



**PeerStream, Inc.**

**First Quarter 2018 Earnings Conference Call**

**May 9, 2018**

## C O R P O R A T E P A R T I C I P A N T S

**Michael Pritchard**, *Company Counsel, Haynes & Boone*

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

**Judy Krandel**, *Chief Financial Officer*

## C O N F E R E N C E C A L L P A R T I C I P A N T S

**Anthony Marchese**, *Private Investor*

## P R E S E N T A T I O N

### **Operator:**

Good day and welcome to the PeerStream, Inc. First Quarter 2018 Earnings Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Michael Pritchard, Company Counsel from Haynes & Boone. Please go ahead, sir.

### **Michael Pritchard:**

Good morning and welcome to the PeerStream, Inc., formerly known as Snap Interactive, Inc., First Quarter 2018 Earnings and Business Update Call. With me on the call today are Alex Harrington, Chief Executive Officer, and Judy Krandel, Chief Financial Officer.

Before I turn the call over to Management, I would like to remind everyone that earlier today we issued a presentation to accompany this call. This presentation can be accessed on the Company's website, [peerstream.com](http://peerstream.com), under the Events and Presentations tab of the Investors section.

I'd like to inform everyone 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 and are 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 actual results to differ materially from 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 the Company expressly disclaims 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 today's presentation, including Adjusted EBITDA. Adjusted EBITDA has been calculated consistent with the manner in which it is defined in PeerStream's periodic reports filed with the Securities and Exchange Commission. Adjusted EBITDA has been reconciled to the nearest applicable GAAP measure in this presentation and in Peer's earnings release, which will be made available during the course of this call.

With that, I'll turn the call over to Alex Harrington, Chief Executive Officer. Alex?

**Alex Harrington:**

Thanks, Michael, and thank you, all, for joining us today for the PeerStream Q1 2018 Earnings Call. I'm Alex Harrington, CEO of PeerStream.

As Michael said, I encourage you all to access the 2018 earnings call presentation available on our website, [peerstream.com](http://peerstream.com). It's in the Investors section under Events and Presentations. With that, let's flip to Page 3 and we can give a refresh on some recent developments in our business and some updates.

In March, we changed our corporate brand from Snap Interactive to PeerStream, and began trading under the ticker symbol, PEER. We think this is an important symbolic change for the Company. PeerStream as a brand bridges our innovative past and promising future with a common thread of connecting peers for multimedia streaming and communication experiences.

Since the founding of the Company, we've had a strong tech platform to power our own widely used social video app. In the last year, we've made investments to make that platform extensible and to serve third party developers and corporate clients. We now emerge as an innovator in blockchain in the field of multimedia streaming and communication, and our tech infrastructure now supports both our proprietary app and also forms the basis of a consulting and implementation services business for a blockchain business solutions offering.

Moving on to Slide 4, we show a diagrammatic view of this new organization. PeerStream's technology platform delivers live multimedia, communications, voice, video, data and text, and we've sent billions of rich media messages to nearly half a billion end users on our own social video app, and along the way, built a team of 75 developers, and accumulating a portfolio of 26 patents. Now with our recent blockchain integration, this tech platform supports both the consumer apps and the new Business Solutions group, as we've announced. We'll discuss further our first Business Solutions client, ProximaX, represents a breakthrough for the business.

Progressing now to Page 5, PeerStream is at the crossroads of two fast-growing markets: live multimedia streaming, and blockchain services. First off, the video streaming business is booming. Recent research identified digital video as a \$9 billion market, and a Cisco report estimated video consumption is growing so fast that it will take up 80% of total Internet traffic in 2019.

In an article called *The End of Typing*, the Wall Street Journal asserted that future Internet users will interact with their devices and peers entirely through voice and video, meaning multimedia streams could completely replace text communication at some point in a not-so-distant future. Mark Zuckerberg of Facebook has said several times he believes video is the next mega-trend, on par with mobile.

All of this video content growing so fast as it is, it's straining the existing Internet infrastructure. It's hard to find economical, scalable solutions to deliver high quality video, and to do so in a secure way that it's hardened against disruption and attack. These challenges we hope to address with our blockchain-enabled PeerStream Protocol.

On Page 6, we highlight the demand for blockchain business solutions. Corporate adoption is ramping up quickly. Juniper Research estimates that six in 10 large corporations are implementing or evaluating blockchain technology. Companies in a wide range of industries are seeking out blockchain solutions for a broad variety of applications, but the learning curve is steep and often these companies need outside support.

Research estimates that the market for blockchain adoption is going from almost zero a year ago to being nearly \$8 billion in four years. We've seen tech giants like IBM and Microsoft have already jumped into the marketplace to serve the very largest companies in the client pool.

Moving on now to Slide 7, the Business Solutions group adds a new top line dimension to the financial side of the business. In 2017, our revenue streams were from our consumer apps, namely subscriptions, in-app, advertising revenue, virtual gifts and microtransactions. Going forward, Business Solutions clients will contribute licensing service and support revenue streams starting in Q2 2018 and beyond.

A great example of the potential of PeerStream Business Solutions is on Page 8, where we profile our first client, ProximaX. ProximaX is an innovative new company led by Lon Wong, who is a true blockchain visionary. Lon was, until recently, President of the governing body of NEM, which is a leading blockchain protocol and has one of the most highly-valued cryptocurrencies in the world. Lon left NEM to found ProximaX, which is building a new blockchain protocol based on the foundations of NEM, but in order to be as useful and successful to developers as possible, ProximaX is adding service layers such as storage and media streaming and messaging, which will be natively integrated with the blockchain.

ProximaX is hiring PeerStream as a vendor and a technology licensor to integrate our PeerStream Protocol, or PSP as we call it, into their blockchain. PSP will power the media delivery service layer and messaging service layer for ProximaX. We are very excited, because it's a great validation of our PSP technology and amazing marquee client for PeerStream.

When announced, we noted that the deal was contingent on hitting a token sales target in their ICO, which they've since exceeded, so the contingency has been met and we've already collected the first payment, which is a financial boon to the Company that we'll discuss later when we get to the financials section, so we're off to the races. We're expecting not only the first payment, but more revenue yet in 2018, and a large token grant as part of the consideration in the deal.

On Page 9, we highlight how we are also striking business development relationships with blockchain innovators to deepen our connections to the development community and extend our capabilities through partnership. Sometimes these deals involve a small investment, as was the case with Gladius, a recent biz-dev relationship where we invest in their ICO. More recently, we partnered with Kochava to join their on-exchange digital advertising platform, which uses blockchain to promote transparency and efficiency in the ad market. We believe these relationships have a lot of potential, and we continue to seek more such partnerships.

With that, I'll hand it over to Judy for the financial review.

**Judy Krandel:**

Thank you, Alex, and thanks, everyone, for joining us on the call today. Before I begin, I would like to say that the first quarter of 2018 shows the first year-over-year comparison since we completed our merger with A.V.M. Software in October 2016, so the results I'm going to discuss today are on an apples-to-apples basis, with the results including both A.V.M. Software and pre-merger PeerStream.

Turning to Page 10, as a quick overview of our financial highlights; total revenue in the first quarter decreased year-over-year, but as I will detail, our video properties show quarterly sequential stability versus the fourth quarter of 2017. Adjusted EBITDA was a positive \$0.1 million as we benefited from the realization of the full effect of the A.V.M. integration cost savings of approximately \$3 million.

Cash flow was negative \$623,000, reflecting some seasonal and one-time expenses. Cash and cash equivalents was \$3.5 million at December 31, 2018. The cash as of May 8, 2018 was approximately \$8.5 million, reflecting the first milestone payment from ProximaX, and we continue to be debt-free.

On Slide 11, I'll review our revenue performance for the first quarter in more detail. Total revenue was \$5.7 million, a decrease of 14% when compared to the first quarter last year, and a decrease of 3% from the fourth quarter of 2017. Our video property shows sequential revenue stability from the fourth quarter of 2017, despite a sequential decline of revenue in our dating properties.

Total subscription revenue was \$5.4 million, 13% lower year-over-year, yet only 1% lower than the fourth quarter of 2017. Quarterly sequential growth in subscription revenue in our video properties was offset by a decline in subscription revenue in our dating properties.

We believe a significant part of the year-over-year revenue decline in the Company was due to a decline in the transaction revenue in the first net product, as we continued to allocate resources to new, higher growth opportunities in our video products and new blockchain opportunity.

On the video side, though there has been a sequential levelling, year-over-year, we experienced a decline in video subscription revenue, which was driven in part by diminished marketing and advertising spend. As mentioned, though, subscription revenue from video properties grew sequentially from the fourth quarter of '17 to the first quarter of '18.

Advertising revenue for the first quarter declined 35% year-over-year, to \$0.3 million, and accounted for almost 6% of our revenue. We believe the decrease primarily resulted from both a decline in active users, as well as transitional costs as we change to a new full-service digital advertising agency. We also believe the decrease was related to challenges in the digital advertising industry due to a greater emphasis on broad control, resulting in lower demand and pricing.

We are excited about the potential to expand our advertising base from our new Kochava partnership and the upcoming launch of their OnXCHNG platform.

Turning to Slide 12, you can see that Adjusted EBITDA was positive at \$0.1 million for the quarter ended March 31, an improvement of over \$300,000 from the first quarter of 2017, reflecting the benefit of the integration cost savings that totalled \$3 million. These annualized cost savings were realized through organizational restructuring, real estate and vendor consolidation, and standardizing our technology platform and reporting system.

On Slide 13, we ended the first quarter with approximately \$3.5 million in cash and equivalents, a decline of approximately \$623,000 from year-end '17. This reflected higher seasonal year-end cash needs in the first quarter, including our annual cash bonuses and the final cash payments related to legal expenses from the terminated merger with LiveXLive in October 2016, and delayed funds transfer for the major payment processor.

Our cash balance as of May 8, 2018 was \$8.5 million, reflecting the first milestone payment of \$5 million from ProximaX as part of our technology services agreement. We continue to carry no debt.

I'd like to conclude by saying that we believe PeerStream is financially strong. Our core consumer apps continue to be good cash generators, and our balance sheet provides significant strength to support investments in our future growth. Looking ahead, we expect the recent launch of Business Solutions, which leverages our existing infrastructure, and the interest we're receiving for these services, to contribute to the new revenue streams that we are developing going forward.

I'll now turn the call back to Alex.

**Alex Harrington:**

Thank you, all, for joining today, that concludes our prepared remarks. We'd be delighted to take any questions.

**Operator:**

If you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star, one to ask a question. I'll pause for a moment to allow everyone an opportunity to signal.

Once again, that is star, one for questions.

We'll take our first question from Anthony Marchese, Private Investor.

**Anthony Marchese:**

Yes, hi, good morning. You hear me, right?

**Alex Harrington:**

Yes.

**Anthony Marchese:**

Okay, great. Could you talk a little bit more about ProximaX? You mentioned you might get tokens, or you will get tokens. How large can that potential opportunity be for you guys? I'm not asking you to make forward-looking statements, just explain a little bit more—you've got the first \$5 million, what happens next? Are those tokens trading, when do you get them, and are you looking at—I don't want to say similar opportunities, but what are the other opportunities that you guys are evaluating, if any, without being overly specific?

**Alex Harrington:**

Sure, thank you for your question. The ProximaX contract is on file, and I'll—in an 8-K, and I'll cite some of the terms from that. The face value of the deal, it has two components: there's a cash component and a token component as compensation for our services.

The cash component is a \$10 million opportunity, of which \$5 million has already been paid. It hasn't yet been recognized as revenue; we would start to recognize it in the second quarter and it would be recognized over the duration of the contract. We're anticipating another \$5 million to be earned as we deliver on milestones that will take between, we believe, six months and a year to fulfill. That will be paid in two \$2.5 million instalments.

In addition, there is a pool of tokens that we are eligible to earn; 2.4% of the total ProximaX token pool of nine billion tokens will be distributed, I believe as soon as the tokens, in general, are distributed to investors. They have not yet been distributed, it takes a little time after the close of the ICO to do so.

Then we're eligible to earn an additional 2% of ProximaX tokens, which collectively, I believe, comes to 396 million tokens out of their 9 billion token pool.

It's difficult to speculate on exactly what the value potential of those tokens will be. We anticipate that we will recognize them as revenue, and it will be a seven-figure recognition of revenue when that lands over the course of the recognition of those tokens. But it's really anybody's guess what the potential of those tokens could be in terms of valuations. Certainly, the founder, Lon Wong's last project, NEM, is—in terms of crypto market cap valuation, he and his team created one of the most valuable token market cap entities in the world with a token market cap that got to approximately \$15 billion. Now it's presently worth between \$3 billion and \$4 billion. These entities can be worth quite a lot, and we have a significant quantity of tokens.

In terms of where that relationship can go and other relationships for our Business Solutions group, one, we expect that there is an opportunity to further expand the relationship with ProximaX and potentially generate further revenue by providing more services in the future. We haven't shared what our plans there are, and they haven't necessarily been fully hammered out yet. But as we develop them, we will announce them.

Then, we are actively seeking additional Business Solutions clients, although that will be a ramp-up as we built that team and the infrastructure to support new clients. This is rather new, the offerings were announced only a single-digit number of weeks ago, and we have a very large client just out of the gate. We're very eager to build the business up and we'll be working towards that in this second quarter.

**Anthony Marchese:**

All right, and just a slight follow-up question; has the LiveX opportunity opened up doors for you that potentially you didn't have before the deal?

**Alex Harrington:**

Are you referring to ProximaX or ...?

**Anthony Marchese:**

Ah, Proxima...

**Alex Harrington:**

...(inaudible) LiveX.

**Anthony Marchese:**

I'm sorry, Proxima.

**Alex Harrington:**

Yes, I think, one, aside from the financial aspect of it, which are really powerful for our business, it's created a lot of visibility and credibility for us. There are a lot of blockchain pretenders out there and we think that having somebody like Lon Wong and ProximaX not just validate our technology by saying that he believes in it, but licensing it for a large quantity of money, it's a great validation that what we're doing is real and valuable and that we are players in this domain.

Yes, it has shone a light on what we're doing, both in the blockchain sphere and in the public markets, or it's beginning to.

**Anthony Marchese:**

Great, thanks for the extended explanation, really appreciate it.

**Alex Harrington:**

You're welcome.

**Operator:**

As a reminder, that is star, one for questions.

That concludes today's question-and-answer session. I'd like to turn the conference back to your host for any additional or closing remarks.

**Alex Harrington:**

That's all for this morning, thank you all for joining, and we look forward to keeping you updated on progress over the coming quarters. Thanks very much.

**Operator:**

That concludes today's presentation. Thank you for your participation. You may now disconnect.