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Snipp Interactive First Quarter Fiscal 2017 Earnings Call Script

Operator

Good morning everyone. Welcome to the Snipp Interactive First Quarter Fiscal 2017 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 Mark Forney of the MKR Group. Please go ahead.

Mark Forney:

Thank you, operator. Good morning everyone and welcome to Snipp Interactive's First Quarter Fiscal 2017 conference call.

This morning we issued our First Quarter Fiscal 2017 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, Mark.

It is typical for a business to use the first quarter to set the stage for the coming year, but this year, Q1 took on some special meaning at Snipp. On the cost side the fruits of our integration efforts over the last three quarters have started to materialize and will continue to show further positive impact over the next quarter as we further reduce our cost base. This was also the kick-off quarter for our major push toward

investing in our Sales and marketing efforts, with recruitment of new sales leadership and the launch of new products to boot – all of which will have positive impacts on the company's top line over the course of the remaining quarters. We expect these emphasis to really begin to yield significant results in the back half of this year, but the immediate impacts can already be seen in Q1 and will definitely continue to show improvement for the next quarter.

If there is one thing we want investors to get out of this call, it is the feeling that we are entering a new phase, with the foundation building and engineering largely completed, and the move well underway toward profitability.

So, let's talk about some of the highlights in Q1 2017. Our revenue came in around $2.5M, an 18% improvement over last year. That represents nice growth, but our sales goals are much higher than that figure. The most important metric here is our gross margins total, which remained steady at 76%, about 1% higher than the same period last year. The advantage of our business model as our sales mix becomes more long-term in nature, is that gross margins have the potential to remain in the 70%+ range and stay there on an ongoing basis, giving us tremendous profitability potential once we surpass our fixed costs.

Year over year comparisons in our bookings are not currently perfectly relevant, as we changed our revenue mix as more products with long term components launched over the course of the last three quarters in our transition to a recurring model. However, sequential comparisons are very valid. As a reminder, bookings backlog represent programs that have been sold, but where revenues have not yet been

recognized. That metric grew from $4.2 million at the end of 2016 to over $5.4 million at the end of Q1 2017, representing a 29% sequential increase. Growth in this bookings backlog number is very important, because it measures the head start that we have on upcoming quarters and represents a high margin business. So, we are really pleased with this terrific growth during the quarter, which took us to our highest bookings [backlog] total in company history. We expect this number in Q2 to grow further as we have some significant deals in their final stages of negotiation in the pipeline

Given all of this our break-even point is finally in view and we are moving steadily closer to that day. Our enthusiasm and optimism is very high right now as we continue to introduce our full suite of products into new and existing channels under the direction of our new EVP of Sales, Rob Rathke who is already adding tremendous value in organizing our sales force around Key clients and our product portfolio.

There is no denying that integrating multiple acquisitions while simultaneously completing a large product suite was very challenging – we knew that going in and having now spent the last three quarters taking the best of what we bought and adding it into our platform –we are very happy to have finally completed that work – the fruits of which as I had said will continue to be evident as early as Q2 from a cost reduction perspective. Sales and customer penetration are the order of the day for the rest of 2017.

As we would expect in the first quarter of the year, our sales mix was promotion heavy, with Promotions and Rewards accounting for 65% of revenue, followed by Loyalty at 32%, API at 3%. Overall, our long-term, SAAS-type contracts represented

about 35% of our total revenue in the quarter. These numbers when contrasted to the 2016 full year numbers show how our mix is slowly but steadily changing to longer term contracts with recurring components – in 2016 these numbers were – Promotions and rewards 69%, 20% Loyalty and 12% API Licensing

One of the more important achievements during the quarter was the completion of another significant piece of our product portfolio, ***SnippRebates.*** With the launch of the **Snipp Rebate Center** and **SnippRebates** solutions, we now have a platform to fully target the massive $8bn rebate industry. This rebate package is designed to reduce costs for manufacturers, while also providing consumers with a better experience – so the benefits target both sides of the traditional rebate transaction.

The rebate industry is growing every year but is still very traditional, relying on labor-intensive processes that involve paper, form filling, manual data entry, telephone support, postage, and physical checks mailed back to participants. **SnippRebates** offers a flexible platform to automate either parts of the process or the entire operation. This is a massive, but sometimes forgotten part of marketing – with manufacturers issuing more than $8 billion back to American households each year via rebates.

How important are rebates to manufacturers? In an average year, 50 percent of the U.S. population participates in a consumer rebate program, making this one of the largest consumer marketing tools in use today. Those are staggering numbers and should give investors an idea of the immense size of this potential market for Snipp.

At the core of SnippRebates is our leading purchase validation platform, SnippCheck. While manufacturers have total flexibility on how to configure their rebate

program, SnippCheck enables consumers to submit rebate forms and proof of purchase via mobile, email or web uploads, track the status of their rebates, and receive funds electronically, all within 48 hours. Compared to the traditional post-card rebates of the past, our technology brings this common, widely-used process into the modern age.

For all of 2016, Rebates barely registered at just 2.5% of our total revenue, but accounted for 7.5% of sales in Q1 2017, just months into the SnippRebates roll-out. We expect a strong contribution in the future from this new product category, because it makes so much sense for manufacturers and consumers. The days of the mail-in rebate postcard are coming to a close.

At this time, I will turn the call over to Jaisun for additional details on our Q1 2017 financial results.

Jaisun Garcha:

Thank you Atul.

Now that we are approaching the one year anniversary of our integration and cost reduction efforts that began in Q2 of 2016, our focus is to get to profitability. As Atul mentioned, our bookings backlog reached the highest level in company history at the end of Q1, totaling $5.4 million and representing a sequential 29% improvement during the first 90-days of our business year. That is really the single most important metric on the sales side of the ledger, because it gives the best glimpse into our future.

In terms of traditional sales figures, revenue for Q1 2017 reached $2.5MM, an 18% improvement over the $2.1MM registered in Q1 2016. So, this quarter represented growth in both realized and future revenue categories, which is a terrific trend.

Rising revenues and falling costs are finally working for us in tandem, giving us great confidence in our move toward breakeven and profitability. In terms of costs, we decreased salaries and compensation expenses by approximately US $0.9 million or 26% compared to Q1 2016; and also reduced general and administrative expenses by approximately US $104,000 or 27% compared to this same period last year. The net result is that the company improved its EBTIDA loss position substantially. In Q1 2017 the EBITDA loss was US $-1.01MM, a 59% improvement from US $-2.46MM in Q1 2016. We expect a continuing of this trend into Q2 as our costs in Q2 will be lower than Q1.

A brief comment about campaign infrastructure costs is appropriate in this quarter. That is the one variable cost that can fluctuate most directly in terms of changes in sales levels. Campaign infrastructure costs were $590,917 during the first quarter of fiscal 2017 compared to $524,956 incurred during the first quarter of fiscal 2016. These costs are associated with maintaining the Company’s short code for mobile messaging services, cellular network usage, costs of rewards and third-party campaign components required to support client campaigns.

The increase in campaign infrastructure costs are directly related to increased revenues, so this is happy problem to have. Q1 2017 revenue was $376,878 higher than Q1 2016 and the corresponding campaign infrastructure costs increased by

$65,961, so you can see that the relation to increasing sales is a front-end variable cost of 10-20% of new sales, depending upon the mix.

If you really dig into our numbers and back out some of the non-cash items, you begin to see why we are so motivated to drive sales through the rest of 2017. In the past, one of the biggest concerns for investors has been our cash burn, which appeared cosmetically worse during our transition to recurring revenues. But the improvement in Q1 is obvious. Our cash and cash equivalents totaled $1.9 million at the end of Q1 2017, a modest decrease from the $2.4 million on hand at year end 2016. Subsequent to March 31, 2017, the Company announced a C$4,500,000 non-brokered private placement and completed a C$1,416,500 first tranche, so our current cash position is greatly improved, even from Q1 totals.

Our deal flow came in at 82 contracts in Q1 2017, compared to 80 deals in Q1 2016. In that regard, our top 10 deals in Q1 2017 averaged $170,000 per contract. Promotions accounted for five of the top 10 deals, followed by Loyalty and API at 2 each, and one significant Rebate program. Our goal through the end of the year is to continue to take out costs wherever possible while we march steadily toward profitability. We think these results show some good progress toward that goal.

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

Atul Sabharwal:

Thank you Jaisun.

This is a pretty short period since our last earnings call, but we wanted to give investors a feel for the rapid progress that we are making in transforming the company into a consistent revenue engine with very high profit potential. Our variable costs are relatively small for each incremental dollar in revenue and we are driving down our fixed costs, so gross margins of 70%+ should be a consistent trend. Under that scenario, driving sales growth becomes a major priority and is our primary focus.

Our receipt capture technology is the backbone of our product offerings, but with our Rebates product introduced in Q1 2017 and our Brand Loyalty product introduced in late 2016, we now believe that we have a product suite to fill the needs of the entire marketing needs of clients not only in the consumer products space but any manufacturer across industry, who need our technology to solve a multitude of marketing problems and access data about shopper habits and the effectiveness of their advertising spends. With our growing data base of buying behavior becoming more valuable every day of every week of the year there are many additional areas we can take Snipp into to add other steps to our revenue ladder.

I want to close by pointing out our relative value to investors. Snipp is trading at barely 0.9X sales -- a tremendous distance from the 2.7X value of our peer group. Based on experience, we know that Snipp is often lumped in with online ad sales companies and other similar marketing services and promotions companies that operate in established, highly competitive markets.

In contrast, Snipp has few, if any, competitors outside of traditional sources of rebates, loyalty, and promotions in most of its product categories – with an A+ customer base. We in effect inventing the receipt capture and digital version of our market in promotions, loyalty, rebates, and rewards. No other company can make that claim.

So, it is important to remember that Snipp is a technology company, with the scalability and margin potential of a typical SAAS type business. Because of that, we are very optimistic about our future and our acceptance in this multi-billion-dollar industry.

We are approaching our strongest sales periods with the most complete suite of products in our history, so 2017 should be a watershed year for us in terms of breadth of sales and customer penetration. Based on Q1 trends, we see current metrics continuing, with a mix of new customer additions and steady conversion of existing short-term customers into longer-term contract relationships. That combination is a recipe for future success and something we intend to strive for throughout the year.

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.