SNAP Interactive, Inc.

Fourth Quarter and Full Year 2015 Earnings Conference Call

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CORPORATE PARTICIPANTS

Brad Nelson, *Investor Relations, KCSA Strategic Communications*

Alex Harrington, *Chief Executive Officer and Chief Financial Officer*

Mark Brooks, *Chief Executive Officer, Courtland Brooks*

PRESENTATION

Operator:

Good day, everyone. Welcome to the SNAP Interactive Fourth Quarter and Full Year 2015 Earnings Conference Call. Today's call is being recorded.

At this time, I'd like to turn the conference over to Mr. Brad Nelson of KCSA Strategic Communications. Please go ahead, sir.

Brad Nelson:

Thank you. Good afternoon, and welcome to the SNAP Interactive 2015 fourth quarter and year-end earnings and business update call. Again, my name is Brad Nelson, and I'm Strategic Investor Relations Counsel to KCSA.

Earlier today, SNAP issued a presentation to accompany this call. The presentation can be accessed on the Company's IR website at snap-interactive.com under the Presentations & Events page. It also can be downloaded on the left-hand side of the Company's home page and it's also available on the Company's Quarterly Earnings page

Today's call will consist of a presentation by Alex Harrington, the Chief Executive Officer and Chief Financial Officer of SNAP Interactive, followed by a presentation on the Internet dating industry by Mark Brooks, CEO at Courtland Brooks, a consulting firm exclusively working with companies in the Internet dating industry.

The views and opinions expressed in Mr. Brooks' presentation are his own and do not necessarily reflect those of the Company or Mr. Harrington.

I'd also 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 good faith, beliefs and judgments of the Company or Mr. Brooks as applicable, 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 current expectations. With respect to remarks made on behalf of the Company, these factors include those described in the Risks 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 each of the Company and Mr. Brooks expressly disclaim any obligation to update earlier statements as a result of new information, except as required by law.

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Certain non-GAAP measures may be discussed during Mr. Harrington's presentation, including Adjusted EBITDA and bookings. Adjusted EBITDA and bookings have been calculated consistent with the manner in which they are defined in the Company's periodic reports filed with the Securities and Exchange Commission. Each of these measures have been reconciled with the nearest applicable GAAP measure in the Company's earnings release, which is available again on SNAP Interactive's website.

With that, I'll turn the call over to Alex.

Alex Harrington:

I'm sorry, I think we may have had some difficulties with the audiovisual. I'm going to start back on Page 6.

Two thousand fifteen was a transformative year for SNAP with change in leadership, governance and strategy and other important milestones that we believe lay the groundwork for future success. In September 2015, we undertook a strategic review, the result of which was Alex Harrington, I was appointed to the CEO role in October. We committed to appointing a second and third independent Director to the Board through which we appointed Neil Foster and Judy Krandel in December and March, respectively, and we adopted a new corporate growth strategy. Finally we created a new brand for our core products and rebuilt and re-launched its mobile apps.

If you'll advance to Page 6, we'll talk in greater detail about the strategy. In a strategic review we determined that SNAP's 30 million user database which is one of the largest in the industry was an untapped engine for growth. The proven industry approach to monetize a large user database is to develop a portfolio of products to address a fragmented consumer market with an array of strong brands. Match Group for example has 45 plus brands. This strategy puts our strongest asset, our database— the center because users can be cross-sold across products

The key point here is we believe that monetizing a database will fuel growth in a capital efficient way, leveraging assets that we already have as opposed to a capital intensive ramp in marketing budget; which we expect would be the fastest way to grow, but it's not an option at present given capital constraints.

The new strategy also laid out clear short-term objectives: effective rebrand to reactivate dormant users, reserve cash by cutting expenses and reducing marketing investment in a soon-to-be retired AYI brand and put mobile at the fore of our future product plan. I'm pleased that we've accomplished all of these short-term objectives since they were set in the fourth quarter, and I'll review each starting with the rebrand.

Please advance to Page 7. The first major milestone of my CEO tenure is delivering on the rebranding of the core product AYI. FirstMet launched at the beginning of March and we've been pleased with the reception. Why did we undertake the rebranding? We wanted a stronger brand in which we can build equity in a segment of the market that we address, adults over 35. The longer-term benefit of increased brand equity we hope will be lower cost of acquisition for new users. But there were also immediate benefits that we'll see if you advance to Page 8.

The results of launching the rebranding and simply sending announcement emails have been very strong in terms of reinvigorating the database. In the week following the launch, we attracted nearly three times the normal amount of inactive users. With this in mind, we haven't even begun our win-back campaigns for which we hope to reactivate millions of additional inactive users over the course of 2016.

If you now move to Slide 9, in anticipation of the rebrand, we began to cut marketing investment in AYI to keep dry power for subsequent investment for FirstMet. Q3 AYI advertising expense was down 50% compared to Q1 2015. We anticipated that this major cut was going to have a negative effect on revenue and we discussed that at our last earnings call. But we believe that subscription revenue, which was

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down for the year 9.4%, held up quite well in spite of that. Total revenue for the year came in at $12 million.

Another factor that weighed down revenues was currency exchange rates, which affects approximately 40% of our revenue base. Average exchange rates for 2015 was 13% worse than 2014, which reduced booking for 2015 by approximately 5.6%.

For these reasons we believe that the decline in revenues in 2015 was not driven by weakness in the business or in the market, but primarily by capital constraints and exogenous factors like currency.

There are exciting new developments related to revenue. If you flip to Page 10, we've already reversed the downward trend. Following November, we've been optimizing marketing spend, shifting resources to AYI leading into the rebrand, and improve recur rates for subscriptions. This resulted in two consecutive months of bookings growth plus a third month of preliminary February figures, which are up, are confirmed. Bookings are reconciled against GAAP revenues later in the presentation, but a simple way to think about booking are that they are the real time receipts from subscription sales.

Note that this chart excludes advertising revenue, which we cover on Slide 11. In advertising revenues we've seen meaningful increases over the last three quarters. Q4 2015 improved by 61% over the comparable period in 2014 and we saw sequential quarterly growth of 10%. These gains came simply from more ads and more advertisers.

Let's move to Slide 12 to progress further down the ledger. In 2015 we continued our cost discipline with further reduction in expenses. Total expenses were cut by approximately $1.9 million compared to 2014, which is how we improved profitability in the face of managed (phon) decline in revenues. Two thousand fifteen was nearly breakeven on the Adjusted EBITDA line, an improvement over 2014 of over $450,000.

On Slide 13, we discuss cash flow and balances for Q4. Q4 was approximately breakeven on cash. We held the cash balance nearly steady with a decrease of $20,000 from the third quarter. With continued lean operations, we believe cash resources are sufficient to support the growth initiatives we've outlined in 2016.

Moving on to Slide 14. Along with the rebranding, we recently rebuilt and relaunched the FirstMet mobile app. The underlying technology of the new app makes it much easier to make improvements going forward. This is key as we have an approach to product that requires constant experimentation and iteration. Now, mobile will be the place where we dedicate the bulk of that test-driven product innovation.

Our commitment to mobile continues on Slide 15 where we talk about The Grade, which is our mobile app targeted at millennials, which had its best ever quarter in Q4 in terms of user activity. Recently we've hit a milestone of approximately 53 million swipes as of March 2016. Though we believe the prospects for The Grade are bright, we're dedicating our resources right now on the FirstMet brand launch, which is the engine of revenue and cash flow for the Company. As a result, The Grade may decelerate in terms of user activity because of the shift in resources.

Moving on now, I'd like to cover the growth strategy. So I'd like to share the plan for the next year and beyond, which lays the foundation for a longer-term portfolio strategy. We think this plan, with in due course the application of additional capital, has a potential to grow the business dramatically.

Let's move to Slide 17. First, there is the rebrand. Though the FirstMet is already launched, we are really at the very beginning of our plan to reactivate users in the database. We intend to do this in the short-term with aggressive win-back campaigns. We expect this among other initiatives to be an affective catalyst for growth. But there are other long-term benefits to rebranding that we will expect to build on. As mentioned earlier, we think FirstMet is bankable brand, upon which we can build a large business in the attractive mature adult segment of the market; we're presenting as a dating service that is friendly, unintimidating and assist users in meeting each other. It's interactive dating on training wheels for

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middle-aged and older people and each cohort that is now turning to the category more than ever before. We're just getting started in building that brand and expect to reap the benefits from years to come.

On Slide 18, we discuss the opportunity to launch yet another brand. A new product launch is the next step in our portfolio strategy. With two or more applications with revenue-generating properties similar to FirstMet, there's an opportunity for a step-change in revenue. This plan leverages SNAP's existing assets; all it requires is time to execute. For example, FirstMet has a highly scalable infrastructure that can be cloned or reskinned and presented to the market as new brand addressing a different but overlapping audience. Our product platform allows us to launch new brands on five mobile and desktop platforms at once, which we anticipate will be a competitive advantage. New product subscriptions would be fueled by cross-selling the user database from which most incremental revenue will drop to the bottom line. We expect the next new product in the portfolio to launch in Q3 2016.

On the next page, international remains a big opportunity for us. Half the market for interactive dating is outside of the US. FirstMet up to this point has been a global product with approximately 40% of revenue coming from outside the US but until recently we've never localized through translation; it's only been available in English.

As of the FirstMet launch, all mobile platforms are available in both English and Spanish. We are also exploring other languages like Portuguese to build a revenue footprint in fast Latin American growing markets.

Moving on to the next page. Next is a focus on mobile, which has been a big emphasis of my career to date. My last company was one of the first to bring online dating to mobile phones. Now mobile represents more than 70% of user activity in the industry according to some sources. I mentioned how we relaunched our apps and I can't emphasize how important that will be in terms of allowing us to make mobile the focal point for our product innovation.

The older users—though our users skew older and are less mobile than the general population, FirstMet has well north of 50% mobile usage and that share keeps growing. We have to think mobile first. This new change to our product platform allows us to do that. We also anticipate marketing resources to continue to be devoted more and more to mobile in 2016.

Let's move now to a brief overview of the industry. Please advance to the Slide 22. As you might imagine, I'm very bullish on the industry and 2015 was a watershed year. We had the first US multi-billion dollar public market debut for a company in the dating space, Match, of course, one of the biggest private company exit ever in dating in PlentyOfFish, and among the highest years for venture investment in the space. There are also rumors that Momo, the so-called Tinder of China has renewed plans to go private and not the multi-billion dollar public company. So dating as a category has arrived at least as far as the investment community is concerned. But consumers have also flocked to the industry. According to Pew Research, user adoption climbed 36% between 2013 and 2015 to 15% of US adults. Some subpopulations have grown even faster. Market penetration of older adults 55 to 64 has doubled in that period.

Why this growth now if the industry is more than 20 years old? I believe it's because with the stigma gone of online dating and the arrival of mobile as the ideal computing platform for a personal activity like dating, the pace of adoption is accelerating. I see no reason why inside of the next decade the US market penetration couldn't grow by multiples reaching a majority of the population.

If you advance to the next page, I don't want to suggest that there have been no growing pains. The ascendancy of mobile and the meteoric rise of Tinder have changed the industry for sure. The biggest change is then to expand the appeal of the category though to the Millennial generation. Within interactive dating hadn't prior to that point been particularly popular, Pew Research reported a four-fold increase in the adoption of mobile dating apps by the 18 to 24-year-old population between 2013 and 2015.

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Tinder is also clearly popular among the 25 to 34 set, which have been the mainstay of the dating industry. If you're a traditional dating site targeting that audience, which most had besides AYI, the market got a lot more competitive. But the traditional subscription model is alive and well particularly in the older end of the market.

Premium dating sites have been coexisting with popular free alternatives like PlentyOfFish and OkCupid for over 10 years. We've seen the history that over time free products restrict certain features, insert pay walls to enlarge their revenue opportunity, which is already happening with Tinder.

So some segments of the market have been disrupted and the mainstream market has too many competitors to remain stable. The industry is abuzz with talk of consolidation and I think we will see some interesting M&A activity in the next 12 months. But the key takeaway is the industry adoption curve seems to be getting steeper, particularly in the older user spectrum where SNAP plays, but we feel good about the market conditions for success.

That concludes my prepared remarks. We've included GAAP reconciliations for your reference, but right now let's advance to Slide 27 for Mark Brooks' industry commentary. Mark, if you are ready, take it away.

Mark Brooks:

Thank you. So for the last 11 years, I've been speaking at the Internet dating conference. I remember back in 2006 was the very first mobile dating conference and back then there was Lavalife on SMS and Webdate on—as a Brew (inaudible) Brew app that was downloadable, one of the first. There was Match.com with their WAP app and all of the experiences were very lackluster mainly because the infrastructure wasn't there, the phones were—the number of phones that were being used was hugely fragmented and hard to design for and the apps weren't there. But these days—if you'd like to go to Slide 28—these days if you look at the worldwide comparison of Internet traffic, this—2017 is going to be a very interesting year because it's the first year that mobile—worldwide mobile traffic will exceed desktop traffic, and that's according to StatCounter.

If we'd like to proceed, this is Slide 29. Actually in India, the date has already come and gone. Back in 2012 mobile Internet traffic exceeded desktop. If you'd like to go to Slide 30, and this is a picture for North America. We are at around about a quarter thirds (phon) traffic (inaudible) stage.

If you'd like to go to Slide 31, the picture for mobile dating is the antithesis. This is usually indicative of something very key to mobile dating, and that is that really users are voting by going on mobile dating because I believe it's a superior experience. It's a superior experience because it's closer to what people want, it's closer to what people experience in the real world. The key to that is that when someone is communicating with someone they're interested in, they want to stay communicating with them and not wait until get they get home or in front of a computer. So it's a far more natural fit and I think that's a very—as indicated very clearly in this graph.

So what we see on this graph is that 73% as of November last year so more like three quarters of mobile traffic according to comScore is—on mobile dating traffic is mobile at this stage as compared to pretty much the opposite numbers on just in general Internet traffic versus desktop traffic. So I think if we look back in time, and the key reason why people have shifted from flat boring personals and newspapers it was twofold. For the first time, Make it Search (phon) back in the mid 90s when internet dating started at first, they could search. That was huge because you didn't want to have to troll through pages of personals, they could just say, hey, I'm interested in this and this, and that will pop a shortlist of people that met that criteria.

So search was very key to that transition in media. Secondary to that was communication. That is also very key to this new media transition that the industry has expressed through mobile. So if we look at Tinder, I think Tinder had a moment of enlightenment a couple months back, considered after reading

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Daniel Kahneman's book, *Thinking, Fast and Slow*, if you really think Tinder is yes, it's shareable, its (inaudible), it's fun, but more key to their success I think is the fact (inaudible) they're very System 1, they're very emotional. If you think about it their very interaction of swiping left and right, that is very simple and core (phon). I think only a transition to larger screens, people will want more. We'll be able to deliver more where technology is coming to fruition now that people will want better matching, they'll become more sophisticated and nuanced. We'll have to see if Tinder can keep up with that pace.

I think Tinder was key also—the acquisition of Tinder by Match Group was key to getting PlentyOfFish to sell. That again was very key for Match Group long term because now essentially they control the spigot of free to pay. PlentyOfFish was a free dating site and now they—well, they always had some element of free in them for the last two years. But now Matches has the control in that spigot of free to pay. I think that's very critical for the industry. But I think it's actually becoming more difficult to—for free dating sites to scale anyway. Especially as the mobile app marketplace is maturing, building to mass scale requires paid media. So free is less and less viable as we go along. So I think we'll see prices on mobile dating rise as the mobile segment matures in line with that. I think some dating sites have been rather slow to adopt—if you'd like to go to Slide 32—some dating sites have been rather slow to adopt mobile and as a consequence they're suffering.

I think the best placed in my humble opinion with dating (inaudible) right now is with innovative mobile dating capable services just because that's where the user experience, as we see from the prior graph, that's what people seem to be demanding and shifting towards.

So I think we match people based on who they tell us they are, and then what they say they want, but they often fib (phon), and don't really know what they want. So we do actually have to eventually observe behavior to know who they really are and what they really want. Key to that is mobile because mobile is that much closer to people and closer to be able to observe their behaviors and I think that is going to be very exciting for the future.

So if you'd like to transition to Slide 33, that wraps up my commentary. Thank you.

Alex Harrington:

Great, thank you. With that, we'll now open the call up to questions.

Operator:

Thank you, gentlemen. At this time, if you do have a question, that will be star, one on your phone. Again, star, one for questions. We'll pause for just a moment. Again, that will be star, one for questions at this time.

Gentlemen, we don't have any questions at this time.

Alex Harrington:

Great. Well thank you all for joining the call today. Any follow-on questions feel free to email ir@snap-interactive.com. Look forward to hearing from you and keeping you posted on our progress. Thank you.

Operator:

That will conclude today's conference. Again we thank you all for joining us.

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