Zacks Small-Cap Research

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Snap Interactive (STVI-OTC)

STVI: 3Q17 Results and Early Encouraging Metrics on Recently Launched Camfrog Live

Yesterday Snap Interactive announced 3Q17 revenue of $5.9 million, up 27.5% year-over-year largely reflecting the October 2016 AVM merger. 2018 results are expected to benefit from roughly $3.0 million in cost savings and revenue from new initiatives.

OUTLOOK

Technology company Snap Interactive operates several prominent social networking and interactive dating applications that allow people to share live video. Snap is advancing its growth strategy and recently launched Camfrog Live. While it is early, initial metrics are encouraging and management is optimistic about the revenue prospects of Camfrog Live and potential to integrate the technology into other existing Snap applications.

Current Price (07/24/17)	$2.00
Valuation	**$5.00**

SUMMARY DATA

52-Week High	**$7.31**
52-Week Low	**$2.00**
One-Year Return (%)	**-66.35**
Beta	**0.92**
Average Daily Volume (sh)	**2,020**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$13**
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.

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KEY POINTS

- Snap Interactive reported 3Q17 revenue of $5.9 million, which represents a 27.5% year-over-year increase, largely reflecting the positive impact of the October 2016 AVM merger. Year-to-date, Snap has reported revenue of $18.9 million compared to $13.9 million in the comparable period of 2016, a 35.5% year-over-year improvement.

- 3Q17 adjusted EBITDA was ($1.1) million versus $71,000 in 3Q16. However, the 2017 quarter included $604,000 in non-recurring integration charges, as well as expenses related to LiveXLive Media.

- The company has identified about $3.0 million in duplicative and non-core costs that it is eliminating as part of its integration plan and expects to fully realize the benefits of this cost savings in 2018.

- We are adjusting our 4Q17 forecast to reflect the expected impact of one-time costs associated with exploring the LiveXLive Media transaction. We are also shaving our 4Q17 revenue forecast from $7.6 million to $6.3 million as recently launched products ramp. Our revised 2017E loss per share forecast is ($0.94) compared to ($0.48) earlier. Our 2018 forecast is unchanged.

- Snap recently launched Camfrog Live, a one-to-many live streaming channel and enhancement to the existing Camfrog app. Management expects the ability to earn revenue through virtual gifts will incentive entertainers to utilize Camfrog Live and drive traffic to the platform by promoting it via social media.

- Snap believes the revenue opportunity is substantial and the company is encouraged by early metrics. Camfrog Live has already registered 400 hours of entertainment by approximately 175 content creators, according to company reports, for more than 4,000 total viewing hours.

- Management also plans to introduce this enhancement to its Paltalk product in 2018 and potentially to Tinychat.

3Q17 RESULTS INCLUDE SEVERAL ONE-TIME ITEMS

Snap Interactive reported 3Q17 revenue of $5.9 million, which represents a 27.5% year-over-year increase compared to $4.6 million registered in 3Q16. This growth largely reflects the positive impact of the October 2016 AVM merger and the combination of revenue streams from the two companies, partially offset by a decline in subscription revenue from more mature products. Of the 3Q17 revenue, $5.4 million came from subscriptions compared to $4.2 million in the prior year quarter. This represents an annual increase of 30.2%, primarily reflecting the AVM merger, as noted. Another $480,000 came from advertising, which compares to $466,000 generated in 3Q16. Year-to-date, Snap has reported revenue of $18.9 million compared to $13.9 million in the comparable period of 2016, a 35.5% year-over-year improvement.

Snap reported a net loss from operations of roughly ($2.0) million for 3Q17, which included $604,000 of one-time expenses related largely to legal and consulting fees for the proposed LiveXLive merger, as well as a one-time payroll tax expense related to the AVM Merger.

Adjusted 3Q17 EBITDA was ($1.1) million versus $71,000 registered in 3Q16. However, adjusted EBITDA during the 2017 quarter included non-recurring integration charges, as well as expenses related to the contemplated merger with LiveXLive Media, as noted.

The company has identified about $3.0 million in duplicative and non-core costs that it is eliminating as part of its integration plan and expects to fully realize the benefits of this in 2018. Cash flow from operations was ($660,000) compared to $302,000 in 3Q16. Nevertheless, Snap remains debt-free, with $3.3 million of cash as of September 30, 2017.

We are adjusting our 4Q17 forecast to reflect the expected impact of one-time costs associated with exploring the LiveXLive Media transaction. We are also shaving our 4Q17 revenue forecast from $7.6 million to $6.3 million. Recently launched products such as 50more and Camfrog Live and the rebranded FirstMet are just beginning to ramp and their contribution is likely to be lower than we originally anticipated.

We also expect non-recurring merger-related expenses to continue to obscure the benefits of the company's cost reductions in 4Q17. However, Snap expects to realize significant cost savings in 2018 as a result of its expense reduction efforts and has identified roughly $3.0 million in cost reductions, as noted. For example, earlier this year, Snap consolidated its operations at one corporate office and closed the redundant location. The termination of the lease and other initiatives is expected to produce cost savings in 2018. Given the factors noted above, our revised 2017E loss per share forecast is ($0.94) compared to ($0.48) earlier. Our 2018 forecast is unchanged.

ADVANCING ITS GROWTH PLAN, SNAP LAUNCHES CAMFROG LIVE

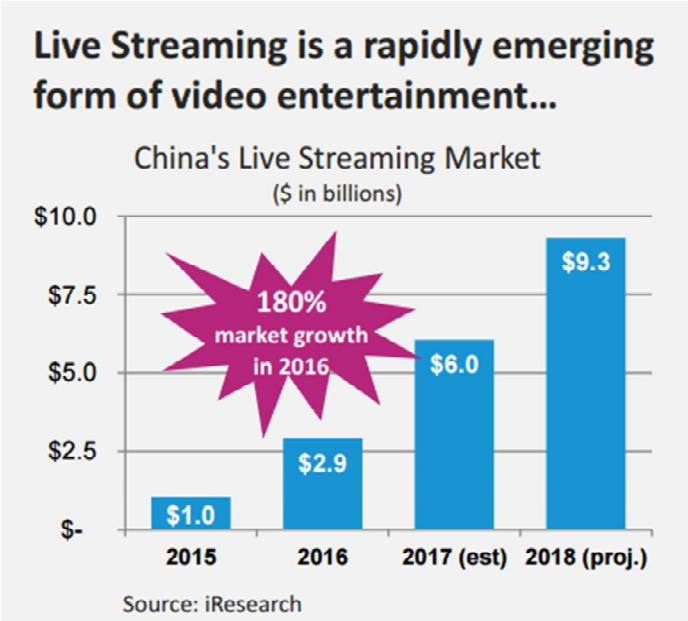
Snap is advancing its growth strategy, which is focused on mobile, on strengthening its existing products and launching new social, video and dating apps within those products and on live video and the development of new live video social and dating apps. We believe that Snap's proprietary live video technology is a competitive advantage, as live video is in the early stages of adoption. It presents an attractive growth opportunity, we believe, as its use continues to rise. The company recently launched Camfrog Live.

Camfrog Live is a one-to-many live streaming channel and an enhancement to Snap's existing Camfrog video social networking app. Before Camfrog Live, Camfrog enabled several users to share live video together, but 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 incentive the entertainer to utilize Camfrog Live and drive traffic by promoting the platform via social media outreach. In turn, the company expects to benefit through the revenue sharing model. Snap believes the revenue opportunity is substantial.

In fact, live video where one person broadcasts to entertain a group and the group can interact with the entertainer has already gained substantial traction in other markets. It is extremely popular in 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. Momo is a Chinese mobile-based social networking platform that is a major player in this space. Momo notes that its "Live Video function allows users to live stream a variety of content and activities including talent shows such as singing, dancing and talk shows, as well as casual chatting between broadcasters and viewers."

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.



While it is extremely early as Camfrog Live launched only recently, Snap is encouraged by early metrics. Camfrog Live has already registered 400 hours of entertainment broadcast by about 175 content creators, according to company reports, for more than 4,000 total viewing hours.

Management also plans to introduce this enhancement on its Paltalk product in 2018 and potentially to Tinychat in the future. Paltalk and Camfrog are leading providers of live video social networking applications. Together, these products support a large and global collection of video-based communities, supported by the company's proprietary technology to host myriads of live group conversations simultaneously. Both services have tens of millions of registered users and attract a demographically and geographically diverse group of people. Users are based in more than 180 countries, with a particular strength in Southeast Asia.



Other Potential Growth Initiatives

The company plans other growth initiatives, as well. For example, Snap is also investing in 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. The company is also in the process of optimizing its marketing budget to focus on high ROI programs and support the expected growth of new products such as Camfrog Live,

RECENT NEWS

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 might not become evident for some time plus the benefits of its cost reduction plan are unlikely to be clear until next year, 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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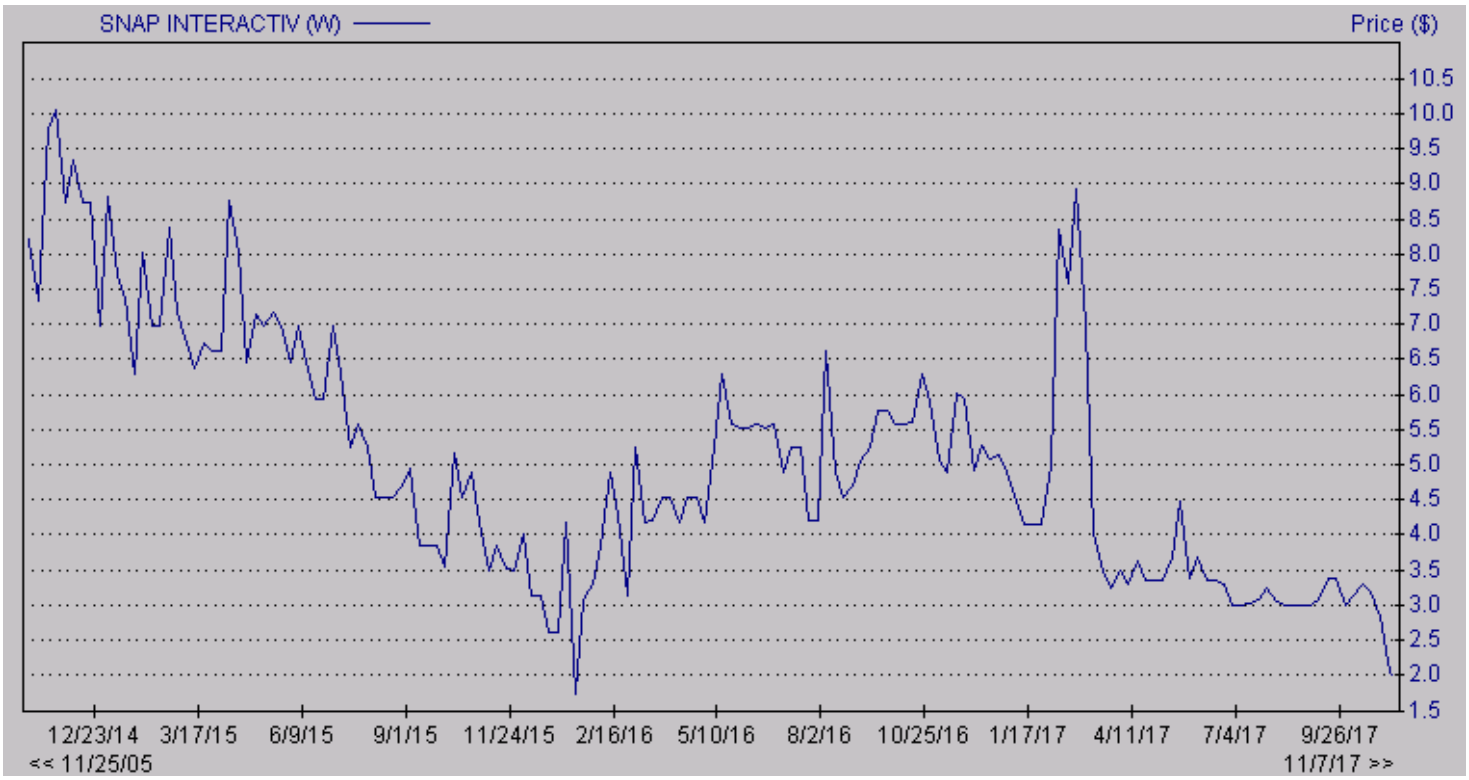
Snap Interactive Statement of Cash Flow ($)

	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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