Zacks Small-Cap Research

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Snap Interactive (STVI-OTC)

STVI: Potential Benefits of Blockchain Platform Strategy

Snap Interactive recently announced a strategy to leverage the benefits of blockchain technology. The company has created a blockchain advisory board and named former MySpace CEO and blockchain expert Michael Jones as the inaugural member.

OUTLOOK

Technology company Snap Interactive is an early mover in the blockchain space as the blockchain ecosystem continues to evolve. While difficult to quantify at this early stage, the benefits of blockchain could be significant for the company, in our view. Snap has already begun to incorporate certain facets of blockchain and cryptocurrency technology into its product mix and also plans to develop next-generation social applications that leverage blockchain.

Current Price (11/20/17)	$1.50
Valuation	**$5.00**

SUMMARY DATA

52-Week High	**$7.31**
52-Week Low	**$1.50**
One-Year Return (%)	**-71.43**
Beta	**0.92**
Average Daily Volume (sh)	**2,096**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$10**
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	6 A	6 E	25 E
2018					30 E

Loss Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015					NM
2016					NM
2017	($0.15)	($0.22)	($0.31)A	($0.25)E	($0.94)E
2018					($0.12)E

Quarters might not sum to annual reflecting rounding.

Disclosures begin on page 9. **N/A**

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KEY POINTS

- Snap Interactive recently announced a strategy to leverage the benefits of blockchain technology. The blockchain is a decentralized and encrypted “ledger” that offers a secure method to store records and other information in a way that can be verified.

- The company is an early mover in the space as the blockchain ecosystem continues to evolve. Snap has already begun to incorporate certain facets of blockchain and cryptocurrency technology into its product mix.

- To further its blockchain initiative, Snap has added former MySpace CEO Michael Jones to its board of directors. According to the company, he is an expert on blockchain. Snap has also created a blockchain advisory board and named Mike Jones as the inaugural member.

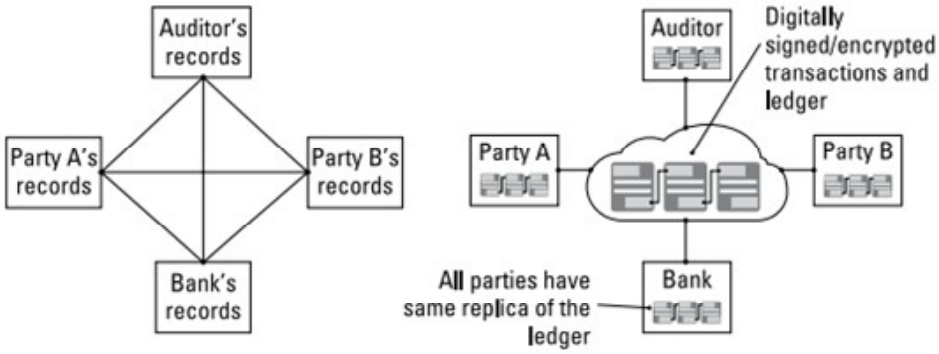
- Overall, the potential of blockchain technology is expected to be significant. According to IBM, because of the potential to disrupt traditional business methods, “blockchain will do for transactions what the Internet did for information” because “it allows increased trust and efficiency in the exchange of almost anything.”

- Separately, Snap recently launched Camfrog Live, an enhancement to its existing Camfrog video social networking app. The company believes the exchange of virtual gifts within Camfrog Live could generate substantial revenue and the security of blockchain technology likely enhances this opportunity, we believe.

POTENTIAL IMPACT OF BLOCKCHAIN STRATEGY

Snap Interactive recently announced a strategy to leverage the benefits of blockchain technology. Snap is an early mover in the space as the blockchain ecosystem continues to evolve. Blockchain is viewed as a secure option for financial transactions that also provides flexibility and scalability.

Comparison of Tracking Transactions With and Without Blockchain



Source: IBM

Specifically, the blockchain is a decentralized and encrypted "ledger" that offers a secure method to store records and other information in a way that can be verified. Each block in the blockchain contains a hash – a digital fingerprint or unique identifier – and timestamped batches of prior transactions, as well as the hash of the previous block. The hash connects the blocks and prevents any block from being altered or inserted between two existing blocks. Each new block reinforces the verification of the previous block and therefore the overall blockchain. This characteristic is also believed to make it transparent if an attempted hacking tries alter any part of the blockchain. According to IBM, "blockchain architecture gives participants the ability to share a ledger that is updated, through peer-to-peer replication, every time a transaction occurs. Peer-to-peer replication means that each participant (node) in the network acts as both a publisher and a subscriber. Each node can receive or send transactions to other nodes, and the data is synchronized across the network as it is transferred."

Blockchain is the underlying digital architecture that supports many digital cryptocurrencies, including Bitcoin, Ethereum and Litecoin. However, blockchain technology has broader applications. Among other features, it can be used to process transactions, manage medical records, and verify and confirm proof of ownership. Blockchain can also record and track intangible assets such as intellectual property, patents, copyrights, or branding.

"Blockchain is a public ledger technology that uses digital signatures and cryptographic hashing to provide a record of secure transactions that cannot be altered," according to TechRepublic. It offers a secure shared database that cannot be modified. Blockchain is thought to be secure, immutable and transparent because no single person or party within the chain can alter the record without the agreement of all parties in the chain. Leading companies such as IBM and Mastercard have already adopted blockchain technology to protect transactions and American Express has launched instant blockchain payments for cross-border business-to-business payments.

According to American Express, blockchain will reduce the cost and time of an international transfer, while also providing end-to-end visibility and the ability to track the process. According to Deloitte

Insights, “Blockchain, the shared-ledger technology that only a few years ago seemed indelibly linked in the public imagination to cryptocurrencies such as Bitcoin, is assuming a new role: gatekeeper in the emerging “trust economy… that is developing around person-to-person (P2P) transactions [which] does not turn on credit ratings, guaranteed cashier’s checks, or other traditional trust mechanisms.”

Snap has already begun to incorporate certain facets of blockchain and cryptocurrency technology into its product mix. One of the company’s key initiatives to further its blockchain strategy has been to add former MySpace CEO Michael Jones to its board of directors. In addition to MySpace, he is also the founder of Science Inc. and, according to the company, is an expert on blockchain.

Snap has also created a blockchain advisory board and named Mike Jones as the inaugural member. The first step in Snap’s blockchain strategy was to integrate acceptance of bitcoin payments. The company also intends to develop blockchain-based new products that leverage its live video platform. Snap has a blockchain development team that seeks to identify blockchain and cryptocurrency applications relevant to the company’s existing product portfolio and social video platform. This development team has already integrated bitcoin payments, as noted, and begun to work on new social video blockchain-linked products. In addition to in-house development, Snap expects to explore potential partnerships and investment opportunities to further its blockchain strategy.

Elements of the company’s blockchain strategy include:

- Development of next-generation social applications leveraging blockchain and cryptocurrency. Overall, the potential of blockchain technology is expected to be significant. According to IBM, because of the potential to disrupt traditional business methods, “blockchain will do for transactions what the Internet did for information” because “it allows increased trust and efficiency in the exchange of almost anything.”

- Partnerships with blockchain companies.

- Strategic investments in relevant blockchain companies.

- Potential strategic M&A with companies that have blockchain capabilities.

Snap’s Blockchain Advisory Board will assist with and facilitate the execution of its blockchain strategy. In addition to Mike Jones as founding member, the company intends to add other advisors to the board in the near-term. Mike Jones has advised Snap before but this creates a more formal advisory relationship. He co-founded and is CEO of Science Inc., a science blockchain incubator that has participated in more than $2.5 billion in successful transactions, including FameBit, which was purchased by Google, and Dollar Shave Club, which was purchased by Unilever for roughly $1 billion, according to trade publications.

IN-APP VIRTUAL GIFTS COULD BE ACCELERATED VIA BLOCKCHAIN

Snap is integrating blockchain and cryptocurrency applications to existing products. Snap has added bitcoin acceptance at Camfrog and Tinychat, making it easier for users to purchase in-app products and generate additional revenue for the company.

Snap also recently launched Camfrog Live, an enhancement to its existing Camfrog video social networking app. Camfrog Live extends the range of content that the company can provide to Camfrog users by creating a platform for live video content creators and entertainers. Camfrog Live offers each content creator their own live channel and the mechanism to collect **virtual gifts** and thereby earn money through a revenue sharing model with the company. Management expects that this will

incentivize the entertainer to utilize Camfrog Live and drive traffic to the platform by promoting it via social media outreach. In turn, the company expects to benefit through the revenue sharing model. Snap believes the revenue opportunity is substantial. The perceived security of blockchain technology could enhance this overall opportunity, we believe.

Live video where one person broadcasts to entertain a group and the group can interact with the entertainer has already gained substantial traction in markets such as China. Users can interact with the performer by requesting a song from the live broadcaster, for example, and many users then give the performer virtual gifts in appreciation.

China's live streaming market has grown rapidly, according to market research firm iResearch. Beginning in 2015, when the market generated about $1.0 billion, it more than doubled in 2016 and is on-track to produce an estimated $6.0 billion in 2017, according to iResearch.

RECENT NEWS

Snap announced a new blockchain platform strategy on November 9, 2017.

Snap reported 3Q17 results on November 7, 2017.

Snap announced the launch of Camfrog Live on November 2, 2017.

Snap announced that it had terminated a 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

Risks to the company's fundamentals and stock price include, among others:

- 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.
- It may be early to purchase STVI shares, as the company is in the beginning phase of a three-year growth strategy and results of initiatives, including the blockchain strategy, might not become evident for some time, in our view.

PROJECTED INCOME STATEMENT

Snap Interactive Income Statement & Projections ($)

	1Q16*	2Q16	3Q16	4Q16E	2016*	1Q17	2Q17A	3Q17A	4Q17E	2017E	2018E
Subscription revenue	$4,389,274	$5,742,707	$4,181,950		$18,647,855	$6,223,685	$5,742,707	$5,447,119	$5,773,946	$23,187,457	$27,649,630
Advertising revenue	548,424	496,882	465,998	-	2,340,574	495,267	496,882	480,356	509,177	1,981,682	2,201,871
Total revenue	4,937,698	6,239,589	4,647,948	7,047,198	20,988,429	6,718,952	6,239,589	5,927,475	6,283,124	25,169,140	29,851,502
Costs of revenue	1,399,000	1,242,819	1,120,788		5,015,565	1,282,505	1,242,819	1,228,198	1,244,377	4,997,899	6,221,167
Sales and marketing	918,616	2,135,951	862,639		5,099,956	2,230,492	2,135,951	1,944,488	2,077,683	8,388,614	8,225,389
Product development	2,092,835	2,206,440	1,864,430		8,600,688	2,211,344	2,206,440	2,217,777	2,123,991	8,759,552	8,496,612
General and administrative	486,743	2,116,498	867,900	-	4,016,068	2,070,127	2,116,498	2,549,112	2,574,603	9,310,340	7,836,129
Total costs and expenses	4,897,194	7,701,708	4,715,757		22,732,277	7,794,468	7,701,708	7,939,575	8,020,655	31,456,406	30,779,296
Operating income/(loss)	40,504	(1,462,119)	(67,809)		(1,743,848)	(1,075,516)	(1,462,119)	(2,012,100)	(1,737,532)	(6,287,267)	(927,794)
Interest income /(expense)	285	(4,845)			(60,030)	36,813	(4,845)	7,765	27,000	66,733	119,377
Other	-	(18,000)	243	-	351,102	-	17,910	-	-	17,910	-
Pretax income /(loss)	40,789	(1,484,964)	(67,566)	(505,896)	(1,452,776)	(1,038,703)	(1,484,964)	(2,004,335)	(1,710,532)	(6,202,624)	(808,418)
Taxes			341,366								
Net loss	40,789	(1,484,964)	273,800	(505,896)	(1,452,776)	(1,038,703)	(1,484,964)	(2,004,335)	(1,710,532)	(6,238,534)	(808,418)
										-	
Per share data:										-	
LPS	$0.01	($0.22)	$0.22		($0.26)	($0.15)	($0.22)	($0.31)	($0.25)	($0.94)	($0.12)
Avg shares out	5,228,617	6,715,574	1,233,996		5,577,856	6,714,915	6,715,574	6,452,292	6,747,960	6,657,685	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	3Q17
Cash & equivalents	$6,676,557	$4,162,596	$5,023,964	$4,614,619	$3,300,267
Credit card holdback receivable	150,000	172,169	173,579	168,960	157,250
Accounts receivable	832,621	958,695	685,313	646,095	529,593
Prepaid expense & other	1,017,879	1,047,483	399,618	406,788	472,684
Total current assets	8,677,057	6,340,943	6,282,474	5,836,462	4,459,794
Property & equipment	917,720	793,305	725,263	657,010	635,160
Goodwill	4,344,650	14,304,667	14,304,667	14,304,667	13,086,472
Intangible assets	2,487,698	5,605,193	5,184,005	4,762,818	4,341,630
Long term security deposits	82,083	397,608	131,547	141,807	
Deferred tax asset	754,535	-	-		
Other	-	82,435	84,428	85,115	118,621
Total assets	**$17,263,743**	**$27,524,151**	**$26,712,384**	**$25,787,879**	**$22,641,677**
Accounts payable	667,782	1,665,831	2,235,582	2,451,624	1,961,950
Accrued expenses & other	897,091	472,406	161,652	248,648	689,022
Deferred subscription revenue	2,262,818	2,828,827	2,748,350	2,600,388	2,624,018
Total current liabilities	3,827,691	4,967,064	5,145,584	5,300,660	5,274,990
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**	**$5,274,990**
Total stockholders' equity	**$13,302,052**	**$20,843,462**	**$20,114,461**	**$19,034,880**	**$17,366,687**
Total liabilities & stockholders' equity	**$17,263,743**	**$27,524,151**	**$26,712,384**	**$25,787,879**	**$22,641,677**

Source: Company reports

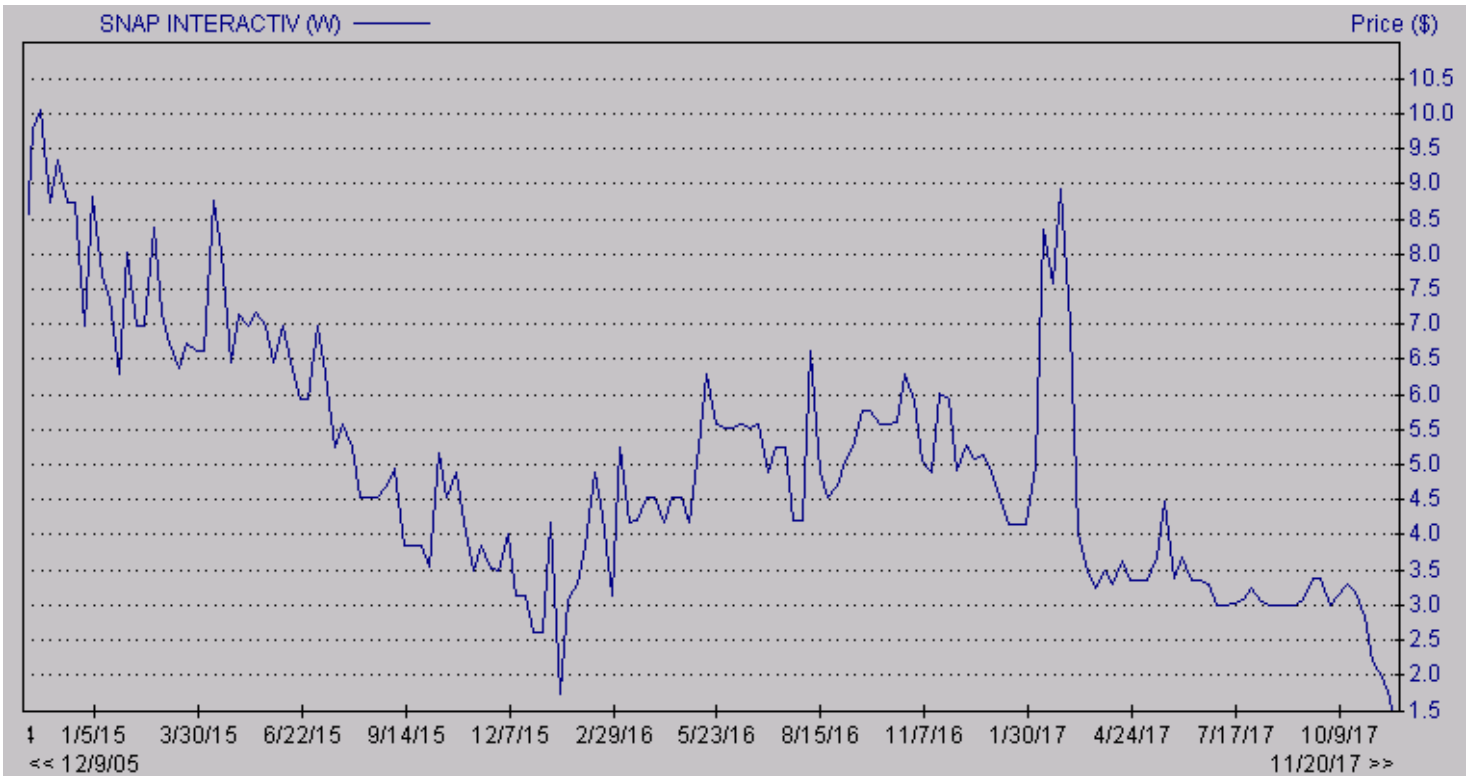
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Snap Interactive Statement of Cash Flow ($)

	2015	2016	1Q17	2Q17	3Q17
Net loss	(265,926)	(1,452,776)	(1,038,703)	(2,522,669)	(4,528,002)
Depreciation of property & equipment	383,167	568,028	130,637	253,547	355,348
Amortization of intangible assets	552,333	834,505	421,188	842,375	1,263,563
Stock-based compensation	206,571	353,120	309,702	694,287	1,033,143
Change in fair value of contingent liability	-	(134,000)	-		
Other				34,194	114,644
Changes in working capital	(780,183)	(575,528)	1,120,276	1,318,904	1,101,027
Cash from operations	**95,962**	**(406,651)**	**943,100**	**620,638**	**(660,277)**
Property & equipment purchases	(488,154)	(345,070)	(62,595)	(134,326)	(214,277)
Cash from the merger after note payment	-	(1,739,506)	(1,993)	-	
Other	-	-	-	-	75,000
Cash from investing	**(488,154)**	**(2,084,576)**	**(64,588)**	**(134,326)**	**(139,277)**
Payments of capital leases	-	(22,734)	(17,144)	(34,289)	(62,775)
Repayment of note payable	(490,000)	-	-	-	
Cash from financing	**(490,000)**	**(22,734)**	**(17,144)**	**(34,289)**	**(62,775)**
Net change in cash & equivalents	**(882,192)**	**(2,513,961)**	**861,368**	**452,023**	**(862,329)**

Source: Company reports

HISTORICAL STOCK PRICE



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