Presenter dial in numbers:

Conference ID: 5129574

Speakers, Int'l Toll: 719-457-2088 Speakers,

US/CAN Toll free: 888-576-4382

Host Controls URL: http://www.hostcontrols.com

Conference Code: 5129574

Snipp Interactive Fourth Quarter and Fiscal Year 2016 Earnings Call Script

Operator

Good morning everyone. Welcome to the Snipp Interactive Fourth Quarter and Fiscal Year 2016 Financial Results Conference Call. At this time, all participants are in listen-only mode. Instructions for the question-and-answer session will be provided following the listen-only portion of this call.

I will now turn the call over to Todd Kehrli of the MKR Group. Please go ahead.

Todd Kehrli:

Thank you, operator. Good morning everyone and welcome to Snipp Interactive's Fourth quarter and Fiscal Year 2016 conference call.

Yesterday we issued our Fourth Quarter and Fiscal 2016 financial results. A copy of the press release is available on the Investor Relations section of our Web site, and the financials are posted on SEDAR. We report our financials in U.S. dollars, so today's discussion will use that currency unless otherwise noted.

Before beginning our formal remarks, I'd like to remind listeners that today's discussion may contain forward-looking statements that reflect management's current views with respect to future events.

Any such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected in these forward-looking statements.

Snipp does not undertake to update any forward-looking statements except as required. I'll now turn the call over to Snipp's CEO, Atul Sabharwal. Please go ahead.

Atul Sabharwal:

Thank you, Todd.

We have quite a bit to talk about today as Q4 was a good quarter for us and the trends we witnessed in the latter half of 2016 bode well for 2017 and beyond. We spent a big part of 2016 in investing in developing out our product portfolio and have started to see the fruits of those investments bear out in Q4 2016 and into 2017. We have

developed a complete - and turnkey - portfolio of marketing solutions that allow our clients to run the entire gamut of promotions from single one-off campaigns to evergreen recurring programs. As a consequence of the strengthening and diversification of our product portfolio, we have been able to increasingly sell our solutions on longer term, recurring SAAS type revenue contracts. We are now building on these longer-term contracts to form a solid revenue base, and are increasingly seeing the layering on of contracts that will make our company stronger, more consistent, and more profitable in the future.

This past quarter also marks a second transition point that I will spend quite a bit of time on during this call – and that is our commitment to move sales to the top of our emphasis in 2017. Years of focusing on engineering have finally given Snipp a robust portfolio of products, but our weakest link during our engineering build out phase was our sales effort. We are now ready to revamp that part of our operation and have a serious effort underway to expand our reach and our penetration into existing accounts, along with a more comprehensive outreach to a very large population of brands that have not yet sampled our platform.

After analyzing our strengths and weaknesses, we realized that we needed fresh ideas and a very experienced, well-connected industry veteran to lead our sales effort. We undertook a lengthy search and were lucky enough to find an ideal candidate in Rob Rathke, who we announced yesterday as our EVP Sales. Rob has two decades of sales, marketing and advertising experience, mostly in CPG-centric and promotional

agencies – which make up the heart of our core market. He helped create some of the largest and longest-running evergreen promotions in North America.

Rob has held senior roles in Creative, Strategy, Client Service, Digital and was most recently the VP Integrated Operations at one of the largest Shopper-Marketing agencies in North America. We have actually had a relationship with Rob for quite a while as he was one of our early clients and has informally advised Snipp over the years during our product development phase. The fact that a key customer is joining us as Head of Sales should speak volumes to the power and viability of our recently completed suite of products. Rob brings years of solid sales expertise, contacts and relationship to the table at a crucial juncture as we prepare to scale our sales and marketing efforts around our newly completed platform. With deep contacts built over nearly two decades in our core areas of interest, Rob will have an immediate impact on our sales culture and approach to customer acquisition. We can’t stress enough how important this new hire is to our future.

By almost every measure, this was a terrific quarter, but it is really just the beginning of a new growth phase that we believe will be driven by this new emphasis on sales.

Now, I’d like to highlight a few items of interest before we dig deeper into the financials. In 2016, the amount of engineering that Snipp accomplished was pretty extraordinary. We introduced two major products that were completed over the course of the last six months -- Snipp’s ‘Loyalty in a Box’ solution in November of 2016 and Snipp’s Rebate Center offering, which was unveiled in February of 2017. But if you stop

to think about it, more than half of all of our product offerings were completed and introduced in the last 6 quarters. That puts into perspective how new our product line really is in terms of industry awareness and penetration. So, as of today, for the first time in our history we have what we consider to be the best and most complete set of solutions ever offered in our target markets.

As previously reported, Q4/2016 marks the resumption of positive quarter over quarter revenue comparisons, with revenue showing a 62% increase over Q4/2015.

Snipp's bookings backlog has also grown significantly. We started 2016 with bookings of only $700,000, during the earliest stages of our recurring model. I woke up January 1st of 2017 with $4 million in bookings to start the year, marking a 471% improvement and a great way to kick off the next phase of our growth story. With momentum in our favor, I expect to see this bookings number grow steadily with every quarter, giving us a larger and larger starting point for each reporting period.

As our recurring SAAS-style revenue streams continue to layer on, with different start dates and time frames, the diversity of this base will get even better, giving us a Kevlar-like fabric of different customers, time frames, and product categories, fashioning a more dependable revenue stream with each new signing. As a reminder, we define bookings backlog as future revenue to be recognized in future quarters from existing customer contracts. So, this is very real and highly collectible revenue from primarily Fortune 500 customers. In that regard, our bookings number has a near 100% potential to be realized.

During 2016, we saw the benefit of these longer-term contracts as our gross margins grew from 55% in 2015 to approximately 66% in 2016. Our ultimate goal is to maintain margins in the 70%+ range as our customer relationships mature and we scale our operations. The impact of recurring revenue will also play a major role in future margin improvement.

Most importantly, Q4 marked the return of growth to the Snipp story. Our 64% year-over-year revenue improvement in Q4 2016, was helped in part by the increasing contribution from our long-term recurring contract revenue. We expect this trend to continue in 2017 and look forward to a return to positive year-over-year comparisons in upcoming quarters.

To summarize other highlights from 2016:

- We completed the bulk of our multi-year engineering effort and for the first time in company history have a full suite of products addressing a client's major needs in rebate, promotions, and loyalty. This applies not just to CPG customers (our previous core focus) but to every multichannel brand that is dependent on third party retailers to distribute some portion of their products. This includes segments such as apparel, beauty, electronics as well as cross-over brands that have their own distribution networks but are also selling through retailers as well. In addition we are now opening up entire new market segments by leveraging our platform with brands to

incentivize their distributors and wholesalers, all net new markets for Snipp.

- We sold 25% more campaigns in 2016 vs 2015 while also slightly improving our average campaign size (from $40,100 to $40,735).
- We issued the last of the shares from our two acquisitions done in 2015, relieving the stock from the quarterly pressure presented by that large stock-based disbursement
- We received a financial stamp of approval in terms of our first credit facility, with Silicon Valley Bank for $4MM.
- We steadily reduced our expenses throughout 2016, and our EBITDA loss showed a 58% improvement over Q4 2015
- And, we set the stage to reach cash flow breakeven in the second half of 2017

It has been almost five years since we first began the process to modernize an industry that was using decades-old methods with inherent flaws in both effectiveness and measurability. If anything, the industry issues that caused us to enter this business in the first place have grown more urgent for our customers, particularly as CPG customers become more digital and mobile-centric in their habits. The old ways of doing things are disappearing and ***the tipping point has already been passed***. Technological change takes on many forms in different industries, but in the world of promotions, rebates and loyalty programs, brands are replacing practices that are extremely old, in some cases, technology that might not have changed in generations –

things that might have been used by our great grandparents. There aren't than many areas of business that can make a statement like that. Brands have no choice. That consumer for example who accessed rebated programs with a pair of scissors and a stamp is being replaced with one armed with a smartphone, who expects everything to work digitally and immediately. Consequently the data that the brands collect from these consumers enable entirely new insights into their end customers' shopping habits and the effectiveness of the media channels they use to drive customers to buy their products . So today, we are in a very unique space with few competitors and no visible limit to our growth potential.

At this time, I will turn the call over to Jaisun for additional details on our 2016 financial results.

Jaisun Garcha:

Thank you Atul.

Just a reminder, due to our transitional phase to a larger recurring revenue stream in 2016, we consider our Q4 metrics to be of greater importance than the full year comparisons between 2015 and 2016.

As an example, our full-year revenue comparison of $11.2 million in 2016 vs $11.9 million in 2015 indicates a -6% decrease in revenue. But, Snipp had $4.0 million in bookings backlog to end the year which is revenue that is booked but will be recognized in future quarters. This compares to a bookings backlog at the end of 2015 of only $0.7 million, so when you add the bookings backlog to the recognized revenue in

each year you see that the total booked revenue has improved by 21%, with booked revenue of $15.2 million for the end of 2016 compared to $12.6 million for the end of 2015. Based on this you can see how skewed this revenue picture is on an annual basis if these long-term bookings are ignored. Because we believe this is such an important transitional quarter, Q4 presents a better picture of our current financial momentum. In Q4 2016 revenue was $2.99 million vs $1.8 million in Q4 2015, representing a 62% year-over-year improvement. As a side note, the bulk of our revenue continues to be generated in our U.S. operations, so international continues to be an area of untapped potential for us, although we have barely scratched the surface in our core markets of North America, which will remain our main focus area for 2017.

As most of you know, in 2016 we placed quite a bit of focus on cost cutting measures. That really was a year-long effort as we completed the integration of our acquisitions and consolidated some of those operations. Accordingly, our headcount at year-end 2016 totaled 122 employees, about 5% lower than year end 2015 (and about 20% lower than our peak in early 2016). In Q1 2017 we continued this trend as we reduced our staff following the completion of key projects and lowered our headcount even further. We expect to stabilize at around 115 personnel through the first half of 2017.

As a reflection of our cost cutting, salaries and compensation dropped from about $3.4 million in Q4 2015 down to $2.48 million in Q4 2016, representing a 27% decrease from the prior year's quarter. Also when comparing our Q4 2016 with the first three quarters in 2016 we recognized savings in salaries and compensation of 26% compared

to Q1 2016, 16% compared to Q2 2016 and 7% compared to Q3 2016. Based on this the company recognized approximately $2.1 million in savings from salaries and compensation when comparing the actual salaries and compensation amount recognized in 2016 versus what the total for 2016 would have been if the 2015 fourth quarter cost base was carried forward to the four quarters in 2016. In addition, when comparing Q4 2016 with Q4 2015 we showed cost savings of 19% in general and administrative expenses, 20% in marketing and investor relations, 85% in travel and 51% in bad debt expense.

Our business mix in 2016 had excellent diversity, with Promotions and Rewards accounting for 68% of revenue, followed by Loyalty at 20%, and API at 12%. Our Loyalty and API represent longer-term revenue contracts accounting for 31% of the mix. As a result, gross margins improved in 2016 by 11% from 55% in 2015 to 66% in 2016. In quarters with larger API and Loyalty components our margins and recurring elements typically improve, but operating income in 2016 was impacted significantly due to the impact of expenses associated with integrating the Hip Digital acquisition.

In regard to that, one line item worth noting for all of 2016 is Amortization of intangibles. We booked $1.47 million in amortization in 2016 compared to only $731,978 for all of 2015, which is an increase of 101%. Though it is a non-cash charge, this amortization has a significant impact on our operating income, assets, and some other key financial figures. The amortization of intangibles has increased as a result of

our acquisitions where we acquired technology and other intangibles and are amortizing them fully over a 5 year period.

Our accounts receivable figure remained steady in Q4 2016 at $4.26 million, a 44% improvement over 2015. Our deal flow came in at 60 deals in Q4, so we finished the year with 314 deals, a 25% improvement over the 251 deals in 2015. However, deal count will actually become less comparable as we move forward and sign larger contracts, as a single long-term contract can replace multiple small contracts under our traditional focus on one time promotion sales.

The mix of contracts is the most important element now for us. For example, in Q4 2016, seven of our top 10 deals were Loyalty contracts and our largest deal was an API contract. That is a very healthy mix that will generate longer-term revenue and better margins. Infrastructure costs spike in the quarters that we sign these kinds of deals, but later quarters reflect the true power of this contract category, so every long-term deal is a welcome addition.

As our business has changed and the structure of Snipp morphs from an engineering-oriented organization to a sales- & marketing-oriented company, we will have some fluctuation in our employee mix. In 2017, we expect to continue our efforts to manage costs and will see some of the overhang elements of 2016, particularly those related to our acquisitions, begin to have less impact in the coming year.

As Q4 2016 showed a return to our year over year quarterly revenue growth, we continue to believe that we can hit cash flow positive status at some point in 2017.

Now I will turn the call back to Atul for some additional comments.

Atul Sabharwal:

I'd like to provide a bit more detail on a subtrend in our revenue growth that relates to our new sales focus. When we bought Hip Digital, we expected some sales momentum, but made that acquisition mainly as a means of gaining technology, an outbound sales and marketing organization and a digital rewards portfolios that would have been very expensive and difficult to replicate. Through that acquisition, we gained (at a significant discount and without spending any actual cash on the acquisition) an enterprise that Hip's investors spent over $10M to build. While the technology and relationships were a major win for us, expected sales growth was a disappointment.

Fortunately, this is a rear-view mirror assessment, because Hip has been completely integrated and will no longer serve as a drag on our sales expectations. Ironically, our Ireland acquisition around the same time actually proved to be a better revenue contributor than Hip. But the key point here is this – our core Snipp business grew 107% in 2016 and that will represent the primary growth driver in the future. We have all of the pieces in place for the first time in company history, particularly with the signing of a respected industry veteran like Rob Rathke.

Investors can look at our financials and see our results, but one thing that they cannot see is the significant value in the data that is building every day in our data warehouse. Every scanned receipt feeds into this history of purchases and it is

becoming a large and important chronical of consumer spending habits and behavior. That data represents a future product line and will be utilized to our benefit either as a customer-acquisition tool or separate revenue generating product category. We currently power three of the largest CPG loyalty programs in existence - which are also the top 3 largest receipt-based loyalty programs - and which, as a group, represent pretty much the bulk of the current market. There are thousands of companies that could implement similar programs and you can be assured we are talking to many of them!

In terms of value, I would also like to address something that has been the subject of rumor for some time. Particularly at these depressed levels, Snipp has received multiple buy-out and take-over offers. While I cannot comment on any details, I can say that the Snipp management team and Board have evaluated and will evaluate all of these offers keeping in mind how best to maximize shareholder value while adequately reflecting the instrinsic value residing in Snipp -- not just in the near future, but for an extended period of time.

Snipp currently trades at less than one times sales, but according to industry figures, the average for our peer group was closer to 2.7X at the end of 2016 and much higher for growth companies in technology. We believe that as we reestablish Snipp as a true growth stock and, eventually, a profitable growth stock, we can achieve a valuation that exceeds the industry averages. We will let investors do the math on that goal, but in the meantime, we believe that Snipp’s Q4 results should provide everyone

with a new launch point for what we think is the renewal of our tangible, reportable double-digit growth on a quarterly basis.

To sum up this management discussion, this is a new era at Snipp – with sales as the driver for 2017 and beyond.

At this time, I would like to open up the call to questions.

Operator:

[Operator Instructions] Your first question comes from the line of…

Question-and-Answer Session

Operator:

Thank you at this time there are no further questions in the queue. I would like to turn the conference back over to today's speakers for any additional or closing remarks.

Atul Sabharwal:

Thank you for joining us on today's call. We look forward to updating you on our progress next quarter. Thanks.

Operator:

Thank you. And that does conclude today's presentation. Thank you for your participation. You may now disconnect.