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Zacks Small-Cap Research

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M. Marin
312-265-9211
mmarin@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

PeerStream (PEER-OTC)

PEER: Looking to 2018 Initiatives

Last week, PeerStream reported full year 2017 revenue of $24.8 million, up 18.4% year-over-year compared to $21.0 million registered in 2016. The company has identified about $3.0 million in redundant and non-core costs. PeerStream expects to fully realize the benefits of this cost savings in 2018.

OUTLOOK

The company recently changed its name and ticker to PeerStream and PEER, respectively, from Snap Interactive and STVI. The name change better reflects the company's emphasis on enabling P2P networks, communication and multimedia streaming leveraging blockchain technology. With a new blockchain strategy in place, PeerStream intends to develop new blockchain-based products that utilize its live video platform.

Current Price (03/28/18)	$6.50
Valuation	**$9.00**

SUMMARY DATA

52-Week High	**$8.31**
52-Week Low	**$1.50**
One-Year Return (%)	**85.71**
Beta	**0.56**
Average Daily Volume (sh)	**957**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$44**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**41**
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 2018 Estimate	**N/A**
P/E using 2019 Estimate	**N/A**
Zacks Rank	**N/A**

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

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	5 A	N/A	N/A	N/A	21 A
2017	7 A	6 A	6 A	6 A	25 A
2018	6 E	6 E	7 E	10 E	30 E
2019					

Loss Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016					NM
2017	($0.15)A	($0.22)A	($0.31)A	($0.23)A	($0.91)A
2018	($0.20)E	($0.17)E	($0.03)E	$0.26E	($0.13)E
2019					

Quarters might not sum to annual reflecting rounding.

Disclosures begin on page 10.

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KEY POINTS

- The company recently changed its name and ticker to PeerStream and PEER, respectively, from Snap Interactive and STVI. The name change better reflects the company's emphasis on enabling P2P networks, communication and multimedia streaming leveraging blockchain technology.
- Blockchain is separate and distinct from cryptocurrency. Although Blockchain is the underlying digital architecture that supports many digital cryptocurrencies, the technology has much broader applications.
- Last week, PeerStream reported full year 2017 revenue of $24.8 million, up 18.4% year-over-year compared to $21.0 million registered in 2016. This growth largely reflects the positive impact of the company's October 2016 merger with privately-held AVM.
- The company had identified about $3.0 million in redundant and non-core costs that it has eliminated. PeerStream expects to fully realize the benefits of this cost savings in 2018.
- Earlier this month, the company entered into a technology services agreement with ProximaX to provide development services. ProximaX will pay PeerStream up to $10.0 million.
- These funds would further strengthen PeerStream's already clean balance sheet and allow it to continue to execute its strategy to leverage blockchain technology solutions for live streaming applications both for its own platform and for sales to third parties.

2017 RESULTS POINT TO COST REDUCTIONS

The company recently changed its name and ticker to PeerStream and PEER, respectively, from Snap Interactive and STVI. The name change, which was accompanied by a website update, better reflects the company's emphasis on enabling peer-to-peer networks, communication and multimedia streaming. Going forward, the company's emphasis will be on incorporating decentralization technologies into its platform for live multimedia streaming and communications.



Last week, PeerStream reported full year 2017 revenue of $24.8 million, which represents an 18.4% year-over-year increase compared to $21.0 million registered in 2016. This growth largely reflects the positive impact of the company's October 2016 merger with privately-held AVM and the combination of revenue streams from the two companies, particularly the inclusion of revenue from the *FirstMet* product. This was partially offset by a decline in subscription and advertising revenue from the company's more mature *Paltalk* product. Of the 2017 revenue, $22.9 million came from subscriptions compared to $18.6 million in the prior year. This represents an annual increase of 22.8%, primarily reflecting the AVM merger, as noted. Another $1.9 million came from advertising, which compares to $2.3 million generated in 2016.

PeerStream reported a net loss from operations of roughly ($5.7) million for 2017, which included one-time expenses of about $815,000 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 2017 EBITDA was ($1.9) million versus $11,805 registered in 2016. Adjusted EBITDA included the above noted $815,000 non-recurring charges.

The company has identified about $3.0 million in redundant and non-core costs that it has eliminated. PeerStream expects to fully realize the benefits of this cost savings in 2018.

TECHNOLOGY SERVICE AGREEMENT WITH PROXIMAX

On March 8, 2018, the company introduced PeerStream Business Solutions to provide technology licensing, services and support to third parties for multimedia streaming and communications. The company expects PeerStream Business Solutions to develop a new B2B revenue stream leveraging its blockchain technology and capabilities.

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. Blockchain technology also 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.

PeerStream has entered into a technology services agreement with ProximaX to provide development services to facilitate ProximaX's implementation of PSP leveraging PeerStream's blockchain capabilities. PeerStream will license its technology solutions to enable ProximaX to supply multimedia streaming and communications. ProximaX will pay PeerStream up to $10.0 million, with $5.0 million of that related to an upcoming ICO (initial coin offering) that ProximaX intends to launch for its cryptocurrency.

ProximaX will pay an additional $5.0 million based on the achievement of certain milestones outlined in its agreement with PeerStream. If the ICO raises at least $30.0 million, ProximaX will also issue 2.4% of its outstanding crypto tokens in its upcoming ICO and will reserve an additional 2% that it will use to pay PeerStream for services in the future. These funds would further strengthen PeerStream's already clean balance sheet and allow it to continue to execute its strategy to leverage blockchain technology solutions for live streaming applications both for its own platform and for sales to third parties. These funds are not reflected in our 2018 forecast at the moment.

RECENT NEWS

PeerStream formed a technology licensing agreement with ProximaX Limited on March 22, 2018.

PeerStream reported 2017 results on March 22, 2018.

PeerStream changed its corporate name on March 12, 2018.

PeerStream hosted a blockchain investor event on January 17, 2018.

PeerStream announced a new open-platform blockchain development initiative on January 11, 2018.

PeerStream announced the appointment of Lon Wong to its blockchain advisory board on January 03, 2018.

On December 21, 2017, PeerStream selected NEM to support Backchannel.

The investment from Hershey Strategic Capital was announced on December 20, 2017.

On December 4, 2017, PeerStream announced its newly formed relationship with Gladius.

The appointment of Lou Kerner to PeerStream's blockchain advisory board was announced on November 28, 2017.

RISKS

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

- New PeerStream products and apps, including Backchannel, might not gain traction as quickly as the company expects.
- Competition is steep. PeerStream might not be able to convert its users into active subscribers or user retention could deteriorate, reflecting rising competition, among other factors.
- PeerStream's older products that are already somewhat mature might experience greater than anticipated usage and revenue declines.
- It may be early to purchase PEER shares. Although the company is an early mover in the blockchain space, the results of its initiatives might not become evident for some time, in our view.
- The development of Backchannel might take longer than expected, which could delay its launch.

PROJECTED INCOME STATEMENT

PeerStream Income Statement & Projections ($)

	1Q17	2Q17A	3Q17A	4Q17A	2017A	1Q18E	2Q18E	3Q18E	4Q18E	2018E
Subscription revenue	$6,223,685	$5,742,707	$5,447,119	$5,485,019	$22,898,530	$5,412,408	$6,012,407	$6,912,408	$9,312,408	$27,649,630
Advertising revenue	495,267	496,882	480,356	470,248	1,942,753	485,000	473,000	550,468	693,404	2,201,871
Total revenue	6,718,952	6,239,589	5,927,475	5,955,267	24,841,283	5,897,408	6,485,407	7,462,875	10,005,812	29,851,502
Costs of revenue	1,282,505	1,242,819	1,228,198	1,107,793	4,861,315	1,129,949	1,152,548	1,555,292	2,383,378	6,221,167
Sales and marketing	2,230,492	2,135,951	1,944,488	1,536,304	7,847,235	1,567,030	1,880,436	2,056,347	2,721,576	8,225,389
Product development	2,211,344	2,206,440	2,217,777	2,282,848	8,918,409	2,328,505	2,375,075	2,124,153	1,668,879	8,496,612
General and administrative	2,070,127	2,116,498	2,549,112	2,138,652	8,874,389	2,181,425	2,225,054	1,959,032	1,470,618	7,836,129
Total costs and expenses	7,794,468	7,701,708	7,939,575	7,065,597	30,501,348	7,206,909	7,633,113	7,694,824	8,244,451	30,779,296
Operating income/(loss)	(1,075,516)	(1,462,119)	(2,012,100)	(1,110,330)	(5,660,065)	(1,309,501)	(1,147,706)	(231,949)	1,761,361	(927,795)
Interest income /(expense)	36,813	(4,845)	7,765	1,984	41,717	10,484	10,484	10,484	10,484	41,937
Other	-	17,910	-	(64,843)	(46,933)	-	-	-		-
Pretax income /(loss)	(1,038,703)	(1,484,964)	(2,004,335)	(1,137,279)	(5,665,281)	(1,299,017)	(1,137,221)	(221,464)	1,771,845	(885,858)
Taxes				(228,972)	(228,972)	-	-	-		
Net loss	(1,038,703)	(1,484,964)	(2,004,335)	(1,366,251)	(5,894,253)	(1,299,017)	(1,137,221)	(221,464)	1,771,845	(885,858)
Per share data:										
LPS	($0.15)	($0.22)	($0.31)	($0.23)	($0.91)	($0.20)	($0.17)	($0.03)	$0.26	($0.13)
Avg shares out	6,714,915	6,715,574	6,452,292	5,927,543	6,452,581	6,565,498	6,585,498	6,775,300	6,875,498	6,700,448

Source: Company reports *Post AVM merger

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BALANCE SHEET AND CASH FLOW STATEMENT

PeerStream Balance Sheet ($)

	2015	2016	1Q17	2Q17	3Q17	2017
Cash & equivalents	$6,676,557	$4,162,596	$5,023,964	$4,614,619	$3,300,267	$4,137,050
Credit card holdback receivable	150,000	172,169	173,579	168,960	157,250	140,789
Accounts receivable	832,621	958,695	685,313	646,095	529,593	479,148
Prepaid expense & other	1,017,879	1,047,483	399,618	406,788	472,684	228,296
Total current assets	8,677,057	6,340,943	6,282,474	5,836,462	4,459,794	4,985,283
Property & equipment	917,720	793,305	725,263	657,010	635,160	622,712
Goodwill	4,344,650	14,304,667	14,304,667	14,304,667	13,086,472	13,086,472
Intangible assets	2,487,698	5,605,193	5,184,005	4,762,818	4,341,630	3,920,443
Long term security deposits	82,083	397,608	131,547	141,807		97,270
Deferred tax asset	754,535	-	-			
Other	-	82,435	84,428	85,115	118,621	52,267
Total assets	**$17,263,743**	**$27,524,151**	**$26,712,384**	**$25,787,879**	**$22,641,677**	**$22,764,447**
Accounts payable	667,782	1,665,831	2,235,582	2,451,624	1,961,950	2,374,253
Accrued expenses & other	897,091	472,406	161,652	248,648	689,022	405,646
Deferred subscription revenue	2,262,818	2,828,827	2,748,350	2,600,388	2,624,018	2,553,826
Total current liabilities	3,827,691	4,967,064	5,145,584	5,300,660	5,274,990	5,333,725
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**	**$5,333,725**
Total stockholders' equity	**$13,302,052**	**$20,843,462**	**$20,114,461**	**$19,034,880**	**$17,366,687**	**$17,430,722**
Total liabilities & stockholders' equity	**$17,263,743**	**$27,524,151**	**$26,712,384**	**$25,787,879**	**$22,641,677**	**$22,764,447**

Source: Company reports

PeerStream Statement of Cash Flow ($)

	2015	2016	1Q17	2Q17	3Q17	2017
Net loss	(265,926)	(1,452,776)	(1,038,703)	(2,522,669)	(4,528,002)	(5,894,253)
Depreciation of property & equipment	383,167	568,028	130,637	253,547	355,348	447,746
Amortization of intangible assets	552,333	834,505	421,188	842,375	1,263,563	1,684,750
Stock-based compensation	206,571	353,120	309,702	694,287	1,033,143	1,579,921
Change in fair value of contingent liability	-	(134,000)	-			-
Other				34,194	114,644	56,281
Changes in working capital	(780,183)	(575,528)	1,120,276	1,318,904	1,101,027	1,394,797
Cash from operations	**95,962**	**(406,651)**	**943,100**	**620,638**	**(660,277)**	**(730,758)**
						-
Property & equipment purchases	(488,154)	(345,070)	(62,595)	(134,326)	(214,277)	(294,227)
Cash from the merger after note payment	-	(1,739,506)	(1,993)	-		
Other	-	-	-	-	75,000	75,000
Cash from investing	**(488,154)**	**(2,084,576)**	**(64,588)**	**(134,326)**	**(139,277)**	**(219,227)**
Payments of capital leases	-	(22,734)	(17,144)	(34,289)	(62,775)	(75,561)
Repayment of note payable	(490,000)	-	-	-	-	
Other	-	-	-	-	-	1,000,000
Cash from financing	**(490,000)**	**(22,734)**	**(17,144)**	**(34,289)**	**(62,775)**	**924,439**
Net change in cash & equivalents	**(882,192)**	**(2,513,961)**	**861,368**	**452,023**	**(862,329)**	**(25,546)**

Source: Company reports

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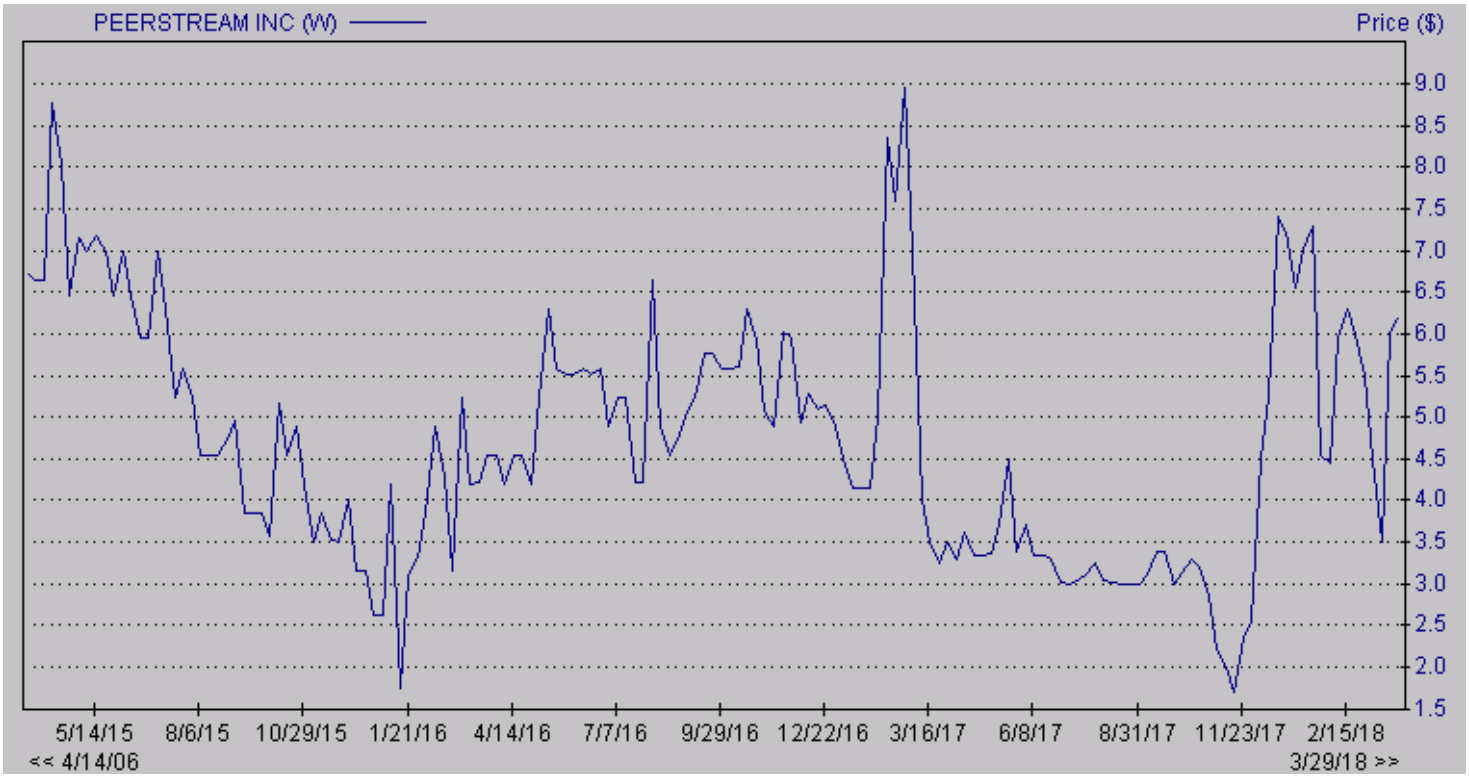

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