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Snap Interactive, Inc.

First 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

Michael Pritchard, *Associate, Haynes and Boone, LLP, Company Counsel*

Alex Harrington, *Chief Executive Officer and Chief Financial Officer*

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

Operator:

Good day, and welcome to the Snap Interactive First 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.

Michael Pritchard:

Thank you. Good afternoon, and welcome to the Snap Interactive 2016 first quarter earnings and business update call. Again, my name is Michael Pritchard, and I am with Haynes and Boone, outside counsel to Snap.

Earlier today, Snap issued a presentation to accompany this call. The presentation can be accessed in Investor Relations section of Snap's website snap-interactive.com under the Events and Presentations tab. It is also available on the left side of the snap-interactive.com Home Page under the heading Snap Q1 2016 Earnings Call and Business Update.

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, are forward-looking statements. These statements reflect the good faith beliefs and judgments of the Company and are based on 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 Risks 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 and bookings. Adjusted EBITDA and bookings have been calculated consistent with the manner in which they are defined in the Company's periodic reports filed with the Securities and Exchange Commission. Each of these measures has been reconciled to the nearest applicable GAAP measure in the Company's earnings release, which is available in the Press Releases section of snap-interactive.com.

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

Alex Harrington:

Thanks, Michael, and thank you all for joining us on today's call. As Michael mentioned, I encourage you all to access the Q1 2016 earnings call presentation available on snap-interactive.com. The easiest place to find it is on our Home Page if you scroll down on the left hand side.

Today I will review Q1 highlights and share updates on our growth strategy for 2016 and beyond. Those that have the presentation open, can flip forward to Page 5 and I will pause for a moment just for those who are getting the presentation now.

Great. Starting now with Snap's Q1 2016 Highlights. I'll first cover the strategic objectives in general and then those for the quarter. You may recall, for those following the Company that in 2015 we did performed a strategic review where we determined that Snap's 30 million user database, which is one of the largest in the industry, was an untapped engine for growth, and the best way to tap that growth was to develop a portfolio of products to address a fragmented consumer market with an array of strong brands. What's important about this strategy is that it fuels growth in a capital efficient way, leveraging the assets that we already have, and provides an opportunity for a step change in revenue through cross-selling products.

In Q1, the focus was both strategic and financial. On the financial side, the objective was to reverse the 2015 trend of declining revenue and bookings, and to cut expenses to manage down cash burn, in particular since Q1 is typically the most cash intensive quarter. On the strategic side, as we've previously discussed on prior earnings calls, the rebranding of the core product in March was a big objective for the quarter, as was the re-launch of our mobile app. In addition we've added a third Independent Director to our Board, Judy Krandel who's been a huge asset and now we have a majority of Independent Directors on the Board.

So let's cover the financial goals, starting first with revenue, if you move to Page 6. Total revenue was approximately flat on a sequential comparison. On a base of about $2.7 million, it decreased about $42,000 sequentially from the fourth quarter. As compared to Q1, 2015, we were down approximately 16%, though we believe that to be principally a function of lower investment in advertising, which decreased a full 33%. So in light of the budget cuts we believe that revenue held up quite well and are encouraged to see it level off on a sequential basis, which is a necessary precursor to growth. But we're seeing exciting underlying trends behind the revenue in performance.

So if you advance to Page 7, bookings, which are a non-GAAP stat very closely related to revenue, have already reversed the downward trend. We believe this is driven in part from reactivations of the user database as a result of the rebranding. In Q1 bookings grew 3.3% over Q4. Bookings are reconciled against GAAP revenue later in the presentation but a simple way to think about them is that they are the real time receipts from subscription sales. We think of bookings as a leading indicator of GAAP subscription revenue. So bookings have been up and we haven't mentioned advertising revenue. That's covered on the next slide.

Advertising revenue; Q1 marks the fourth consecutive quarter of growth in advertising revenue. So we captured about $170,000 of ad revenue in Q1 2016 which represented 199% growth over the comparable period in 2015, and we saw sequential quarterly growth of about 15%. These ads came simply from more ads and more advertisers, just a bit of a more increased focus on advertising revenue.

Moving on to Slide9, we cover expense management. So as I mentioned Q1 is typically the most cost intensive quarter. We have the year-end audits, staff bonuses and other annual payments. This year we were particularly successful in expense reduction. We reduced Q1 total expenses by nearly $1.2 million as compared to Q1 2015. So as a frame of reference, in the full year 2015 we were pleased that we had cut expenses over 2014 by $1.9 million, and here in the first quarter of 2016, we've cut over 60% of that figure relative to the comparable period of the prior year in the first quarter alone. So we're pleased with that level of expense management. What that's done is it's driven, even in light of the fact that the year-over-year comparison to revenues is unfavorable, EBITDA improved by $474,000 when compared to Q1 2015, almost $0.5 million in the first quarter alone.

On Slide 10, we discuss cash flow and balances for Q1. So along with the expense reductions we cut Q1 cash consumption dramatically relative to Q1 2015 by about $772,000, comparatively or 73% of the cash burn was reduced. We ended the quarter with cash of approximately $1.8 million. A big focus now is seeking a financial or strategic alternative to refinance, restructure or retire the convertible debt on our balance sheet. But with continued lean operations, we believe that the cash resources that we presently have are enough to support the growth initiatives that we've talked about in 2016. So that covers the financial objectives and highlights for the quarter.

Moving on to Slide 11, we turn to the strategic deliverables. I've talked before on the prior earnings call and through press releases about the rebranding of FirstMet that we deployed back in March. Up to this point, the results of the rebranding were still rolling in, but we're pleased to show some tangible benefits from this initiative, and there are two that I'll highlight in this presentation. On Page 12, we cover user reactivations. The rebranding has been successful in reinvigorating the user data base, which is one of the core reasons why we undertook this project. In the chart on Page 12, you can see the number of daily reactivations of inactive users. So following the rebrand, there was a spike in reactivations. That's to be expected, but what we are pleased to see is that the reengagement of users that have churned out of the product has been sustained at a higher level consistently since the rebrand. So we believe that the reengagement of inactive users has had a positive ecosystem effect within our service and it's supported the growth in bookings that we experienced.

Moving on to Slide 13, another outcome of the rebranding, or another expected outcome was that our advertising investment would be more effective with a stronger brand. We thought that was going to be a long-term benefit that would take months to measure that effect. But fortuitously we were wrong, it actually only took a few weeks to measure the affect and the signs were good. Arguably the most efficient marketplace to examine this is Google Adwords. So what we did was we examined how effective our text ads on Google Adwords were through this channel before and after the rebranding based on non-branded keywords like dating.

So in the first four weeks following the rebranding we're already showing a 27% improvement in click through rate, which means that when we debuted our new FirstMet ads, and they were served to users through Google's Ad Networks, they were drawing more interest from viewers than our prior ads had been before, using our old branding. What we find from that is that when your click through rate goes up, did that, that ultimately tends to reduce your cost of acquisition. So that was another major focus of the rebranding. It's gratifying to see that playing out and we expect to see a similar improvement across our other ad channels over the longer term resulting in greater marketing efficiency.

Moving onto Slide 14, we've also discussed that we rebuilt and relaunched the FirstMet mobile app in February and March. So this has been an enormous undertaking and it was very—it was great to see them get to market. The rationale for the relaunch was principally just because the new technology underlying these apps would be much easier to iterate on and improve over time, just leverage the same technology as we use for our other products, so the same developers can do it and it would just require a whole lot less overhead to maintain and improve. Given that our focus is on mobile going forward or big focus is on mobile that was critical. But what we're starting to measure is some additional benefits from relaunching the apps that we didn't necessarily anticipate that we would feel right away.

There are a whole host of improvements, the apps crash less often, their features have been conformed across platforms, but on Page 15, we found that particularly with the iPhone app, since we relaunched the app in the beginning of March, that users have a greater tendency to convert to paid subscription. In fact, it's a pretty significant effect about a 32.5% increase in conversion. With every change we make to the apps we are always seeking to improve the user experience or increase the percentage conversion to paid. But we were surprised and very pleased to see at the relaunch of the iPhone app such an immediate and pronounced benefit, and we believe that contributed to the positive results in the first quarter.

Now let's turn to the growth strategy, starting on Page 17. So we covered our growth strategy in past press releases and earnings calls, our long-term growth strategy is just that. It's something that we will live with for a while. So I am not so much introducing the growth strategy to many of you who have heard it before, but rather giving an update on it.

So we have this four-pronged strategy that's designed to leverage our existing assets to drive capital efficient growth. Performing well in any one of these initiatives could be transformative as a Company, but we're aiming high. We have four initiatives all of which are super valuable. So the first of these initiatives, the rebrand has been principally completed. But we expect to get value as, I discussed, over the longer-term as the strength of the new brand starts to resonate with users and lower acquisition costs.

Moving on to Slide 18. The new product intro is a very large focus of our time right now and one that we think might be sort of single-handedly the biggest contributor here to the economics of the business. It's the next step in our portfolio strategy with two or more applications. With the revenue generation properties similar to FirstMet, our core product, there is an opportunity for a step change in revenue.

Our FirstMet product platform is presently being adapted to accommodate more than one product, which is the underpinnings of what we need to do to launch this new product. When we launch it, we expect additional subscription revenue to be fuelled by cross-selling the user database, selling FirstMet users on to the new product and vice-versa. That incremental revenue will principally drop to the bottom line, because it leverages the assets that we already have. So we expect this new product to hit the market in Q3 2016.

Moving on to the next page, International. I have mentioned before that the dating market is about 50% US, 50% overseas and much of that International market is not English speaking. We've never played in any of that marketplace because our app has traditionally only been available in English. So we've launched the app in Spanish. We're performing tests in several Spanish-speaking countries as well as making it available to a very significant number of users in the US who prefer Spanish. But we are also performing tests, sort of dipping our toe in the water, in four additional languages to assess the cost of user acquisition and the economic potential of translating into these other languages and tapping into these new markets versus the overhead of supporting the translation, simple cost benefit analysis. But we're very much underway in this and we expect international initiatives to contribute to growth in the third and fourth quarters.

The final growth strategy I want to highlight is the shift emphasis to mobile. We talked about the launch of the new mobile apps. We are already under—we're already well underway in driving this strategic initiative. But getting this right is critical for growth, but it also represents a big opportunity. So we are presently optimizing our relaunch apps and we have shared some of the good results we have already experienced but soon we'll be building on mobile-specific features and concentrating on making the apps more discoverable in the app ecosystems in which they live, the App Store and Google Play, for example, and appealing to new users for—and just making the apps more appealing for user acquisition.

Mobile is under-represented in our marketing spend relative to its weight in the overall media available to us. So we expect to shift more resources towards mobile, as we follow through on these initiatives. In the first quarter, about 56% of our usage was on mobile platforms and that figure, we're also looking to see grow. It will grow organically because that's just where the market's going, but we want to get ahead of it. Why is that so important? Well, user adoption is shifting to mobile and we need our strongest products to be on these high-growth platforms, to be able to leverage those growth trends. So that covers the growth strategy and concludes my prepared remarks. If you flip forward, the GAAP reconciliations are available for your reference. At this point now, we can take questions.

Operator:

Thank you. If you'd like to ask a question please signal by pressing star, one on your telephone keypad. If you're using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again that's star, one to ask a question. We will pause for just a moment to allow everyone a change to signal.

Alex Harrington:

I believe we have one question that came in, in advance of the call over email. Michael, could you read them on behalf of the Investor who submitted the question?

Michael Pritchard:

Yes. In fact, the question is a two-part question. So part one is, has Snap's business development agreement with Match.com expired, and would Snap consider entering into other similar agreements in the future? Part two of the question is, Tinder seems to dominate the segment of the dating application market comprised of teens and 20-some things. As a result, is FirstMet targeting the huge segment of the market comprised of people aged 30 to 50?

Alex Harrington:

Thank you, Michael. So thank you again for submitting the questions. I'll take the first one first about the business development agreement with Match.com. So I think that's referring to an agreement that we had, and that we extended back in 2014. It was a fairly significant revenue generator. But it was also fairly restrictive. It was a more or less exclusive arrangement to make our advertising inventory available to Match and its partners or its affiliate sites and we found that it was rather constraining and in some ways, disadvantageous to us in terms of our business flexibility. We chose to terminate it in favor of some other partnerships, one with Zoosk and more recently, we've had advertising arrangements that are on a more arms-length basis, both with Match and other competitors on the premise that we can still derive advertising revenues as we've seen that mounting (phon) quarter-over-quarter pretty consistently, but that we have more flexibility to operate our business the way we would like.

There can be cannibalization in terms of providing ads for competitors on our product and presenting those in the same context as presenting our own upgrade offer. Generally, our own upgrade offer is a better place to direct our users' attention. So to avoid that type of cannibalization, we typically, we just need to have the flexibility of displaying ads in the way that we want with the partners that we want. So we still have a relationship, an advertising relationship with Match Group. We have with several other players and other ad networks and we're always open to business development arrangements, but in particular, we're sensitive to that business flexibility that I discussed.

The second part of the question was about where our focus in the market is and indeed Tinder is very strong in the teens and 20-somethings and it's very popular, increasingly popular across the age spectrum. But as the person that posed the question stated, our focus with FirstMet is targeting a very large and growing segment of the market, which is 35 plus. I don't know that we have a strict sort of upper bound to the age limit, but we focus on 35 plus because there is a segment of the market that essentially wants to be in a pool of daters that doesn't include 20-some things who have a very different objective in their dating patterns and to some extent, those audiences don't mix.

So people want to appreciate the fact that it's a more mature audience, which excludes essentially the kids. We also find that we like that market because user adoption is increasing very rapidly, particularly in the segment in the sort of 50s and 60s, and then our user audience is targeted in the late 40s, early 50s; our average subscriber is right around age 50. So yes, we're going after that market, we like that market very much because there is a higher tendency to convert to paid, there are fewer options and users have a greater—tend to have a greater intent that lends itself to a premium product like ours. So that's what we're focused on absolutely.

Operator:

As a reminder that's star, one on your telephone keypad to signal for questions. Again we'll pause for just a moment. It appears we have no questions at this time. I'll turn the call back over to Alex Harrington for closing remarks.

Alex Harrington:

Well, thank you, all for joining today's call. If there are any follow-up questions after this call, feel free to email ir@snap-interactive.com and I would be happy to be responsive. I look forward to keeping you all posted on our progress and thanks again.

Operator:

That concludes today's conference call. We appreciate your joining.