



Snap Interactive, Inc.

Third 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

Alex Harrington, *Chief Executive Officer*

Michael Pritchard, *Company Counsel*

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

Operator:

Good day, ladies and gentlemen and welcome to the Snap Interactive Incorporated Third Quarter 2016 Earnings Conference Call. Please note 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 Snap Interactive 2016 third 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, we issued a presentation to accompany this call. The presentation can be accessed on the Company's website, 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 operations following the completion of its merger with A.V.M. 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 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 total expenses, excluding non-recurring expenses related to the Company's merger with Paltalk. 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. The Adjusted EBITDA and total expenses, excluding non-recurring merger-related expenses, have each been reconciled for the nearest applicable

GAAP measure in this presentation and 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.

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

Alex Harrington:

Thanks, Michael and thank you all for joining us on today's call. I encourage you all to access the Q3 2016 earnings call presentation, available on www.snap-interactive.com. As Michael mentioned, it's on the home page, if you scroll down the left-hand side.

So, for today's agenda, first, we'll discuss some of the highlights of the merger and then move on to Snap's operating result for the year-to-date. Right now, I'll pause for a moment while all attendees get the deck in front of them and flip forward to Page 5.

Great. So, those of you who have been following the Company are aware that we announced a definitive agreement to merge with Paltalk on September 14 and closed the deal on October 7. Because the merger closing happened in Q4, the Q3 financials reported here and in the 10-Q still reflect Snap on a pre-merger basis. The disclosure of Paltalk historical financial statements and the pro forma financials for the combined Company will be released in December in an 8-K.

So, the financial reporting now only represents a portion of the combined Company and full information is still several weeks away. However, before we get to the financials I would like to present an overview of the merger and the highlights of the combined Company.

Moving on to Slide 6, we'll review some aspects of the corporate and cap table impacts of the merger. The merger could be described technically as a reverse acquisition, because Snap was the smaller of the two companies on an enterprise value basis. Though Snap acquired Paltalk, Paltalk's Shareholders own the majority of the combined Company that resulted from the merger. The merger was accompanied by important events that, one, cleaned up the cap table, such as the exchange of warrants for common stock, and that two, eliminated restrictive and expensive debt when immediately following the merger, Snap's \$3 million convertible note was paid off. A few members of Snap's pre-merger Board joined the new seven-person Board of the post-merger Company, which now has four Independent Directors.

Next on Page 7, we share a description of the two newly combined businesses. Though we will disclose much more information in the upcoming 8-K, we can share now at a high level that Paltalk operates live video chat communities on desktop and mobile, that facilitate virtual face-to-face interactions between individuals and groups. The Company operates six products. This is Paltalk now as a standalone, operates six products, with a product also named Paltalk as its flagship service. Most notable is the scale of the user database of the combined Company. We estimate the combined user database exceeds 250 million, which is a testimony to the historical reach of the products and it presents attractive future commercial opportunities as well.

Moving on to Slide 8, we will review the makeup of the new Executive Team. I'm really excited with the Executive firepower now that we have at the post-merger Company. I'm joined on the Board and in the Executive Suite by two extraordinary entrepreneurs, Jason Katz and Cliff Lerner, who will have the Management functions, President and COO, for Jason as well as holding the Chairman position, and for Cliff, Chief Product Innovation Officer. Jason was an early innovator in the 1990s in social chat applications, which ultimately built the Paltalk Enterprise that we recently merged with and Cliff was one of the earliest and most successful in realizing the potential of the Facebook platform in building a dating community.

I'm also joined by two strong Paltalk veterans, in Eric Sackowitz, as CTO and Arash Vakil as the Chief Product Officer. Their talents greatly increase post-merger Snap's execution bandwidth.

Finally, we've announced that we've kicked off a CFO search to round out the team with a fulltime Executive in that role.

The next Slide 9, highlights some of the benefits of the merger. We pursued the merger because it made a lot of strategic sense and I'm going to cover the integration business initiative shortly. But right now, I wanted to highlight some of the immediate and tangible benefits of the merger. Pre-merger, Snap had \$3 million of debt with a looming debt maturity in February 2017. Post-merger, that debt is now repaid. We hope pre-merger Snap had a small revenue base, which made it challenging to be profitable, to support -- in supporting public Company overhead. We now have a combined revenue estimated at around \$30 million for the post-merger Company which can better support a public Company, overhead better realize the benefits and potential of being a public Company.

On a pre-merger basis, we suffered severe capital constraints and now we have ample cash to support growth. We had onerous debt service obligations and restrictive debt covenants that are now gone. We had at Snap before the merger a single revenue-producing product though we were building a portfolio. At present, all our eggs were in one basket. Now there are five revenue producing products and an overall portfolio of products that's larger than that.

On a pre-merger basis, we also had a very complicated capital structure with warrants and convertible debt and now there are no warrants, no convertible debt. It's much simpler and easier for Investors to understand. Finally, pre-merger Snap had no issued patents, and as part of the deal, working together with Paltalk, we now have 25 patents in the portfolio with exciting licensing income opportunities.

Moving on to Slide 10, we now address some of the strategic growth opportunities. There are three aspects of the integration, which I believe will bear fruit in the relatively near term in generating more revenue efficiency off of the Company's existing assets, the combined Company. One is best practice sharing. Both companies do certain things at the top of their field. On the pre-merger Snap side, it's using data to make better business decisions. On the Paltalk side, it's world-class technology particularly in its multi-user video delivery. These and other areas are places where we're looking to share best practices to improve both businesses.

Next, there are cross-sell opportunities, the companies address overlapping audiences and the user databases are very large. That represents a really big opportunity to generate additional revenue by promoting the portfolio of product across the user base.

IT licensing is the next opportunity, we touched on it before. Company has a portfolio of 25 patents, principally related to video conferencing and video game technology. Paltalk has historically generated tens of millions of licensing income, tens of millions of dollars of licensing income based on the strength of these apps. So, that's an interesting opportunity for sure.

We see a big opportunity as well in integrating live video chat into interactive dating to create a superior user experience. That's now on our product roadmap, to essentially merge what Paltalk does best with what Snap—pre-merger Snap does best.

So, on page 11, we're also pursuing a number of financial related initiatives. We mentioned prior that we're hiring a full-time CFO to replace my Interim role in that function. That's going to give us a lot more Management firepower to take a proactive approach in the capital markets and that's going to feed into the next point, which is we're taking this step and other initiatives, now let us get to our goal of trading on the National Securities Exchange.

Finally, there continue to be many private businesses for sale in the interactive dating industry. We believe that being a public Company, especially a larger public Company as we are now relative to before, enhances our attractiveness as an acquirer to these companies. We will be keeping our eyes peeled for strategic opportunities that add to the scale of the business both on the revenue and EBITDA lines.

Next on page 13, we'll turn to Snap's financial performance in Q3 and the year-to-date 2016. Again, except where specially noted these financial results relate only to pre-merger Snap Interactive, which now only represents a portion of the combined Company's financial results.

So, if we are on Slide 13, we'll first discuss Snap's balance sheet highlights at September 30, 2016. If you look at the left side of the page, you'll see that we had 1.5 million of cash and \$3.2 million of debt at the end of the third quarter, and \$3 million of that debt was due in February 2017. On the right side of the page, we show a pro forma of the balance sheet highlights of the combined Company at June 30 2016. These are the only stats we've shared to-date, so forgive me if we're comparing two different quarters on one-hand, September 30, on the other hand in June 30, but I believe it's still helpful.

At June 30, if the two companies were combined at that date there would have been approximately \$7.9 million of cash and \$3 million of debt. As previously announced, all debt was paid off in October shortly following the merger closing and we believe this surplus of cash flow plus the absence of restrictive debt covenants will help the Company achieve its strategic objectives and help fuel growth.

On the next page, we'll look at revenue. So, on page 14, we see revenues for the nine months year-to-date 2016 are down 16.1% as compared to the same period in 2015. This decrease was roughly in proportion to the decrease in advertising spend, which was 15.2%, especially when you factor in the effect of adverse changes in foreign currency exchange rates. As I've said before, we believe revenue for FirstMet, our flagship dating product is sensitive to shift in investment in advertising, which is how we attract most of our new users. The capital constraints Snap was under before the merger made it necessary to cut advertising expenditures very heavily.

Looking forward, with our stronger balance sheet we expect to be able to scale investment and advertising appropriately to suit the opportunity, which should help promote growth.

Next we'll turn to total expenses on page 15. Year-to-date total expenses decreased by 14% when compared to the same period in 2015, a product of continued cost control. This includes the impact of approximately 415,000 of non-recurring merger related expenses. If you exclude the non-recurring merger related expenses, total expenses went down by 18%, which is a greater decrease than the revenue decrease for the same period.

Moving on to Slide 16, we look at EBITDA. So, EBITDA for the nine-months 2016 year-to-date was down significantly. But again, if you take into account the effect of the non-recurring merger expenses, the decrease in the year-over-year comparison is \$49,000.

Moving on to the Slide 17, here we look at cash flow from operations. Net cash used in operating activities was negative for both periods, both 2016 and 2015, for the first nine months of the year. However, the business consumed 283,000 less in cash in the nine months ended September 30, 2016 than in the comparable period in 2015. We believe the scale of the pre-merger business made it challenging to generate cash from the business while supporting public Company overhead. The post-merger Company with its larger revenue base is better to realize both the benefits of being public while able to absorb—having the resources to absorb the costs of its public obligation.

So, before concluding, moving on to the next page, we're now on page 18. I wanted to reiterate what we believe to be the benefits of the merger for the financial outlook of the Company. First, we had a stronger

balance sheet, now without onerous debt service obligations, restricted covenants, dire capital constraints, we believe that we have removed major hurdles for growth and cash generation. Secondly, clearing out the warrants from the convertible debt clarifies the cap table for Investors.

Next with the larger scale of revenue, we have a more valuable, what we believe to be a more valuable enterprise, which we expect will increase our appeal as an investment opportunity, and revenue synergies as well across the businesses which—such as cross-selling which we believe is a low hanging fruit to drive incremental revenue.

Diversification is another benefit. We now have revenue from five products and two industries as well as IP monetization potential. This diversification lowers risk and increases opportunity which feeds into the next point, which is that with few strategically aligned companies operating together we now have more new and existing product growth directions available to us. We're really excited about that.

Finally, we believe our new stronger Management Team, will allow us to execute faster and better on those strategic opportunities with a greater chance of hitting our strategic objectives.

So, that concludes my prepared remarks for today. Holly (phon), I'm now ready for any questions.

Operator:

Thank you so much, Alex. Ladies and gentlemen, over the phone lines, if you would like to ask a question, please signal and press star, one on your telephone keypad. If you're using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. Again, press star, one to ask a question. We will pause for a moment to allow everyone an opportunity to signal for questions.

Again, that's star, one to ask a question at this time.

Gentlemen at this time we have no questions in the queue. I'll turn the conference back over to you for any additional or closing remarks.

Alex Harrington:

Well, thank you all for joining this afternoon. I'm appreciative of your interest in Snap Interactive. We will continue to keep you posted on our progress in future quarters and as events unfold. Thanks again for joining.

Operator:

Thank you, and again that does conclude our conference for today. We thank you for your participation.