



Snap Interactive

Third Quarter 2017 Earnings and Business Update Call

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Maria Marin, *Zacks Investment Research*

PRESENTATION

Operator:

Good day and welcome to the Snap Interactive Third Quarter 2017 Earnings Conference Call. Today's conference is being recorded.

At this time I would like to turn the conference over to Mr. Mike Cole. Please go ahead, sir.

Michael Cole:

Thank you. Good afternoon and welcome to the Snap Interactive Third Quarter 2017 Earnings and Business Update call. Again, my name is Mike Cole and I am with MZ Group Investor Relations for Snap. Hosting our call today are Alex Harrington, Chief Executive Officer, and Judy Krandel, Chief Financial Officer.

Before I turn the call over to Management, I would like to remind everyone that earlier today, we issued a presentation to accompany this call. This presentation can be accessed on the Company's website, www.snap-interactive.com, under the Quarterly Earnings tab of the Investor Relations section or by following the link on Snap's homepage.

I'd like to inform everyone in attendance 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, and those related to the Company's integration efforts following the completion of its merger with AVM Software doing business as Paltalk, are forward-looking statements. These statements reflect the good faith beliefs and judgments of the Company 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 current expectations. 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 as 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 Snap'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 Snap's earnings release, which is also available under the Press Releases tab of the Investor Relations section of Snap's website, once again, www.snap-interactive.com.

With that, I'll turn the call over to Alex Harrington, Snap's Chief Executive Officer. Alex, the call is yours.

Alex Harrington:

Thank you, Mike and thank you all for joining us on today's call. As Mike said, I'd encourage you all to access the Q3 2017 Earnings Call presentation available on our website, www.snap-interactive.com. As Mike mentioned, it's on the homepage if you scroll down on the left-hand side of the page.

I'd like to start today's call, especially for those unfamiliar, by reminding our shareholders and potential shareholders exactly what makes Snap Interactive special, and exactly how we've been able to operate in such an intensely competitive arena for so many years.

Our mission is to be a leader in delivering live video social experiences in a mobile world. Through our product, Paltalk, Camfrog, Tinychat and the recently announced Camfrog Live Service, we host one of the world's largest collections of video chat communities, as outlined on Page 5 of the presentation. Through these services and our interactive dating properties, we also host millions of users per month across 180 countries. Our users, many of which are premium long-time subscribers, access our platform of properties to meet people, share common interests and find entertainment.

Our users also look to us to bring new experiences such as Camfrog Live to their social interactive community. In a world of progressively more commoditized technology and consumer distractibility, that loyalty matters. In a world where AOL Instant Messenger fades away, Paltalk and Camfrog's committed users continue to open their wallets and stick with us.

The value proposition we offer users through our video-enabled social networking app is entertainment and a human connection. As detailed on Page 6, this value proposition is founded on a live video technology basis in which the Company has invested tens of millions of dollars over more than a decade, in the process accumulating 26 issued patents. With this technology base, our millions of network-wide monthly active users and our ability to internally fund growth initiatives, we have a strong position upon which to build new social video applications in our Innovation Lab, drive growth as well as to support the core legacy product.

Highlighted on Page 7, the Innovation Lab is presently building out three initiatives, each addressing multi-billion dollar market opportunities. The first, a live streaming entertainment experience where amateur broadcasters can connect with fans, is now launched as Camfrog Live.

Secondly, we are developing a video-enabled group messaging app for which we are approaching full launch in Q4 2017.

Lastly, we are building video communication capabilities for our core dating application, FirstMet, which is a novel approach in the interactive dating industry.

Though not all of the experimental projects borne out of the Innovation Lab are certain to yield commercial success, we believe continuous product experimentation will help us stay at the forefront of live video consumer experiences.

Consistent with that commitment to innovate, the recent rollout of live streaming via Camfrog Live represents the most significant product launch in recent memory. Our core Camfrog platform historically allowed users to connect on a many-to-many basis, whereas now Camfrog Live creates a one-to-many broadcast platform for both amateur and established content creators, who now have the ability to share in virtual gift revenues generated by their fans. This is emulating a live streaming model that has become a multi-billion dollar business in Asia, and we now join the ranks of industry players like Momo, Ego.Live and YouNow with comparable features.

With the launch announced only last week, we are encouraged by the early consumer reception and the broadcaster adoption of Camfrog Live, and in 2018, we intend to rollout live streaming capabilities on Paltalk as well.

Page 9 in the presentation reviews some of the other business highlights from the quarter. In addition to the work on the soon-to-be commercially launched group messaging app, we launched 50more, a dating application for singles 50 and older. This niche is one of the fastest growing segments of the interactive dating industry and we benefit from significant cross-sell opportunities from FirstMet's audience to help to hold 50more's network.

We also invested R&D in blockchain, identifying opportunities for our business such as new product, partnerships and strategic transactions built on this revolutionary new technology. Our first step back in July was to accept bitcoin as payment for Camfrog and Tinychat, but look for more pronouncements on this in the near future.

Finally, we outsourced our ad sales and ad operations efforts to a third party agency with the expectation of driving better overall performance on the advertising revenue line.

Before we move on to financials, I want to underscore the focus of the Company going forward, as outlined on Page 10. True to our mission, we intend to continue to innovate when providing live video social applications by investing in our core products and leveraging new trends in the market, such as live streaming, to make product enhancements. We also are experimenting with new business approaches and technologies such as group messaging, video dating and blockchain, and while there is a continual internal effort to improve monetization, we also see Snap as a consolidation platform and believe acquisitions will be a catalyst for increasing shareholder value.

With that, I'll hand it over to Judy for the financial update.

Judy Krandel:

Thank you, Alex, and thanks to everyone joining us today on the call. Before I begin I'd like to remind everyone that on October 7th, 2016, we completed our previously announced merger with AVM Software. The merger has been accounted for as a reverse merger under the acquisition method of accounting for business combination, with AVM being treated as the accounting acquirer of Snap. Accordingly, the financial results I will discuss reflect the operations of AVM for the third quarter of 2016 and the operations of the post merger company for the third quarter of 2017.

During our third quarter we experienced external events which were one-time in nature including ultimately deciding not to move forward with a major M&A event, a one-time disruption at a major reseller

and learning curve costs associated with outsourcing advertising sales and operations. Although we felt financial impact of these one-time events, the root causes are now in the rear view mirror and we are back to our forward progress from an operations standpoint.

I'd like to begin reviewing Snap's financial performance for the third quarter. Turning to Slide 12, we outline our financial highlights that I will now get into in more detail. As shown on Slide 13, total revenues for the third quarter 2017 were \$5.9 million, up 27.5% from the same period last year. The increase in revenues from the prior year was predominantly due to the contribution of pre-merger Snap. Revenues for the quarter were comprised of \$5.4 million from subscriptions and \$480,000 from advertising. Subscription revenue grew 30.2% from the prior period, also due to the contribution of pre-merger Snap. This was offset somewhat by a decline in subscription revenue of approximately 17% from products attributable to pre-merger AVM.

We believe that this decrease was driven in part by a decrease in new transaction revenue in the Paltalk product as we allocated increasing resources to new, higher growth opportunities in the live video market. We believe the decrease was also the result of a decline in our international markets, particularly for Camfrog in Southeast Asia where there was a disruption in payment processing by our primary reseller in the region that led to reduced revenue. The reseller has since opened up additional processing channels and we anticipate total reseller revenue in the region to rebound.

Turning to Slide 14, Adjusted EBITDA in the first quarter was a loss of \$1.1 million as compared to a gain of \$71,000. Our Adjusted EBITDA during the quarter includes one-time expenses of \$604,000, primarily related to the proposed LiveXLive merger and a one-time payroll tax expense related to the AVM merger.

Net cash used in operations was \$1.3 million as compared to cash generated from operations of \$407,000 last year. Cash flow from the core businesses helped fund growth investments and our launch of Camfrog Live.

Turning to Slide 15, as of September 30, 2017, we had \$3.3 million in cash and cash equivalents and zero debt. Cash decreased from December 31, 2016 by approximately \$862,000.

Moving on to Page 16, we highlight our merger integration efforts. Since the start of 2017, our merger integration focus has enabled us to streamline the business and improve efficiency without affecting productivity. We have reduced annualized expenses by over \$3 million, the full effect of which will be realized in 2018.

Snap continues to be in a strong financial condition. Additionally, we have an approximate \$7 million net operating loss carry forward, a valuable asset which should allow us to minimize tax expense for the foreseeable future.

Although we plan to selectively invest in additional people and resources to grow our business, we will continue to focus on self-sustainability, profitability and cash flow. With that said, I'd like to turn the call back over to Alex.

Alex Harrington:

Thank you, Judy. In closing and before we open the call for questions, I'd like to underscore our excitement about the opportunity ahead. Our investment thesis is simple: As a player in live video social applications, we're in a large market with explosive growth potential. We have a technological, commercial and financial platform that we believe gives us a competitive advantage in this growth sector, and with the launch of live streaming via Camfrog Live, we are in the process of expanding our existing businesses and building new businesses to capture this growth wave.

In addition, we have a successful track record of leveraging acquisitions for a strategic and financial springboard and we are actively seeking M&A transactions.

For investors who want to place a bet on Internet live video, to our knowledge we're the only company that has made it their core focus.

We look forward to further communications with our shareholders. With that, I'll turn it over 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 speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star, one to ask a question.

We'll take our first question from Maria Marin with Zacks.

Maria Marin:

Thank you. Just a couple of housekeeping questions at first. First of all, since the merger was terminated just only recently, should we expect to see additional one-off charges in the fourth quarter?

Judy Krandel:

Thanks so much for the question. There will be some expense associated with the merger in the fourth quarter, which we will highlight as those are concluded.

Maria Marin:

Okay, and just to make sure that I understood, you said that the international disruptions that you had seen, particularly in Southeast Asia, that's been addressed and that's been adjusted and hopefully we won't see any more of pressure on international, or at least reduced pressure on international going forward. Is that correct?

Judy Krandel:

Yes. We did have a particular event with one reseller in the Southeast Asia market. They primarily did payment processing through PayPal and had some issues with that channel. That reseller has opened other channels. We have other resellers in the region as well, so that particular issue is behind us.

Maria Marin:

Okay, great. Thanks. Can you talk a little bit about—very exciting with Camfrog Live. Can you talk a little bit about it's early, early days, probably too early to discuss what you're seeing, but if you beta tested it what your sense is right now as to the traction you expect to get, and then your strategy for extending that functionality to your other brands. Thank you.

Alex Harrington:

Sure. I'll take this one. Thanks again for the question. We announced the launch of Camfrog Live last week so it's really early days. We're very pleased. We shared a little bit of early traction in the first couple of days of its performance in the deck, but it's very early days.

What I'd say is we are very hopeful about the potential here as we've seen figures that indicate that live streaming is in China alone about a \$3 billion business, and there are competitors that operate in other parts of the world. Camfrog largely operates in Asia so it's sort of ground zero for that market, and so we're very hopeful that this can be an engine of growth. It's embedded within the Camfrog product which is already a thriving video chat community, so we have an existing base of users that are already coming to Camfrog seeking an entertaining social experience and this just gives them another reason to stick around, more options, just offers more traction and more monetization opportunities.

So, we're very hopeful that the growth opportunities for that, for the Camfrog live initiative. We see—since the model for our video chat products, Paltalk, Camfrog Live and Tinychat, they're all very similar in that people are coming for a social video experience. They're sort of interest based, social interactions. The Camfrog Live experience can be migrated to Paltalk and Tinychat as well, and so we're really just getting our feet wet and we can see this expanding across the portfolio of apps, and that's an even greater growth opportunity when you think about that kind of expansion.

Maria Marin:

When you talk about additional monetization opportunities, you mentioned in the deck fans can send gifts. Some of the monetization that you're expecting, is that through fans interacting with the broadcaster or the talent or the host that they're interacting—with whom they're interacting?

Alex Harrington:

That's exactly right. Presently, or I should say before the launch of Camfrog Live, users would interact in chat rooms with other users and would make friends or show appreciation by sending each other virtual gifts or stickers. That was all sort of peer-to-peer and all of the revenue would go to Camfrog and to Snap Interactive. Now there's a new methodology for users to expend their virtual gifts or their virtual credits, expend them on virtual gifts. They now can show appreciation and become fans of some of the amateur broadcasters on Camfrog Live and it's just another opportunity for them to burn the credits that they buy and therefore buy more credits.

In the case of Camfrog Live, there is a revenue share with the amateur broadcaster, but we see that as a net benefit because that just creates an incentive for that broadcaster to be more entertaining and to create more content, and also a lot of these—I mean the way that we recruit these broadcasters, we find people with large social media followings and so what we're—but the general thrust of it is we're hoping and expecting that these users will be able to monetize their social media following better on Camfrog Live than any other social media platform they operate on, and so will ultimately urge their following to join, to download Camfrog and become Camfrog users.

Maria Marin:

Because you're incentivizing them to utilize Camfrog.

Alex Harrington:

That's right.

Maria Marin:

Just the last question, based on your research or based on what you seen in other markets, do you have any—not a specific number, but any broad sense of what the market opportunity for that is?

Alex Harrington:

Well, we've seen in Asia research that suggests that it was a \$3 billion market—I'm sorry, in China specifically a \$3 billion market and growing from there. It is such a new market that there's not a lot of research in other parts of the world or globally, but we would expect just based on what we've seen there are companies operating in the Middle East, in Europe, in other parts of Asia, so we'd expect this to be significantly larger than that \$3 billion market in China alone. So it's a very large market; it's grown very fast. It really went from zero in the last three or four years, so it gives us a lot of headroom for growth, let's put it that way.

Maria Marin:

Right. Okay, thanks so much.

Alex Harrington:

Sure, of course.

Operator:

Once again, if you would like to ask a question, please press star, one.

It appears there are no further questions at this time. This concludes today's call. Thank you for your participation. You may now disconnect.