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Zacks Small-Cap Research

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Snap Interactive (STVI-OTC)

STVI: Blockchain Strategy Advances - Outlining Recent Measures

Since announcing a new blockchain strategy last month, Snap Interactive has made progress with this initiative, including appointing blockchain experts to its blockchain advisory board and forging relationships with complementary blockchain players. Snap also received a $1.0m investment from a new institutional investor.

OUTLOOK

Leveraging its blockchain development team and relationships with new partners, the company intends to develop new blockchain-based products that utilize its live video platform. Backchannel, a product currently in development, will be a blockchain-supported private and secure platform for video-enabled messaging and interaction. It is expected to launch in the fourth quarter of 2018.

Current Price (01/17/18)	$6.51
Valuation	**$9.00**

SUMMARY DATA

52-Week High	**$9.20**
52-Week Low	**$1.50**
One-Year Return (%)	**55.00**
Beta	**0.99**
Average Daily Volume (sh)	**7,095**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$42**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
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 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 E	25 E
2018					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	-$0.25 E	-$0.94 E
2018					-$0.12 E
2019					

Quarters might not sum to annual reflecting rounding.

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KEY POINTS

- Since announcing a new blockchain strategy last month, Snap Interactive has made progress with this initiative, including appointing blockchain experts to its Blockchain Advisory Board and forging relationships with complementary blockchain players. Reflecting the company's progress, Snap also received an investment from a new institutional investor.

- Snap has appointed Michael Jones, Lou Kerner and Lon Wong to its blockchain advisory board. All three have substantial blockchain experience, according to Snap, and can advise the company on the strategic development of its blockchain and crypto initiatives.

- Snap is developing Backchannel, which will offer video-enabled secure messaging. To support Backchannel and other future apps, Snap also forged a product development agreement with Gladius Network, a blockchain cybersecurity specialist. The company expects to launch Backchannel in the fourth quarter of 2018.

- The company also completed a $1.0 million private placement with Hershey Strategic Capital and has earmarked the funds to accelerate its blockchain strategy.

- Snap shares have advanced some 189% since the company originally announced its blockchain strategy, but nevertheless still trade at a discount to those of key peer groups.

BLOCKCHAIN STRATEGY ADVANCES: RECENT MEASURES

Since announcing a new blockchain strategy last month, Snap Interactive has made progress with this initiative, including appointing blockchain experts to its Blockchain Advisory Board and forging relationships with complementary blockchain players. Reflecting the company's progress, Snap also received an investment from a new institutional investor.

Snap has appointed Lou Kerner and Lon Wong to its blockchain advisory board. They join inaugural blockchain advisory board member Michael Jones. He was formerly the CEO of MySpace. He co-founded and is CEO of Science Inc., a science blockchain incubator that has participated in more than $2.5 billion of 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. According to Snap, he is also an expert on blockchain.

The goal is to have the board advise Snap on the strategic development of its blockchain and crypto initiatives. Lou Kerner is a Wall Street veteran and, according to online publisher Medium, a crypto expert. He has been involved in the overall blockchain space in some capacity since 2013, according to the company. He is a partner at CryptoOracle.io, which engages in venture capital investing and focuses on the emerging cryptocurrency space. Prior to this, he was a well-recognized equity analyst at Goldman Sachs and Merrill Lynch. Lon Wong is president of the NEM.io Foundation, which created the NEM blockchain platform. The Singapore-based NEM.io Foundation promotes the use of NEM blockchain technology, which debuted in 2015 as a peer-to-peer (P2P) cryptocurrency and blockchain platform.

According to Coin Journal, NEM has incorporated new features in blockchain such as a proof-of-importance algorithm, multi-signature accounts and encrypted messaging. NEM's cryptocurrency, XEM, ranks among the top-10 global cryptocurrencies by market capitalization. Snap expects its Advisory Board members will help it develop Backchannel, a secure video messaging application,

and further additional blockchain initiatives. The company also expects to further integrate blockchain-based technology into its existing core video products, Paltalk and Camfrog.

Snap has chosen NEM to support its blockchain infrastructure and Backchannel, which the company expects to launch in the fourth quarter of 2018. Backchannel will offer video-enabled secure messaging, including advanced security features that other secure messaging apps currently do not contain such as anonymous crypto identity authentication and distributed decentralized message routing. These features provide access without requiring the use of passwords and, according to Snap, eliminate the security hazard of external middleman servers.

Snap has also forged a product development agreement with Gladius Network, a blockchain cybersecurity developer. Gladius is developing a decentralized solution to protect against DDoS (Distributed Denial of Service) attacks. The two companies will focus on accelerating the development of Gladius's security solutions and Snap's Backchannel, as well as identifying future joint opportunities. Snap will also invest an undisclosed sum in Gladius's upcoming Initial Coin Offering (ICO).

On the back of these blockchain initiatives, the company completed a private placement for $1.0 million – 200,000 STVI shares at $5.00 per share – to Hershey Strategic Capital, LP. Hershey Strategic Capital's Adam Hershey has also agreed to advise Snap on its capital markets strategy. The company believes the funds will enable it to accelerate its blockchain strategy.

The first step in Snap's blockchain strategy was to integrate the acceptance of bitcoin payments. The company also intends to develop blockchain-based new products, such as Backchannel, 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.

Snap also announced the development of an open source delivery platform to provide access to third-party developers and enable them to adapt their applications to leverage Snap's live streaming video, voice and data capabilities. It is expected to be a multi-media platform that integrates blockchain-backed enhanced security.

STVI Shares

Snap shares have advanced some 189% since the company originally announced its blockchain plan and on the back of the $1.0 million Hershey Strategic Capital investment. This compares to an 8% advance for the Nasdaq. In our initiation report, we indicated that STVI shares traded at a discount to those of competitors in the dating and social media sectors.

At this early point, the company's video-enabled social media and online dating apps are still its core products. As the results of Snap's blockchain initiatives become more evident – especially after the upcoming Backchannel launch – we believe other blockchain and cryptocurrency players will form another key benchmark group. Importantly, even at their current $6.51 price, STVI shares remain at a discount to the groups noted above, with potential further upside from blockchain, we believe. Even at a potential price of $9.00, Snap shares would still trade at a discount.

SNAP BACKCHANNEL

With Snap integrating blockchain and cryptocurrency applications to existing products, including bitcoin acceptance at Camfrog and Tinychat, Snap is an early mover in the blockchain space. Blockchain is viewed as a secure option for financial transactions that also provides flexibility and scalability. Snap also has an upcoming new product in development, Backchannel.

The company expects Backchannel to support secure video-enabled one-to-one and group messaging leveraging crypto identity. In conjunction with Gladius technology, Backchannel will not require personally identifiable information. Instead, it will use blockchain crypto addresses to identity users, which will create a private and secure platform for video-enabled messaging and interaction. It is expected to launch as a freemium application that will enable crypto token micropayments for premium features and, most likely, for in-app purchases, we believe. It will also be decentralized, requiring no middleman servers.

RECENT NEWS

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

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

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

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

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

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

RISKS

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

- New Snap products and apps, including Backchannel, might not gain traction as quickly as the company expects.
- 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.
- 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. 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

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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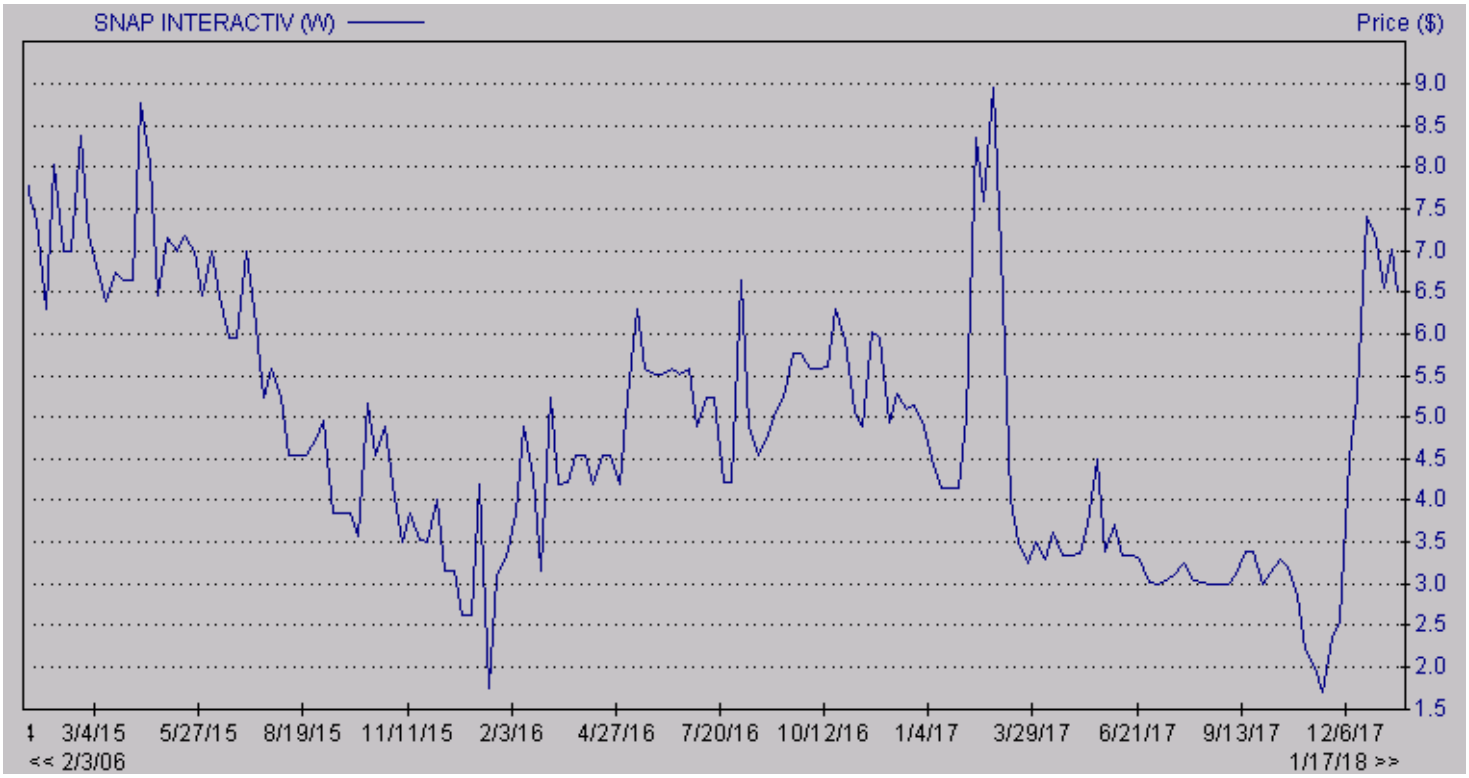
Snap Interactive Statement of Cash Flow ($)

	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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