



PeerStream, Inc.

Third Quarter 2018 Earnings and Business Update Call

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C O R P O R A T E P A R T I C I P A N T S

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Judy Krandel, *Chief Financial Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Henry Link, *Private Investor*

P R E S E N T A T I O N

Operator:

Ladies and gentlemen, good day and welcome to the PeerStream Incorporated Third Quarter 2018 Earnings Conference. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Michael Pritchard, Company Counsel from Haynes and Boone. Please go ahead, sir.

Michael Pritchard:

Thank you. Good afternoon and welcome to the PeerStream, Inc., formerly known as Snap Interactive Inc., Third Quarter 2018 Earnings and Business Update Call. With me on the call today are Alex Harrington, Chief Executive Officer, and Judy Krandel, Chief Financial Officer.

Before I turn the call over to Management, I'd like to remind everyone that earlier today we issued a presentation to accompany this call. The presentation can be accessed on the Company's website, www.peerstream.com, under the Quarterly Earnings tab of the News section, or by following the link on PeerStream's Homepage.

I'd like to inform everyone that certain statements made during today's conference call that are not statements of historical fact, including those concerning future plans, objectives, goals, strategies, or performance, are forward-looking statements. These statements reflect the good faith, beliefs and judgments of PeerStream's Management and are based upon currently available information only as of the date of this conference call. These statements are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from the current expectation.

These factors include those described in the Risk Factors section of the Company's periodic reports that are filed with the Securities and Exchange Commission. Forward-looking statements are not guarantees of future performance and the Company expressly disclaims any obligation to update earlier statements as a result of new information, except where required by law.

Certain non-GAAP measures may be discussed during today's presentation, including Adjusted EBITDA. Adjusted EBITDA has been calculated consistent with the manner in which it is defined in PeerStream's periodic reports filed with the Securities and Exchange Commission. Adjusted EBITDA has been reconciled for the nearest applicable GAAP measure in this presentation and in PeerStream's earning release, which is also available under the Quarterly Earnings tab of the News section of PeerStream's website, which, once again, is www.peerstream.com.

With that, I'll turn the call over to Alex Harrington, PeerStream's Chief Executive Officer. Alex?

Alex Harrington:

Thanks, so much, Michael, and thanks, everyone, for joining today. As Michael mentioned, you can download our earnings presentation on our website. If you're following along, we're starting on Page 3 and I will start with a strategic discussion, talking about how we're positioning ourselves in the marketplace. PeerStream is a global Internet solutions provider, providing real world adoption of emerging block chain technology by developing software services and applications for corporate clients and consumers. We're leveraging a 20-year history of technology innovation. We have 26 issued patents. We have IP licenses to Microsoft, Sony and Activision. All that underpins a history as innovators in multimedia communication, as we serve nearly 0.5 billion users since inception, and host one of the world's leading collections of video chat communities with leading apps like Paltalk.

But, today our opportunity is in the launch of our Business Solutions group, which started in March 2018, represents an opportunity to capture a wave of growth in corporate adoption of blockchain software and services. This is a new revenue stream for the business that is business-to-business. This is a growth opportunity represents a very fast wave of adoption.

You can see on Page 4 of the presentation, which characterizes the high-growth market opportunity. Juniper Research cites that nearly six in 10 large corporations are considering blockchain deployment at this time, and we've also seen research that cites the blockchain services market is \$700 million in 2017 and expected to grow to nearly \$80 billion by 2025, so that's a year-over-year growth of approximately 82%. The market is very large already and growing, and you don't have to look far to see anecdotal support for that. IBM recently just announced a deal with the Australian Government that, over five years, is valued at nearly \$0.75 billion, and Bain and Company cited that the financial services industry has already realized \$35 billion of cost savings benefit from blockchain adoption. We are seeing big deals signed; we're seeing real value delivered; and we're seeing a very rapidly growing marketplace, so we're very excited to be participating in this and having an opportunity to capture that growth.

On Page 5, we cite some of the steps that we're taking to capture this market opportunity. Really, there's three different initiatives in parallel that we are pursuing, which, in this new business that we've been in for only in handful of months. First, we're building out our business and sales capabilities; we're building our market presence with branding and marketing initiatives; and we're enhancing our client execution capabilities. Some of this is through hiring and teambuilding, some of it is through partnerships or joint ventures, and so we're taking a very strategic approach to building this market opportunity in this business, even up to and including acquisitions that we are currently evaluating and that are on our roadmap.

I mean, in the longer-term we see services as sort of the first step to this market, but in the longer-term, we expect that software and software licensing is going to be a bigger and bigger part. We are already engaged with PeerStream protocol and developing out proprietary software to address the blockchain market opportunity and we anticipate that there will be further initiatives that we will pursue in the not-so-distant future.

One announcement that we made in the most recent quarter and that I'd highlight is the Master Service Agreement with Chateaux Software. This really supports one of those three pillars that I mentioned, which is the execution capabilities. Chateaux is a leading professional services (inaudible) firm focusing on

enterprise blockchain solutions, and they are a partner with IBM block chain and Microsoft and Amazon Web Services. They are very talented, and our partnership with them extends our capabilities to serve clients, complementary capabilities, a deep resume in delivering blockchain solutions. Partnerships like these are helping us build out our capabilities to serve clients more effectively.

With that, I'll hand it over to Judy Krandel to touch on our financial highlights for the quarter.

Judy Krandel:

Great. Thank you, Alex, and thanks to everyone, as well, for joining us on the call today. If you would all turn to Slide 7 for a quick overview of our third quarter financial highlights, and then I will go into more detail in a few moments.

As you can see, total revenue in the third quarter increased 12.8% to \$6.7 million. We reported a net loss of \$570,000, which is an improvement of over \$1.4 million versus the third quarter of last year, and the net loss of \$570,000 was driven principally by a \$576,000 impairment loss on digital tokens, which we received from ProximaX in connection with our Technology Services Agreement.

Adjusted EBITDA was approximately \$900,000, a \$2 million increase from the comparable period in 2017, and net cash flow used in operations for the third quarter was \$461,000, and at September 30, PeerStream had cash of \$7.2 million and no debt on our balance sheet.

Now, if you would move to Slide 8, I will review our revenue performance for the third quarter in more detail. As mentioned, total revenue was \$6.7 million, an increase of 12.8% when compared to the third quarter revenue of \$5.9 million last year. The increase was driven by the revenue that we recognized from our Technology Services Agreement with ProximaX of \$1.4 million, reflecting our work with them for this quarter. This was partially offset by a decline of approximately \$540,000 in Subscription revenue and a decrease of \$150,000 in Advertising revenue across all products.

Total Subscription revenue for the quarter was \$4.9 million, or 10% lower than the \$5.4 million we reported in the third quarter of last year. To note, though, Subscription revenue from our video properties was stable year-over-year, offset by a decline in Subscription revenue primarily from our dating property. The decrease was primarily due to a decrease in active subscribers of 17,900, or 10.6%, which resulted from lower marketing and advertising spend of approximately \$310,000 for our dating property. These results also reflect our increasing allocation of resources to our new higher growth opportunities in business solutions.

Advertising revenue for the third quarter was \$331,000, a decrease of 31.1% year-over-year. The decrease was primarily due to a 20.2% decline in active users. We also believe that challenges in the digital advertising industry contributed to the decline, specifically a greater emphasis on broad control is resulting in lower demand in pricing.

Turning to Slide 9, I'd like to hit upon some profitability metrics. The net loss for the quarter was \$570,000, a positive swing of approximately \$1.4 million, reflecting the revenue contribution from business solutions combined with a significant decrease in the expense phase, a result of the cost reductions that were put into place in the second half of last year. The net loss also reflects a \$576,000 impairment loss on digital tokens we received in connection with the ProximaX Technology Services Agreement.

Adjusted EBITDA was approximately \$900,000 for the third quarter, a significant increase compared to an Adjusted EBITDA loss of approximately \$1.1 million in the comparable period last year.

Finally, turning to Slide 10, you'll see that on September 30, we had approximately \$7.2 million in cash and equivalents. This reflects the nine-month net cash flow of \$3.1 million, resulting from the first milestone payment of \$5 million from ProximaX earlier this year. We continue to carry no debt.

In closing, PeerStream remains on very solid financial footing and has the resources on hand to support future growth. Business solutions is new but progressing well since its launch, and we see the startup of sustainable new revenue streams as we continue to execute on our strategic plan.

That concludes our prepared remarks for today. Abby (phon), I'd like to turn the call back over to you for questions.

Operator:

Thank you. If you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, it is star, one if you would like to ask a question and we will pause for just a moment to allow everyone an opportunity to signal for questions.

Again, that is star, one if you would like to ask a question.

There are no phone questions at this time, so ladies and gentlemen, this does conclude today's call and we do thank you for your participation. You may now—I apologize. We do have a question. Would you like to take that?

Judy Krandel:

Yes, please.

Alex Harrington:

Sure.

Operator:

All right. Perfect. We will take our question from Henry Link (phon) who is a Private Investor. Please go ahead.

Henry Link:

Yes. I'm in Hartford, Connecticut and I met you maybe six months ago at a forum in Hartford. Anyway, I was just wondering, when do you expect to get more payments from ProximaX?

Alex Harrington:

Thank you, Henry, for the question. Of course, we remember, I think, meeting you, so thank you for your interest in PeerStream. Our agreement with ProximaX has two additional payments of \$2.5 million each that are payable upon delivery of two additional milestones in the project. We're anticipating that the project is sort of completed in mid-2019, and so the two milestones, that would be the second of the—or, well, there are actually three milestones in the project; we're talking about Milestone 2 and Milestone 3. We're anticipating that Milestone 3 will be completed by approximately the midpoint of next year and that the other milestone, Milestone 2, would happen in between now and then.

Henry Link:

Great. Well, thank you.

Alex Harrington:

Sure.

Operator:

As a reminder, it is star, one if you would like to ask a question.

There are no further questions at this time, so ladies and gentlemen, this does conclude today's call and we thank you for your participation. You may now disconnect.