Zacks Small-Cap Research

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Snap Interactive (STVI-OTC)

STVI: Company Terminates Merger Agreement

Yesterday Snap Interactive announced that it had terminated its merger agreement with LiveXLive Media because certain conditions of the agreement had not been met by the deadline. We believe that LiveXLive Media's bid for the company underscores the value of Snap Interactive's technology platform and its prospects.

OUTLOOK

Technology company Snap Interactive operates several prominent social networking and interactive dating applications that allow people to share live video. With the merger agreement terminated, Snap can move forward with its original growth strategy, which is focused on mobile, strengthening its existing products and launching new social, video and dating apps within those products and developing new live video social and dating apps.

Current Price (11/1/17)	$2.20
Valuation	**$5.00**

SUMMARY DATA

52-Week High	**$7.31**
52-Week Low	**$2.05**
One-Year Return (%)	**-67**
Beta	**1.73**
Average Daily Volume (sh)	**2,036**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$14**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**20**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2017 Estimate	**N/A**
P/E using 2018 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**Small-Value**
Industry	**Internet-Contnt**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015					NM
2016	5 A	N/A	N/A	N/A	21 A
2017	7 A	6 A	7 E	8 E	28 E
2018					30 E

Earnings Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015					NM
2016					NM
2017	($0.15)	($0.22)A	($0.09)E	($0.01)E	($0.48)E
2018					($0.12)E

Quarters might not sum to annual reflecting rounding.

Disclosures begin on page 11. **N/A**

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KEY POINTS

- In September, LiveXLive Media agreed to acquire Snap Interactive. LiveXLive is a leading premium streaming network devoted to live music and music-related video content.
- Yesterday, Snap Interactive announced that it had terminated the merger agreement because certain conditions had not been met by the October 27, 2017 deadline.
- Snap can now move forward with its original growth strategy, which is focused on mobile, strengthening its existing products and launching new social, video and dating apps within those products and developing new live video social and dating apps.
- We also believe the proposed acquisition by LiveXLive underscores the value of Snap Interactive's technology platform and its growth prospects. LiveXLive's approximate $34.0 million offer was in-line with our roughly $5.00 per share valuation analysis of Snap Interactive.

SNAP TO PROCEED WITH GROWTH STRATEGY

In September, LiveXLive Media, Inc. agreed to acquire Snap Interactive, which operates leading live video social networking and interactive dating applications. LiveXLive made a roughly $34.0 million bid for Snap, consisting of approximately $20.4 million in cash and $13.6 million in LiveXLive shares. This represented a price of roughly $5.06 per STVI share. The deal was contingent upon LiveXLive fulfilling certain conditions, including raising funds through a public offering.

Snap Interactive announced yesterday that it had terminated the merger agreement because certain conditions had not been met by the October 27, 2017 deadline. The deadline had already been extended once.

With the merger agreement terminated, Snap can proceed with its original growth strategy. The company had implemented a three-year plan focused on mobile, on strengthening its existing products and launching new social, video and dating apps within those products and on live video and the development of new live video social and dating apps.

We also believe the proposed acquisition by LiveXLive underscores the value of Snap Interactive's technology platform and its growth prospects. LiveXLive viewed Snap's technology as an asset that would enable it to bring consumers "a greatly enhanced viewing experience through group video chat, and other social and relationship building features."

PROPRIETARY LIVE VIDEO TECHNOLOGY: A SNAP COMPETITIVE ADVANTAGE

Live video is in the early stages of adoption. It presents an attractive growth opportunity, we believe, as its use continues to rise. In fact, Snap management believes that live video is on-track to become a key factor in social networking, messaging and online business applications.

Snap's video chat apps allow users to message or talk with other people and simultaneously view them through live video. People can conduct live video chats one-on-one or with many users, as Snap can operate thousands of streams simultaneously.

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Moreover, Snap has a strong intellectual property position to support its technology. The company has 25 issued patents and Snap has successfully defended its IP in the past, generating tens of millions of dollars in licensing fees for the use of its patents. Snap generated one-time licensing revenue from Microsoft, Sony, and Activision, for example, and has recently initiated patent enforcement actions against other companies.

RECENT NEWS

Snap announced that it had terminated the merger agreement with LiveXLive Media on October 31, 2017.

On October 31, 2017, Snap announced an upcoming conference call on November 7 to discuss third quarter results.

On September 11, 2017, LiveXLive announced that it had agreed to acquire Snap.

RISKS

- Competition is steep. Snap might not be able to convert its users into active subscribers or user retention could deteriorate, reflecting rising competition, among other factors.
- New Snap products might not gain traction as quickly as the company expects.
- Snap's older products that are already somewhat mature might experience greater than anticipated usage and revenue declines.

PROJECTED INCOME STATEMENT

Snap Interactive Income Statement & Projections ($)

	1Q16*	2Q16	3Q16	4Q16E	2016*	1Q17	2Q17A	3Q17E	4Q17E	2017E	2018E
Subscription revenue	$4,389,274	$2,459,633	$2,373,273		$18,647,855	$6,223,685	$5,742,707	$6,505,929	$7,019,898	$25,492,219	$27,649,630
Advertising revenue	548,424	154,329	142,268	-	2,340,574	495,267	496,882	505,222	538,061	2,035,432	2,201,871
Total revenue	4,937,698	2,613,962	2,515,541	7,047,198	20,988,429	6,718,952	6,239,589	7,011,151	7,557,959	27,527,651	29,851,502
Costs of revenue	1,399,000	405,965	397,963		5,015,565	1,282,505	1,242,819	1,431,304	1,544,377	5,501,006	6,221,167
Sales and marketing	918,616	1,210,103	1,170,469		5,099,956	2,230,492	2,135,951	2,141,941	2,077,683	8,586,068	8,225,389
Product development	2,092,835	440,451	422,582		8,600,688	2,211,344	2,206,440	2,145,446	2,123,991	8,687,221	8,496,612
General and administrative	486,743	861,270	1,040,923	-	4,016,068	2,070,127	2,116,498	1,947,782	1,889,349	8,023,757	7,836,129
Total costs and expenses	4,897,194	2,917,789	3,031,937		22,732,277	7,794,468	7,701,708	7,666,474	7,635,401	30,798,052	30,779,296
Operating income/(loss)	40,504	(303,827)	(516,396)		(1,743,848)	(1,075,516)	(1,462,119)	(655,323)	(77,442)	(3,270,401)	(927,794)
Interest income /(expense)	285	(427,306)	(431,269)		(60,030)	36,813	(4,845)	28,000	27,000	86,968	119,377
Other	-	(110,000)	1,000,000	-	351,102	-	(18,000)	-	-	-	-
Pretax income /(loss)	40,789	(841,133)	52,335	(505,896)	(1,452,776)	(1,038,703)	(1,484,964)	(627,323)	(50,442)	(3,201,433)	(808,418)
Taxes										-	
Net loss	40,789	(841,133)	52,335	(505,896)	(1,452,776)	(1,038,703)	(1,484,964)	(627,323)	(50,442)	(3,201,433)	(808,418)
Per share data:											
LPS	$0.01				($0.26)	($0.15)	($0.22)	($0.09)	($0.01)	($0.48)	($0.12)
Avg shares out	5,228,617				5,577,856	6,714,915	6,715,574	6,736,945	6,747,960	6,728,849	6,775,498

Source: Company reports *Post AVM merger

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BALANCE SHEET AND CASH FLOW STATEMENT

Snap Interactive Balance Sheet ($)

	2015	2016	1Q17	2Q17
Cash & equivalents	$6,676,557	$4,162,596	$5,023,964	$4,614,619
Credit card holdback receivable	150,000	172,169	173,579	168,960
Accounts receivable	832,621	958,695	685,313	646,095
Prepaid expense & other	1,017,879	1,047,483	399,618	406,788
Total current assets	8,677,057	6,340,943	6,282,474	5,836,462
Property & equipment	917,720	793,305	725,263	657,010
Goodwill	4,344,650	14,304,667	14,304,667	14,304,667
Intangible assets	2,487,698	5,605,193	5,184,005	4,762,818
Long term security deposits	82,083	397,608	131,547	141,807
Deferred tax asset	754,535	-	-	
Other	-	82,435	84,428	85,115
Total assets	**$17,263,743**	**$27,524,151**	**$26,712,384**	**$25,787,879**
Accounts payable	667,782	1,665,831	2,235,582	2,451,624
Accrued expenses & other	897,091	472,406	161,652	248,648
Deferred subscription revenue	2,262,818	2,828,827	2,748,350	2,600,388
Total current liabilities	3,827,691	4,967,064	5,145,584	5,300,660
Deferred rent of current portion	-	261,286	-	
Deferred tax liability	-	1,452,339	1,452,339	1,452,339
Contingent liability	134,000	-	-	-
Total liabilities	**$3,961,691**	**$6,680,689**	**$6,597,923**	**$6,752,999**
Total stockholders' equity	**$13,302,052**	**$20,843,462**	**$20,114,461**	**$19,034,880**
Total liabilities & stockholders' equity	**$17,263,743**	**$27,524,151**	**$26,712,384**	**$25,787,879**

Source: Company reports

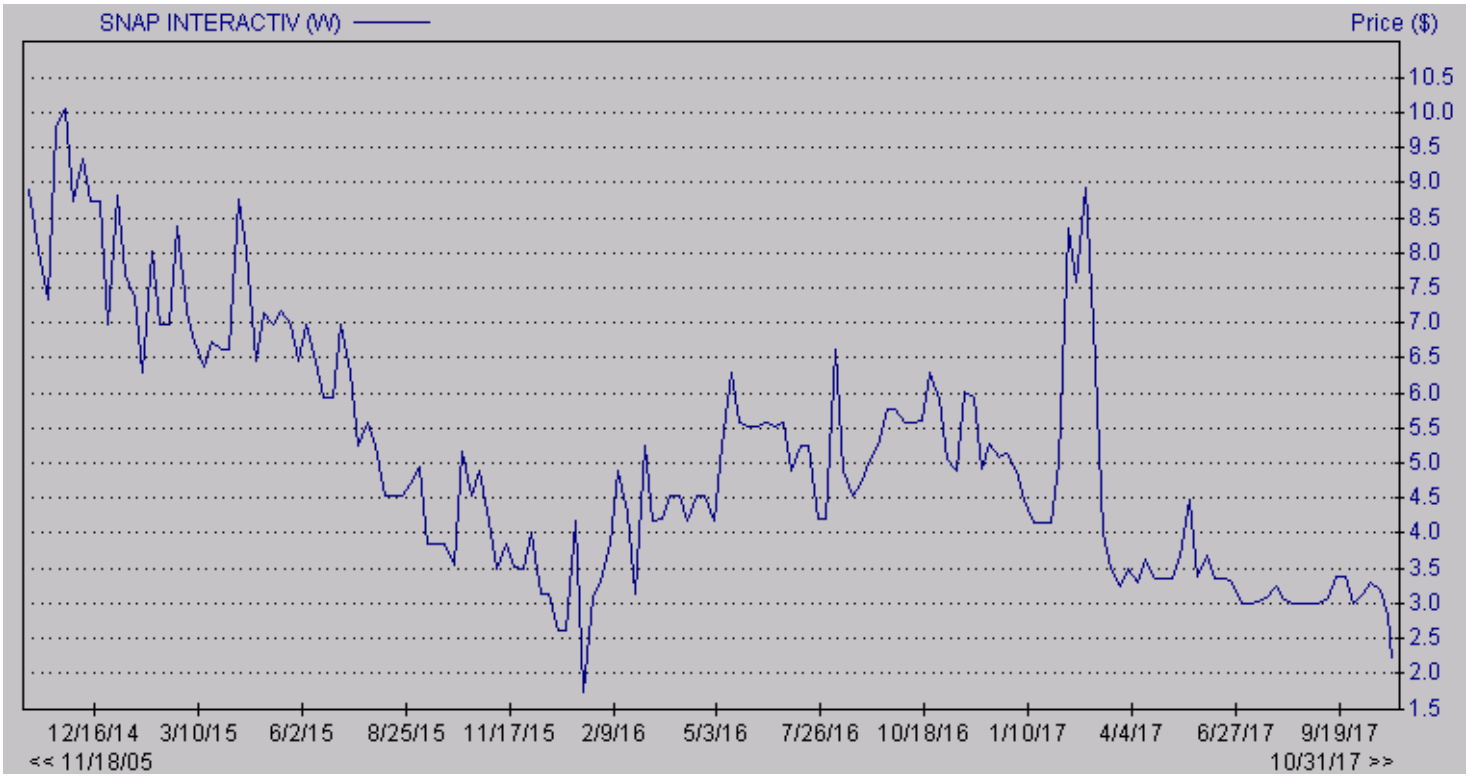
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Snap Interactive Statement of Cash Flow ($)

	2015	2016	1Q17	2Q17
Net loss	(265,926)	(1,452,776)	(1,038,703)	(2,522,669)
Depreciation of property & equipment	383,167	568,028	130,637	253,547
Amortization of intangible assets	552,333	834,505	421,188	842,375
Stock-based compensation	206,571	353,120	309,702	694,287
Change in fair value of contingent liability	-	(134,000)	-	
Other				34,194
Changes in working capital	(780,183)	(575,528)	1,120,276	1,318,904
Cash from operations	**95,962**	**(406,651)**	**943,100**	**620,638**
Property & equipment purchases	(488,154)	(345,070)	(62,595)	(134,326)
Cash from the merger after note payment	-	(1,739,506)	(1,993)	-
Cash from investing	**(488,154)**	**(2,084,576)**	**(64,588)**	**(134,326)**
Payments of capital leases	-	(22,734)	(17,144)	(34,289)
Repayment of note payable	(490,000)	-	-	-
Cash from financing	**(490,000)**	**(22,734)**	**(17,144)**	**(34,289)**
Net change in cash & equivalents	**(882,192)**	**(2,513,961)**	**861,368**	**452,023**

Source: Company reports

HISTORICAL STOCK PRICE



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