



PeerStream, Inc.

Second Quarter 2018 Earnings Conference Call

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

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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

John Gilliam, *Point Clear Strategic Capital, LLC*

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

Operator:

Good day and welcome to the PeerStream Second 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:

Thank you. Good morning and welcome to the PeerStream, Inc., formerly known as Snap Interactive, Inc., Second 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 PeerStream's website, www.PeerStream.com, under the Quarterly Earnings 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 PeerStream's future plans, objectives, goals, strategies and performance, are forward-looking statements. These statements reflect the good faith, beliefs and judgments of PeerStream's Management 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 PeerStream's periodic reports that are filed with the Securities and Exchange Commission. Forward-looking statements are not guarantees of future performance and PeerStream 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 also been reconciled to the nearest applicable GAAP measure in this presentation and in Peer's earnings release, which are also available under the Quarterly Earnings tab of the Investors section of PeerStream's website, which once again is www.PeerStream.com.

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 Q2 2018 earnings call. This is Alex Harrington, CEO of PeerStream. As Michael says, I encourage you all to access the Q2 earnings call presentation available on our website, www.PeerStream.com. You can find it in the Investors section under Events and Presentations.

With that, let's flip to Page 3 for some strategic updates before we recap the second quarter financial performance. At PeerStream we have one focused mission: as a global Internet solutions provider, we are pioneering real-world adoption of emerging blockchain technologies by developing software services and applications for corporate clients and consumers.

On Page 4 we show how we bring this mission to market with three mutually supportive and interdependent business efforts within the Company. Business Solutions is our Professional services group, offering blockchain consulting and integration solutions targeting enterprise clients. ProximaX is our first marquee client for Business Solutions. We also create innovative Proprietary Software in the blockchain domain. This software is closely aligned with our Business Solutions efforts. As we expect software licenses to be a recurring revenue stream in the future, so will this part of Business Solutions engagement. PeerStream Protocol, or PSP, is our key development effort on the Proprietary Software front presently. The third element is our (inaudible) offering.

Page 5 characterizes the market we are pursuing, which we feel represents a high growth opportunity. We are seeing business and government leaders embrace the potential of blockchain at a rapid clip. Juniper Research indicates that nearly 6 in 10 large corporations are considering a blockchain technology deployment. The market for blockchain services is expected to be \$79 billion in 2025, up from less than \$1 billion in 2017.

IBM, who is an early leader in blockchain professional services just announced a \$740 million five-year engagement with the Government of Australia. The opportunity is large and we are still ahead of the curb because we believe there simply isn't enough blockchain developer talent to meet demand. We think we are doing the right things to position ourselves to address the middle market enterprise opportunities.

On Page 6 we outline the steps to pursue this growth opportunity. We are in the process of building out our business development and sales channels, as well as the beginning stages of building our brand and commencing marketing efforts for our Business Solutions business. Meanwhile, we have a healthy flow of inbound interest and are sharing leads with ProximaX who also has an active business development effort.

In the medium to longer term, we believe there are opportunities to accelerate the business through acquisitions of, or partnerships with, professional service firms or blockchain technology organizations. We also expect to further build out our proprietary software capabilities to broaden our addressable market, increase the utility of our engagements, and lock in recurring revenue.

With that, I'll hand it over to our CFO, Judy Krandel, to discuss some of the financial developments in the second quarter.

Judy Krandel:

Thank you, Alex, and thank you to everyone joining us on the call today. Before I discuss our financial results for the second quarter, I would like to outline the impact of the ProximaX deal on the current and coming quarters.

Page 7 shows the deal is valued at approximately \$13.4 million. This includes the upfront payment of \$5 million in cash received in May and \$216 million XPX tokens received in June which are valued at \$3.4 million. The token value was recorded on June 2, the first day the tokens traded on a public exchange. The total upfront payment of \$8.4 million will be recognized rateably over the term of the contract, beginning with the second quarter. The tokens will be mark-to-market each quarter and the subsequent value is recorded as an asset on our balance sheet. The change in value of the tokens each quarter will be recorded as a non-operating and non-cash adjustment to our statement of operations.

The deal value of \$13.4 million also includes two additional payments of \$2.5 million each which will be recognized at the date of fulfillment of the contract terms. The deal value in total of \$13.4 million does not include an additional 2% of ProximaX's XPX tokens which have been earmarked as payment for future PeerStream service agreements which are yet to be determined. I would like to point out that PeerStream has \$19 million of NOLs in total, \$6 million of which are available for use in 2018.

Let's now turn to Page 8 for a quick overview of our second quarter financial highlights. I will go into more detail on these in a few moments. Total revenue in the second quarter increased 18.5% to \$7.4 million. We reported positive income from operations of \$100,000 and a net loss of approximately \$1.9 million. The net loss was driven by a \$2 million negative change in fair value of digital tokens. Adjusted EBITDA was \$1 million and net cash flow from operating activities was \$3.6 million after receiving the first milestone payment under the ProximaX Technology Services Agreement. We ended the quarter with cash and equivalents of \$7.7 million, also reflecting the first payment from ProximaX, and we continue to be debt-free.

On Slide 9, I'll review our revenue performance for the second quarter in more detail. Total revenue was \$7.4 million, an increase of 18.5% when compared to second quarter revenue of \$6.2 million last year. The increase was driven by revenue that we recognize for the first time from our Technology Services Agreement with ProximaX of \$2.1 million, reflecting our development work for them during the quarter. This was offset by a decline of approximately \$758,000 in Subscription revenue and a decrease of \$182,000 in Advertising revenue across all products.

Total Subscription revenue was \$5 million, 13% lower than the \$5.7 million we reported in Q2 of 2017. The decrease was primarily due to a decrease in active subscribers of 22,930, or 13.2%, which resulted from lower marketing and advertising spend of approximately \$587,000 for FirstMet and our video products. FirstMet accounted for the majority of the decrease in revenue which we believe was also driven by our increasing allocation of resources to new higher growth opportunities in the business solutions market.

Advertising revenue for the second quarter was \$315,000, a decrease of 36.7% year-over-year. The decrease was primarily due to a 32.8% decline in active users. We also believe that challenges in the digital advertising industry contributed to the decline; specifically greater emphasis on fraud control is resulting in lower demand and pricing.

Turning to Slide 10, income from operations was approximately \$100,000, which represented an improvement from the prior period of almost \$1.6 million. The net loss for the quarter was \$1.9 million, which was driven by a \$2 million negative change in fair value of our digital tokens from the initial measurement date of June 2, 2018 to quarter-end at June 30, 2018. Adjusted EBITDA was approximately \$1 million for the second quarter and compares to an Adjusted EBITDA loss of approximately \$0.5 million

in the comparable period last year, reflecting the \$2.1 million revenue we recognized from ProximaX in the quarter.

On Slide 11, you'll see that we ended the second quarter with approximately \$7.7 million in cash and equivalents impacted by net cash flow of \$3.6 million, again, reflecting the first milestone payment of \$5 million from ProximaX. We continue to carry no debt.

In closing, PeerStream is on very solid financial ground and has the resources it needs to support future growth. The new business Solutions division has had a strong start since its launch and we see multiple avenues of growth going forward as we continue to execute on our strategic plans.

That concludes our prepared remarks for today. Now I'd like to turn it over for questions. Jennifer (phon)?

Operator:

Yes. If you'd like to ask a question on today's call, that is star, one on your telephone keypad. As a reminder, that is star, one for questions.

We will go first to John Gilliam with Point Clear Strategic Capital.

John Gilliam:

Good morning, Judy, Alex; great job, great quarter. Wanted to see if you could give us an update on the move to the NASDAQ.

Judy Krandel:

Thanks, John. Good morning to you too. Yes, as you know, we have been approved for listing on the NASDAQ capital market subject to completion of an offering that is in process. We are working as quickly as we can. We filed an S-1 Registration with the SEC, and at this point we are working under their timeframe. As soon as we can share an update with everyone, we will. Suffice to say it's a priority for us and we look forward to completing that.

John Gilliam:

Very good. Thank you.

Operator:

At this time there are no further questions. I'll turn the call back to Mr. Harrington.

Alex Harrington:

Well, thank you all for joining today. We look forward to further communication with our shareholders and keeping you all abreast of new developments at the Company. Have a good day. Thank you.

Operator:

This does conclude today's conference. We thank you for your participation.