MKR GROUP investor relations

MODERATOR AND SPEAKER/PRESENTER ACCESS INFORMATION ONLY

Moderator and Speaker/Presenter Access Information

Please dial in for your event 30 minutes prior to the scheduled start time. You will be asked to provide the confirmation code, speaker name or the title of your conference. If you are a speaker/presenter, please alert the conference specialist.

Moderator Name: Jim Byers
Company Name: Snipp Interactive, Inc.
Event Conference Title: Snipp Interactive Third Quarter Fiscal 2017 Financial Results Conference Call
Time Zone: Eastern Time (US & Canada) (UTC-05:00)
Start Time/Date: 12:00 Monday, October, 30 2017
Duration: 60 minutes

Confirmation Code: 7827869

Location	Purpose	Phone Type	Phone Number
United States, Los Angeles	Speaker	Local	+1 323-794-2556
United States/Canada	Speaker	Tollfree/Freephone	800-218-2154

Conference Controls

Web Address URL: http://www.conferencecontrols.com
Confirmation Code: 7827869
Chat: Online

Snipp Interactive Third Quarter Fiscal 2017 Earnings Call Script

Operator

Good morning everyone. Welcome to the Snipp Interactive Third 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 Third Quarter Fiscal 2017 conference call.

This morning we issued our Third 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.

I have been looking forward to this kind of quarter for quite some time, because Q3 2017 marks the first EBITDA positive quarter since we added product components that contribute to a longer-term, SaaS-type revenue model. This quarter we hope will be viewed as a very positive financial sign post, showing that we are on the right road to creating a profitable, growing company.

Today, I intend to go into considerable detail on our cost cutting themes, our efforts to revamp the sales team, the product line enhancements, and give an update on what is quickly becoming a new, leaner and more profitable version of Snipp – closer yet to the kind of company that we were in 2015 when we had only developed and launched a single product, or more aptly, an engine - our market leading receipt processing engine that we call SnippCheck.

At that point, given the rapid adoption of SnippCheck, we embarked on a twofold journey. First -- to take SnippCheck, which in 2015 was more of a minimally viable but extremely innovative product, with massive disruptive capabilities; and build it into the market leading engine it is today. Secondly, we wanted to build multiple strategic solutions around this engine through a combination of developing components in-house and by buying strategic assets where necessary. This strategy was essential for us to retain upside from the use of this engine. which otherwise would have accrued to the incumbent players in the multiple industries we now have solutions for. The alternative would have relegated Snipp to becoming a dumb pipe in an industry that had seen very little disruption till we arrived on the scene.

I am happy and proud to say that by demonstrating positive EBITDA today, our company has achieved the next step in its evolution -- by proving that our strategy of building on our original receipt processing engine to become a multi-product company, is working. This has and will allow us to continue to disrupt multiple industries, each of which is valued in billions of dollars of annual brand spending. These industries include the Loyalty Industry, Rebates industry and Promotions marketing industry.

But the most exciting part for me personally isn't the products we have spent so much effort to create, but the data story that is evolving each and every day as we launch and support new campaigns for our Fortune 500 clients with these products. As our data set gets richer and richer, we are building a foundation like never before, based on actual consumer purchase data that will allow us to bring even more innovative and massively disruptive solutions to market in new areas like Advertising Targeting, Data Analytics and Marketing intelligence. My prediction is that the data set we are amassing will make Snipp a very different company in the next 24-36 months.

Those of you who have followed our story carefully know that our company-building phase had a great deal of moving parts, as we attempted to integrate acquisitions, along with the personnel and technology from those acquisitions. At the same time, we were also engineering a full suite of products. There is nothing trivial about a multi-year development effort performed on three continents and involving first-in-class products with hundreds of thousands of hours of work just to get that technology to market. As such there is tremendous value in our product suite, waiting to be unlocked.

In the midst of this development period, we enhanced our business model to include a long-term revenue focus, spreading our revenue out over many quarters and temporarily masking a large portion of our growth, after all we only report recognized revenue. That is why we added a metric a few quarters back on Bookings Backlog to explain how we continue to build on our long term sales.

But before getting into our sales initiatives, I would first like to address our cost cutting themes. This quarter, we reduced salaries and compensation by an additional 16% and

reduced general and administrative expenses by 26% compared to Q3 2016. To log that kind of year-over-year improvement after several quarters of back-to-back cost-cutting, shows our continued commitment to reach and maintain profitability. And, we are not done yet.

More specifically, we have completed much of the engineering work on our product portfolio, which is now enabling us to consolidate our development staff. At this same time last year, we had three development centers working on finishing our products - one in Vancouver, Canada; one in Cork, Ireland; and one in India. We recently merged our receipt-based loyalty platform development work into the Vancouver office from our office in Ireland, transferring that knowledge-base and expertise into our Vancouver and India teams.

This move will generate permanent savings, without sacrificing the ability to maintain and improve our products. In truth, we are at that typical stage in a technology company's business cycle, where the "harvesting" phase can begin and enhancing or tweaking products requires a smaller portion of engineering staff maintaining the products we have.

Our Loyalty and Rebates products have now been out in the market for a few quarters, so we have also been able to streamline some of the jobs related to those product lines. Overall, we believe we can cut costs a bit more before reaching a floor in terms of staffing levels, so we still have some cost improvement left to show that should continue into 2018.

It is important to acknowledge how far we have come in just a year in terms of moving toward profitability. In the first quarter of 2016, we posted a negative EBITDA of nearly negative $2.5 million and in Q3 2016 that measure was still close to negative $1.2M. In this quarter, Q3 2017, we managed to post positive EBITDA of $14.4k. That number represents a very large 101% year-over-year improvement.

In previous calls we informed investors that we would engage in a multi-quarter cost cutting program, so Q3 2017 offers more evidence of our resolve to continue that process. Our business is still small enough that the mix can affect profitability on a quarterly basis, and large contracts demand more up-front outlays in quarters when those types of contracts are signed, but we are moving in the right direction for sustained profitability.

That is very important for Snipp on multiple fronts, the most obvious being in terms of building shareholder value. We are a technology company with a partial SaaS revenue stream, an ideal combination for many institutional investors. But, previously, we weren't able to highlight that combination during our engineering and product development phase, while our costs tended to overwhelm our progress. Any successful early-stage technology company has to earn a premium multiple in its space via growth, profitability, or some combination of the two – and we are finally at that stage. Up until now, we have been judged primarily on our ability to survive via financings, so this, we hope, is going to be a tremendous transformation in the way that our company is viewed.

Based on our pipeline, we believe that the next few quarters will completely change the way that investors look at Snipp. We believe that going forward, we will have year on

year top- and bottom-line improvement, unlocking significant value as we prove that our product line and organization can generate and support consistent high-margin business. So, for the first time in our history, we have a better view of our intermediate future and what kind of company we will look like to the market, both today and well into 2018.

So, what did our business mix look like in Q3 2017? First off, this is always a promotions-heavy quarter, because of the large number of holidays that fall in the fourth quarter. Promotions are almost always planned and signed at least a quarter ahead of each holiday period -- and Halloween, Thanksgiving, and Christmas are some of the biggest. Because we now serve more brands, Q3 2017 was exceptionally promotion heavy, with promotions accounting for 73% of sales bookings, more than double the preceding quarter. This was at 76% in Q3 of 2016 so pretty much a consistent pattern. Loyalty totaled 18.7%, Rebates were 3.8%, API was 3.3% and Rewards was 1.2%. This balance is atypical of what we expect in an average quarter, but variations in the sales bookings mix and some promotion-heavy quarters are inevitable due to the long lead-time on signing very large contracts, particularly in the loyalty segment.

We also made some changes in our sales approach, which I will discuss shortly.

At this point, I will turn the call over to Jaisun to provide some details on our financial performance in Q3 2017.

Jaisun Garcha:

Thank you Atul.

As previously mentioned, Q3 marked a quarter of continued cost cutting, but we also showed an increase in revenue, despite considerable organizational consolidation during the last few months.

In Q3 2017, revenue grew to $3.7MM compared to $3.3MM in Q3 2016, a 12% improvement. For the nine-month period in 2017, revenue rose to $9.0MM, about a 10% improvement over the $8.2 million posted in the same period in 2016. As a reminder, this positive improvement is still impacted by our addition of contracts with a SaaS-type model in 2016, which continues to mask some of the revenue growth under long-term revenue recognition rules.

In Q3 2017, Bookings totaled $2.7MM, almost even with the $2.8 million total in Q3 2016. For the nine months ended September 30, 2017, Bookings were $9.2MM, slightly lower than the $10MM booked during for the nine months in 2016.

Our bookings backlog, which represents programs that have been sold, but where revenues have not yet been recognized, continues to improve. The Bookings Backlog stood at $5.5MM at September 30, 2017, a 22% improvement from the $4.5MM level at this same point last year. This Bookings Backlog as many of you have asked previously represents contracts going out till the end of the following financial year. So, this $5.5MM goes from the beginning of Q4, 2017 to the end of 2018. Our true Bookings Backlog going out till 2020 stands at $6.8MM

Under these long-term contracts, each new quarter of bookings gives us greater confidence in our future, as revenue streams layer onto each other, creating a progressively stronger base of business. As we have explained in prior quarters, our

short-term Promotions/Rewards vs. long-term Loyalty/API contract mix affects this backlog, but the duration of our contracts is generally increasing, meaning that our backlog now extends well into 2019.

One other metric worth noting is our repeat client bookings figure. That number was at 62% in the last month of the quarter and when future revenue is included, rose to 76% of bookings. This is an important percentage, because it represents repeat or follow-on business and is a great indicator of the stickiness of our programs. It is also part of our recent change in sales targeting, which Atul will highlight in his closing remarks. We are really pleased to see this high retention rate and growth in existing accounts.

As Atul highlighted, we continue to be aggressive in seeking out and implementing cost saving initiatives throughout our organization. If you dig into our numbers from this quarter, you will see that we reduced and logged double-digit improvement in every line item listed under operating expenses except one – amortization. Our amortization has been high every quarter in 2017 as we expense our intangible assets acquired from acquisitions along with our internal product development costs to build our platforms. When this line-item eventually decreases, our Net Income line will gain an immediate boost.

Of the three non-cash line items, amortization, depreciation, and stock-based compensation – all of which can have a major impact on operating income, only amortization is currently having a meaningful impact. Those non-cash expenses accounted for 14% of our operating expenses in the quarter.

Our lower cost structure is having a significant impact, as our net income in Q3 2017 came in at -$0.6MM, which is about 1/3 of the -$1.8MM we posted in Q3 2016 and a 51% improvement over the total from just last quarter, Q2 2017. So that is a very rapid improvement that shows how fast we are marching toward profitability.

While our EBITDA turned positive this quarter, part of that can be attributed to our sales mix. In quarters that have very large orders, we have greater up-front expenses. That is a happy problem to have in those quarters, because it means that our future revenue streams will continue to improve. In Q3 2017, the promotion-heavy mix did not contribute a large up-front component, so campaign infrastructure costs were down about 12%, giving the EBITDA figure a small boost.

Our financial health has improved on several fronts. For example, total current liabilities, which includes accounts payable and similar line items, was at a manageable $4.5MM, a 21.3% improvement over Q3 2016. Our gross margin totaled 69% in Q3 2017 – and we have maintained margins near or above 70% in every quarter this year, which is consistent with our target range. Last year at this time, our margin was around 61%, so the improvement has been substantial. In a scalable business like ours, protecting those margins is key to future profitability.

In terms of our cash position, Snipp was bolstered by a private financing of CAD $4,500,000 during Q2 2017, which gave us a healthy bridge to where we are at today. Our current assets, consisting of cash, accounts receivable, and prepaid expenses stood at $5.2 million at the end of Q3 2017. We also have a $4.0 million line of credit with Silicon Valley Bank to fund any high-growth opportunities. We are in the process of

replacing this line to allow for a more flexible version with fewer covenants that will allow for us to use this line more effectively going forward. Silicon Valley Bank has been a great partner to date and has given us a lot of flexibility on the basis of our improving financial performance.

Because our quarter was so promotions heavy, deal flow and size metrics are not particularly relevant in this single quarter. As we noted, Q3 is traditionally promotions rich, due to the many holidays that fall in Q4. It is possible that our third quarter will remain even more heavily skewed toward promotions in the future, as our customer count of consumer brands continues to grow.

For reasons that Atul will explain, total deal flow dipped slightly in the quarter as we began another revamp of our sales team. Although our largest single contract was a Loyalty account, 9 of the top 10 contracts were Promotion deals, which skewed all of the averages for the quarter, as promotions tend to be lower-value contracts. Overall, the top 10 deals represented just 30% of new business in Q3, reflecting this short-term mix.

In terms of geographical distribution, 84% of our business is in the U.S., 9% is in Europe, and about 7% is in Canada. So, although we have an international footprint, by far our greatest penetration is with U.S. brands. Of course, because we deal primarily with Fortune 500 companies, many of these brands are international, so our extension into other regions is almost inevitable over time.

New business in Q3 from our revamped sales team was a solid $2.7MM, and we are already off to a terrific start in Q4 2017. By early October, we had already announced a

single deal that was twice the size of our largest contract in Q3, so we believe that we are set up well to continue this solid momentum through the end of the year. With our current staff, we typically have close to $5MM in contracts out for bid on a continuous basis. The number of unpenetrated brands is unknown, but easily exceeds more than a thousand at just our existing customers. So, the amount of untapped revenue potential laid out in front of us should be measured in years rather than quarters.

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

Atul Sabharwal:

Thank you Jaisun.

We spent an enormous amount of time during the last few years developing our products. And, some of that energy most recently was transferred into streamlining our operations, particularly in engineering – but we have now reached the point where sales improvement is of paramount importance.

So, I would like to expand a bit on Jaisun's comments concerning sales, because that is really the last hurdle left operationally for our company. Earlier in 2017 we brought in a new EVP of Sales to try to jump start the sales department, but as previously reported, unfortunately he had to step back because of personal reasons. With so many of our other cost based initiatives nearing completion or entering a maintenance phase, I however now have the time to assume direct supervision of the sales department at Snipp. Long-time followers of our company will remember that I was Snipp's first salesperson and was involved in media sales early in my career, so this is very familiar territory.

In the short term I will focus a majority of my efforts along with our head of operations to put the discipline and foundation of scalable and replicable sales processes into our Sales organization. In the past we had successfully done this in our operations team as we faced triple digit growth in the number of campaigns we had to support simultaneously. Subsequently, we took the time and effort to implement the same strategy in our technology group as we bought and built our solutions.

Now that we have scaled our operations team and our ability to deliver programs has been tried and tested, we can focus on truly building out our sales infrastructure -- with the confidence that as we ramp our sales, our ability to deliver a larger number of programs will be supported seamlessly. Given the multiple products in our portfolio, some of which launched only in early 2017, its critical that ,we put in the correct Sales operations to enable scalability – one of my top priorities for Q4.

Many other initiatives in Sales are also now underway. For example, we recently added some additional sales support software and are already seeing some improvement in shortening our deal sales cycle, which is important in terms of the win rate. Over the course of 2017, our senior sales staff is gaining experience selling a full suite of products, which takes a higher level of expertise than just pitching starter promotions. In the meantime, our junior sales team in Toronto, we call them BDRs short for Business Development Representatives, are getting more and more experienced with every passing day. Our historical data shows that our most effective sales people are those who were previously trained in our products and methodologies as BDRs before being promoted to become quota-carrying sales people. This data also shows that going

through the rigor of our BDR program results in more successful sales people than hiring laterally from the market.

Our top grossing sales people for 2016 and in 2017 were all previously BDRs and have shown they can each do between $2-$4MM of revenue individually in any given year! We now have 10 BDRs in our pipeline that we are working to graduate into full-fledged sales people as they go through the rigor of our program. So, you can rest assured we are building the bench strength in the sales organization to ramp our sales in 2018 without the need to hire extensively and increase our cost base. This investment in our BDR program will start bearing fruit shortly.

In addition to some operational improvements, I have implemented a more focused client targeting plan that is already beginning to yield results. Under this strategic change, we identified a group of 15 or so core accounts that have been most receptive to grow their business relationship with us. By targeting these accounts, we believe that we can expand their use of the Snipp product family and extend that use into other brands under their multi-brand umbrellas. This effort takes a different kind of sales approach, but typically yields larger and longer contract terms.

We will continue to target new accounts, but focus more carefully on customers who have already experienced success with our products. Those companies represent follow-on opportunities far in excess of our current business. It is easy to forget that our technology is so new in the marketplace, it represents a “first-time” experience for many brand managers. Once a brand uses one Snipp product, particularly on multiple

occasions, they become an excellent candidate for extension into other product lines and brands.

Our product line is the best in company history and is well liked and used by world-class customers, so we know we have the right products at the right time. That has been verified by our tremendous retention rate, so the stickiness of our products tells us that we can earn and keep our place in many company's marketing game plans.

The scalability of our platform is about to kick in, even in sales. Consider that in Q1 2016, we had 18 salespeople. Today, we have six core sales people. Now, clearly that number will grow over time, but today we are generating significantly more sales with a third of the staff. We think we finally have a core group that can give us the solid sales base we need to support a larger and more consistent sales department in the future.

At the end of Q3, 2017, Snipp was running a record-breaking 93 simultaneous programs with 38 more programs in the wings. This is a great indicator of the scalability of our operations, as we are adding contracts without increasing our head count or infrastructure. It is still a bit early to give much detail on our newest product, SnippInsights, which Is just being used by some selected clients, but the rest of our products are gaining traction and are running well at a growing list of customers. For the first time in our history the Revenue year-to-date across our product lines was more balanced -- with 45% from Promotions, 31% from Loyalty, 12% from API and 12% from rebates, reflecting growing traction of our newer products, a more balanced revenue profile that includes long term recurring streams, as well as less risk to the business from having a diversified stream of revenues.

At this point in time, as we look out across the last two months of our fiscal year and farther out into 2018, we really like where Snipp is positioned in terms of our business plan. We will continue to generate cost savings into at least the 2nd quarter of 2018; we have added some new tools and a new approach to our sales efforts; and we believe that we can generate top- and bottom-line growth in coming quarters. We hope to enter 2018 with a record backlog of business, so that layering on of recurring revenue is going to be an ongoing event, with very positive implications in terms of the consistency of our revenue stream.

Reaching a sustainable EBITDA-positive position significantly de-risks the Snipp story and puts us in a position to capture a better growth multiple as we prove to the market that we can replicate and build on Q3's successes. In an industry in which many firms still use decades-old technology or cobbled-together point solutions, Snipp has not only barely scratched the surface of our available markets, but has also barely penetrated the available budgets of our existing clients!

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 and at the close of our fiscal 2017 year. Thanks everyone for joining us today.

Operator:

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