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Snipp Interactive Fourth Quarter and Fiscal 2017 Financial Results Conference Call Script

Operator

Good morning everyone. Welcome to the Snipp Interactive Fourth Quarter and 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.

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Mark Forney:

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

This morning we issued our **Fourth Quarter and 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.

For those of you who have listened to these earnings calls over the last few years, firstly thank you for your time and continued support. Secondly, you will remember how we have talked about anticipating a tipping point for our company – that place where sales growth and costs finally reach equilibrium. It takes some passage of time to mark a tipping point, but Q4 felt like that for us – as we generated some very positive year-over-year returns and entered 2018 with new markets and a healthy backlog of business. We expect our year over year returns to continue to trend upward and given the seasonal nature of half our business today – short term promotions, an historical quarterly vs sequential quarterly analysis is always going to be the correct way to view the health of our company. Over 2018 as we successfully layer in more long term recurring revenue streams this seasonality should become less important but more on that later.

Before getting into the numbers, I want to highlight our experience in our newest market segment, the cannabis market, which we officially launched just three weeks ago on March 13th, 2018 with the announcement of our Cannabis Marketing Resource Center. The CMRC, as we call it, is an educational tool for what will certainly be one of the fastest growing markets in North America. Our purpose was fairly simple – **to create an educational resource for companies in this new and exciting field and to introduce those companies to the advantages of using our platform in their highly-regulated industry.**

Snipp has a multi-year history with many of the largest companies in established regulated industries, particularly major consumer categories such as alcohol, pharmaceuticals and tobacco. Every industry is slightly different, but the basic tenets are the same – enable more effective marketing and/or loyalty programs that drive sales and grow a brand's base of repeat customers within the parameters of what is legally permissible for each such industry.

The $250,000 investment in Snipp by WeedMD, coming just a week after we announced our resource center, was an affirmation by a key player in the Canadian market. WeedMD was quick to see that Snipp can help move this industry forward with the kind of professional tools that will be needed as this industry grows and develops its systems, regulations, and infrastructure – virtually from scratch. In particular, Snipp's advanced and highly customizable proprietary platform allows companies like WeedMD the much needed flexibility to tailor promotional and loyalty programs in what is clearly a sector with rapidly changing and evolving legal parameters and guidelines.

We are very encouraged by the level and depth of interest, so investors should expect future announcements as our interaction with members of the resource center transition from dialogue and education into customer relationships. In fact right after this call I am hopping on a flight up to Canada to meet with a leading vertically integrated Cannabis player to talk about a twelve month contract so wish me luck!

Finally, there is a very important distinction I want to stress about this new industry.

In our traditional consumer goods companies, in many cases we are building on marketing programs that date back to another era, particularly in alcohol, where some of these brands are more than 100 years old. Fifty to one-hundred-year-old brands are fairly common in the consumer product markets. In contrast, the Cannabis industry was born in a digital age, measured in years rather than decades, with a clean slate and minimal history.

Because of that, we believe that our ability to gain traction will be greatly enhanced. We launched the CMRC just three weeks ago, but I am happy to report that we already have around 20 established companies who have signed up to learn about what we can offer the industry in terms of compliant, effective marketing tools. **To put that in perspective, that is by far the fastest we have ever gained new prospects in our company history when targeting a new industry. Moreover many of the people calling have backgrounds with leading Alcohol companies who are clients**

of ours already so the credibility factor for us is very high going into the conversations.

So, it is important to note that we are entering the regulated cannabis industry at the right time – after much of the hype has subsided and when the real business is set to begin. Like most cycles, this one gained tremendous interest and many players, but the industry is approaching a new phase – where the focus will be on growth and market share. We have seen this before and the Cannabis companies know what is coming – a battle for consumers, a fight for brand awareness, the need for repeat customers – all familiar turf for us, but new to this industry.

This is no different than the battle we see waged every day on the shelves of stores across the world by household brands that every consumer in every market knows. Our platform represents one the most advanced marketing tool sets in the world, so if our experience in other industries is a guide, we will have some first movers in the Cannabis space and gain real traction as sales begin to grow across the industry. In that sense, there is a multi-year trend ready to play out.

So, this is not just a one-time announcement and investors should expect continued updates on this new and exciting category throughout the year.

I spent some extra time on the Cannabis space to kick off this earnings call, so I would like to shift gears at this point to highlight a few other items of interest before turning the call over to our CFO.

Our sense of a tipping point is backed up by results and trends from the end of 2017, combined with our sense that we can continue to improve, particularly in terms of sales effectiveness. In particular, we showed marked improvement in three key categories – revenue, EBITDA, and bookings – all important indicators of future trends. More specifically, in Q4 2017 year-over-year revenue increased by 29%, EBITDA improved by 83%, and most critically bookings improved by 45%. We started 2018 with a Bookings Backlog (programs that have been sold, but whose revenues have not yet been recognized) of $5.7MM. That is a 35% improvement over this same time last year, and a very encouraging trend for the coming year. I often tell investors that when I woke up on January 1st 2016 – that bookings back log number was just $700,000 and then when I woke up on January 1st 2017 that bookings back log number had grown to $4.2MM and this year on January 1st 2018 it had grown to a tremendous $5.7MM. I can imagine a very near future where we would have enough long term contracts layered into our business that I wake up at the beginning of the year and have enough in bookings to cover all of our costs for that year and then some!

Now, I will turn the call over to our CFO, Jaisun Garcha, for some greater detail on our financials.

Jaisun Garcha:

Thank you Atul.

In context, Q4 is more important in terms of trends than the full-year figures, as our cost cutting and product initiatives were a year-long process that really took hold in the second half of the year.

As Atul mentioned, we have renewed vigor in terms of year-over-year revenue comparisons. Revenue for Q4 2017 increased by 29% compared to Q4 2016. The dollar figure for revenue in Q4 2017 was $3.84MM compared to revenue for Q4 2016 of $2.99MM, a very healthy year-over-year increase. As our press release states, full Fiscal 2017 revenue showed a 15% improvement over Fiscal 2016 and we came in just shy of $13 million for the full year. Looking forward into 2018, we are already on track to surpass this number in recognized revenue for the year, so all signs point to continued improvement in multiple categories.

Of course, realized revenue tells only part of the story, as we are spreading a growing percentage of sales across many quarters. We combine recognized and deferred sales into a revenue and bookings backlog figure, so our actual sales in 2017 (counting the revenue that will be recognized in future quarters) was $18.6 million, a 21% improvement over 2016.

"Revenue layering" is a phrase that investors should visualize when looking at Snipp's future. **One of the key figures to consider from our financial results is the growing percentage of revenue with recurring component**s. In 2016, about 32% of revenue had a recurring element, but that total increased to 47% in 2017. That is a major yet planned structural shift in our business under which each successive layer of long-term revenue combines to form a stronger and more predictable revenue stream in future quarters. Year over year, our campaign size grew modestly from $40,735 to $42,153, but that number only needs to stay consistent to ensure future financial success. We have a highly scalable business, just on the cusp of profitability, so the incremental returns will become significant as we leverage our infrastructure.

As we have communicated over many quarters, we spent a great deal of time lowering costs in 2017, so much of that effort is now complete. The results were evident, as EBITDA in Q4 2017 improved by 83% or $1.08MM over Q4 2016. As a result, our Q4 2017 EBITDA loss was just $0.22M vs the Q4 2016 EBITDA loss of $1.30MM.

Even our full year numbers showed a marked improvement, with EBITDA in Fiscal 2017 improving by 70% compared to Fiscal 2016. In dollar terms, that is an EBITDA improvement of $4.55 million, a significant increase. Unlike last quarter, which was EBITDA positive, we had a few additional expenses this quarter, but the trend is still intact in terms of our overall march toward profitability.

Perhaps our most important metric, in terms of the future, was the improvement in our bookings for Q4 2017, which increased 45% year-over-year, marking an improvement of $1.27MM. In dollar terms, Q4 2017 Bookings were $4.07MM vs Q4 2016 Bookings of $2.80MM, a clear indicator of the impact of a fuller, more complete product platform.

For the year, the Bookings Backlog (programs that have been sold, but whose revenues have not yet been recognized) stood at $5.7MM at year-end 2017, an increase of 35% compared to $4.2MM at the end of 2016.

As mentioned, our major cost cutting programs are almost complete, but clearly will continue to have a major impact on our results. Gross margins improved in Q4 2017 by 5% from 61% in Q4 2016 to 66% in Q4 2017 – but our goal is to consistently exceed 70% in every quarter during 2018. For the year, gross margins improved in Fiscal 2017 by 4% from 66% in Fiscal 2016 to 70% in Fiscal 2017, but we know that we can improve on even this high margin as sales growth continues.

One of the keys to our greatly improved financial health is tied to this cost cutting in 2017, which occurred throughout the year. This effort touched almost every part of our company. For example, in 2017 we reduced salaries and compensation by 20%, G&A by 20%, professional fees by 36%, marketing and investor relations by 62%, and travel expenses by 72%. Obviously, there is a limit to how much cost cutting a company can do, but we still have a few more areas that we can improve in 2018. We have costs well in hand and are moving our attention to sales growth, but with the current infrastructure and team, we are right-sized to make each incremental dollar of revenue even more profitable.

In that regard, I would now like to discuss some of the important trends for 2018 and beyond. Our revenue model has clearly changed, with the promotions category steadily decreasing from 80% of sales in 2015 to 53% in 2017. This is an important trend, because promotions are typically short term. In contrast, Loyalty and Rebate during this same period grew from just 14% of revenue to 38% -- representing a longer-term, recurring type of revenue stream. This is a trend that will continue into the future, making our revenue more predictable in each successive quarter. We have entered that part of the recurring revenue phase where long-term recognition of revenue shifts from a negative to a positive.

Our 110% five-year CAGR from 2013-2017 provides a backdrop for the kind of growth potential that our business model could generate during the first phase of our business cycle, but the next phase will be focused on profitable growth as the leverage in our model becomes more pronounced. With our recent financing completed last week, our cash position is solid and we are well positioned to grow the company in 2018.

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

Atul Sabharwal:

Thank you Jaisun.

We have some major goals for 2018 that will be our primary focus as the year unfolds. We have a very well-defined product line, so our primary emphasis will continue to be on improving our sales organization though in the world of technology you have to continue to add functionality and capability to your platform. But we are focused less on that and more on the sales side of the equation for the first time since in the last two years. We exited 2017 with that emphasis and that will be a theme for all of 2018. There is both a learning curve and a seasoning process for each new member of our sales team, and we are working hard to create more consistent outcomes and building momentum within that team. At this stage, any improvements go straight to the bottom line, so gaining consistency will be key. The business is out there and we have barely scratched the surface in terms of potential new customers.

We already spoke a great deal about the emerging Cannabis sector, but steady growth potential from our traditional industry categories should continue in 2018 and we have not yet monetized our massive collection of data, which will be our next category of functionality added to the Snipp platform. We expect to further incorporate this data set as a new module and service in 2018, with more information to come on this valuable and growing asset that has the potential to surpass all of the revenue we make today from our bread and better revenue streams.

At this point in our history, we have fallen into a very familiar pattern, with test promotional orders from a brand, followed a year or so later with the potential to morph these promotional orders into a full, multi-quarter loyalty or rewards program. We knew that many investors would struggle with the revenue comparisons during our transition to a recurring revenue model – because that kind of apples to oranges comparison period hides the growing backlog of business that is stretching out in front of a company during the transition. But, over time, each of those individual revenue streams layers on top of the last one, until you get a more predictable and profitable revenue stream – essentially a head start on every quarter of the year. That is where we are at right now. So, each long-term order we sign improves our future revenue stream.

We've mentioned in the past that we believe Snipp is undervalued relative to the market, but we also knew that investors were waiting for tangible evidence that our growth had resumed and that we were nearing profitability. Q4 showed that both of those trends are intact, but we also know that confidence in our story can only be built on consistency – and that is what we hope to prove in 2018.

Clearly, industry statistics show how much room is in front of us in terms of unlocking shareholder value, simply by reaching industry averages. To put this in perspective, if you look at numbers from industry sources early in 2018, you find that

Snipp is trading at a deep discount to the market and all of the technology industry groups. For example, as of January 2018, the average price to sales for the entire market was about 2.1 and the technology sectors where Snipp fits best trade at 6.4X-7.9X sales. As of yesterday, our price to sales ratio was a modest 1.4X current sales barely above cyclical industries such as trucking. We sometimes wrongly get lumped with internet advertising companies, a group that has struggled in recent quarters, but that designation is wrong – because we provide the tools, not the creative content for marketing.

Source:
http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/psdata.html

We are a technology company, so our goal is to be valued like one, which gives us some tremendous blue sky if we can establish confidence in our ability to generate consistent, profitable growth. We are moving toward that goal in 2018 and believe our results can earn us a technology market multiple over time. When you all look back and do the yearly Quarter on Quarter comparisons as we move further into 2018 we hope this will become clearly evident if not already given our quarterly and annual 2017 to 2016 performance.

To sum things up at this part of our history, we enter the rest of 2018 with a great, full suite of products and more to come as we leverage our massive collection of data into a new product or sales incentive category. We also know that we will get some traction in the fastest growing market in the consumer space, the Cannabis market, which will represent another source of revenue from an industry that had not previously existed. Considering the massive amount of unsigned potential business in our traditional lines, this combination of factors gives us the greatest number of new prospects in company history.

Simply put, we are very optimistic about our growth potential throughout 2018 and into 2019. This is the best momentum we have had since launching our commercial products and the best visibility we have ever had as a company.

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 everyone for joining us today.

Operator:

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