

Snap Interactive (STVI-OTC)**STVI: Anticipating the Benefits of the Company's Growth Initiatives**

Snap shares trade at a substantial discount to those of peers. If Snap can deliver growth on the initiatives discussed in this report, we would anticipate share price appreciation and that the valuation gap would narrow. At \$6.00, the shares would trade at 1.4x and 1.3x our respective 2017 and 2018 revenue forecasts vs. 3.7x and 3.0x average multiples digital dating peers command.

Current Price (07/24/17) \$3.00
Valuation \$6.00

OUTLOOK

Technology company Snap Interactive strives to be a leader in social products that deliver live video through mobile platforms. The company already operates several prominent social networking and interactive dating applications that allow people to share live video. Following a 2016 merger that strengthened the company's product portfolio and expanded its user base, Snap intends to develop and launch new live video social and dating applications to benefit from the growing popularity of the live video format and leverage the ongoing convergence of video and chat with online dating.

SUMMARY DATA

52-Week High \$7.31
52-Week Low \$3.00
One-Year Return (%) -73
Beta 1.63
Average Daily Volume (sh) 2,026

Shares Outstanding (mil) 7
Market Capitalization (\$mil) \$20
Short Interest Ratio (days) N/A
Institutional Ownership (%) 0
Insider Ownership (%) 20

Annual Cash Dividend \$0.00
Dividend Yield (%) 0.00

5-Yr. Historical Growth Rates
Sales (%) N/A
Earnings Per Share (%) N/A
Dividend (%) N/A

P/E using TTM EPS N/A
P/E using 2017 Estimate N/A
P/E using 2018 Estimate N/A

Zacks Rank N/A

Risk Level High
Type of Stock Small-Value
Industry Internet-Contnt
Zacks Rank in Industry N/A

ZACKS ESTIMATES**Revenue**

(in millions of \$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2015					NM
2016	5 A	N/A	N/A	N/A	21 A
2017	7 A	7 E	7 E	8 E	28 E
2018					30 E

Earnings Per Share

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2015					NM
2016					NM
2017	(\$0.15)	(\$0.14)E	(\$0.09)E	(\$0.01)E	(\$0.40)E
2018					(\$0.12)E

Quarters might not sum to annual reflecting rounding.

Disclosures begin on page 23.

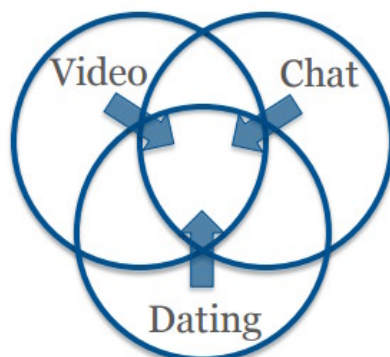
N/A

KEY POINTS

- Snap Interactive is a technology company that operates leading social networking and interactive dating applications that allow people to share live video. Snap's goal is to be a leader in social products that deliver live video through mobile platforms, and one of the company's core growth strategies is to leverage the ongoing convergence of video and chat with online dating.
- Management believes that the easy-to-use interface of Snap's video chat apps represents a key competitive advantage. Moreover, Snap's proprietary technology, supported by a portfolio of 25 issued patents, enables the company to operate thousands of streams simultaneously.
- The company's three-year growth strategy is to 1) focus on mobile, as the overall use of mobile continues to expand; 2) strengthen its existing product portfolio and launch new social, video and dating apps within those products and 3) launch new live video social and dating apps
- In 2016, the company completed a merger with privately-held AVM that bolstered its position within live video. Snap has focused on leveraging the scale of the combined companies, reducing redundant expenses, consolidating corporate offices and cross-selling video and dating features. The company expects to realize significant cost savings. Management believes the extremely fragmented industry presents additional opportunities for growth through strategic M&A.
- The company has also implemented several initiatives to strengthen its product portfolio, including rebranding legacy products and launching new ones. Snap also initiated litigation against two companies alleging patent infringement. The company has already successfully defended its patents and obtained licensing revenue from Sony, Activision and Microsoft.
- Snap believes that live video is on-track to become a key factor in social networking, messaging and online business applications and presents an attractive growth opportunity. Management expects its extensive base of approximately 183,000 active subscribers globally as of March 31, 2017 to create an opportunity to cross-promote and cross-sell live chat, as the company believes it has early mover advantage. Snap has invested about 15 years in developing and growing its live video social networking platform.

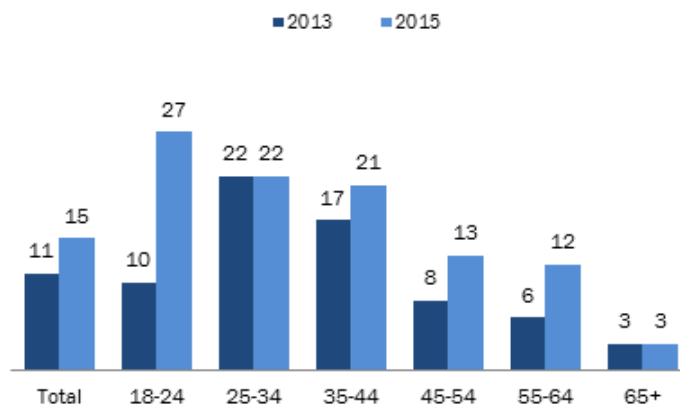
OVERVIEW

New York City-based Snap Interactive is a technology company that operates leading live video social networking and interactive dating applications. Snap's products include brands such as [Paltalk](#), [FirstMet](#), [Camfrog](#) and [Tinchat](#). In addition, [Ribbit Live](#) and [Firetalk](#) are apps that allow people to share live video. In the dating space, the company operates [FirstMet](#), [50more](#) and [The Grade](#). Snap's products are built on a highly scalable architecture that enables the company to support myriads of streams simultaneously. One of Snap's core strategies for growth is to leverage the ongoing convergence of video and chat with online dating.



As a result, the company has added new products in response to growing trends among mobile users. For example, Snap introduced 50more earlier this year in limited beta launch and recently initiated a national rollout. 50more is a digital dating app targeting users aged 50 or older. People in this age bracket are among the fastest growing users of digital dating technologies, according to IBISWorld. This is because internet and mobile usage within this demographic is expanding and people in this age group are more likely to be single than in the past. According to data from the U.S. Census, more than a third of U.S. adults 50 and older are unmarried. Digital dating among adults in their 50s and early 60s has increased dramatically, according to the Pew Research Center.

% in each age group who have ever used an online dating site and/or mobile dating app



Source: Survey conducted June 10-July 12, 2015.

PEW RESEARCH CENTER

Social Products Delivering Live Video through Mobile

Snap's goal is to be a leader in social products that deliver live video experiences through mobile platforms. The company's Paltalk and Camfrog apps host large collections of global video-based communities. Along with FirstMet, they are the company's major revenue generators. The company's

products are generally platform agnostic and can be accessed on Windows, Mac OS, iOS and Android platforms using both desktop and mobile. The company also owns Vumber, a telecommunications provider that enables Snap to provide multiple phone numbers to users and forward calls to cell phones or land lines. Vumber allows small businesses to add new telephone lines and access in-depth data analytics that can track, record and analyze calls.

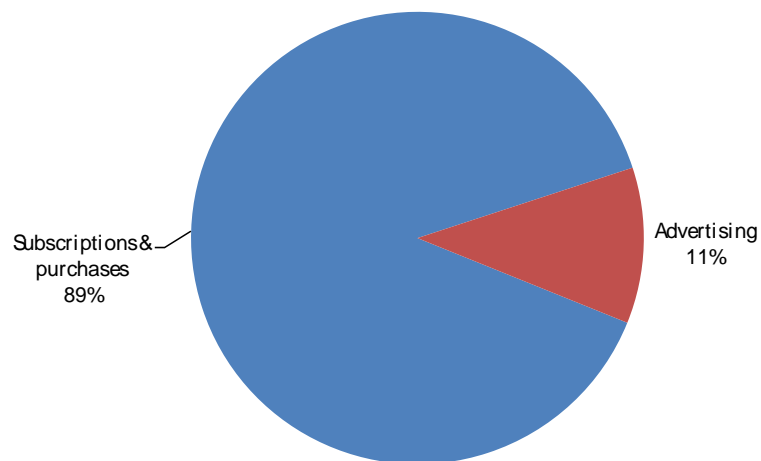


Management believes that Snap is a leader in real-time video communication, with products that allow users to organize around topics and chat with other people with common interests. In total, Snap applications had a global base of roughly 183,000 active subscribers as of March, 2017. The majority of the company's revenue is derived from subscriptions and in-app virtual currency purchases. In-app virtual currency purchases are included in subscription revenue in Snap's financial filings.

The company also uses an ad-supported freemium model that it monetizes primarily with advertising. Earlier this week, Snap announced that it had engaged digital ad company Krush Media to represent its video properties to ad agencies, programmatic trade desks, and ad networks in an effort to drive advertising revenue. The company is optimistic that Krush can help Snap optimize its ad inventory and boost revenue.

Premium features such as access to multiple video chat rooms and enhanced status in the community or unlimited custom messaging for the company's dating applications require a paid subscription. Snap recently introduced micro-transactions to its video platforms. Micro-transactions enable users to purchase limited access to premium benefits on a one-off basis without actually purchasing a subscription. Management is optimistic that this will lead more users to become paying subscribers over time. The company's platforms enjoy 50,000 aggregate new sign-ups daily.

2016 Revenue Breakdown (%)



Source: Company reports

Management believes that the simple and easy-to-use interface of Snap's video chat apps, which allow users to connect easily and communicate with others with similar interests, represents a key competitive advantage. Users create a personal profile that is associated with their email address or use Facebook Connect[®]. They can then search Snap's chat rooms by topic and join a chat room to interact with others.

The company's video chat apps also allow users to message or talk with other people and simultaneously view them through live video. Once a user joins a chat room, he or she can message another person directly or join a group community chat. People can also conduct private live video chats one-on-one. Users can maximize their privacy settings and restrict others from contacting them. For example, Snap users can mute other people in group chat rooms, restrict others from broadcasting video to them and restrict other users from texting them. In addition, users can also enable their friends to manage chat room access.

Snap's proprietary technology, supported by a portfolio of 25 issued patents, enables the company to operate thousands of streams simultaneously, including interactions on a one-on-one or group basis. In this regard, the company believes its technology creates a significant competitive advantage. Its patented client server technology supports high-quality video and audio even with many people interacting simultaneously. Given the challenge of delivering high-quality live video to desktop and mobile, the company's long track record speaks to its capabilities.

With 26 registered trademarks globally, Snap attracts new users organically, as people find the company's various sites through friends or search engines and the company's ads. The company conducts hundreds of marketing campaigns through internet and mobile advertising networks. Snap has also grown its user base through M&A activity such as the 2016 merger with AVM. Opportunistically, the company might acquire additional platforms in the future.

THREE YEAR GROWTH STRATEGY

- Focus on mobile
- Focus on strengthening existing products and launching new social, video and dating apps within those products
- Focus on live video and develop new live video social and dating apps

Management's strategy is to strengthen Snap's position as a leader in social products delivering live video experiences through mobile. The use of mobile continues to expand. For example, Match.com, the leading provider of digital dating sites and applications, confirms that the industry is undergoing a significant shift from desktop to mobile. Match registered 68% of new users via mobile channels in the first half of 2015, up from only 27% during the first half of 2013. Over the next three years, Snap intends to focus on mobile apps in order to benefit from the growing use of mobile. Moreover, management believes that live video is an emerging, high-growth platform that is disrupting social networking.

Recent Merger Strengthens Company's Market Position

In 2016, the company executed a number of strategic initiatives to advance its goal, including completing a significant M&A transaction that bolstered its position within live video. In October of 2016, the company merged with AVM Software, which operated Paltalk. AVM shareholders received roughly 77.9% of the post-merger shares. Since the merger closed, Snap has focused on leveraging its extended scale, reducing duplicative costs and cross-selling video and dating features to the combined user base.

Ongoing Merger Integration The company expects to realize significant cost savings. For example, earlier this year, Snap consolidated its operations at one corporate office and closed the redundant location. Non-recurring merger-related expenses could obscure the benefits of the company's cost reductions in the near-term. For example, in the first quarter of 2017, Snap incurred a one-time lease cancellation fee, but the termination of the lease is expected to result in cost savings going forward. Following the merger with AVM, the company also began cross-selling video and dating features to legacy users of both companies. For example, in February 2017, Snap updated its Paltalk application, adding a new dating section that highlights the affiliation with FirstMet.

Snap also expanded and strengthened its management team, which included the hiring of a new CFO, and made additions to its board of directors. The company's board now consists of Chairman Jason Katz, Cliff Lerner who founded pre-merger Snap, CEO Alexander Harrington, and four new independent directors. In 1Q17, the company formed audit and compensation committees that include independent directors.

Management believes the industry is extremely fragmented and presents additional opportunities for significant consolidation. Snap has grown through several strategic acquisitions designed to expand the company's technology and product portfolio, subscriber base and scale.

Strengthening Product Portfolio The company has also implemented several measures to strengthen its product portfolio. For example, Snap rebranded one of its dating apps that formerly was AYI (Are You Interested?) and is now FirstMet. Management believes that with the refresh, new branding and renewed focus on growing the product, FirstMet is gaining greater traction. Snap also developed and beta tested 50more, which launched commercially recently. As noted, the target demographic is among the fastest growing group of users of online dating sites. Moreover, Snap added a dating tab on Paltalk, as noted, in order to cross-promote FirstMet to video chat users and further benefit from the ongoing convergence of digital dating and live video.

Patent Enforcement Snap also initiated litigation against Riot Games and Valve Corporation related to alleged patent infringement by their respective online games, *League of Legends* and *Defense of the Ancients 2*. The company has already successfully defended its patents before and obtained licensing revenue from Sony, Activision and Microsoft.

PRODUCTS

Video Chat Products



Paltalk, Camfrog and Tinchat are Snap's video chat applications. Paltalk and Camfrog are the company's major apps in video chat and both are leading providers of live video social networking applications. Together, these products support a large and global collection of video-based communities, supported by the company's proprietary technology to host myriads of live group conversations simultaneously. Topics discussed in Paltalk and Camfrog chatrooms range from politics and financial markets to music and dating. Both services have tens of millions of registered users and attract a demographically and geographically diverse group of people, with users in more than 180 countries. In fact, most Camfrog users are international, particularly from markets in Southeast Asia, and more than half of Paltalk users are international.



Tinchat is an online video chat community that allows users to interact, with up to 12 live cameras in each room and unlimited viewers. Users can connect and chat with others by starting a group video chat. Users can also meet and chat with new people.

Dating Products



FirstMet – formerly Are You Interested (AYI) – is a leading online dating application that management believes will benefit substantially from a 2016 rebranding and refresh. Although Snap does not report revenue by application, the company has noted that FirstMet accounts for the majority of revenue in its dating portfolio. FirstMet is native on Facebook, iOS and Android platforms and is also accessible on mobile devices and desktops at FirstMet.com. FirstMet is highly scalable and was the #24 grossing domestic application in the U.S. Lifestyle Category on the Apple App Store as of March 12, 2017. The app attracts people from diverse demographic and geographic regions. With what management believes is an intuitive interface, FirstMet enables users and subscribers to find and connect with others with similar interests and to communicate with one another.



50more is a new app that Snap introduced earlier this year to target users over the age of 50. This is an example of Snap leveraging an existing infrastructure and technology platform – in this case that of FirstMet – to streamline the development and launch process. 50more's functionality is similar to that of FirstMet but 50more targets a different user demographic. Snap expects to cross-sell and cross-promote 50more and FirstMet. As noted, people aged 50 and older are among the fastest growing groups of users of digital dating technologies, reflecting their rising use of internet and mobile technology and growing numbers who are single. Adopting a multi-brand approach to offering applications within the same genre enables Snap to lower customer acquisition costs by providing dating products that appeal to a broader spectrum of users. The company's goal is to build awareness and usage of 50more. 50more has been primarily in beta launch and recently initiated a national rollout. Snap announced that 50more has achieved significant pre-launch traction, with more than 10,000 registered users and 7,500 matches to-date.

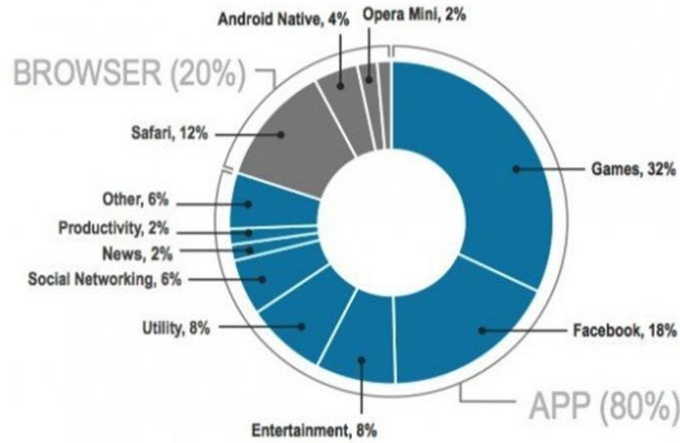


Introduced in November of 2014, The Grade is a free mobile app that allows users to grade mobile online dating applications based on profile quality, messaging quality and user reviews.

LIVE VIDEO CREATES GROWTH OPPORTUNITIES

Live Video in Early Stages of Adoption For applications related to interacting digitally online, the company believes that live video is in the early stages of adoption and presents an attractive growth opportunity as its use continues to rise. Data from comScore indicates that social networking and entertainment including the use of Facebook account for a combined roughly 32% of total time spent on smartphones. This implies considerable opportunities to integrate live video, in our opinion.

Time Spent on iOS & Android Connected Devices

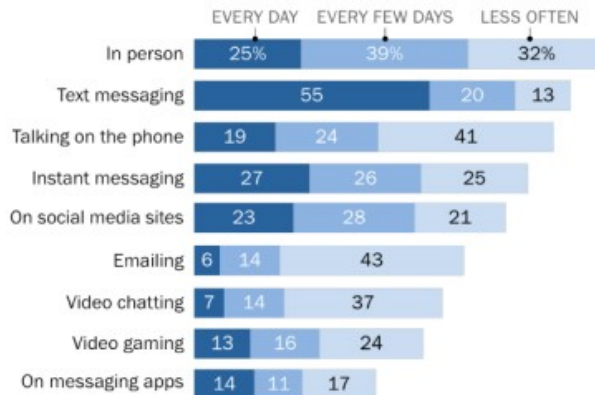


Source: Flurry Analytics, comScore, NetMarketShare

While it is fairly well-understood that teenagers are generally heavy users of texting, they are also increasingly using live video chat as an online app. A 2015 Pew Research study indicates that 57% of teens use video chatting to some extent, up from 37% cited in a 2012 Pew study. Girls are more likely to video chat than boys, according to the study. Social media users are much more likely to engage in live video chatting than people who do not use social media.

More Than Half of Teens Text With Friends Daily

% of all teens who spend time with friends...

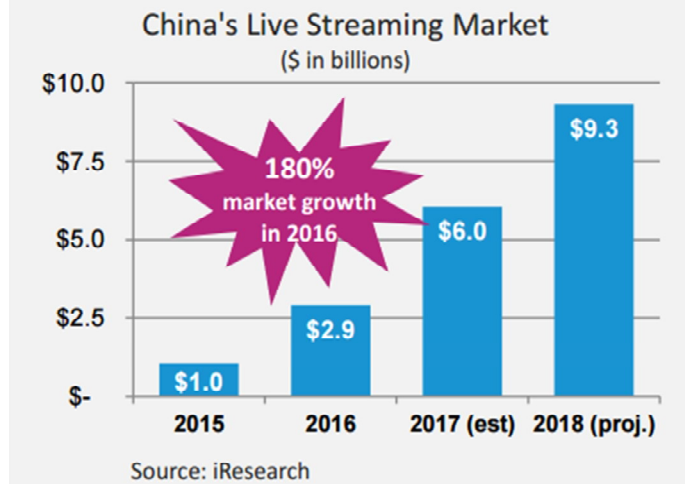


Source: Pew Research Center Teens Relationships Survey, Sept. 25-Oct. 9, 2014, and Feb. 10-March 16, 2015. (n=1060 teens ages 13 to 17.)

PEW RESEARCH CENTER

Snap believes that live video is on-track to become a key factor in social networking, messaging and online business applications. Growing video chatting usage among teenagers would seem to support this thesis.

Live Streaming is a rapidly emerging form of video entertainment...



Moreover, forms of live video have already gained substantial traction in other markets. In China, for example, live streaming is extremely popular. It differs from live video chatting in that it is not a chat among several people, but generally one person broadcasting to entertain a group, with the group able to interact with the entertainer. For instance, a user can request a song from the live broadcaster. Momo is a Chinese mobile-based social networking platform that is a major player in this space. Momo notes that its “Live Video function allows users to live stream a variety of content and activities including talent shows such as singing, dancing and talk shows, as well as casual chatting between broadcasters and viewers.”

Momo saw MAUs (monthly active users) reach 81.1 million as of December 2016, up from 69.8 million at the end of 2015. Momo cited live streaming as a major contributor to this growth. Momo added live-streaming to its service in the third quarter of 2015 and it now accounts for roughly 80% of revenue. Virtual gift-based live video streaming where users purchase virtual gifts – generally for the entertainer – has also become extremely popular in China. According to Technode, “[t]he first wave of Chinese live video streaming websites emerged in the second half of the 2000’s, later spawning into ‘virtual gift’ businesses, a model that has become as lucrative as gaming. These platforms enable viewers to reward content contributors with virtual gifts that can be purchased with real money.”

Snap management believes that the growing popularity of live streaming offers proof of concept about the potential that video holds generally and for online chat specifically. Live streaming in China has grown from \$1.0 billion in 2015 to an estimated \$6.0 billion this year, according to iResearch.

Further supporting the positive outlook for live video chat, global research firm Markets and Markets estimates that the video streaming software market will be valued at \$7.5 billion by 2022, up from a projected \$3.25 billion in 2017. This represents an anticipated 8.2% CAGR. Growing adoption of cloud-based video streaming solutions and network bandwidth optimization is expected to drive market growth.

For digital dating, USA Today notes that live video chatting is a new innovation, with video chats possibly becoming a couple’s initial view of one another before an in-person date. This trend could also create an opportunity for Snap, which has a global presence in both live video chat and interactive dating. The company believes that it can leverage its strong IP position, technology, user base and apps to combine live and recorded video with online dating.

Finally, Cisco forecasts that the internet will experience a substantial increase in video over the next five years fueled by global increases in internet users, rising penetration of personal devices and faster broadband speeds, among other factors. Cisco forecasts that video will account for 80% of all traffic by 2019, up from 67% in 2014. The U.S. and China will be the markets with the highest use of video, according to Cisco. In part, these forecasts also reflect the growing popularity of over-the-top (OTT) programming services such as Netflix and increasing trend towards cord-cutting among millennials. Internet-connected TV penetration in the U.S. has increased from 51% in 2014 to 64% in 2017, according to data from Statista.

DIGITAL DATING

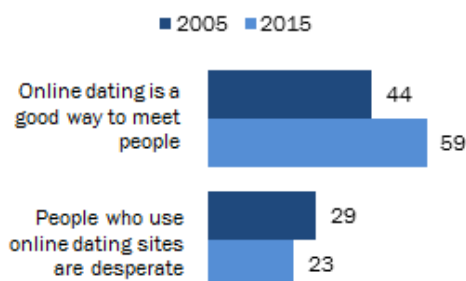
Predecessors to today's digital dating services date back to the late-1950s and 1960s, with the Happy Families Planning Service at Stanford in 1959, and Operation Match at Harvard in 1965. Project TACT (Technical Automated Compatibility Testing) was the first paid computer-dating service in 1965, according to the New Yorker.

Match.com went live in 1995 and operates the largest group of online dating sites in the world and is a consolidator of a fragmented industry of online dating sites. Match operates more than 30 sites and accounts for about 25% of the revenues of parent company, IAC/InterActiveCorp, which is also the majority owner of Tinder, an app that launched in 2012.

With a proliferation of new online dating sites over the years, the sector has achieved 3.5% per annum growth since 2008 and now represents roughly \$3 billion in annual revenue. Online dating has become increasingly mainstream and destigmatized. Attitudes toward digital dating are significantly more positive than when the services were introduced initially. Pew Research reports that about 15% of U.S. adults have used online dating sites or mobile dating apps and nearly 50% know someone who has used online dating.

Attitudes toward online dating grow more positive

% of U.S. adults who agree with the following statements



Source: Survey conducted June 10-July 12, 2015. Trend data from previous Pew Research Center survey.

PEW RESEARCH CENTER

More than a third of 19,000 couples married between 2005 and 2012 met through an online dating site, according to a study in *Proceedings of the National Academy of Sciences*. More than 10% of American adults visit dating sites, according to Nielsen. At the same time, 47% of the population is single, compared to 28% in 1970, according to the Census Bureau.

At the same time, people spend more time online and rely on the internet and mobile for a growing number of services. 70% of American adults have broadband access, up from 42% in 2006. As a result of a growing user base, there are roughly 3,900 companies offering dating sites, according to IBISWorld. Despite the industry fragmentation, Match and eHarmony control a combined roughly 40% share of the market. Not surprisingly, mobile is the focus of growth for many dating services, including Snap Interactive. By 2018, more than 80% of the population will own a smart device, up from 46% in 2012, according to IBISWorld.

SNAP STRATEGY: MERGE VIDEO AND DATING

Some research indicates that digital dating revenue growth could begin to slow because the market is extremely saturated, at least in the U.S. There are more than 1,500 dating sites, according to market research firm MarketResearch.com. However, video could be a way to inject renewed momentum into digital dating and create a competitive edge for players that have a track record and expertise in video, management believes. Moreover, being able to interact with the other person via live video before scheduling a date could be extremely appealing, in our view. According to the Pew Research Center, roughly 33% of those who have used digital dating have never taken it to the next step and actually scheduled a date with someone they met online. Having a 'virtual date' through live video interaction could be an attractive first date option, we believe.

Snap believes it has a significant opportunity to merge live video with online socializing, including dating. Management believes that its extensive base of approximately 183,000 active subscribers worldwide as of March 31, 2017 creates an opportunity to cross-promote and cross-sell live chat to its subscribers, as well as to boost advertising revenue. The company expects recorded and live video to become an integral component of the digital dating experience over time and believes it has early mover advantage. Snap has invested roughly 15 years in developing and growing its live video social networking platform.

One example of how Snap is implementing this strategy is that earlier this year, it released an update to Paltalk, one of its major video chat applications, to include navigation to a new dating section and to encourage Paltalk users to register for Snap's FirstMet dating application. The company hopes that this opportunity to cross-sell FirstMet to existing Paltalk users will enhance user engagement and monetization. If this initial step is successful, Snap intends to integrate other live video and dating applications within its product portfolio.

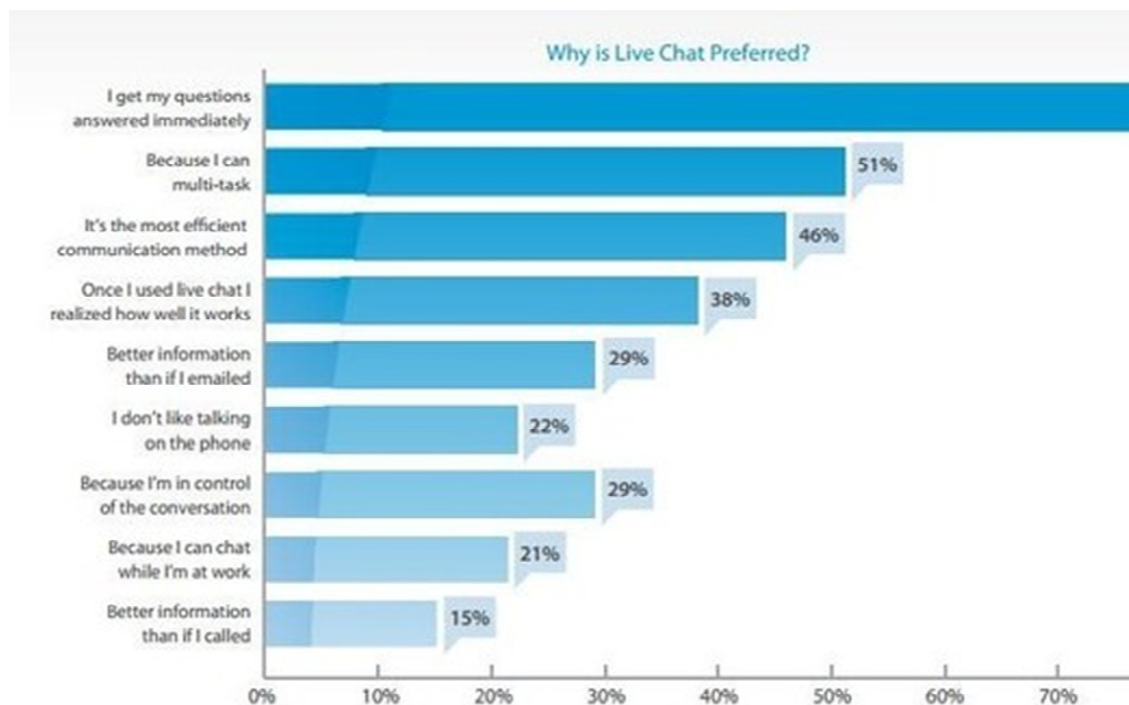
The company also plans to develop and introduce new video chat and dating apps targeting specific demographic groups or by geography. For example, Snap launched a limited beta test of 50more in the first quarter of 2017. 50more is similar to FirstMet in terms of functionality but targets the over-50 user. As noted, Snap recently commenced national rollout of 50more.

POSSIBLE FUTURE INITIATIVES

The company also aspires to uplist its shares to a national securities exchange in the near-term. An uplisting would be expected to broaden the range of investors that could invest in the company's shares and help create greater liquidity in the trading of the stock.

In addition, the company also expects its video technology to have extensive applications to many other sectors beyond social networking. The technology is scalable and can support considerably more traffic than Snap platforms currently host. One possible future initiative would be to leverage the platform for B2B use through partnerships with companies in other industries to further leverage the platform. Potential sectors that might benefit from such partnerships include retail and customer service, among

others, in our view. According to the LA Times, “more companies are adding video to personalize online customer service” and suggests that, “live video may be the future of customer service.” Moreover, a 2013 study by eDigital's Customer Service Benchmark found that consumers prefer live chat for customer service. BoldChat data suggests that 31% of online US and UK shoppers would be more likely to make a purchase after a live chat.

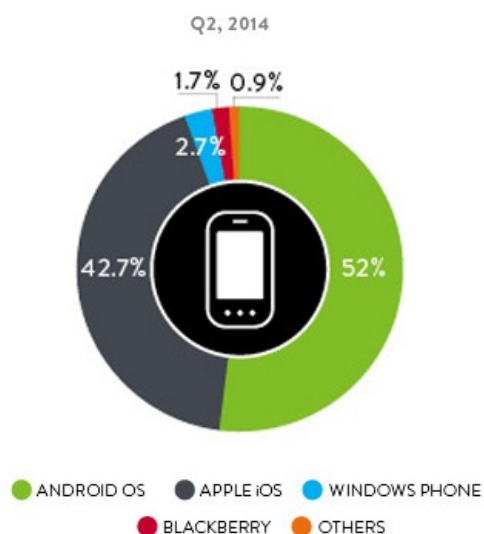


Source: Econsultancy

PLATFORM AGNOSTIC AND POSITIONING FOR EMERGING PLATFORMS

The company's offering is platform agnostic. Its products are accessible online and through iOS and Android mobile applications. Increased competition between the Android and Apple iOS platforms has benefited consumers by providing them with broader choices. Android devices have had strong success with streaming services, according to industry metrics.

TOP U.S. SMARTPHONE OPERATING SYSTEMS BY MARKET SHARE



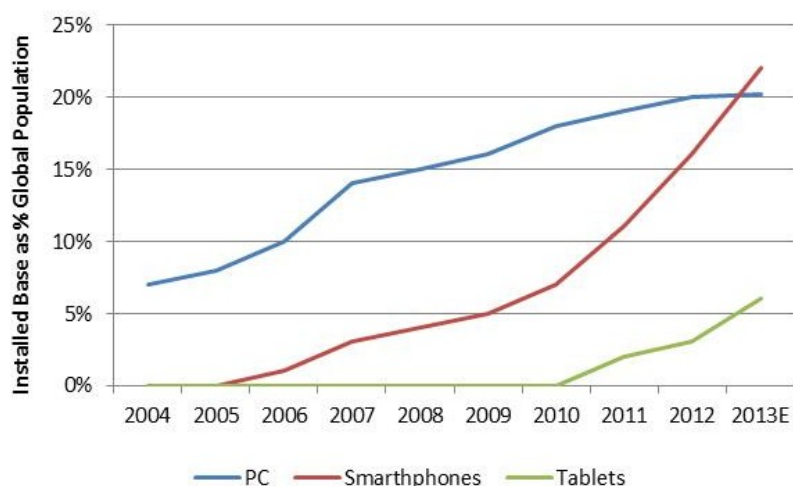
During Q2, 2014, 52% of U.S. smartphone owners used a handset that runs on the Android operating system.

Source: Nielsen

Growing Importance of Mobile

Mobile technology penetration has grown dramatically over the past decade. Adoption rates of mobile devices such as smartphones and tablets are tracking significantly ahead of that of other technology platforms such as PCs or broadband. There were 1.2 billion smartphones and tablets shipped in 2013 according to IDC, with 218 million designated for business use. Smartphone penetration reached 65.2% of the U.S. mobile subscriber market during the fourth quarter of 2013, according to comScore, up more than 11% points from the same time frame a year earlier. Smartphones took only 8-years to reach 20+% penetration globally. The growth in mobile devices has surpassed device adoption of other prior electronic devices.

Global Device Penetration Per Capita



Source: BI Intelligence, Gartner, IDC, Strategy Analytics, World Bank 2013

COMPETITON

Reflecting relatively few barriers to entry, the company faces substantial competition in both the live video and dating sectors. Live video streaming websites that compete with Snap include YouNow, Live.me, BIGO Live, Live.ly, Houseparty, ooVoo, and Discord. On the digital dating side, the company competes with online dating websites such as OkCupid.com, Christianmingle.com, eHarmony.com, POF.com and Match Group, among others, as well as with online dating apps from Badoo Trading Limited, IAC, MeetMe and Zoosk, to name a few. In mobile, Tinder, Happn, Hinge and Bumble all provide dating apps that compete with Snap's products.

Despite the competitive nature of this business, management believes that Snap has several competitive advantages, including that it is an early mover in live video and therefore enjoys a leading position in the space. For instance, Paltalk and Camfrog host one of the world's largest combined collections of video-based communities, as noted. The company also believes its products generally have easy-to-use interfaces that create stickiness among users.

The company also believes its data analytics, which enable Snap to gain insight into the effectiveness of its sales and marketing efforts, creates a competitive advantage over many other video chat and online dating platforms. Using its internal analytics tools, Snap can adapt its marketing expenditures quickly to create more effective user acquisition campaigns. The company can also use its data analytics technology to analyze user behavior in order to tweak and improve its products.

COMPETITORS

As noted, the industry is highly fragmented. Snap competes with many other companies that operate dating and social interaction websites and applications. Below we present highlights of a few.

Live Video Streaming Websites

YouNow

YouNow self-describes as a “platform where anyone can broadcast and express themselves in front of a vast live audience.” It launched to exploit the convergence of social media and TV and provides a product that merges the experience of broadcasting, gaming, performing and social networking, allowing users to create new kinds of interactive content in real-time.

Twitch (Live.me)

Twitch was founded in June 2011 and describes itself as “the world’s leading social video platform and community for gamers, video game culture, and the creative arts.” Twitch claims 9.7 million daily active users who watch 106 minutes per person each day.

ooVoo

ooVoo describes itself as “the world’s largest, independent video chat and messaging app.” It claims more than 150 million registered users, with daily additions of roughly 100,000 users, according to its website. ooVoo’s audience is comprised primarily of millennial who use video chat for socializing.

Dating Sector

Spark Networks

Spark Networks is merging with another online dating service, Germany-based Elite Singles, to attain greater scale, in much the same way that Snap Interactive merged with AVM last year. Brands the

combined group will operate include JDate, Christian Mingle, Elite Singles and eDarling, among others. The company's shares trade under the symbol LOV.

eHarmony.com

Dr. Neil Clark Warren, a clinical psychologist with 35 years of experience counseling married couples, launched privately-held online dating service *eHarmony* in 2000. The site focuses on matching couples with a view to sustaining long-term relationships and potentially marriage. The service uses a 150 question questionnaire to assist in the matching process. eHarmony introduced Compatible Partners in 2009. eHarmony.com claims that it is responsible for nearly 4% of domestic marriages each year.

Match Group, Inc.

Match Group is the world's leading provider of dating products. Match operates a portfolio of over 45 brands, including Match, OkCupid, Tinder, Meetic, Twoo, OurTime and FriendScout24 targeting different demographics. The company's dating products are offered in 38 languages and in more than 190 countries. Match has roughly 59 million monthly active users (MAUs) and 4.7 million paid members. The shares trade under the symbol MTCH.

The Meet Group

The Meet Group operates a growing portfolio of mobile apps that connect people to interact and chat with one another. The company has a brand portfolio strategy in order to offer a broad array of products that will appeal to a wide group of consumers. The company is also a consolidator of a fragmented mobile meeting sector and is leveraging acquisitions to fuel growth. The shares trade under the symbol MEET.

STRONG IP POSITION

Snap's IP portfolio comprises 25 issued patents and the company has successfully defended its IP, generating tens of millions of dollars in licensing fees for the use of its patents. For example, the company generated one-time licensing revenue from Microsoft, Sony, and Activision for U.S. patents #5,822,523 and #6,226,686.

In 2016, the company commenced an enforcement action against Riot Games, Inc. and Valve Corporation for infringement of these same two patents by their respective online games, *League of Legends* and *Defense of the Ancients 2*.

FINANCIAL

The company reported total 2016 revenue of \$21 million. However, this reflects AVM operations for the January 1, 2016- October 7, 2016 (the date the merger was completed) period and the combined operations from October 8, 2016 until the end of the year. Pro forma revenue as if the transaction had occurred at the beginning of 2016 would have been \$28.8 million. We view the pro forma figure as the baseline for Snap to grow the business further.

Following the AVM merger, Snap reported 1Q17 total revenues of \$6.7 million, up 36.1% year-over-year primarily reflecting the combination of revenue streams from the two companies, partially offset by a decline in subscription revenue from more mature products. The merger closed in October of 2017 and 1Q17 was the first full quarter that included both businesses. The majority of revenues, \$6.2 million, came from subscriptions, with another \$495,000 from advertising. During the quarter, Snap completed a 1-for-35 reverse stock split and reported a loss per share of (\$0.15), which included several non-recurring integration charges. The company subsequently approved a 10b5-1 automatic share repurchase program for up to \$1.0 million of its shares.

Adjusted EBITDA registered in 1Q17 was (\$213,990) versus \$297,315 registered in 1Q16. However, adjusted EBITDA during the quarter included the previously referenced one-time lease cancellation fee of \$225,000, reflecting ongoing merger integration. Cash flow from operations was \$943,000, up from \$408,000 in 1Q16. Debt was eliminated during the merger process and Snap now has a debt-free balance sheet, with \$5.0 million of cash as of March 31, 2017.

We forecast \$28.1 million in revenue this year, as new products such as 50more and the rebranded FirstMet are just beginning to ramp. They likely will not fully offset some anticipated revenue deterioration from more mature apps until late 2017 / early 2018, in our view. As noted, non-recurring merger-related expenses could obscure the benefits of the company's cost reductions in the near-term. Given these expenses and costs associated with new growth initiatives, we forecast a loss per share of (\$0.40). We expect Snap to deliver mid-to-high single digit revenue growth in 2018 and forecast \$29.9 million in revenue. On the higher revenue base, we forecast a loss per share of (\$0.12).

VALUATION

Snap Interactive Peer Analysis

Company	Ticker	7/24/2017 Price	Revenue (\$M)			EPS		
			2016A	2017E	2018E	2016A	2017E	2018E
Facebook	FB	166.00	27,640	38,590	49,520	4.23	4.88	6.11
The Meet Group	MEET	5.27	76	130	149	0.47	0.51	0.64
Match	MTCH	18.67	1,223	1,282	1,463	0.64	0.81	1.01
Momo	MOMO	43.99	553	1,230	1,690	0.87	1.57	2.21
Snap Inc.	SNAP	14.08	404	973	1,860	(0.69)	(0.54)	(0.37)
Spark Networks	LOV	0.92	35	26	26	(0.24)	(0.20)	(0.17)
Twitter	TWTR	20.00	2,530	2,330	2,450	0.57	0.34	0.39
Snap Interactive	STVI	3.00	20	28	30	(\$0.26)	(\$0.40)	(\$0.12)

	52-Week		Mkt Cap (\$M)	Price / Revenue			P/E		
	High	Low		2016A	2017E	2018E	2016A	2017E	2018E
Facebook	166.17	113.55	481,100	17.4x	12.5x	9.7x	39.2x	34.0x	27.2x
The Meet Group	8.11	4.50	366	4.8x	2.8x	2.5x	11.2x	10.3x	8.2x
Match	20.75	14.32	4,820	3.9x	3.8x	3.3x	29.2x	23.0x	18.5x
Momo	45.95	12.98	8,670	15.7x	7.0x	5.1x	50.6x	28.0x	19.9x
Snap Inc.	29.44	14.02	16,600	41.0x	17.1x	8.9x	-20.4x	-26.1x	-38.1x
Spark Networks	2.08	0.76	30	0.8x	1.1x	1.1x	-3.8x	-4.6x	-5.4x
Twitter	25.25	14.12	14,510	5.7x	6.2x	5.9x	35.1x	58.8x	51.3x
Average	-	-	-	12.8x	7.2x	5.2x	20.1x	17.6x	11.7x
Snap Interactive	7.31	3.00	20	1.0x	0.7x	0.7x	nm	nm	nm

Source: Company reports, Yahoo Finance, Thomson Reuters, Zacks

We believe it is difficult to compare Snap to most publically traded digital dating or social media companies because Snap combines both businesses. Moreover, Snap is at an early stage in its post-merger growth plan. Many other players with longer operating histories would therefore not be direct benchmarks, in our view.

That said, Snap shares trade at a substantial discount to other public companies with similar operations. At their current \$3.00 share price, STVI shares trade at 0.7x our respective 2017 and 2018 revenue projections, which is significantly below the average 7.2x and 5.2x multiple that peers command. Even

excluding social networking players such as Facebook, Snapchat and Twitter, which command significantly higher average multiples of 11.9x and 8.2x on this basis, STVI shares trade at steep discount to those of other dating apps.

Dating apps such as The Meet Group, Match and Spark Networks trade at an average multiple of 3.7x projected 2017E revenue and 3.0x 2018E revenue. We are not surprised that STVI shares currently trade at a discount to both groups, as we believe the company is 1) not as well-known as most of these other players, and 2) at the early stages of a three year growth plan.

However, if Snap can deliver growth on the initiatives discussed above, we would anticipate share price appreciation and expect the valuation gap to narrow. At the same time, the company has recently engaged MZ Global, a global investor relations firm, to help raise its profile within the investor community. Some investors might remain on the sidelines until there is greater evidence that the growth strategy is producing results, in our view, but in success, we would anticipate share price appreciation over time.

Given the current valuation gap between STVI and similar companies, we believe the risk / reward ratio could be attractive for investors who want exposure to the sector and have a higher than average risk tolerance and longer time horizon. We believe Snap shares represent an option on management's ability to execute its strategy in a cost effective way and capitalize on the ongoing integration of live video, online chat and digital dating.

If Snap can achieve nearly \$30 million in revenue by 2018 as we forecast, we would anticipate share price appreciation. A \$5.00 share price would put the shares at 1.2x and 1.5x our 2017E and 2018E revenue forecasts, which is still well below the average peer multiples noted above. At \$6.00, the shares would trade at 1.4x and 1.3x respectively, while a \$7.00 share price implies 1.7x and 1.6x multiples of 2017E and 2018E revenue. Even at \$7.00, although the valuation gap would have narrowed, STVI shares would still trade at a substantial discount to the digital dating group,

MANAGEMENT

Jason Katz - Chairman of the Board, President, Chief Operating Officer

Jason Katz founded AVM Software and served as its CEO and on its board from 1998 through the merger with Snap Interactive. Prior to founding AVM, he co-founded money management firm MJ Capital and was a corporate attorney at the New York office of Fulbright & Jaworski before that.

Alexander Harrington - CEO

Alexander Harrington joined Snap in February 2014 as COO and became its CFO in March of 2015. He assumed the CEO position in October of 2015. Prior to Snap, he was CEO of the interactive mobile platform MeetMoi, a location-based dating app that was acquired by Match.com. MeetMoi enjoyed a ten-fold increase in revenue under his leadership. Prior to MeetMoi, he served as SVP of Strategy and Operations for Zagat. Earlier in his career, he held positions in new business development at Sony BMG and in investment banking at The Beacon Group and Smith Barney. He is also co-founder of a business analytics start-up, Indicative.

Judy Krandel - CFO

CFO Judy Krandel was appointed as CFO in November 2016. She has 25 years of investment experience as a small cap portfolio manager and equity analyst, having held positions at the Juniper Public Fund, Alpine Woods, First New York Securities and Fred Alger Management, among other investment institutions. Prior to assuming the CFO role, she was a member of the board of Snap Interactive.

Eric Sackowitz, Chief Technology Officer

Eric Sackowitz was appointed CTO in October of 2016. He had previously served as an officer of AVM. Prior to joining AVM, he was VP of Technology for World Wrestling Entertainment and before that, he held various positions at Gotuit Media.

Arash Vakil Chief Product Officer

Arash Vakil was appointed Chief Product Officer in October 2016, having previously served as Chief Product Officer of AVM. He has over a decade of product management experience leading software development and engineering teams. Prior to AVM, he held product management positions with IT security firm Comodo, EMC and telecommunications provider Telestruct.

INSIDER HOLDINGS

Clifford Lerner, the founder of pre-merger Snap, is one of the company's largest shareholders, with 12.9% of the company's shares. The company's chairman, Jason Katz, is also a significant shareholder, effectively holding 10% of the company's shares personally and through shares owned by his wife. In addition, the J. Crew Delaware Trust A, which holds 31.6% of STVI shares, is a trust for members of the Katz family. Overall, insiders hold just shy of 20% of the company's shares. Including the J. Crew Delaware Trust A and other 5% holders, over 60% of Snap shares are closely held. While this likely ties insider interests to those of other shareholders, it also limits the liquidity of the shares. Over time, we would expect some reduction in insider holdings in order to improve the trading and liquidity of the stock.

Name of Beneficial Owner	Common Stock Beneficially Owned	
	Number	Percentage
Clifford Lerner	865,002	12.9%
Jason Katz*	681,631	10.0%
Lance Laifer	364,529	5.4%
John Silberstein	130,064	1.9%
Officers and Directors as a Group	1,334,400	19.8%
5% Stockholders		
The J. Crew Delaware Trust A	2,124,383	31.6%
Perry Scherer	332,953	5.0%
Jen-Jen Yeh	332,953	5.0%

Source: Company reports

*Including shares held by his spouse

RECENT NEWS

Snap announced that it had engaged digital ad company Krush Media on July 18, 2017.

Snap announced the commercial launch of 50more earlier this month.

On July 10, 2017, Snap announced that it had engaged MZ Group to spearhead its investor relations efforts.

On May 18, 2017, Snap established a 10b5-1 automatic plan to initiate a share repurchase plan.

The company reported first quarter 2017 results on May 11, 2017.

Snap Interactive's CEO Alex Harrington was named to the Global Dating Insights 2017 Power Book on Feb 14, 2017.

On Feb 07, 2017, Snap integrated dating into its Paltalk group video chat.

RISKS

- Competition is steep, which could make it difficult for Snap to execute its growth strategy.
- The company might not be able to convert its users into active subscribers and to generate in-app virtual currency revenue as rapidly as it expects. Moreover, user retention could deteriorate, reflecting rising competition, among other factors.
- New products such as 50more might not gain traction as quickly as the company expects.
- Older products that are already somewhat mature might experience greater than anticipated usage and revenue declines.
- Snap has a clean balance sheet, with over \$5.0 million in net cash as of March 31, 2017. However, the company might need additional funding to conduct future M&A transactions.
- It may be early to purchase STVI shares, as the company is in the beginning phase of a three-year growth strategy and results might not become evident for some time, in our view.

PROJECTED INCOME STATEMENT

Snap Interactive Income Statement & Projections (\$)

	1Q16*	2Q16	3Q16	4Q16E	2016*	1Q17A	2Q17E	3Q17E	4Q17E	2017E	2018E
Subscription revenue	\$4,389,274	\$2,459,633	\$2,373,273		\$18,647,855	\$6,223,685	\$6,285,922	\$6,505,929	\$7,019,898	\$26,035,433	\$27,649,630
Advertising revenue	548,424	154,329	142,268	-	2,340,574	495,267	500,220	505,222	538,061	2,038,770	2,201,871
Total revenue	4,937,698	2,613,962	2,515,541	7,047,198	20,988,429	6,718,952	6,786,142	7,011,151	7,557,959	28,074,203	29,851,502
Costs of revenue	1,399,000	405,965	397,963		5,015,565	1,282,505	1,382,903	1,431,304	1,544,377	5,641,090	6,221,167
Sales and marketing	918,616	1,210,103	1,170,469		5,099,956	2,230,492	2,208,187	2,141,941	2,077,683	8,658,304	8,225,389
Product development	2,092,835	440,451	422,582		8,600,688	2,211,344	2,189,231	2,145,446	2,123,991	8,670,012	8,496,612
General and administrative	486,743	861,270	1,040,923	-	4,016,068	2,070,127	2,008,023	1,947,782	1,889,349	7,915,282	7,836,129
Total costs and expenses	4,897,194	2,917,789	3,031,937		22,732,277	7,794,468	7,788,344	7,666,474	7,635,401	30,884,687	30,779,296
Operating income/(loss)	40,504	(303,827)	(516,396)		(1,743,848)	(1,075,516)	(1,002,202)	(655,323)	(77,442)	(2,810,484)	(927,794)
Interest income/(expense)	285	(427,306)	(431,269)		(60,030)	36,813	30,000	28,000	27,000	121,813	119,377
Other	-	(110,000)	1,000,000	-	351,102	-	-	-	-	-	-
Pretax income/(loss)	40,789	(841,133)	52,335	(505,896)	(1,452,776)	(1,038,703)	(972,202)	(627,323)	(50,442)	(2,688,671)	(808,418)
Taxes											
Net loss	40,789	(841,133)	52,335	(505,896)	(1,452,776)	(1,038,703)	(972,202)	(627,323)	(50,442)	(2,688,671)	(808,418)
Per share data:											
LPS	\$0.01				(\$0.26)	(\$0.15)	(\$0.14)	(\$0.09)	(\$0.01)	(\$0.40)	(\$0.12)
Avg shares out	5,228,617				5,577,856	6,714,915	6,725,930	6,736,945	6,747,960	6,731,438	6,775,498

Source: Company reports *Post merger

BALANCE SHEET AND CASH FLOW STATEMENT

Snap Interactive Balance Sheet (\$)

	2015	2016	1Q17
Cash & equivalents	\$6,676,557	\$4,162,596	\$5,023,964
Credit card holdback receivable	150,000	172,169	173,579
Accounts receivable	832,621	958,695	685,313
Prepaid expense & other	<u>1,017,879</u>	<u>1,047,483</u>	<u>399,618</u>
Total current assets	8,677,057	6,340,943	6,282,474
Property & equipment	917,720	793,305	725,263
Goodwill	4,344,650	14,304,667	14,304,667
Intangible assets	2,487,698	5,605,193	5,184,005
Long term security deposits	82,083	397,608	131,547
Deferred tax asset	754,535	-	-
Other	<u>-</u>	<u>82,435</u>	<u>84,428</u>
Total assets	\$17,263,743	\$27,524,151	\$26,712,384
Accounts payable	667,782	1,665,831	2,235,582
Accrued expenses & other	897,091	472,406	161,652
Deferred subscription revenue	<u>2,262,818</u>	<u>2,828,827</u>	<u>2,748,350</u>
Total current liabilities	3,827,691	4,967,064	5,145,584
Deferred rent of current portion	-	261,286	-
Deferred tax liability	-	1,452,339	1,452,339
Contingent liability	<u>134,000</u>	<u>-</u>	<u>-</u>
Total liabilities	\$3,961,691	\$6,680,689	\$6,597,923
Total stockholders' equity	\$13,302,052	\$20,843,462	\$20,114,461
Total liabilities & stockholders' equity	\$17,263,743	\$27,524,151	\$26,712,384

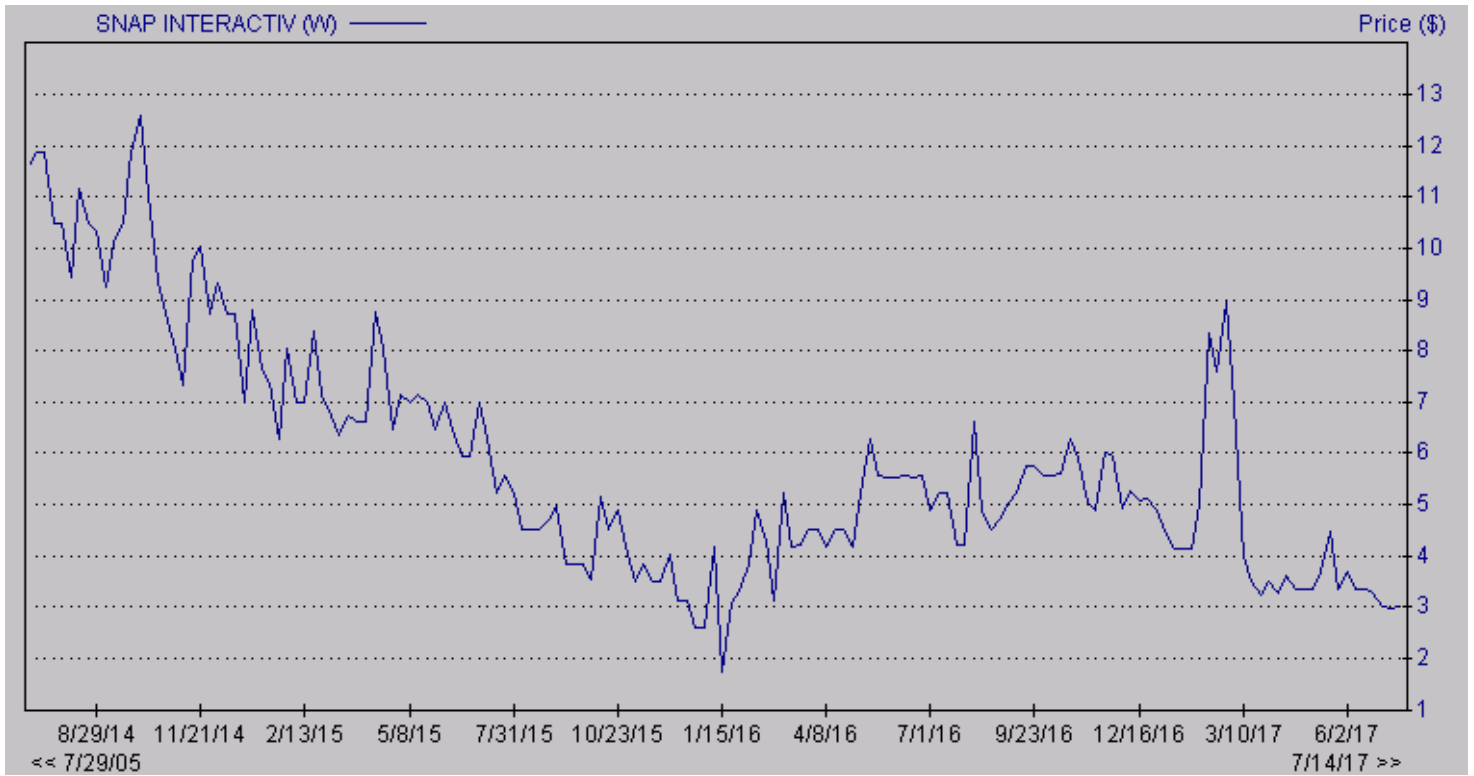
Source: Company reports

Snap Interactive Statement of Cash Flow (\$)

	2015	2016	1Q17
Net loss	(265,926)	(1,452,776)	(1,038,703)
Depreciation of property & equipment	383,167	568,028	130,637
Amortization of intangible assets	552,333	834,505	421,188
Stock-based compensation	206,571	353,120	309,702
Change in fair value of contingent liability	-	(134,000)	-
Changes in working capital	<u>(780,183)</u>	<u>(575,528)</u>	<u>1,120,276</u>
Cash from operations	95,962	(406,651)	943,100
Property & equipment purchases	(488,154)	(345,070)	(62,595)
Cash from the merger after note payment	<u>-</u>	<u>(1,739,506)</u>	<u>(1,993)</u>
Cash from investing	(488,154)	(2,084,576)	(64,588)
Payments of capital leases	-	(22,734)	(17,144)
Repayment of note payable	<u>(490,000)</u>	<u>-</u>	<u>-</u>
Cash from financing	(490,000)	(22,734)	(17,144)
Net change in cash & equivalents	(882,192)	(2,513,961)	861,368

Source: Company reports

HISTORICAL STOCK PRICE



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