January 19, 2018

Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

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

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

Snap Interactive (STVI-OTC)

STVI: Takeaways From Snap's Blockchain Event

Earlier this week, Snap Interactive hosted a blockchain investor event, *Public Blockchain Companies: How to Play the High Growth Blockchain Thesis in the Stock Market*. We present our key takeaways in this update.

OUTLOOK

With a new blockchain strategy in place, Snap Interactive intends to develop new blockchain-based products that utilize its live video platform. Currently, the company is developing a new product called Backchannel that will be a blockchain- supported private and secure platform for video-enabled messaging and interaction. Backchannel is expected to launch in the fourth quarter of 2018.

Current Price (01/18/18)	$6.50
Valuation	**$9.00**

SUMMARY DATA

52-Week High	**$9.20**
52-Week Low	**$1.50**
One-Year Return (%)	**56.63**
Beta	**0.99**
Average Daily Volume (sh)	**7,077**
Shares Outstanding (mil)	**7**
Market Capitalization ($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.

Disclosures begin on page 10.

© Copyright 2018, Zacks Investment Research. All Rights Reserved.

KEY POINTS

Earlier this week, Snap Interactive hosted a blockchain investor event, *Public Blockchain Companies: How to Play the High Growth Blockchain Thesis in the Stock Market*. We present our key takeaways in this update.

- 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.

- Blockchain and digital cryptocurrencies are at extremely early stages in their adoption and development. At this point, significant volatility in trading patterns is likely. Over the longer term, however, the volatility will be seen as mere blips in an overall upward trajectory.

- Public companies are well-equipped in the blockchain world because they are already accustomed to regulatory oversight and multiple administrative functions and are set up to provide transparency to regulators and their investors.

- Many players that have entered the blockchain space with no real or meaningful business plan will ultimately exit, which will be good for both surviving participants and investors.

- The opinion of several panelists is that there is no "killer app" yet for blockchain and digital cryptocurrency, but such an app will emerge.

- The many advantages of the decentralized architecture of blockchain include the difficulty of hacking this type of configuration and enhanced privacy and security, as well as cost reductions that it provides.

EVENT FEATURED MANY KNOWLEDGABLE PARTICIPANTS

Snap Interactive hosted a blockchain investor event earlier this week that Zacks co-hosted. The event was well-attended and featured several knowledgeable speakers who discussed the outlook for blockchain and cryptocurrency. We present our key takeaways in this update.

Snap Interactive's CEO Alexander Harrington kicked off the presentations with a brief description of the company and its recent move into the blockchain space. Snap has a development team that seeks to leverage the technology. Among Snap's first steps were the integration of bitcoin payment acceptance, establishment of a specific blockchain advisory board and entrance into the first of potentially several strategic partnerships. The company intends to develop blockchain-based new products that leverage its live video platform. Snap has also announced the development of an open source delivery platform to provide access to third-party developers to enable them to adapt their applications to leverage Snap's live streaming video, voice and data capabilities.

Keynote speaker Lou Kerner, who sits on Snap's blockchain advisory board, followed. 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 and is a partner at CryptoOracle.io, which engages in venture capital investing focusing on the emerging cryptocurrency space. In discussing blockchain and crypto, he quoted Amara's *Law* that "We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run." The implication is that we are at the early stages of what he believes will be a major transition reflecting growing future adoption of crypto and blockchain.

The first panel, *The Opportunities and Issues of Being Public in the Blockchain World*, consisted of Snap's CEO, an executive from On-Line Blockchain PLC, a UK-based emerging technology incubation company that describes itself as "incubating and developing the future developers, administrators and custodians of blockchains and cryptocurrencies," and an independent board member of BTCS, a public blockchain technology focused company. The topic of the second panel was *The Opportunities and Potential Pitfalls of the Blockchain Arena*. Panelists included a partner at law firm Pryor Cashman, the founder and CEO of PCG Advisory Group, which has become extremely involved in this space, and an advisor to Canada's publically traded Global Blockchain Technologies.

KEY TAKEAWAYS

While opinions differed on specific applications or timing, the overall outlook for blockchain and crypto was extremely positive. We present our key takeaways below.

Blockchain is separate and distinct from crypto. Blockchain is the underlying digital architecture that supports many digital cryptocurrencies, including Bitcoin, Ethereum and Litecoin. 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.

However, blockchain technology has much 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. According to event-participant BTCS, "More than just the foundational basis for digital currency, the blockchain has the ability to impact all industries on a global basis that rely on or utilize record keeping and require trust."

Moderator Lou Kerner cited CB Insights, which notes that "banking and payments aren't the only industries that could be affected by blockchain tech. Law enforcement, ride hailing, and many other sectors could also have blockchain in their future." He presented a slide outlining the 30 large industries that CB Insights believes blockchain could transform.

30 Big Industries Blockchain Could Transform

1	Banking	16	Cloud Storage
2	Payments & Money Transfer	17	Energy Management
3	Cybersecurity	18	Sports Management
4	Education & Academia	19	Gift Cards & Loyalty Programs
5	Voting	20	Government & Public Records
6	Car Leasing & Sales	21	Gun Tracking
7	Networking & IoT	22	Wills & Inheritances
8	Forecasting	23	Retail
9	Music/Entertainment Rights & IP	24	Charity
10	Ride Sharing	25	Law Enforcement
11	Stock Trading	26	Human Resources
12	Real Estate	27	Business & Corporate Governance
13	Insurance	28	Credit Histories
14	Healthcare	29	3D Printing / Manufacturing
15	Supply Chain Management	30	Crowdfunding

Source: CB Insights

Blockchain and crypto are at early stages. Blockchain and cryptocurrencies are at extremely early stages of development at this point. Significant volatility in their trading patterns is likely, according to many of the speakers. However, over the longer term, the volatility will be seen as blips instead of major movements. Lou Kerner likened the trading pattern to that of shares of Amazon in its early days as a public company. As the moderator noted in citing Amara's *Law*, "We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run." As noted earlier, the takeaway is that we are at the early stages of what he believes will be a major transition reflecting growing future adoption of crypto and blockchain.

Public companies well-equipped in the blockchain world. Public companies are equipped to participate in the blockchain world because they are accustomed to regulatory oversight and a myriad of administrative functions. Public companies are also generally subject to the reporting and other requirements and are set up to provide transparency to government regulators and their investors.

Many players will exit the blockchain space. Many of the marginal players that have jumped into the blockchain space reflecting expected windfalls will ultimately exit, as they do not have real or meaningful business plans. By comparison, Snap has a blockchain development team and blockchain advisory board, as noted, to help the company identify and develop blockchain applications. The anticipated exit by marginal players will be positive for the overall industry and for investors.

There is no "killer app" yet for blockchain. Some speakers feel that there is no "killer app" yet for blockchain, although most believe there will be**.** One panelist pointed to email as among the original killer apps for internet adoption. Lou Kerner noted a Saturday Night Live video, *Lazy Sunday*, which was uploaded to YouTube and was responsible, he said, for raising awareness, driving traffic and essentially cementing the popularity that, in turn, ultimately led to its $1.65 billion buyout by Google.

Advantage of decentralized architecture. Some speakers stressed the advantages of the decentralized architecture in using a blockchain platform. With myriads of players contributing bandwidth in exchange for cryptocurrency, the architecture avoids reliance on one key central server provider. Among the many advantages, this configuration makes it more difficult to hack and can lead to cost reductions. Moreover, it also enhances the security around privacy. For example, Snap envisions its product in development, Backchannel, as "harnessing blockchain for complete privacy" and notes that it will leverage "crypto identity and decentralization to promote free speech and serve privacy-minded end users."

RECENT NEWS

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

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

© Copyright 2018, Zacks Investment Research. All Rights Reserved.

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

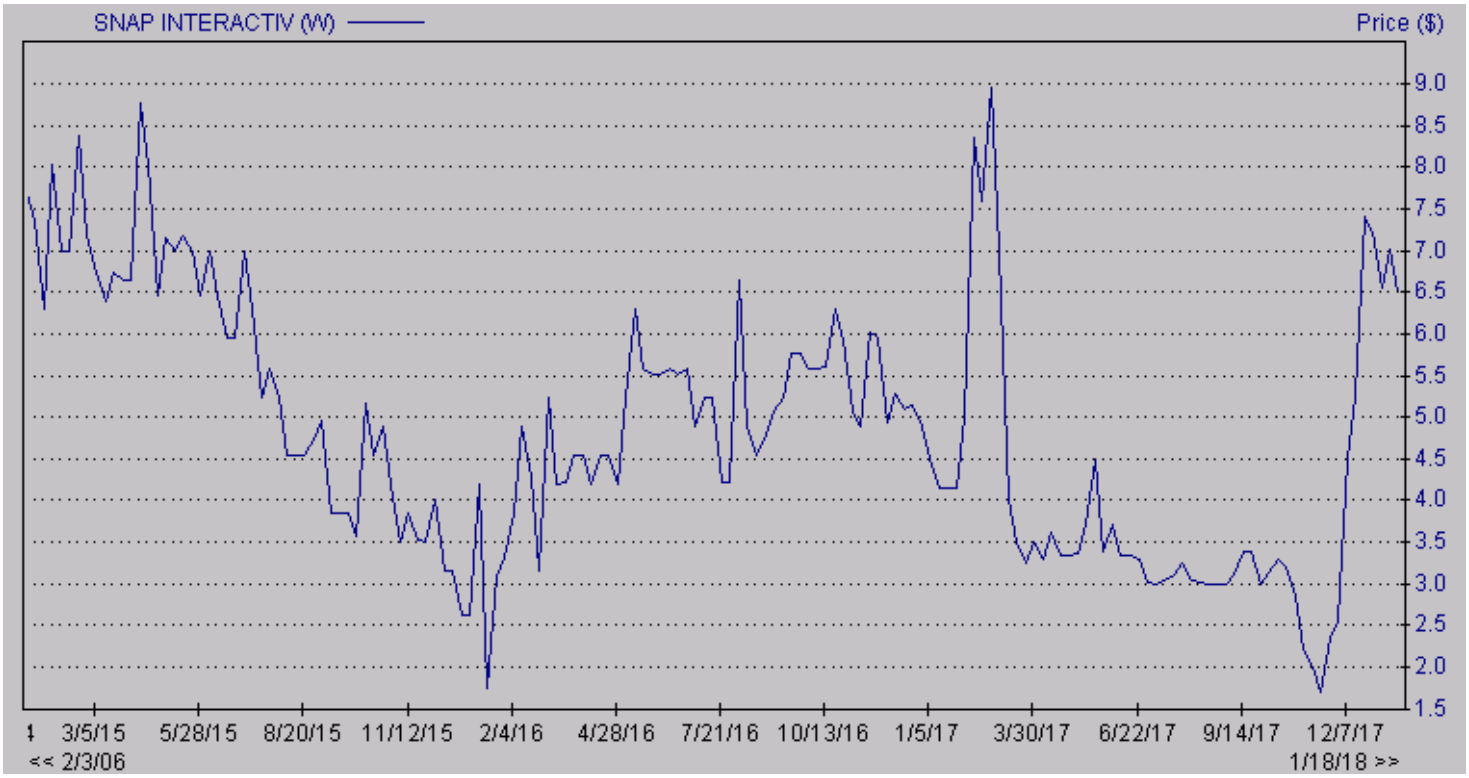
© Copyright 2018, Zacks Investment Research. All Rights Reserved.

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



DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, M. Marin, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.