted	256,031,110	259,262,529	254,224,303	256,179,486
IPO Pro forma Non-GAAP EPS, basic (1)	\$ 0.040	\$ 0.211	\$ 0.191	\$ 0.432
IPO Pro forma Non-GAAP EPS, diluted (1)	\$ 0.040	\$ 0.186	\$ 0.189	\$ 0.375

(1) IPO Pro Forma Non-GAAP EPS basic and diluted is presented only for the three and nine months ended September 30, 2021 assuming Taboola went public and consummated the related transactions in each case as of January 1, 2021. Therefore, the Non-GAAP net income does not include any adjustments of undistributed earnings previously allocated to participating securities, assuming these securities converted to ordinary shares in each case as of January 1, 2021.

Ratio of Adjusted EBITDA to ex-TAC Gross Profit

We calculate Ratio of Adjusted EBITDA to ex-TAC Gross Profit as Adjusted EBITDA divided by ex-TAC Gross Profit.

Free Cash Flow

We calculate Free Cash Flow as cash flow provided by operating activities minus purchases of property, plant and equipment, including capitalized internal-use software. We expect our Free Cash Flow to fluctuate in future periods as we invest in our business to support our plans for growth.

Non-GAAP Financial Measures

We are presenting the following non-GAAP financial measures because we use them, among other things, as key measures for our management and board of directors in managing our business and evaluating our performance. We believe they also provide supplemental information that may be useful to investors. The use of these measures may improve comparability of our results over time by adjusting for items that may vary from period to period or may not be representative of our ongoing operations.

These non-GAAP measures are subject to significant limitations, including those identified below. In addition, other companies may use similarly titled measures but calculate them differently, which reduces their usefulness as comparative measures. Non-GAAP measures should not be considered in isolation or as a substitute for GAAP measures. They should be considered as supplementary information in addition to GAAP operating and financial performance measures.

ex-TAC Gross Profit

We believe that ex-TAC Gross Profit, which we calculate as gross profit adjusted to include other cost of revenues, is useful because traffic acquisition cost, or TAC, is what we must pay digital properties to obtain the right to place advertising on their websites, and we believe focusing on ex-TAC Gross Profit better reflects the profitability of our business. We use ex-TAC Gross Profit as part of our business planning, for example in decisions regarding the timing and amount of investments in areas such as infrastructure.

Limitations on the use of ex-TAC Gross Profit include the following:

- Traffic acquisition cost is a significant component of our cost of revenues but is not the only component; and
- ex-TAC Gross Profit is not comparable to our gross profit and by definition ex-TAC Gross Profit presented for any period will be higher than our gross profit for that period.

The following table provides a reconciliation of revenues and gross profit to ex-TAC Gross Profit:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	Unaudited			
	(dollars in thousands)			
Revenues	\$ 332,462	\$ 338,768	\$ 1,029,883	\$ 970,790
Traffic acquisition cost	203,125	211,899	619,109	621,137
Other cost of revenues	26,649	19,184	79,695	52,224
Gross profit	<u>\$ 102,688</u>	<u>\$ 107,685</u>	<u>\$ 331,079</u>	<u>\$ 297,429</u>
Add back: Other cost of revenues	26,649	19,184	79,695	52,224
ex-TAC Gross Profit	<u>\$ 129,337</u>	<u>\$ 126,869</u>	<u>\$ 410,774</u>	<u>\$ 349,653</u>

Free Cash Flow

We believe that Free Cash Flow is useful to provide management and others with information about the amount of cash generated from our operations that can be used for strategic initiatives, including investing in our business, making strategic acquisitions, and strengthening our balance sheet. We expect our Free Cash Flow to fluctuate in future periods as we invest in our business to support our plans for growth. Limitations on the use of Free Cash Flow include the following:

- it should not be inferred that the entire Free Cash Flow amount is available for discretionary expenditures. For example, cash is still required to satisfy other working capital needs, including short-term investment policy, restricted cash, repayment of loan and intangible assets;
- Free Cash Flow has limitations as an analytical tool, and it should not be considered in isolation or as a substitute for analysis of other GAAP financial measures, such as net cash provided by operating activities; and
- This metric does not reflect our future contractual commitments.

The following table provides a reconciliation of net cash provided by operating activities to Free Cash Flow:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	Unaudited			
	(dollars in thousands)			
Net cash provided by operating activities	\$ 23,219	\$ 26,573	\$ 33,426	\$ 40,553
Purchases of property and equipment, including capitalized internal-use software	(12,224)	(7,099)	(28,476)	(28,774)
Free Cash Flow	\$ 10,995	\$ 19,474	\$ 4,950	\$ 11,779

Adjusted EBITDA and Ratio of Adjusted EBITDA to ex-TAC Gross Profit

We believe that Adjusted EBITDA is useful because it allows us and others to measure our performance without regard to items such as share-based compensation expense, depreciation and amortization, and interest expense and other items that can vary substantially depending on our financing and capital structure, and the method by which assets are acquired. We use Adjusted EBITDA and GAAP financial measures for planning purposes, including the preparation of our annual operating budget, as a measure of performance and the effectiveness of our business strategies, and in communications with our board of directors. We may also use Adjusted EBITDA as a metric for determining payment of cash or other incentive compensation.

Limitations on the use of Adjusted EBITDA include the following:

- although depreciation expense is a non-cash charge, the assets being depreciated may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA excludes share-based compensation expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy;
- Adjusted EBITDA does not reflect, to the extent applicable for a period presented: (1) changes in, or cash requirements for, our working capital needs; (2) interest expense, or the cash requirements necessary to service interest or if applicable principal payments on debt, which reduces cash available to us; or (3) tax payments that may represent a reduction in cash available to us; and
- The expenses and other items that we exclude in our calculation of Adjusted EBITDA may differ from the expenses and other items, if any, that other companies may exclude from Adjusted EBITDA when they report their operating results. We calculate Adjusted EBITDA as net income (loss) before finance income (expenses), net, provision for income taxes and depreciation and amortization, further adjusted to exclude share-based compensation and other noteworthy income and expense items such as certain cost related to restructuring and merger or acquisition related costs, which may vary from period-to-period.

The following table provides a reconciliation of net income (loss) to Adjusted EBITDA:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Unaudited				
(dollars in thousands)				
Net income (loss)	\$ (26,026)	\$ 17,296	\$ (27,159)	\$ (25,533)
Adjusted to exclude the following:				
Finance income (expenses), net	3,570	(13,960)	(12,389)	(13,077)
Income tax benefit (expenses)	1,006	(3,460)	848	6,699
Depreciation and amortization	23,222	13,160	68,711	30,050
Share-based compensation expenses (1)	15,937	19,940	50,616	103,594
Restructuring expenses (2)	3,383	—	3,383	—
Holdback compensation expenses (3)	2,773	840	8,355	840
M&A costs	292	5,918	816	11,507
Adjusted EBITDA	\$ 24,157	\$ 39,734	\$ 93,181	\$ 114,080

- (1) For the nine months ended September 30, 2021, a substantial majority is share-based compensation expenses related to going public.
- (2) Costs associated with the Company's cost restructuring program implemented in September 2022.
- (3) Represents share-based compensation due to holdback of Taboola Ordinary Shares issuable under compensatory arrangements relating to Connexity acquisition.

We calculate the ratio of net income (loss) to gross profit as net income (loss) divided by gross profit. We calculate Ratio of Adjusted EBITDA to ex-TAC Gross Profit as Adjusted EBITDA divided by ex-TAC Gross Profit. We believe that the Ratio of Adjusted EBITDA to ex-TAC Gross Profit is useful because TAC is what we must pay digital properties to obtain the right to place advertising on their websites, and we believe focusing on ex-TAC Gross Profit better reflects the profitability of our business.

The following table reconciles ratio of net income (loss) to gross profit and Ratio of Adjusted EBITDA to ex-TAC Gross Profit:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Unaudited				
(dollars in thousands)				
Gross profit	\$ 102,688	\$ 107,685	\$ 331,079	\$ 297,429
Net income (loss)	\$ (26,026)	\$ 17,296	\$ (27,159)	\$ (25,533)
Ratio of net income (loss) to gross profit	(25.3%)	16.1%	(8.2%)	(8.6%)
ex-TAC Gross Profit	\$ 129,337	\$ 126,869	\$ 410,774	\$ 349,653
Adjusted EBITDA	\$ 24,157	\$ 39,734	\$ 93,181	\$ 114,080
Ratio of Adjusted EBITDA margin to ex-TAC Gross Profit	18.7%	31.3%	22.7%	32.6%

Non-GAAP Net Income

We believe that Non-GAAP Net Income is useful because it allows us and others to measure our operating performance and trends without regard to items such as the revaluation of our Warrants liability, share-based compensation expense, cash and non-cash M&A costs including amortization of acquired intangible assets, foreign currency exchange rate (gains) losses, net and other noteworthy items that change from period to period and related tax effects. These items can vary substantially depending on our share price, acquisition activity, the method by which assets are acquired and other factors. Limitations on the use of Non-GAAP Net Income include the following:

- Non-GAAP Net Income excludes share-based compensation expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy;
- Non-GAAP Net Income will generally be more favorable than our net income (loss) for the same period due to the nature of the items being excluded from its calculation; and
- Non-GAAP Net Income is a performance measure and should not be used as a measure of liquidity.

The following table reconciles net income (loss) to Non-GAAP Net Income for the periods shown:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	Unaudited			
	(dollars in thousands)			
Net income (loss)	\$ (26,026)	\$ 17,296	\$ (27,159)	\$ (25,533)
Amortization of acquired intangibles	15,983	5,908	47,591	7,186
Share-based compensation expenses (1)	15,937	19,940	50,616	103,594
Restructuring expenses (2)	3,383	—	3,383	—
Holdback compensation expenses (3)	2,773	—	8,355	—
M&A costs	292	5,918	816	11,507
Revaluation of Warrants	(988)	—	(26,988)	—
Foreign currency exchange rate gains (losses), net (4)	347	1,974	3,053	3,519
Income tax effects	(1,486)	(2,737)	(11,563)	(4,282)
Non-GAAP Net Income	\$ 10,215	\$ 48,299	\$ 48,104	\$ 95,991
Non-GAAP EPS basic	\$ 0.04	\$ 0.21	\$ 0.19	\$ 0.89
Non-GAAP EPS diluted	\$ 0.04	\$ 0.19	\$ 0.19	\$ 0.68

- (1) For the nine months ended September 30, 2021, a substantial majority is share-based compensation expenses related to going public.
- (2) Costs associated with the Company's cost restructuring program implemented in September 2022.
- (3) Represents share-based compensation due to holdback of Taboola Ordinary Shares issuable under compensatory arrangements relating to Connexity acquisition.
- (4) Represents non-operating foreign currency exchange rate gains or losses related to the remeasurement of monetary assets and liabilities to the Company's functional currency using exchange rates in effect at the end of the reporting period.

Components of Our Results of Operations

Revenues

All of our Revenues are generated from Advertisers with whom we enter into commercial arrangements, defining the terms of our service and the basis for our charges. Generally, our charges are based on a CPC, CPM or CPA basis. For campaigns priced on a CPC basis, we recognize these Revenues when a user clicks on an advertisement we deliver. For campaigns priced on a CPM basis, we recognize these Revenues when an advertisement is displayed. For campaigns priced on a performance-based CPA basis, the Company generates revenue when a user makes an acquisition.

Cost of revenues

Our cost of revenue primarily includes Traffic acquisition cost and other cost of revenue.

Traffic acquisition cost

Traffic acquisition cost, or TAC, consists primarily of cost related to digital property compensation for placing our platform on their digital property and cost for advertising impressions purchased from real-time advertising exchanges and other third parties. Traffic acquisition cost also includes up-front payments, incentive payments, or bonuses paid to the digital property partners, which are amortized over the respective contractual term of the digital property arrangement. For the majority of our digital properties partners, we have two primary compensation models for digital properties. The most common model is a revenue share model. In this model, we agree to pay a percentage of our revenue generated from advertisements placed on the digital properties. The second model includes guarantees. Under this model, we pay the greater of a percentage of the revenue generated or a committed guaranteed amount per thousand page views (“Minimum guarantee model”). Actual compensation is settled on a monthly basis. Expenses under both the revenue share model as well as the Minimum guarantee model are recorded as incurred, based on actual revenues generated by us at the respective month.

Other cost of revenues

Other cost of revenues includes data center and related costs, depreciation expense related to hardware supporting our platform, amortization expense related to capitalized internal-use software and acquired technology, personnel costs, and allocated facilities costs. Personnel costs include salaries, bonuses, share-based compensation, and employee benefit costs, and are primarily attributable to our operations group, which supports our platform and our advertisers.

Gross profit

Gross profit, calculated as revenues less cost of revenues, has been, and will continue to be, affected by various factors, including fluctuations in the amount and mix of revenue and the amount and timing of investments to expand our digital properties partners and Advertisers base. We hope to increase both our Gross profit in absolute dollars and as a percentage of revenue through enhanced operational efficiency and economies of scale.

Research and development

Research and development expenses consist primarily of personnel costs, including salaries, bonuses, share-based compensation and employee benefits costs, allocated facilities costs, professional services and depreciation. We expect research and development expenses to increase in future periods to support our growth, including continuing to invest in optimization, accuracy and reliability of our platform and other technology improvements to support and drive efficiency in our operations. These expenses may vary from period to period as a percentage of revenue, depending primarily upon when we choose to make more significant investments.

Sales and marketing

Sales and marketing expenses consist of payroll and other personnel related costs, including salaries, share-based compensation, employee benefits, and travel for our sales and marketing departments, advertising and promotion, rent and depreciation and amortization expenses, particularly related to the acquired intangibles. We expect to increase selling and marketing expenses to support the overall growth in our business.

General and administrative

General and administrative expenses consist of payroll and other personnel related costs, including salaries, share-based compensation, employee benefits and expenses for executive management, legal, finance and others. In addition, general and administrative expenses include fees for professional services and occupancy costs. We expect our general and administrative expense to increase as we scale up headcount with the growth of our business, and as a result of operating as a public company, including compliance with the rules and regulations of the SEC, legal, audit, additional insurance expenses, investor relations activities, and other administrative and professional services.

Finance income (expenses), net

Finance income (expenses), net, primarily consists of interest income (expense) including amortization of loan and credit facility issuance costs, Warrants liability fair value adjustments, gains (losses) from foreign exchange fluctuations and bank fees.

Income tax benefit (expenses)

The statutory corporate tax rate in Israel was 23% for the nine months ended September 30, 2022 and 2021, although we are entitled to certain tax benefits under Israeli law.

Pursuant to the Israeli Law for Encouragement of Capital Investments-1959 (the "Investments Law") and its various amendments, under which we have been granted "Privileged Enterprise" status, we were granted a tax exemption status for the years 2018 and 2019. The 2018 tax exemption resulted in approximately \$10.4 million of potential tax savings. In 2019 we did not benefit from the Privileged Enterprise status because we did not have taxable income. The benefits available to a Privileged Enterprise in Israel relate only to taxable income attributable to the specific investment program and are conditioned upon terms stipulated in the Investment Law. We received a Tax Ruling from the Israeli Tax Authority that its activity is an industrial activity and therefore eligible for the status of a Privileged Enterprise, provided that we meet the requirements under the ruling. If we do not fulfill these conditions, in whole or in part, the benefits can be revoked, and we may be required to refund the benefits, in an amount linked to the Israeli consumer price index plus interest. As of September 30, 2022, management believes that we meet the aforementioned conditions.

For 2021 and subsequent tax years, we adopted the "Preferred Technology Enterprises" ("PTE") Incentives Regime (Amendment 73 to the Investment Law) granting a 12% tax rate in central Israel on income deriving from benefited intangible assets, subject to a number of conditions being fulfilled, including a minimal amount or ratio of annual R&D expenditure and R&D employees, as well as having at least 25% of annual income derived from exports to large markets. PTE is defined as an enterprise which meets the aforementioned conditions and for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion.

In the fourth quarter of 2021, the Company utilized a special program initiated by the Israeli Tax Authority allowing Israeli companies to voluntarily release tax-exempted earnings at a reduced tax rate which resulted in GAAP tax expense of \$4.4 million.

As of September 30, 2022, we have an accumulated tax loss carry-forward of approximately \$27.9 million in Israel. Those tax losses can be offset indefinitely. Non-Israeli subsidiaries are taxed according to the tax laws in their respective jurisdictions.

Operating Results

The following table provides consolidated statements of income (loss) data for the periods indicated (dollars in thousands):

	Three months ended September 30,	
	2022	2021
	Unaudited	
Revenues	\$ 332,462	\$ 338,768
Cost of revenues:		
Traffic acquisition cost	203,125	211,899
Other cost of revenues	26,649	19,184
Total cost of revenues	<u>229,774</u>	<u>231,083</u>
Gross profit	<u>102,688</u>	<u>107,685</u>
Operating expenses:		
Research and development	36,237	29,946
Sales and marketing	63,216	43,518
General and administrative	24,685	34,345
Total operating expenses	<u>124,138</u>	<u>107,809</u>
Operating loss	(21,450)	(124)
Finance income (expenses), net	<u>(3,570)</u>	<u>13,960</u>
Income (loss) before income taxes	(25,020)	13,836
Income tax benefit (expenses)	<u>(1,006)</u>	<u>3,460</u>
Net income (loss)	\$ (26,026)	\$ 17,296
Less: Undistributed earnings allocated to participating securities	—	—
Net loss attributable to Ordinary shares – basic and diluted	(26,026)	17,296
Net loss per share attributable to Ordinary shareholders, basic	\$ (0.10)	\$ 0.08
Weighted-average shares used in computing net loss per share attributable to Ordinary shareholders, basic	255,160,597	229,024,803
Net loss per share attributable to Ordinary shareholders, diluted	\$ (0.10)	\$ 0.07
Weighted-average shares used in computing net loss per share attributable to Ordinary shareholders, diluted	255,160,597	259,262,529

Comparison of the three months ended September 30, 2022 and 2021

Revenues decreased by \$6.3 million, or 1.9%, for the three months ended September 30, 2022 compared to the three months ended September 30, 2021. Existing digital property partners, including the growth of new digital property partners (beyond the revenue contribution determined based on the run-rate revenue generated by the partners when they are first on-boarded) decreased by approximately \$28.8 million for the three months ended September 30, 2022 compared to the three months ended September 30, 2021. This decrease was primarily driven by lower yields due to weaker demand on our platform, reflecting the current macroeconomic conditions and the impact on advertising spend. This decrease more than offset the growth from the Connexity acquisition and growth in Taboola News, both of which we include in the growth of existing digital property partners. New digital property partners within the first 12 months that were live on our network contributed approximately \$22.5 million of new revenues for the three months ended September 30, 2022 compared to the three months ended September 30, 2021.

Gross profit decreased by \$5.0 million, or 4.6%, for the three months ended September 30, 2022 compared to the three months ended September 30, 2021.

Ex-TAC Gross Profit, a non-GAAP measure, increased by \$2.5 million, or 1.9%, for the three months ended September 30, 2022 compared to the three months ended September 30, 2021, primarily from new digital property partners within the first 12 months that were live on our network. This was partially offset by a decline in existing digital property partners.

Cost of revenues decreased by \$1.3 million, or 0.6%, for the three months ended September 30, 2022 compared to the three months ended September 30, 2021.

Traffic acquisition cost decreased by \$8.8 million, or 4.1%, for the three months ended September 30, 2022 compared to the three months ended September 30, 2021. Revenues decreased at a lower rate than Traffic acquisition cost due to a mix shift to higher margin digital properties including e-commerce. The cost of guarantees (total payments due under guarantee arrangements in excess of amounts the Company would otherwise be required to pay under revenue sharing arrangements), as a percentage of traffic acquisition costs was approximately 12% or less for the three months ended September 30, 2022 and September 30, 2021.

Other cost of revenues increased by \$7.5 million, or 38.9%, for the three months ended September 30, 2022 compared to the three months ended September 30, 2021, primarily as a result of an increase of \$2.7 million in personnel related costs, mainly due to inclusion of Connexity; \$1.9 million in depreciation and amortization expenses mostly related to the amortization of the acquired intangible assets; \$1.7 million in data centers and information systems costs and \$1.2 million in digital and services taxes.

Research and development expenses increased by \$6.3 million, or 21.0%, for the three months ended September 30, 2022 compared to the three months ended September 30, 2021, primarily as a result of an increase in personnel related cost of \$5.8 million, resulting from the increase in headcount, salary expenses and inclusion of Connexity and the previously mentioned one-time incremental restructuring cost.

Sales and marketing expenses increased by \$19.7 million, or 45.3%, for the three months ended September 30, 2022 compared to three months ended September 30, 2021, primarily as a result of an increase in the depreciation and amortization expenses of \$8.2 million related to intangible assets from the Connexity acquisition, \$7.9 million in personnel related costs, including the one-time incremental restructuring cost, and \$1.1 million due to travel and rent expenses as a result of post COVID business recovery.

General and administrative expenses decreased by \$9.7 million, or 28.1%, for the three months ended September 30, 2022 compared to the three months ended September 30, 2021, primarily as a result of a decrease of \$6.5 million in professional fees attributable to legal consulting services and \$2.6 million in cost related to the Connexity acquisition on September 1, 2021.

Finance income (expenses), net, decreased by \$17.5 million for the three months ended September 30, 2022 compared to the three months ended September 30, 2021. The decrease is attributable to \$16.1 million revaluation income of the Warrants liability for the three months ended September 30, 2021, and \$2.8 million increase in interest expenses related to our long-term loan for the three months ended September 30, 2022 offset by decrease in foreign currency exchange rates differences and other finance related expenses.

Income (loss) before income taxes decreased by \$38.9 million for the three months ended September 30, 2022 compared to the three months ended September 30, 2021, as a result of the factors described above.

Tax expenses decreased by \$4.5 million for the three months ended September 30, 2022 compared to the three months ended September 30, 2021.

The following table provides consolidated statements of income (loss) data for the periods indicated (dollars in thousands):

	Nine months ended	
	September 30,	
	2022	2021
	Unaudited	
Revenues	\$ 1,029,883	\$ 970,790
Cost of revenues:		
Traffic acquisition cost	619,109	621,137
Other cost of revenues	79,695	52,224
Total cost of revenues	698,804	673,361
Gross profit	331,079	297,429
Operating expenses:		
Research and development	100,728	83,889
Sales and marketing	190,989	146,962
General and administrative	78,062	98,489
Total operating expenses	369,779	329,340
Operating loss	(38,700)	(31,911)
Finance income, net	12,389	13,077
Loss before income taxes	(26,311)	(18,834)
Income tax expenses	(848)	(6,699)
Net loss	\$ (27,159)	\$ (25,533)
Less: Undistributed earnings allocated to participating securities	—	(11,944)
Net loss attributable to Ordinary shares – basic and diluted	(27,159)	(37,477)
Net loss per share attributable to Ordinary shareholders, basic	\$ (0.11)	\$ (0.35)
Weighted-average shares used in computing net loss per share attributable to Ordinary shareholders, basic	251,865,831	107,884,927
Net loss per share attributable to Ordinary shareholders, diluted	\$ (0.11)	\$ (0.35)
Weighted-average shares used in computing net loss per share attributable to Ordinary shareholders, diluted	251,865,831	107,884,927

Comparison of the nine months ended September 30, 2022 and 2021

Revenues increased by \$59.1 million, or 6.1%, for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. New digital property partners within the first 12 months that were live on our network contributed approximately \$65.6 million of new revenues for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. Existing digital property partners, including the growth of new digital property partners (beyond the revenue contribution determined based on the run-rate revenue generated by the partners when they are first on-boarded) decreased by approximately \$6.5 million for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. This decrease was primarily driven by lower yields due to weaker demand on our platform, reflecting the current macroeconomic conditions and the impact on advertising spend and was mostly offset by growth from the Connexity acquisition on September 1, 2021 and growth in Taboola News (both of which we include in the growth of existing digital property partners).

Gross profit increased by \$33.7 million, or 11.3%, for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021.

Ex-TAC Gross Profit, a non-GAAP measure, increased by \$61.1 million, or 17.5%, for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021, primarily due to net growth of existing digital property partners, including the growth of new digital property partners (beyond the revenue contribution determined based on the run-rate revenue generated by them when they are first on-boarded) and growth due to the Connexity acquisition and the growth of Taboola News. New digital property partners within the first 12 months that were live on our network contributed the remainder of the increase.

Cost of revenues increased by \$25.4 million, or 3.8%, for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021.

Traffic acquisition cost decreased by \$2.0 million, or 0.3%, for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. The cost of guarantees (total payments due under guarantee arrangements in excess of amounts the Company would otherwise be required to pay under revenue sharing arrangements) as a percentage of traffic acquisition costs were approximately 10% for the nine months ended September 30, 2022 and September 30, 2021.

Other cost of revenues increased by \$27.5 million, or 52.6%, for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021, primarily as a result of an increase of \$10.6 million in personnel related costs which is mainly attributed to inclusion of Connexity; \$6.3 million in depreciation and amortization expenses mostly related to the amortization of the acquired intangible assets; \$5.2 million in data centers and information systems costs; and \$4 million in digital and services taxes.

Research and development expenses increased by \$16.8 million, or 20.1%, for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021, primarily as a result of an increase of \$15.4 million in personnel related costs attributable to the inclusion of Connexity, increase in headcount and salary expenses.

Sales and marketing expenses increased by \$44.0 million, or 30.0%, for the nine months ended September 30, 2022 compared to nine months ended September 30, 2021, due to an increase of \$33.3 million in depreciation and amortization expenses of acquired intangible assets as well as increase of \$4.6 million in sales service fees and \$5.3 million of higher travel, conferences and marketing events as a result of post COVID business recovery.

General and administrative expenses decreased by \$20.4 million, or 20.7%, for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021, primarily as a result of a decrease of \$24.8 million attributable to the equity awards vested in connection with going public in 2021 and \$8.0 million in professional fees attributable to going public, acquisition of Connexity and other regulatory matters. The decrease was partially offset by an increase of \$8.9 million in personnel related costs primarily due to the Connexity acquisition and higher travel and rent expenses as a result of post COVID business recovery.

Finance income, net, decreased by \$0.7 million for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021, primarily as a result of a \$10.1 million increase in interest cost primarily related to our September 1, 2021 long-term loan to fund a portion of the Connexity acquisition, partially offset by \$9.9 million revaluation benefit of the Warrants liability.

Loss before income taxes increased by \$7.5 million for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021, as the net result of the factors described above.

Tax expense decreased by \$5.9 million for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021, primarily affected by non-deductible expenses triggered by IPO in 2021 and valuation allowance in Israel in 2022.

Liquidity and Capital Resources

Our primary cash needs are for working capital, acquisitions, contractual obligations and other commitments. To date, we have financed our operations primarily through private equity financings and, more recently, through the net proceeds from the merger with ION, equity issuances and borrowings under a loan to fund a portion of the Connexity acquisition and cash provided by operations. For the nine months ended September 30, 2022 and 2021, we generated cash from operations of \$33.4 million compared to \$40.6 million, respectively.

As part of our growth strategy, we have made and expect to continue to make significant investments in research and development and in our technology platform. We also plan to consider possible future acquisitions. To fund our growth, depending on the magnitude and timing of our growth investments and the size and structure of any possible future acquisition, we may supplement our available cash from operations with issuances of equity or debt securities and/or make other borrowings, which could be material.

As of September 30, 2022 and December 31, 2021, we had \$308.3 million and \$319.3 million of cash, cash equivalents and short-term investments, respectively, and \$4.8 million and \$4.9 million in short and long-term restricted deposits, respectively, used as security for our lease commitments. Cash and cash equivalents consist of cash in banks and highly liquid marketable securities investments and money market account and funds, with an original maturity of three months or less at the date of purchase and are readily convertible to known amounts of cash.

Short-term investments generally consist of bank deposits, U.S. government treasuries, commercial paper, corporate debt securities, and U.S. agency bonds. We believe that this, together with net proceeds from our engagements with Advertisers and digital property partners, will provide us with sufficient liquidity to meet our working capital and capital expenditure needs for at least the next 12 months. In the future, we may be required to obtain additional equity or debt financing in order to support our continued capital expenditures and operations. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital or generate cash flows necessary to expand our operations and invest in new technologies, this could reduce our ability to compete successfully and harm our business, growth, and results of operations.

On August 9, 2022 we entered into an incremental revolving credit facility amendment to our existing senior secured credit agreement (“Amended Credit Agreement”). The Amended Credit Agreement provides for borrowings in an aggregate principal amount of up to \$90 million (the “Revolving Facility”). The proceeds of the Revolving Facility can be used to finance working capital needs and general corporate purposes. Borrowings under the Revolving Facility are subject to customary borrowing conditions and will bear interest at a variable annual rate based on Term SOFR or Base Rate plus a fixed margin. The Amended Credit Agreement also contains customary representations, covenants and events of default as well as a financial covenant, which places a limit on our allowable net leverage ratio. As of September 30, 2022, we had no outstanding borrowings under the Revolving Credit Agreement.

We are taking actions to reduce growth of operating expenses in response to continuing macroeconomic uncertainty, including uncertainty regarding advertising demand and spending. Any of these uncertainties could impact key areas of our operating performance, including ex-TAC and yields. Actions we are taking include reducing discretionary spend and decreasing our rate of hiring. While we believe these actions will be beneficial, we cannot predict the degree to which they will mitigate these uncertainties.

In addition, we continue to monitor continuing impacts COVID-19 may have on economic conditions and our working capital requirements. To date, the pandemic has not had a material negative impact on our cash flow or liquidity. We cannot provide any assurance regarding future possible COVID-19-related impacts on our business.

Our future capital requirements and the adequacy of available funds will depend on many factors, including the risks and uncertainties set forth in our Annual Report on Form 20-F for the year ended December 31, 2021 under Item 3.D. “Information About the Company - Risk Factors,” our Registration Statement on Form F-3 filed on September 29, 2022, as it may be amended or supplemented from time to time, under the sections entitled “Cautionary Note Regarding Forward-looking Statements” and “Risk Factors” and in our subsequent filings with the SEC.

Cash Flows

The following table summarizes our cash flows for the periods indicated:

	Nine months ended	
	September 30,	
	2022	2021
	Unaudited	
Cash Flow Data:		
Net cash provided by operating activities	\$ 33,426	\$ 40,553
Net cash used in investing activities	(156,581)	(609,735)
Net cash provided by financing activities	46	636,282
Exchange differences on balances of cash and cash equivalents	(7,733)	1,857
Increase (decrease) in cash and cash equivalents	\$ (130,842)	\$ 68,957

Operating Activities

During the nine months ended September 30, 2022, net cash provided by operating activities was \$33.4 million, a decrease of \$7.1 million, compared to \$40.6 million for the same period in 2021. The \$33.4 million was related to our net loss of \$27.2 million adjusted by non-cash charges of \$109.1 million and changes in working capital of \$48.5 million. The non-cash charges are primarily related to depreciation and amortization expenses of \$68.7 million, mainly from intangible assets from the Connexity acquisition, and share-based compensation expense of \$59.0 million offset by revaluation benefit of \$27.0 million of the Warrants liability.

The \$48.5 million decrease in working capital primarily consisted of \$54.7 million decrease in trade payables, \$25.5 million decrease in accrued expenses and other current liabilities, \$13.9 million increase in prepaid expenses and other currents and long-term prepaid expenses and \$9.7 million decrease in deferred taxes, net partially offset by \$60.7 million decrease in trade receivables. The changes in the working capital were primarily due to changes in our operations, prepayments to digital properties partners, tax payments and interest payments related to our long-term loan, in the normal course of business.

Net cash provided by operating activities of \$40.6 million for the nine months ended September 30, 2021 was related to our net loss of \$25.5 million adjusted by non-cash charges including depreciation and amortization of \$30.1 million and share-based compensation expense related to vested equity awards of \$103.6 million mostly triggered from going public, partially offset by an increase of \$48.7 million used in working capital and Warrant liability valuation benefit of \$17.1 million. The \$48.7 million decrease in cash resulting from changes in working capital primarily consisted of a \$38.4 million increase in prepaid expenses and other current assets and long-term prepaid expenses, \$27.2 million decrease in trade payables, partially offset by a \$14.5 million decrease in trade receivables. The change in working capital was primarily driven by seasonality of revenues, timing of collections, higher prepayments to our digital property partners, and higher guarantee compensation committed in the fourth quarter of 2020 but paid during the first quarter of 2021 to our digital property partners, that we agreed with them to undo the 100% revenue share arrangement, reinstate the original payment terms, and receive payments, retroactively, of the guarantee under the original compensation terms.

Investing Activities

During the nine months ended September 30, 2022, net cash used in investing activities was \$156.6 million, a decrease of \$453.2 million, compared to \$609.7 million in net cash used in the same period in 2021. Net cash used in investing activities for the nine months ended September 30, 2022 primarily consisted of \$126.4 million purchase of short-term investments, \$28.5 million purchase of property and equipment, including capitalized internal-use software and \$8.0 million cash paid in connection with acquisitions, partially offset by proceeds from sales and maturities of short-term investments.

Net cash used in investing activities of \$609.7 million for the nine months ended September 30, 2021 primarily consisted of \$583.3 million of cash paid in connection with Connexity acquisition and \$28.8 million purchase of property and equipment, including capitalized internal-use software.

Financing Activities

During the nine months ended September 30, 2022, net cash provided by financing activities was less than \$0.1 million, a decrease of \$636.3 million, compared to \$636.3 million in net cash provided for the same period in 2021. Net cash provided by financing activities for the nine months ended September 30, 2022 primarily consisted of \$7.5 million proceeds received from share option exercises and vested RSUs, offset by \$4.1 million payment of tax withholding for share-based compensation, \$2.3 million repayment of current portion of long-term loan and \$1.1 million costs associated with entering into a revolving credit facility.

Net cash provided by financing activities of \$636.3 million for the nine months ended September 30, 2021 primarily consisted of \$347.5 million proceeds received from the business combination and related transactions and \$288.8 million received from long-term loan, net of debt issuance cost.

Contractual Obligations

The following table discloses aggregate information about material contractual obligations and the periods in which they are due as of September 30, 2022. Future events could cause actual payments to differ from these estimates.

	Contractual Obligations by Period					
	2022	2023	2024	2025	2026	Thereafter
	(dollars in thousands)					
Debt Obligations	\$ 750	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 284,250
Operating Leases (1)	3,982	14,638	14,126	12,112	12,533	22,997
Non-cancellable purchase obligations (2)	8,585	9,606	3,514	58	—	—
Total Contractual Obligations	<u>\$ 13,317</u>	<u>\$ 27,244</u>	<u>\$ 20,640</u>	<u>\$ 15,170</u>	<u>\$ 15,533</u>	<u>\$ 307,247</u>

(1) Represents future minimum lease commitments under non-cancellable operating lease agreements.

(2) Primarily represents non-cancelable amounts for contractual commitments in respect of software and information technology.

The commitment amounts in the table above are associated with contracts that are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used, fixed, minimum or variable price provisions, and the approximate timing of the actions under the contracts. The table does not include obligations under agreements that we can cancel without a significant penalty. The table above does not reflect any reduction for prepaid obligations as of September 30, 2022. As of September 30, 2022, we have a provision related to unrecognized tax benefit liabilities totaling \$3.5 million and other provisions related to severance pay and contribution plans, which have been excluded from the table above as we do not believe it is practicable to make reliable estimates of the periods in which payments for these obligations will be made.

Other Commercial Commitments

In the ordinary course of our business, we enter into agreements with certain digital properties, under which, in some cases we agree to pay them a guaranteed amount, generally per thousand page views on a monthly basis. These agreements could cause a gross loss on digital property accounts in which the guarantee is higher than the actual revenue generated. These contracts generally range in duration from 2 to 5 years, though some can be shorter or longer. These contracts are not included in the table above.

Critical Account Policies and Estimates

Our discussion and analysis of financial condition results of operations are based upon our consolidated interim financial statements included elsewhere in this report. The preparation of our consolidated interim financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, including the anticipated impact of COVID-19, and we evaluate these estimates on an ongoing basis. Actual results may differ from those estimates.

Our critical accounting policies are those that materially affect our consolidated financial statements and involve difficult, subjective or complex judgments by management. There have been no material changes to our critical accounting policies and estimates of and for the year ended December 31, 2021, included in the Company's Form 20-F filed with the SEC on March 24, 2022, except as noted below.

Marketable Securities

We classify our marketable securities as available-for-sale at the time of purchase and reevaluate such classification at each balance sheet date. We may sell these securities at any time for use in current operations even if they have not yet reached maturity. As a result, we classify our marketable securities, including those with maturities beyond 12 months, as current assets in the consolidated balance sheets.

We carry these securities at fair value and record unrealized gains and losses, net of taxes, in accumulated other comprehensive loss as a component of shareholders' equity, except for changes in allowance for expected credit losses, which is recorded in finance income (expenses), net.

We periodically evaluate our available-for-sale debt securities for impairment. If the amortized cost of an individual security exceeds its fair value, we consider our intent to sell the security or whether it is more likely than not that it will be required to sell the security before recovery of its amortized basis. If either of these criteria are met, we write down the security to its fair value and records the impairment charge in finance income (expenses), net, in the consolidated statements of income (loss). If neither of these criteria are met, we determine whether credit loss exists. Credit loss is estimated by considering changes to the rating of the security by a rating agency, any adverse conditions specifically related to the security, as well as other factors.

Realized gains and losses on available-for-sale marketable securities are included in the consolidated statements of income (loss).

Recent Accounting Pronouncements

See the section titled “Significant Accounting Policies - Recently Issued Accounting Pronouncements” in Note 2 of Notes to our Unaudited Consolidated Interim Financial Statements included elsewhere in this report.

Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk of loss that may impact our financial position because of adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of exposure resulting from potential changes in inflation, exchange rates or interest rates. We do not hold financial instruments for trading purposes.

Foreign Currency Exchange Risk

A 10% increase or decrease of the NIS, Euro, British pound sterling, or the Japanese yen against the U.S. dollar would have impacted the consolidated statements of income (loss) as follows:

	Operating loss impact			
	Nine months ended			
	September 30,			
	2022		2021	
(dollars in thousands)				
	+10%	-10%	+10%	-10%
NIS/USD	\$ (4,443)	\$ 4,443	\$ (6,350)	\$ 6,350
EUR/USD	\$ 4,920	\$ (4,920)	\$ 4,735	\$ (4,735)
GBP/USD	\$ (3,403)	\$ 3,403	\$ (3,466)	\$ 3,466
JPY/USD	\$ 1,333	\$ (1,333)	\$ 1,559	\$ (1,559)

To reduce the impact of foreign exchange risks associated with forecasted future cash flows related to payroll expenses and other personnel related costs denominated in NIS and their volatility, we have established a hedging program and use derivative financial instruments, specifically foreign currency forward contracts, to manage exposure to foreign currency risks. These derivative instruments are designated as cash flow hedges.

Interest Rate Risk

Our cash, cash equivalents, and short-term investments are held mainly for working capital purposes. The primary objectives of our investment activities are the preservation of capital and the fulfillment of liquidity needs. We do not enter into investments for trading or speculative purposes. Such interest-earning instruments carry a degree of interest rate risk. Changes in interest rates affect the interest earned on our cash and cash equivalents and short-term investments, and the market value of those securities.

Interest rate risk is the risk that the value or yield of fixed-income investments may decline if interest rates change.

As of September 30, 2022, we had approximately \$297 million of outstanding borrowings under our long-term loan with a variable interest rate. See Liquidity and Capital Resources for information regarding our incremental revolving credit facility amendment.

Fluctuations in interest rates may impact the level of interest expense recorded on future borrowings. We do not enter into derivative financial instruments, including interest rate swaps, to effectively hedge the effect of interest rate changes or for speculative purposes.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition, or results of operations, other than its impact on the general economy. However, if our costs, in particular labor, sales and marketing, information system, technology and utilities costs, were to become subject to significant inflationary pressures, we might not be able to effectively mitigate such higher costs. Our inability or failure to do so could adversely affect our business, financial condition, and results of operations.

Credit Risk

Credit risk with respect to accounts receivable is generally not significant, as we routinely assess the creditworthiness of our partners and Advertisers. Historically, we generally have not experienced any material losses related to receivables from Advertisers. We do not require collateral. Due to these factors, no additional credit risk beyond amounts provided for collection losses is believed by management to be probable in our accounts receivable.

As of September 30, 2022, we maintained cash balances primarily in banks in Israel, the United States and the United Kingdom. In the United States and United Kingdom, the Company deposits are maintained with commercial banks, which are insured by the U.S. Federal Deposit Insurance Corporation ("FDIC") and Financial Services Compensation Scheme ("FSCS"), which is authorized by the Bank of England (acting in its capacity as the Prudential Regulation Authority ("PRA")), respectively. In Israel, commercial banks do not have government-sponsored deposit insurance. At various times, we have deposits in excess of the maximum amounts insured by the FDIC and FSCS. Historically we have not experienced losses related to these balances and believe our credit risk in this area is reasonable. As of September 30, 2022, we maintained cash balances of approximately \$28.6 million with U.S. banks in excess of the amounts insured by the FDIC and \$53.1 million in the United Kingdom banks in excess of the amounts insured by the FSCS.

Our short-term investments, which were \$119.8 million as of September 30, 2022, are investments in marketable securities with high credit ratings as required by our investment policy and are not insured or guaranteed.

Our derivatives expose us to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. We seek to mitigate such risk by limiting our counterparties to major financial institutions and by spreading the risk across a number of major financial institutions. However, failure of one or more of these financial institutions is possible and could result in losses.
