Zacks Small-Cap Research

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Snap Interactive (STVI-OTC)

STVI: LiveXLive Offer Represents More Than 50% Premium to Current Share Price

Earlier this week, LiveXLive Media agreed to acquire Snap Interactive for roughly $34.0 million, which equates to approximately $5.06 per STVI share. That represents about a 59% premium to the current $3.18 price of STVI shares.

OUTLOOK

Technology company Snap Interactive strives to be a leader in social products that deliver live video through mobile platforms. The company operates several prominent social networking and interactive dating applications that allow people to share live video. A 2016 merger strengthened the company's product portfolio and expanded its user base. If the merger is consummated, LiveXLive intends to maintain Snap's existing slate of apps and cited group video chat as a key factor driving the transaction.

Current Price (09/14/17)	$3.18
Valuation	**$5.00**

SUMMARY DATA

52-Week High	**$7.31**
52-Week Low	**$2.99**
One-Year Return (%)	**-30**
Beta	**1.73**
Average Daily Volume (sh)	**2,209**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$21**
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

- Earlier this week, LiveXLive Media agreed to acquire Snap Interactive. Snap operates leading live video social networking and interactive dating applications. Its products are built on a highly scalable architecture that enables the company to support myriads of streams simultaneously.

- LiveXLive is a leading premium streaming network devoted to live music and music-related video content. It launched in 2015. It is publically traded with a market capitalization of roughly $3.2 billion. LiveXLive shares trade under the symbol LIVX.

- LiveXLive's roughly $34.0 million offer for Snap consists of approximately $20.4 million in cash and $13.6 million in LiveXLive (LIVX) shares, subject to adjustments. In total, the offer equates to about $5.06 per STVI share, representing about a 59% premium to STVI's current $3.18 price per share. Consummation of the proposed transaction is subject to LiveXLive completing an offering to raise at least $100 million in proceeds, among other conditions.

- If the merger is consummated, LiveXLive intends to maintain Snap's existing slate of apps and cited group video chat as a factor driving the transaction.

OVERVIEW

Earlier this week, LiveXLive Media, Inc. (LiveXLive) announced that it had agreed to acquire New York City-based a technology company Snap Interactive. Snap operates leading live video social networking and interactive dating applications. Its products include brands such as Paltalk, FirstMet, Camfrog and Tinychat. Ribbit Live and Firetalk are also Snap apps that allow people to share live video. In the dating space, Snap operates FirstMet, 50more and The Grade. Snap's products are built on a highly scalable architecture that enables the company to support myriads of streams simultaneously.

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LiveXLive's roughly $34.0 million offer for Snap consists of approximately $20.4 million in cash and $13.6 million in LiveXLive shares, subject to adjustments. In total, the offer represents a price of roughly $5.06 per STVI share, representing about a 59% premium to the current $3.18 price of STVI shares. Consummation of the proposed transaction is subject to LiveXLive completing an offering to raise at least $100 million in proceeds, among other conditions.

LiveXLive Offer for Snap Interactive

LiveXLive offer ($ millions)	
Cash	$20.40
LIVX shares	$13.60
Total value	$34.00
STVI shares outstanding (millions)	6.7
LiveXLive offer price per STVI share	$5.06
STVI closing price (9/14/2017)	$3.18
Premium	59%

Source: Company reports, Zacks

If the merger is consummated, LiveXLive intends to maintain Snap's existing slate of apps and cited group video chat as a factor driving the transaction. According to LiveXLive, the acquisition will help it bring consumers "a greatly enhanced viewing experience through group video chat, and other social and relationship building features." This underscores Snap management's view, we believe, that the easy-to-use interface of Snap's video chat apps represents a key competitive advantage.

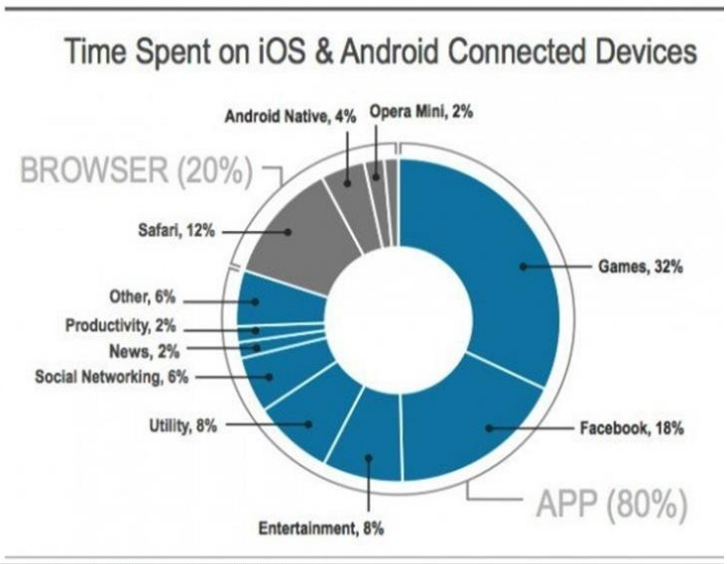
LiveXLive plans to integrate Snap's technology into its existing platform to enhance the LiveXLive online community experience. Snap's video chat apps allow users to message or talk with other people and simultaneously view them through live video. Once a user joins a chat room, he or she can message another person directly or join a group community chat. People can also conduct private live video chats one-on-one. Users can maximize their privacy settings and restrict others from contacting them. For example, Snap users can mute other people in group chat rooms, restrict others from broadcasting video to them and restrict other users from texting them. In addition, users can also enable their friends to manage chat room access.

Snap's proprietary technology, supported by a portfolio of 25 issued patents, enables the company to operate thousands of streams simultaneously, including interactions on a one-on-one or group basis. In this regard, the company believes its technology creates a significant competitive advantage. Its patented client server technology supports high-quality video and audio even with many people interacting simultaneously. Given the challenge of delivering high-quality live video to desktop and mobile, the company's long track record speaks to its capabilities.

With 26 registered trademarks globally, Snap attracts new users organically, as people find the company's various sites through friends or search engines and the company's ads. The company also conducts hundreds of marketing campaigns through internet and mobile advertising networks. Moreover, LiveXLive Media intends to leverage its existing influencer network, LiveXLive Influencers, to build awareness of Snap and drive new subscriber growth for Snap apps. LiveXLive Influencers is comprised of more than 85 million combined followers.

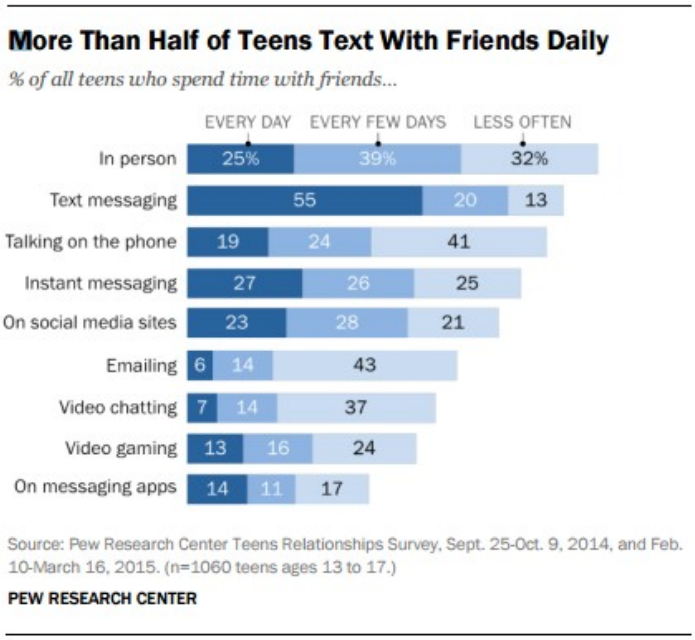
LIVE VIDEO CREATES GROWTH OPPORTUNITIES

Live Video in Early Stages of Adoption For applications related to interacting digitally online, the company believes that live video is in the early stages of adoption and presents an attractive growth opportunity as its use continues to rise. Data from comScore indicates that social networking and entertainment including the use of Facebook account for a combined roughly 32% of total time spent on smartphones. This implies considerable opportunities to integrate live video, in our opinion.



Source: Flurry Analytics, comScore, NetMarketShare

While it is fairly well-understood that teenagers are generally heavy users of texting, they are also increasingly using live video chat as an online app. A 2015 Pew Research study indicates that 57% of teens use video chatting to some extent, up from 37% cited in a 2012 Pew study. Girls are more likely to video chat than boys, according to the study. Social media users are much more likely to engage in live video chatting than people who do not use social media.



Snap believes that live video is on-track to become a key factor in social networking, messaging and online business applications. Growing video chatting usage among teenagers would seem to support this thesis.

Snap management believes that the growing popularity of live streaming offers proof of concept about the potential that video holds generally and for online chat specifically. Live streaming in China has grown from $1.0 billion in 2015 to an estimated $6.0 billion this year, according to iResearch.

Further supporting the positive outlook for live video chat, global research firm Markets and Markets estimates that the video streaming software market will be valued at $7.5 billion by 2022, up from a projected $3.25 billion in 2017. This represents an anticipated 8.2% CAGR. Growing adoption of cloud-based video streaming solutions and network bandwidth optimization is expected to drive market growth.

Finally, Cisco forecasts that the internet will experience a substantial increase in video over the next five years fueled by global increases in internet users, rising penetration of personal devices and faster broadband speeds, among other factors. Cisco forecasts that video will account for 80% of all traffic by 2019, up from 67% in 2014. The U.S. and China will be the markets with the highest use of video, according to Cisco. In part, these forecasts also reflect the growing popularity of over-the-top (OTT) programming services such as Netflix and increasing trend towards cord-cutting among millennials. Internet-connected TV penetration in the U.S. has increased from 51% in 2014 to 64% in 2017, according to data from Statista.

SNAP HAS A STRONG IP POSITION

Snap's IP portfolio comprises 25 issued patents, as noted. The company has successfully defended its IP in the past, generating tens of millions of dollars in licensing fees for the use of its patents. For example, the company generated one-time licensing revenue from Microsoft, Sony, and Activision for U.S. patents #5,822,523 and #6,226,686.

In 2016, the company commenced an enforcement action against Riot Games, Inc. and Valve Corporation for infringement of these same two patents by their respective online games, *League of Legends* and *Defense of the Ancients 2*.

RECENT NEWS

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

Snap reported second quarter 2017 results on August 8, 2017.

On July 31, 2017, Snap announced its intention to begin accepting Bitcoin as a payment option.

Snap announced that it had engaged digital ad company Krush Media on July 18, 2017.

Snap announced the commercial launch of 50more earlier this month.

On July 10, 2017, Snap announced that it had engaged MZ Group to spearhead its investor relations efforts.

On May 18, 2017, Snap established a 10b5-1 automatic plan to initiate a share repurchase plan.

The company reported first quarter 2017 results on May 11, 2017.

Snap's CEO was named to the Global Dating Insights 2017 Power Book on Feb 14, 2017.

On Feb 07, 2017, Snap integrated dating into its Paltalk group video chat.

RISKS

- The merger might not close if LiveXLive cannot raise $100 million or meet other conditions in the merger agreement.
- 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 such as 50more 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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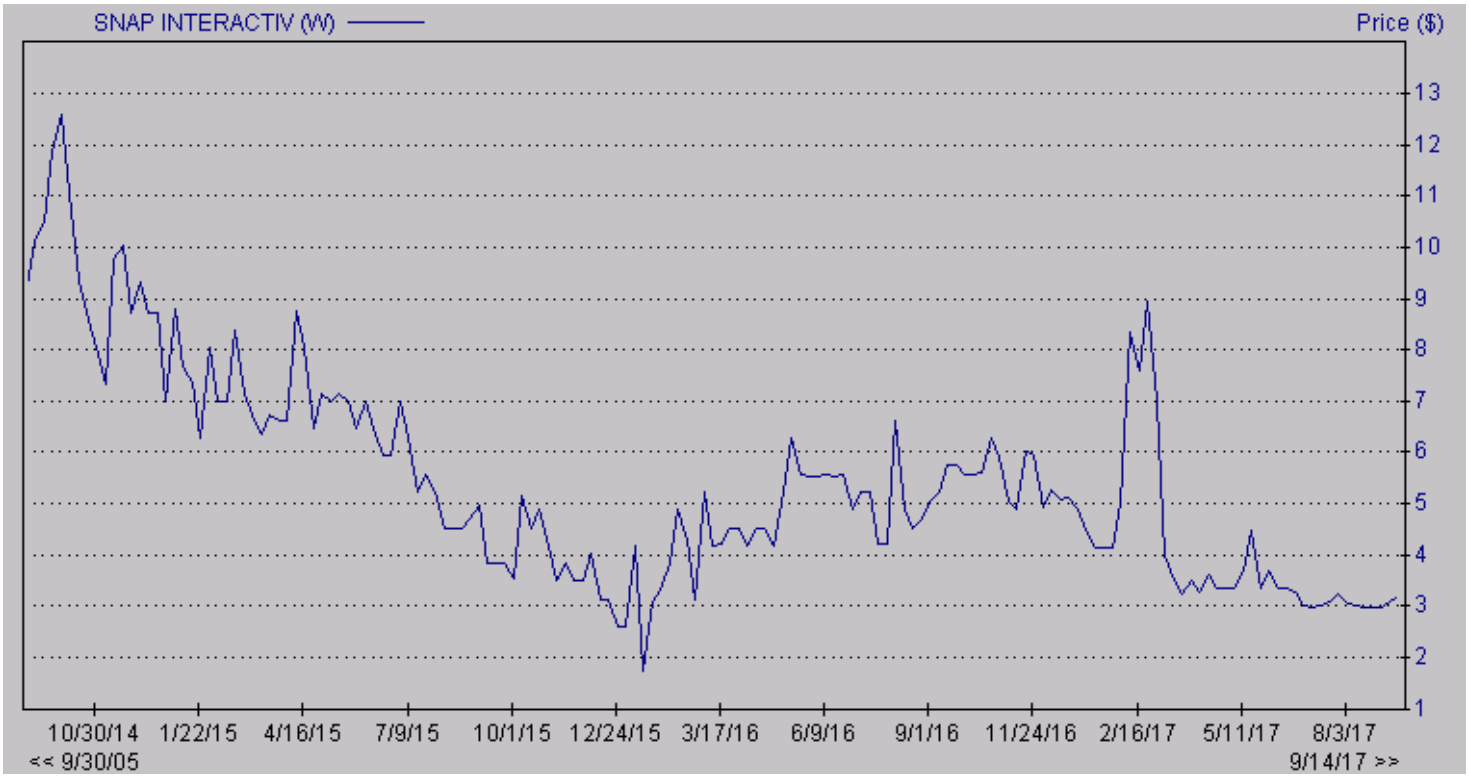
Snap Interactive Statement of Cash Flow ($)

	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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