



PeerStream, Inc.

Fourth Quarter and Full Year 2017 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*

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

Operator:

Good day, and welcome to the PeerStream, Inc. Fourth Quarter 2017 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 afternoon and welcome to the PeerStream, Inc., formerly known as Snap Interactive, Inc., Fourth Quarter and Full Year 2017 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, under the Events and Presentations tab of the Investor Relations 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 PeerStream's earnings release, which is also available under the Press Releases tab of the Investor Relations 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 me today for the PeerStream 2017 earnings call. I'm Alex Harrington, CEO of PeerStream. As Michael said, I encourage you all to access the earnings call presentation on our website, which is in the Investor section under Events and Presentations.

So, with that, let's flip to Page 3 in the presentation to give an overview of some of the new developments in our business.

We were excited to announce that we changed our corporate brand from Snap Interactive to PeerStream, and last week officially started trading under the ticker symbol, PEER. PeerStream as a brand bridges our innovative past and promising future with a common thread of connecting peers for multimedia streaming and communications experiences.

Since the founding of the Company, we've had a strong tech platform to power our homegrown, widely used social video app. In the last year, we made investments to make that platform extensible to serve third parties, to fortify that platform with transformational blockchain technology, and to build business development relationships with prospective partners and clients.

With the corporate rebranding, we now emerge as an innovator in blockchain in the field of multimedia streaming and communications, and our tech infrastructure is now not only supporting our proprietary app, but we now are offering business solutions, as well.

Moving on to Slide 4, we present here visually the Company positioning I just described. PeerStream's technology platform delivers live multimedia communications, including video, voice, data, text. We send billions of rich media messages to hundreds of millions of end users for our own social video app, and we've gotten quite good at it. We've got a team of 75 developers, we've accumulated a portfolio of 26 patents. Increasingly, we've been integrating this powerful blockchain technology into the platform, and we'll talk about that later in the presentation. This tech platform now supports both the consumer app and the new business solutions offering to provide multimedia streaming and communications services to developers and corporate clients, and we have some exciting news to share about that side of the business, as well.

Moving on to Page 5, let's talk a bit about how we are using blockchain to address the challenges of delivering live video and messaging content. Most people don't understand blockchain at all, and those that do, typically only understand its implication for financial transactions, but blockchain has a great, great utility in our space, as well. Basically, blockchain offers an incentive system in the form of crypto tokens and an automated payment mediation system in the form of a consensus algorithm, which can be used to create a peer-to-peer network where contributors get paid for providing bandwidth and computing nodes. We've seen from past P2P ventures how peer networks can deliver rich media, but the network hosts are typically unpaid volunteers, and that aspect of it creates issues of consistency and quality. For the first time, blockchain has made it possible to link together a peer-to-peer network of professional contributors that have the potential for unprecedented scale and media delivery capabilities.

Moving on to Slide 6, PeerStream is building PeerStream Protocol, or PSP, to capitalize on the opportunity of blockchain in multimedia content delivery. PSP is designed to be a protocol that organizes and directs a peer-to-peer network, like the one we just talked about on the last slide, to organize that network to route multimedia content. We believe PSP will help developers to build live multimedia communication apps, provide their services at greater scale, lower cost, and free of many of the security vulnerabilities common in today's centralized networks. Live multimedia communications is a niche within

the overall content delivery ecosystem, but it's a big niche, embracing apps like social networks, live video streaming, video conferencing, and for workforce collaboration tools like Flock. All of these types of app developers are potential customers of PSP.

So, moving on to Page 7, to zoom back out again, now we've discussed important aspects of our tech platform, let's dive into each side of the business. We'll start with consumer apps on Page 8.

Up through today, our consumer apps are the commercial engine of the Company, and with a loyal following, they will continue to be important financial contributors. Our flagship product, Paltalk, together with video chat app, Camfrog and Tinchat, collectively host one of the world's largest collections of video chat communities, with users coalescing around interests and affinities, which include topics like politics and sports, but also purely social activities like chatting and flirting, which is also the use case in our dating product, FirstMet. Consumers enjoy using our apps to express themselves, seek entertainment and meet new people.

Moving on to Page 9, we talk about the opportunity underlying the business solutions group. It's really at the crossroads of two fast-growing markets, live multimedia streaming and blockchain services. On this slide, we highlight how the video streaming business is booming. Recent research identifies 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. It's basically swallowing the rest of the Internet. A Wall Street Journal article asserted that future Internet users, the "next billion," as they called it, will interact with their devices and their friends entirely through video and voice. In other words, they're saying text-based communication is going to be completely replaced by multimedia stream.

Mark Zuckerberg of Facebook has said several times that he believes video is the next megatrend, on par with the explosion of mobile usage in the last decade. All of this video content, growing so fast as it is, it's straining the resources of solvers. It's hard to find economical scalable solutions to deliver high-quality video, and to do so in a secure way that is hardened against disruption and attack. These are the challenges we hope to dress with PSP.

Segueing now, on Page 10, to the opportunities for blockchain services, that side of PeerStream business solutions, the interest in blockchain is nearly as strong in corporate adoption as it is in the crypto investment community. Companies that rely on technology for a wide range of applications are seeking out blockchain solutions, but the learning curve is steep. Research estimates that the market for blockchain adoption is going to be nearly \$8 billion in four years, and the tech companies that serve enterprises, like IBM and Microsoft, are jumping on this opportunity. So, this month we announced the launch of our business solutions offering. We show highlights on Page 11. We are drawing on 15-plus years of experience to offer video and multimedia communication capabilities to third-party developers and corporate clients to help them onboard onto blockchain technology. This is expected to open up additional licensing, services and support revenue streams.

On Page 12, we've got some great news that we just announced today. We've signed our first business solutions client, and it's an innovative new company led by blockchain pioneer, Lon Wong, called ProximaX. Lon is a true blockchain luminary and is today President of the governing body of NEM, which is a leading blockchain protocol, and has one of the most highly valued crypto currencies in the world. ProximaX, the new venture, is building a new blockchain protocol based on the foundations of NEM, but in order to make the new protocol more useful and accessible to developers, ProximaX is adding value-added service layers, and out of the box is going to have storage and media streaming and messaging built right in. So, ProximaX is hiring us, PeerStream, as a vendor and technology licensor, to integrate our PSP technology into their blockchain and PSP will power the media delivery service layer for ProximaX. We're very excited, because it's a great validation of the PSP technology, an amazing marquee client for PeerStream business solutions, and we expect the proceeds, which would be paid in cash and tokens

upon successful a IPO, we expect these fees to help us further fund development of PSP and improve our capabilities on the business solutions side.

Moving on now to the financial picture on Page 13, our business has several current revenue streams from our consumer apps, namely subscriptions, in-app advertising revenue, and virtual gifts and micro-transactions. As of 12/31/2017, we reported about 164,000 premium subscribers. All revenue, as of fiscal year 2017, comes from the sources I just mentioned. Going forward, we expect to diversify our revenue streams with the introduction of the business solutions offering. We would expect business solutions clients, like ProximaX, to contribute licensing, service and support revenue streams in 2018, and beyond.

With that, I'll hand it over to Judy for the financial highlights on Page 14.

Judy Krandel:

Thank you, Alex, and thanks everyone for joining us on the call today. Before I begin, I'd like to remind everyone that on October 7, 2016 we completed our previously announced merger with A.V.M. Software. The merger has been accounted for as a reverse merger under the acquisition method of accounting for business combination, with A.V.M. being treated as the accounting acquirer of PeerStream. Accordingly, the financial results I will discuss that include periods prior to October 7, 2016 reflect the operations of pre-merger A.V.M. for both periods, and any financial results I discuss that include periods from October 7, 2016 on include the operations of the post-merger company after that date.

So, turning to Slide 14, I'd like to touch upon our financial highlights. Total revenue for '17 was \$24.8 million, an 18% increase. The increase was driven primarily by the merger with A.V.M. Adjusted EBITDA, less one-time items, which I'll detail in a moment, was a loss of approximately \$1.1 million. Net cash flow increased significantly to a slight loss of \$26,000, reflecting, in part, the \$1 million investment we received from Hershey Strategic Capital to further our blockchain development initiative.

Moving on to Slide 15, I'll now review our financial performance for the full year in more detail. Revenue for 2017 was \$24.8 million, an 18% increase, compared to \$21 million in 2016. Subscription revenue for the year increased 22.8% to \$22.9 million, or approximately 92% of total revenue. Advertising revenue for the year declined 17% to \$1.9 million, representing 8% of revenue. The increase in subscription revenue was primarily due to the contribution of PeerStream, offset by a decline of the Paltalk product. We believe that the decrease in Paltalk's subscription revenue was driven, in part, by a decrease in new transaction revenue for Paltalk due to lower volume of usage, reflecting diminishing marketing and advertising spend. We believe the decrease was also the result of the decline in our international markets, where lower reseller volume led to reduced revenue. The 17% decline in advertising revenue for the year partly reflected some internal disruption, as we changed our advertising partners by moving to an exclusive relationship with a full-service agency to outsource our advertising operation. The digital advertising industry is also experiencing some challenges due to a greater emphasis on fraud control.

As shown on Slide 16, Adjusted EBITDA was approximately a loss of \$1.9 million for the year ended December 31, 2017. This includes \$815,000 of one-time expenses, primarily related to the terminated LiveXLive merger, plus a one-time lease cancellation fee.

Moving on to Slide 17, net cash flow for the 2017 year was a loss of \$26,000, an improvement from a loss of \$2.5 million for the year ended December 31, 2016. The improvement reflects some of the benefits of realized merger integration savings and the \$1 million investment we received from Hershey Strategic Capital. During the year, we worked hard to combine operations and reduce costs from the A.V.M. merger. We've achieved that goal and are now fully integrated. In total, we've taken over \$3 million of annualized cost out of the business through organizational restructuring, real estate and vendor

consolidation, and standardizing our technology platform and reporting system. We ended the year with approximately \$4.1 million of cash and our balance sheet remains debt-free.

Before I turn the call back to Alex, I'd like to say that we believe that PeerStream remains well positioned for future growth. Although we plan to selectively invest in additional people and resources to grow our business, we will continue to focus on self-sustainability, profitability and cash flow. Alex?

Alex Harrington:

Thanks, Judy. In conclusion, I'd like to highlight why we're so about the opportunity at PeerStream. Video adoption on web and mobile is growing extremely fast, and the intersection of that market force with blockchain technology, which could have a transformational effect on the Internet infrastructure to deliver video, together, we believe these trends represent a singularly great business opportunity. We're also very excited about launching our business solutions group, which is a high potential new revenue channel for us, again, leveraging blockchain to help developers and corporate clients with their media delivery and communications needs. Signing ProximaX as our first client this week was a great way to launch that business.

That concludes our prepared remark for today. Now, let's turn it over to 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 at this time. We will pause for just a moment to allow everyone an opportunity to signal. That's star, one.

There are no questions in the queue. If you'd like to ask a question, again, it's star one at this time.

It appears there are no questions today, so I'll turn the conference back to Mr. Alex Harrington for any closing remarks.

Alex Harrington:

Well, thanks again for joining today. We look forward to further communication with our shareholders. Have a good evening.

Operator:

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