

Introductory Note

The following tables present selected historical consolidated financial data for Taboola.com Ltd. and subsidiaries. The selected data omits footnote and other information contained in the audited consolidated financial statements that will be filed with the U.S. Securities and Exchange Commission in connection with the proposed merger with ION Acquisition Corp. 1 Ltd. Our historical results are not necessarily indicative of future results.

TABOOLA.COM LTD. CONSOLIDATED BALANCE SHEET DATA
U.S. dollars in thousands, except share and per share data

	December 31,	
	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 242,811	\$ 86,920
Short term deposits	-	28,963
Restricted deposits	3,664	6,177
Trade receivables (net of allowance for credit losses of \$ 4,096 and \$ 2,845 as of December 31, 2020, and 2019, respectively)	158,050	154,756
Prepaid expenses and other current assets	21,609	36,172
<u>Total current assets</u>	<u>426,134</u>	<u>312,988</u>
NON-CURRENT ASSETS		
Long-term prepaid expenses	5,289	7,125
Restricted deposits	3,300	683
Deferred tax assets	1,382	673
Right of use assets	68,058	67,181
Property and equipment, net	52,894	67,777
Intangible assets, net	3,905	6,465
Goodwill	19,206	19,206
	<u>154,034</u>	<u>169,110</u>
<u>Total assets</u>	<u>\$ 580,168</u>	<u>\$ 482,098</u>
LIABILITIES, CONVERTIBLE PREFERRED SHARES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade payable	\$ 189,352	\$ 167,178
Lease liability	15,746	12,826
Accrued expenses and other current liabilities	95,135	58,897
<u>Total current liabilities</u>	<u>300,233</u>	<u>238,901</u>
LONG TERM LIABILITIES		
Deferred tax liabilities	45	2,716
Lease liability	63,044	63,008
<u>Total long-term liabilities</u>	<u>63,089</u>	<u>65,724</u>
CONVERTIBLE PREFERRED SHARES		
Preferred A, B, B-1, B-2, C, D and E shares with no par value - Authorized: 45,688,037 shares at December 31, 2020 and 2019; Issued and outstanding: 44,978,000 shares at December 31, 2020 and 2019; Aggregate liquidation preference of 308,765 and 285,833 as of December 31, 2020 and 2019, respectively.	<u>170,206</u>	<u>170,206</u>
SHAREHOLDERS' EQUITY		
Ordinary shares with no par value- Authorized: 65,366,595 shares as of December 31, 2020 and 2019, 15,313,447 and 16,626,522 shares issued and outstanding as of December 31, 2020 and 2019, respectively	-	-
Additional paid-in capital	78,137	47,257
Accumulated deficit	(31,497)	(39,990)
<u>Total shareholders' equity</u>	<u>46,640</u>	<u>7,267</u>
<u>Total liabilities, convertible preferred shares, and shareholders' equity</u>	<u>\$ 580,168</u>	<u>\$ 482,098</u>

TABOOLA.COM LTD. CONSOLIDATED STATEMENTS OF INCOME (LOSS) DATA

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

	Year ended December 31,		
	2020	2019	2018
Revenues	\$ 1,188,893	\$ 1,093,830	\$ 909,246
Cost of revenues:			
Traffic acquisition cost	806,541	798,001	627,720
Other cost of revenues	62,855	63,860	47,296
Total cost of revenues	869,396	861,861	675,016
Gross profit	319,497	231,969	234,230
Operating expenses:			
Research and development expenses	99,423	84,710	73,024
Sales and marketing expenses	133,741	130,353	109,671
General and administrative expenses	60,140	36,542	34,202
Total operating expenses	293,304	251,605	216,897
Operating income (loss) before finance expenses	26,193	(19,636)	17,333
Finance expenses, net	2,753	3,392	1,346
Income (loss) before income taxes	23,440	(23,028)	15,987
Provision for income taxes	14,947	4,997	5,326
Net income (loss)	\$ 8,493	\$ (28,025)	\$ 10,661
Less: Undistributed earnings allocated to participating securities	(22,932)	(21,173)	(19,604)
Net loss attributable to ordinary shares – basic and diluted	(14,439)	(49,198)	(8,943)
Net loss per share attributable to ordinary shareholders, basic and diluted	\$ (0.97)	\$ (3.00)	\$ (0.56)
Weighted-average shares used in computing net loss per share attributable to ordinary shareholders, basic and diluted	14,934,590	16,412,119	16,084,650

TABOOLA.COM LTD. CONSOLIDATED STATEMENTS OF CASH FLOWS DATA
U.S. dollars in thousands, except share and per share data

	Year ended December 31,		
	2020	2019	2018
<u>Cash flows from operating activities:</u>			
Net income (loss)	\$ 8,493	\$ (28,025)	\$ 10,661
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:			
Depreciation and amortization	33,957	39,364	35,272
Loss from sale of property and equipment	-	-	184
Share based compensation expenses	28,277	8,249	10,451
Revaluation of contingent consideration	-	-	3,876
Net loss (gain) from financing expenses	(3,318)	(454)	2,111
Decrease in deferred taxes, net	(3,380)	(239)	(359)
Accrued interest, net	520	(161)	(205)
Change in operating assets and liabilities:			
Increase in trade receivables	(3,294)	(15,326)	(29,115)
Decrease (increase) in prepaid expenses and other current assets and long-term prepaid expenses	17,975	(24,757)	(2,461)
Increase in trade payable	23,434	31,622	26,926
Change in operating lease Right of use assets	13,758	12,452	-
Change in operating Lease liabilities	(11,679)	(9,893)	-
Increase in accrued expenses and other current liabilities	34,344	5,224	19,636
Net cash provided by operating activities	<u>139,087</u>	<u>18,056</u>	<u>76,977</u>
<u>Cash flows from investing activities</u>			
Purchase of property and equipment, including capitalized platform costs	(17,774)	(44,328)	(32,157)
Proceeds from sale of property and equipment	-	-	455
Cash paid in connection with acquisitions (see note 1c)	(202)	(3,966)	-
Decrease (increase) in restricted deposits	(104)	(583)	179
Decrease (increase) in short-term deposits	28,963	1,411	(7,412)
Net cash provided by (used in) investing activities	<u>10,883</u>	<u>(47,466)</u>	<u>(38,935)</u>
<u>Cash flows from financing activities</u>			
Exercise of options	2,603	991	597
Payment of contingent consideration	-	-	(12,753)
Net cash provided by (used in) financing activities	<u>2,603</u>	<u>991</u>	<u>(12,156)</u>
Exchange differences on balances of cash, cash equivalents	3,318	454	(2,111)
Increase (decrease) in cash, cash equivalents	155,891	(27,965)	23,775
Cash, cash equivalents - at the beginning of the period	<u>86,920</u>	<u>114,885</u>	<u>91,110</u>
Cash, cash equivalents - at end of the period	<u>\$ 242,811</u>	<u>\$ 86,920</u>	<u>\$ 114,885</u>

TABOOLA.COM LTD. CONSOLIDATED STATEMENTS OF CASH FLOWS DATA (continued)**U.S. dollars in thousands, except share and per share data**

	Year ended December 31,		
	2020	2019	2018
Supplemental disclosures of cash flow information:			
Cash paid for income taxes	<u>\$ 9,980</u>	<u>\$ 7,947</u>	<u>\$ 6,146</u>
Supplemental disclosures of noncash investing and financing activities:			
Deferred offering costs incurred during the period included in the Long-term prepaid expenses	<u>\$ 2,096</u>	<u>\$ -</u>	<u>\$ -</u>
Purchase of property, plant and equipment	<u>\$ 1,879</u>	<u>\$ 3,139</u>	<u>\$ 2,032</u>
Acquisition of Celltick activity	<u>\$ -</u>	<u>\$ 202</u>	<u>\$ -</u>

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.

	Year Ended December 31,		
	2020	2019	2018
	(dollars in thousands)		
Revenues ^(a)	\$1,188,893	\$1,093,830	\$909,246
ex-TAC Revenues ^{(b)*}	\$382,352	\$295,829	\$281,526
Net cash Provided by Operating Activities ^(c)	\$139,087	\$18,056	\$76,977
Free Cash Flow ^{(d)*}	\$121,313	\$(26,272)	\$44,820
Net income (loss) ^(e)	\$8,493	\$(28,025)	\$10,661
Adjusted EBITDA ^{(f)*}	\$106,193	\$34,082	\$66,932
Net income (loss) Margin ^(g)	0.7%	(2.6)%	1.2%
Adjusted EBITDA Margin ^{(h)*}	27.8%	11.5%	23.8%
Cash, cash equivalents and short-term deposits ⁽ⁱ⁾	\$242,811	\$115,883	\$145,259

* Non-GAAP measure. Refer to “Non-GAAP Financial Measures” below for an explanation and reconciliation to GAAP metrics.

Supplemental Information

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 not be representative of our ongoing operations.

These non-GAAP measures are subject to significant limitations. 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 Revenues

The following table provides a reconciliation of Revenues to ex-TAC Revenues.

	Year Ended December 31,		
	2020	2019	2018
	(dollars in thousands)		
Revenues	\$1,188,893	\$1,093,830	\$909,246
Adjusted to exclude the following:			
Traffic acquisition cost	806,541	798,001	627,720
ex-TAC Revenues	\$382,352	\$295,829	\$281,526

Adjusted EBITDA and Adjusted EBITDA Margin

The following table provides a reconciliation of Net income (loss) to Adjusted EBITDA.

	Year Ended December 31,		
	2020	2019	2018
	(dollars in thousands)		
Net income (loss)	\$8,493	\$(28,025)	\$10,661
Adjusted to exclude the following:			
Financial expenses	2,753	3,392	1,346
Tax expenses	14,947	4,997	5,326
Depreciation and amortization	33,957	39,364	35,272
Share-based compensation expenses	28,277	8,249	10,451
M&A costs ⁽¹⁾	17,766	6,105	—
Revaluation of contingent liability	—	—	3,876
Adjusted EBITDA	\$106,193	\$34,082	\$66,932

(1) Costs primarily related to the proposed strategic transaction with Outbrain Inc., which we elected not to consummate.

Free Cash Flow

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

	Year Ended December 31,		
	2020	2019	2018
	(dollars in thousands)		
Net cash provided by operating activities	\$139,087	\$18,056	\$76,977
Purchases of property and equipment, including capitalized platform costs	17,774	44,328	32,157
Free Cash Flow	\$121,313	\$(26,272)	\$44,820

Reconciliation of Net income (loss) to Adjusted EBITDA and Free Cash Flow

	Year Ended December 31,		
	2020	2019	2018
	(dollars in thousands)		
Net income (loss)	\$8,493	\$(28,025)	\$10,661
Adjusted to exclude the following:			
Financial expenses	2,753	3,392	1,346
Tax expenses	14,947	4,997	5,326
Depreciation and amortization	33,957	39,364	35,272
Share-based compensation expenses	28,277	8,249	10,451
M&A costs ⁽¹⁾	17,766	6,105	—
Revaluation of contingent liability	—	—	3,876
Adjusted EBITDA	106,193	34,082	66,932
Non cash charges	(6,178)	(854)	1,731
Cash charges excluded from Adjusted EBITDA ⁽²⁾	(35,466)	(14,494)	(6,672)
Change in working capital	74,538	(678)	14,986
Net cash provided by operating activities	139,087	18,056	76,977
Purchases of property and equipment, including capitalized platform costs	(17,774)	(44,328)	(32,157)
Free Cash Flow	\$121,313	\$(26,272)	\$44,820

(1) Costs primarily related to the proposed strategic transaction with Outbrain Inc., which we elected not to consummate.

(2) Financial and Tax expenses, M&A costs and revaluation of contingent liability.

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- (a) We generate substantially all of our Revenues from advertisers. We enter into commercial arrangements with advertisers defining the terms of our service and the basis for our charges. Generally, our charges are based on a CPC or CPM 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.
- (b) We calculate ex-TAC Revenues, a non-GAAP measure, as Revenues excluding Traffic acquisition cost. Traffic acquisition cost, a component of Cost of revenues, are what we must pay digital properties to obtain the right to place advertising on their websites. This includes digital property compensation for placing Taboola's platform on their digital property and cost for advertising impressions purchased from real-time advertising exchanges and other third parties. We believe that ex-TAC Revenues is useful because excluding TAC can better reflect the revenue that ultimately flows to us. We use ex-TAC Revenues as part of our business planning, for example decisions regarding the timing and amount of investments. Our use of ex-TAC Revenues has limitations as an analytical tool and you should not consider it in isolation, or as a substitute or superior to Gross Profit, which is the most comparable GAAP metric.
- (c) Net cash provided by operating activities is our Net income (loss) adjusted for non-cash charges and net cash provided by changes in our working capital.
- (d) We calculate Free Cash Flow, a non-GAAP measure, as Net cash provided by operating activities minus purchases of property and equipment, including capitalized platform costs. 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. Our use of Free Cash Flow has limitations as an analytical tool and you should not consider it in isolation, or as a substitute or superior to Net cash provided by operating activities, which is the most comparable GAAP metric.
- (e) Net income (loss) is calculated as presented on our consolidated statement of income (loss) for the periods presented.
- (f) We calculate Adjusted EBITDA, a non-GAAP measure, as Net income (loss) before net financial expenses, income tax provision 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, which may vary from period-to-period. 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 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. Our use of Adjusted EBITDA has limitations as an analytical tool and you should not consider it in isolation, or as a substitute or superior to Net income (loss), which is the most comparable GAAP metric.
- (g) Net income (loss) Margin is Net income (loss) divided by Revenues.
- (h) We calculate Adjusted EBITDA Margin, a non-GAAP measure, as Adjusted EBITDA divided by ex-TAC Revenues. The Adjusted EBITDA Margin is subject to the same adjustments as described for Adjusted EBITDA. Our use of Adjusted EBITDA Margin has limitations as an analytical tool and you should not consider it in isolation, or as a substitute or superior to Net income (loss) Margin, which is the most comparable GAAP metric.
- (i) Cash equivalents are short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less. Short-term deposits are bank deposits with maturities of more than three months but less than one year.