



**Snap Interactive, Inc.**

**Third Quarter 2015 Earnings Conference Call**

**November 17, 2015**

## CORPORATE PARTICIPANTS

**Alex Harrington**, *President, Chief Executive Officer*

**Todd Fromer**, *KCSA Strategic Communications*

## PRESENTATION

### **Operator:**

Good day and welcome to the Snap Interactive Third Quarter 2015 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Todd Fromer of KCSA Strategic Communications. Please go ahead, sir.

### **Todd Fromer:**

Thank you. Good morning and welcome to the Snap Interactive Third Quarter 2015 Earnings and Business Update Call. Again, my name is Todd Fromer and I am with KCSA Strategic Communications, Investor Relations counsel to Snap Interactive. Earlier today, we issued a presentation to accompany this call. The presentation can be accessed on the Company's IR website at [snapinteractive.com](http://snapinteractive.com) under the Presentations and Events page.

I'd like to inform everyone in attendance that certain statements made during today's conference call that are not statements of historical fact, including those concerning future plans, objectives, goals, strategies or performance, are forward-looking statements. These statements reflect the Company's good faith beliefs and judgments based upon currently available information only as of the date of this conference call. These statements are subject to risks, uncertainties and other factors that could cause our actual results to differ materially from our current expectations. These factors include those described in the Risk Factors section of the Company's periodic reports that are filed with the Securities and Exchange Commission. Forward-looking statements are not guarantees of future performance and we expressly disclaim any obligation to update earlier statements as a result of new information, except as required by law.

Certain non-GAAP measures may be discussed during the course of the call, including Adjusted EBITDA and bookings. Adjusted EBITDA and bookings have been calculated consistent with the manner in which they are defined in our periodic reports filed with the Securities and Exchange Commission. Each of these measures has been reconciled to the nearest applicable GAAP measure in our earnings release and presentation materials, which are available on our website at [snapinteractive.com](http://snapinteractive.com).

Representing the Company today is Alex Harrington, Chief Executive Officer. Let me quickly outline the agenda for today's call. Alex will be providing some introductory remarks and a brief review of Snap's third quarter results, then provide an overview of the Company's business plan and strategic vision. After that, we will open the call to questions.

Now, with nothing further, Alex, the floor is yours.

**Alex Harrington:**

Thanks Todd, and thank you all for joining us today on the call. If you're following along in the investor deck, or the earnings deck that we posted on our website, I'll be cueing you on page turns. With that, why don't we turn to Page 4.

Let me start by introducing myself, as I'm new to the role of CEO at Snap. Prior to joining Snap about just over 20 months ago, I've had several roles growing and operating entrepreneurial digital businesses in the dating industry and the media industry. Some highlights include, I was the CEO of a venture-backed mobile dating pioneer called MeetMoi, that was sold in 2003 to Match.com. Prior to that, I served as SVP of Strategy and Operations at Zagat Survey, the restaurant and travel guide company, where I led the team in revamping the digital business, leading to an ultimate sale to Google. In a past life, I was an investment banker focusing on mergers and acquisitions and went to Wharton for business school.

With that out of the way, let's talk about the quarter and let's move on to Page 5. Today on this call, I'd like to review some highlights of the present quarter, but more importantly I want to share the longer-term strategy for the Company that I think is so exciting and that I think presents a great opportunity to realize value for shareholders. We'll touch on this in the next slide and go deeper in the second half of the presentation.

Let's turn to Slide 6. So, in September, we announced a strategic review during which we evaluated what we believe to be the best ways to maximize the value of the Snap enterprise. There were a few key outcomes. First, I was elevated to CEO and Cliff Lerner, our founder, took on the role of President of The Grade, which was a great way to leverage his talent in scaling up early-stage businesses. Also, we launched a brand-new business strategy for the Company. It's a strategy that puts at its centerpiece what we believe to be the Company's most valuable asset – its 30 million user database. This database has been under-commercialized, and we'll talk about some of the great growth opportunities to leverage this tremendous asset.

We're also determined to share this exciting business growth story to the investment community, so we're taking a much more proactive approach to investor relations going forward. In the medium- to longer-term objectives, we'll be realizing an appropriate equity appreciation and value for the Company and seeking to list on a national securities exchange. Finally, to accomplish all these goals, we're building out the Executive Team and the Board.

Let's move on to Page 7. Digging now into the quarterly results, the brightest highlight of the quarter was profitability. We saw Snap post its highest net income ever and show big gains in year-over-year income from operations. Adjusted EBITDA was \$382,000 for the quarter, an improvement of over \$200,000 from the same period in 2014.

If you'll flip to Page 8, we saw similar trends in cash flow. The third quarter produced strong positive cash flow from operations of approximately \$260,000 and overall cash and equivalents increased to approximately \$2.2 million. Right now, we believe our cash resources are sufficient to support our plan to launch our growth initiatives in the first half of 2016.

Moving on to Slide 9, one of the contributing factors to strong cash flow and profitability this quarter was a very conservative approach to our advertising and marketing investment in Q3. In anticipation of the rebranding of AYI, we scaled back our advertising and marketing expense, which contributed to lower subscription bookings and revenue in the quarter. We're expecting to continue this lean approach up through Q1 2016 re-launch of the newly rebranded AYI, so we anticipate some softness in revenue will continue for the next two quarters, though offset by incremental revenue from growth initiatives starting in Q1 2016.

On Slide 10, we highlight important product milestones. While we're working on the rebranding and re-launch of AYI, we continue to build the infrastructure to seek revenue opportunities in international markets. We now have foreign language translation capability on two of our three mobile platforms, recently launching a Spanish language mobile web version.

In The Grade, we have a new mobile app that targets a young, affluent audience, and we continue to be excited by the progress. The Grade surpassed a cumulative 30 million swipes in the third quarter and has really garnered some amazing press coverage, including the cover of the Wall Street Journal print edition on October 1, and just last night we were profiled on Fox News, the New York City Fox News affiliate on TV. For an app whose growth strategy is built on organic growth from press coverage and word of mouth, getting the cover page of the Wall Street Journal and TV placements is really a home run.

Moving to the next page, now we're going to segway to the business plan that we developed as part of our strategic review to maximize value for shareholders. What I'm hoping to convey is that we are playing in a large and exciting growth industry, and we have in Snap a strong platform upon which we can build a really valuable enterprise.

First on Page 11, we'll discuss the dating industry. Interactive dating is a large industry with massive headroom for growth. It's currently estimated at about \$4 billion globally. About half that market is in the US and half is overseas. But if you look at the US market, what's interesting is that recently-pollled Americans revealed that only 11% of American adults have tried online or mobile dating, but at the same time, nearly 60% of them think it's a good way to meet people. That suggests that in the near future, there is room for a multiplier effect in the scale of the industry as adoption catches up with attitudes. Finally, demographic trends are working in our favor. People just aren't getting married like they used to, and that, whatever you may think about that, bodes well for the industry.

Let's move on to Slide 13. As part of our strategic review, we considered how to align the Company's assets to maximize the value that we've already built and to unlock growth opportunities. Over the course of building AYI, the Company acquired tens of millions of users; however, AYI's subscription offers were really the only offer that we ever presented to this massive user base. What we've seen in the industry is the best way to commercialize a large database is to cross-sell multiple different brands and offers to those users. That's why Match Group has upwards of 45 brands. So, our new strategy puts the 30 million user database at the nucleus of an emerging portfolio of dating properties. On Page 14, we'll see that there are many facets to our growth strategy, putting the database at the core.

First, let's discuss The Grade. The Grade is going after a very lucrative opportunity – to seize the as-yet-unclaimed number two position in the market to Tinder, which is the leading mobile casual dating app. Tinder built what some analysts valued as a billion dollar enterprise before it even had a dime of revenue, and the number two position in that market would also be a very valuable spot to hold. Presently, we're very excited about the progress of The Grade. We're building it on a lean budget of PR and word of mouth, and the PR strategy has so far created a great deal of visibility for the brand and more than 100,000 downloads. We've been building a core audience in New York City, and following the model of Tinder, Instagram and many other social apps, we're not intending to introduce a revenue model until we build significant scale of usage.

Moving on to Slide 15, we believe an AYI rebranding is the simplest and fastest way to reinvigorate growth in the AYI enterprise, the AYI business, and reawaken the large database of users that has simply just grown fatigued by the old AYI offers. A re-launch would include a new brand with a refreshed look and feel, and some modest functional improvements coupled with an aggressive win-back strategy to get back those old users. We also anticipate that the new brand would lower our cost of acquisitions to acquire new users and add to the database. This rebrand is already underway and we expect the re-launched AYI to go live in Q1 2016.

Moving on to the next page, Page 16, we believe this is really the biggest opportunity. The best way to exploit the database for its full commercial potential is to cross-sell the audience with several brands. With two or more applications with similar revenue generation properties to AYI, there is an opportunity for a step change in revenue. The best part about the plan of introducing new products is that it leverages assets Snap already has. All it requires is time to execute. We have a highly scalable technical infrastructure that can be cloned, re-skinned and presented to the market as a new brand addressing a different but overlapping audience. It's essentially a cut and paste job of AYI under a new brand and addressing a new market.

Having the capability to launch new brands on five mobile and desktop platforms at once by leveraging this AYI infrastructure is a really big competitive advantage. Also, by cross-selling the 30 million user database, we incur very little incremental cost to the Company. Sending emails has almost zero marginal cost, and we don't expect a very large increase in overhead in maintaining parallel products, which means that incremental revenue from operating two revenue-generating businesses instead of one on the same database, most of that incremental revenue we'd expect to drop to the bottom line. So, expect—we're building—we've already started the planning process for the new product introduction and we'd expect that to launch in Q2 2016.

Moving on to the next page, Page 17, international. As we've discussed before, half the market for the interactive dating industry is outside of the US. AYI has been a global product. Approximately or nearly 50% of revenue comes from outside the US, but we've never invested in localizing the product in international markets. It's almost accidental that we've had that international success. It's only been available in English. This is changing now with the launch of foreign language translation capability now on both Android and the mobile web, with more platforms to follow. We've started with Spanish translation and are exploring other languages like Portuguese to build a revenue footprint in the fast-growing Latin American markets.

Moving on to mobile on Page 18, a big emphasis in my career has been in mobile. My last company was one of the first to bring online dating to mobile phones. Now mobile represents perhaps more than two-thirds of user activity in the interactive dating industry. That means making mobile a top priority at Snap isn't a choice, it's a necessity. Accordingly, we've been reengineering our Android and iPhone apps to dramatically reduce our development costs going forward. This makes it possible to make our mobile platforms the centerpiece of our mobile innovation. We also are anticipating migrating more and more marketing resources to mobile platforms throughout 2016.

Moving on now to Page 19, we expect to home grow most of our next portfolio products in the near term, but we think that acquisitions represent an important longer-term growth opportunity for Snap. The interactive dating industry is incredibly fragmented, with some 8,000 competitors by some estimates. Match Group grew in part through acquisitions. They saw a lot of success with that approach, but most of the large companies that would move the needle for a Match Group have already been acquired. There are many, many smaller companies that would fall under Match Group's radar that would be good candidates for Snap to acquire. With a public stock as a currency, a scalable technology infrastructure and a large database to cross-sell into new brands, a more fully-valued Snap would be an effective industry consolidator. It could take a lot of overhead out of some of these smaller businesses in consolidation.

On the next page, Page 20, we highlight what a future Snap portfolio would look like. There are many different niches to operate in. We're already playing in what we believe are the two most important niches, the general interest category – the analogy with Match Group would be Match.com, and for us that's AYI, and the mobile app category addressing the millennium market. For Match, that's Tinder, and for us, that's The Grade. But, there are many other attractive segments of the market. We highlight specifically here seniors, various ethnic niches, marriage sites, as well as brands targeting international

opportunities. The list goes on and on. We believe there is a lot of running room in the portfolio strategy to build scale, and that's why Match has built a portfolio of over 45 brands.

On the next page, Page 21, all of these efforts will be reinforced and supported by initiatives at the corporate level as well. As discussed earlier, we're building out the Executive Team and the Board of Directors, and we're building our outreach to investors, including these now-regular earnings calls. We're going to try to leverage the enthusiasm that the market feels towards the interactive dating industry with the impending IPO of the Match Group and all of the attention that will bring to the industry. We believe there has never been a better time to be in this industry and we're hoping the momentum and the strength of our growth story and operational results collectively paves the way to a full value for the Company and an uplift to a national securities exchange.

Finally on Page 22, in conclusion, it's a growth industry at a pivotal moment. We've got a large audience and a scalable platform. The portfolio approach is a proven model and we have all the ingredients we need. We have proven results in launching new products and running entrepreneurial businesses. I'm only a month into my new role here, but I believe we've mapped out an exciting path forward for the Company.

So, that concludes my prepared remarks. At this point, now, we can turn it over for questions.

**Operator:**

If you'd like to ask a question, please signal by pressing star, one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is disengaged to allow your signal to reach our equipment. Once again, that is star, one to signal for a question. We'll pause for just a moment to assemble the queue.

Again, that is star, one for questions.

It appears there are no questions at this time. I will turn the call back over to Alex Harrington, Chief Executive Officer for any additional or closing remarks.

**Alex Harrington:**

Well, thanks everyone for participating in today's conference call. If you have further questions, feel free to reach out to me or to KCSA. We thank you for your interest and support and look forward to continuing to update you on our progress in the future. With that, we can conclude. Thank you.

**Operator:**

This does conclude today's conference. We thank you for your participation. You may now disconnect.