



Snap Interactive, Inc.

Second Quarter 2016 Earnings Conference 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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Michael Pritchard, *Company Counsel*

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

Operator:

Good day and welcome to the Snap Interactive Second Quarter 2016 Earnings Conference Call. Today's conference is being recorded.

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

Alex Harrington:

Melissa can you hear me? This is Alex Harrington.

Operator:

Yes, I can hear you.

Alex Harrington:

Okay. We're going to kick off the body of the presentation we can circle back to the opening remarks for Safe Harbor once Michael Pritchard comes back online.

Well, thank you all for joining us on today's call. I encourage you all to access the second quarter 2016 earnings call presentation, which is available www.snap-interactive.com. It's on the homepage if you scroll down to the left-hand side, and I encourage you to go to the website follow along with the presentation. First I'm going to review the strategic emphasis of the second quarter and then we will get into detail on the operating results. So, right now I'll just pause a moment while attendees can get their hands on the presentation and please flip forward to Page 5.

All right, so Page 5 highlights the strategic focus of the quarter it's been a two-pronged approach. On the financial side we've been exploring strategic alternatives to most advantageously refinance or retire the \$3 million senior notes due in 2017. On the operational side, we continue to execute on the plan of commercializing our 30 million user database, which is one of the largest in the industry and which we believe to be an untapped engine for growth.

Tactically, what that is meant is an intensive investigation of strategic alternative—and I'll get into that a little further in a bit—as well as the execution of the next phase of our growth plan, which is to build a new product with a planned launch in Q4. We will get into greater detail on the financial results for the quarter,

but the high level overview is that revenues largely held steady sequentially on lower marketing spend buoyed by higher reactivations of users in our database. We continue to cut expenses to present favorable cash flow comparison to the comparable period from last year and there are also a few subsequent events to highlight.

In July, on the 13th, we completed a warrant exchange to clean up our cap table where we cancelled 15 million sigma warrants and granted 2 million shares of common stock in exchange. On July 18th we finalized a term loan from A.V.M. Software doing business as Paltalk, which has a borrowing capacity of \$250,000.

Moving on to Page 6 for the strategic discussion, on the strategic alternatives front, earlier today we issued a press release entitled Snap Interactive Announces a Proposed Merger with Paltalk. Because the transaction contemplates the private placement of Snap securities I am not permitted under the Federal Securities laws to elaborate further, but I invite you to read the press release.

Moving on to Page 7, in furtherance of our strategy to build a portfolio of products to leverage our large user database, we've been heads down this last quarter executing on that plan. We anticipate a new product will be ready to beta test next month, and ready for full commercial release in the fourth quarter. This new product strategy fuels growth in a capital efficient way, leveraging assets we already have and provides an opportunity for step-change in revenue by a cross-selling product, reactivating domain account and leveraging our new acquisition spend instead of with one product actually across multiple products.

We're also pleased to announce that new product will address a growing and lucrative market niche, users 50 and older. Pew Research identified users 55 to 64 years of age as one of the fastest growing market segments. In our own experience, we believe older users have a greater willingness to confer to subscription product, and since we have long focus on acquiring users 35 and older, the overlap with our existing database is quite substantial.

Moving on to Slide 8, we have updates on other growth opportunities in our strategic plan. So on Page 8, those of you who have tuned in the past earnings calls will recognize this diagram, which is sort of our four prone growth strategy, the first one the AYI rebrand we've completed in the first quarter. The new product introduction is one that we just talked about that we're working on presently, and now we'll touch on the two remaining legs of the stool.

International, on the international front, we continue to focus on the large share of the dating market that is non-English speaking. We've been performing test in nine additional languages, giving us access to high growth emerging markets for the first time, such as Brazil and Turkey. We've also found smaller markets to be promising, such as Greece where we've seen strong user traction. We expect international initiatives to contribute to growth in the third and fourth quarter.

On the next page, we hit on the mobile emphasis. This is the final element of our growth strategy, and it's been an ongoing focus. Following the release of the relaunched mobile app on iPhone and Android in January and February, we experienced some good results as we reviewed last quarter. Since then, the focus has been building on building a new product, as I just mentioned, but the emphasis has been on a mobile user experience embedded within that new product experience building it from the ground up.

We've also made strides in optimizing the presence of our core product FirstMet in the App Store and Google Play and then focusing our marketing dollars increasing on mobile acquisition. Despite our legacy as a desktop based product well over 50% of usage has been on mobile platforms for the last few quarters and we expect to see that continue to grow.

Moving on now to Slide 11, we will discuss the Q2 operating results.

First, revenue. Total revenue was approximately flat on a sequential comparison, down approximately \$63,000 on a base of approximately \$2.6 million. Revenue was down less than the proportional decrease in advertising expense. As compared to Q2 2015, we were down 18%. So we believe that to be principally a function of lower investment in advertising to acquire new users, which decreased by approximately 15% comparing those two periods.

The present quarter is also influenced by a 25% total reduction in FirstMet advertising investment for the year-to-date to June 30, 2016 versus the comparable period in 2015. So overall, revenue is holding up well in a phase of lower marketing spend, supported by an increase in reactivated users and improved performance in recurring revenue. We anticipate the release of a new product in the fourth quarter to be catalyst for revenue growth does not require an increased investment in market.

If we advance to Page 12, we'll take a look at advertising revenue. Advertising revenue was up year-over-year by approximately \$42,000 or 37%, and that was based on adding more ad placement and more ad partners over the last year. After several quarters of growth in ad revenue, we had a slight dip in 2Q, but in the second quarter of approximately \$16,000. The principal driver of this recent decline was discretionary. It's based on periodic testing to ensure that the user experience isn't diminished by ads such as the benefit of ad revenue is offset by lower subscription conversion. We do this testing by testing an ad free user cohort and comparing that to a cohort that we acquire and offer the typical experience, which includes ads. So both our test itself and the modest adjustments do our advertising practices and optimization that followed resulted in a small decline in revenue.

Let's move to Slide 13 to discuss expense management. We continued our campaign to reduce cost with a \$509,000 reduction in the second quarter of 2016 compared to the prior period and reduced expenses in the first half of the year by a total \$1.7 million compared to the first half of 2015. These cost cuts were across the board, but most prominently in general administrative expense, which was reduced by 28%.

On Slide 14 we look at Adjusted EBITDA. Though Adjusted EBITDA in Q2 2016 performed unfavorably in the year-over-year comparison, if you look at the six months year-to-date comparison, we're performing better than last year by approximately \$269,000. This was driven by cost cutting overcoming any decline in revenue.

On Slide 15, we discussed cash flow and balances. Along with expense reduction we also cut Q2 cash consumption by about \$155,000 or 39% as compared to Q2 2015. We ended the quarter with cash of approximately \$1.6 million.

A big focus now is seeking financial or strategic alternatives to refinance, restructure or retire the convertible debt on our balance sheet. With continued lean operation and the benefit of access to an additional term loan we believe our cash resources are sufficient to support the growth initiatives in 2016.

Moving on, we conclude the presentation on Slide 16 with a glimpse of the longer term benefit of the recent rebrand and user reactivation. The rebranding has been successful at reinvigorating the user database, which is core to our strategy. In this chart on Page 16, you can see the number of daily reactivations of inactive users; that's the blue lining in the chart. The orange line in the chart is sort of average levels over certain periods of time.

So in the center of the chart you can see a spike associated with the rebrand that happened at the beginning of March and then sustained a campaign that was obtained for about a month afterwards. Then following that rebrand, you will note that there is a higher plateau of user re-engagement as compared to before the rebrand, 27% higher in fact. So we reactivated 647,000 inactive users in Q2 2016, which is a great way to drive revenue and unlock value for the database. So this, among other

things, is why we think this database-centric growth strategy is working and why we are excited to make a really big splash reactivating users in the database with a new product in the fourth quarter, just really around the corner.

So that concludes my prepared remarks. The Adjusted EBITDA GAAP reconciliation is available for your reference. Before we take questions Michael are you back online to do the Safe Harbor?

Michael Pritchard:

Yes, Alex, I am. Thank you and I apologize to everyone in attendance today for the technical difficulties we experienced at the beginning of the call.

As Alex said my name is Michael Prichard and I'm with Haynes and Boone, Outside Counsel to Snap. I would like to inform everyone in attendance today that certain statements that were made during today's conference call and in the presentation accompany in this call are not statements of historical fact, including those concerning future plans, objectives, goals, strategies or performance. Those statements are forward-looking statements. These statements reflect the good-faith beliefs and judgments of Snap and are based upon currently available information only as of the date of this conference call.

These statements are subjects to risks, uncertainties and other factors that could cause actual results to differ materially from current expectations. These factors include those described in the Risk Factors section of Snap's periodic reports that are filed with the Securities and Exchange Commission. Forward-looking statements are not guarantees of future performance and Snap expressly disclaims any obligation to update earlier statements as a result of new information except as required by law.

In addition, certain non-GAAP measures were discussed during today's presentation including Adjusted EBITDA. Adjusted EBITDA have been calculated consistent with the manner in which it has been defined in Snap's periodic reports that are filed with the Securities and Exchange Commission, and it has been reconciled to the nearest applicable GAAP measure in Snap's earnings release, which is available under the Press Releases tab of the Investor Relations section of Snap's website, snap-interactive.com.

And with that I will turn the call over to the Operator and Alex to take any questions.

Operator:

Thank you. Ladies and gentlemen, if you would like to ask a question at this time, please press star, one on your telephone keypad. If you're on a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. Once again for any questions at this time, please press star, one now. Once again, that is star, one if you would like to ask a question today.

I show we have no questions at this time.

Alex Harrington:

Great. Thank you all for joining today's call. If there are any follow-up questions, you can feel free to email ir@snapinteractive.com. I look forward to keeping you all posted on our progress. Thanks again for your interest.

Operator:

That does conclude our conference for today. Thank you for your participation.