Snipp Interactive Q3 Fiscal 2018 Financial Results Conference Call

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Operator

Good morning everyone. Welcome to the Snipp Interactive Third Quarter Fiscal 2018 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 2018 conference call.

This morning we issued our Q3 Fiscal 2018 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 will now turn the call over to Snipp's CEO, Atul Sabharwal. Please go ahead.

Atul Sabharwal:

Thank you, Mark. And thanks to all of you for joining us for our Q3 2018 Earnings Call.

I am going to begin with something I have been waiting to share with investors - Q3 2018 was cash flow positive. The Company generated positive

cash flows from Operating Activities during the three months ended September 30, 2018 of $219,187 compared to negative cash flows from Operating Activities during the three months ended September 30, 2017 of -$1,660,528. An improvement of 858% or $1,879,715. This was an exercise three years in the making which started in 2015 with our two acquisitions and the subsequent integration activities we embarked on in earnest from 2016 once we had sufficiently de-risked the integrations of the platforms we had acquired. During this period, we have seen many of our competitors fall by the wayside, faced considerable investor skepticism and watched our share price languish – ironically, while our growing list of Fortune 500 customers expanded their business with us, our recurring revenues continued to climb and our operating margins remained in the 70%+ range! Having come back to profitability and with a clear sight to maintaining this profitability we believe that the time has come for our stock to reverse course and reflect a true value for thriving business.

We knew during our product development stage that our engineering and infrastructure build out would take years to complete. And when we switched to a long-term revenue model, we also understood that we would have some very difficult comparisons for a while. So, this quarter reflected what we believe will be the last remnants of that long transition period, while also marking the beginning of a new era at Snipp. We are transforming surely but steadily into a true Software as a Service (SAAS) company, with all of the benefits that come from

that kind of model. That transition is not complete, but it passed a pivotal point in Q3.

All of our financial metrics other than Recognized Revenue showed marked improvements – making this by far our best quarter ever. While Recognized Revenue, was down 20% year over year, our actual Sales improved by 42% in the comparable time period continuing to reflect the long term recurring nature of our sales and the layering in of revenue month over month into the future. I encourage investors to understand this point which on the surface might seem counter intuitive – that Recognized revenue declined by 20% but Sales or as we call it Bookings went up 42% when compared to 2017; actually reflects the strength and quality of what we are selling. In terms of percentages, our EBITDA improved by 1645%, and our profit margin rose 7%, moving back up to 76%, which is consistent with what we think can be a high, upper 70's average range on an ongoing basis. Our bookings as mentioned were another highlight in Q3 at $3.82MM, a 42% improvement over the $2.69 MM logged in the same period last year.

We posted our best EBITDA quarter ever, at $251,314 vs EBITDA of $14,403 in Q3 2017. That is close to a quarter million-dollar positive change year over year on a quarterly basis, which is a tremendous testament to our cost cutting efforts and ongoing improvements in the quality of our revenue.

The size of the profit figure in Q3 is less important than the trend, which is headed in the right direction. The term "profit" has been conspicuously missing

from our vocabulary in the past, but we expect that to change in future quarters as the leverage inherent in our model begins to assert itself with the increase in recurring revenue.

Like all of the companies before us who have gone through this kind of revenue recognition transition, we knew that each new layer of long-term business was creating a much more robust revenue stream that one day would switch from a negative to a positive.

Based on these results, that day has clearly arrived and we can point to Q3 2018 as a watershed quarter for Snipp – across multiple financial categories. Revenue is just a number on the surface, but the quality of that revenue is an important but subtle distinction – and this quarter really proves that point. The revenue we are generating today is the highest quality in our history, with each long-term contract more securely embedding us in our customers' marketing programs, while greatly improving both the predictability and profitability of our income streams.

Even with lower recognized revenue in the quarter, you can see the effect that higher-margin revenue streams can have on the bottom line. Each new dollar of long-term revenue is more profitable than the kind of one-time promotional revenue that made up the bulk of our sales in past years, and that is going to be a sustainable positive trend for many quarters to come.

We still have a full month left in 2018, but the impact of our growing backlog is energizing. All sales-oriented organizations stare into a void that must

be filled with business at the start of every quarter, but that experience is rapidly changing for us. We now start every quarter with a larger and larger revenue base guaranteed, before we sell a single new program. That backlog is growing and giving us new optimism that our company has never had before.

For example, right now I can look to the beginning of 2019, knowing I will already have close to $7 million in backlog before the calendar even turns to January 1st. We have a dozen triple digit contracts already on the books for next year, which is a record. And I can see even farther, into 2020, where our backlog is already past the $2.5 million mark. Plus, our deal size is getting larger, with a very dependable upgrade cycle as existing and new customers increase their involvement with Snipp by graduating to higher value Loyalty and API programs.

As an illustration In Q3 2017 our top 10 deals averaged $74,000, with the top deal at $262,000. Fast forward to Q3 2018, where our top 10 averaged $240,000 and the top deal broke seven figures at $1.12 million. Those are very substantial increases and a sign of things to come.

If you dig into these trends, you will understand why our outlook has never been more positive. I might be repeating myself on that subject, but it is easy to feel very encouraged as we begin to plan for something new for our company and shareholders – a cycle where PROFITABLE GROWTH is the main theme.

While we are on the topic of backlog, I would like to highlight the diversity of our current backlog, which is spread out among 66 separate customers. Another element that we rarely discuss on these calls, but which now bears

mentioning is the growing diversity of the revenue streams on a customer by customer basis. We have built out a robust but flexible platform that is used by our clients in many different ways. We typically have more than 30 different kinds of revenue in a quarter, for such diverse billable activities as Account Management, Receipt Processing, Rewards Distribution, Transaction Fees, Platform Licenses, etc – to name just a few.

I mention this to highlight the importance of our platform. This is not a vulnerable single source sales model, but a product suite with many tool sets. When you combine our growing visibility via long-term contracts, the diversity of each individual contract in terms of the services we bill for, and the significant diversity of our largely Fortune 500 customer base, you get a revenue profile that is very high quality, particularly in terms of customer or category risk. We think that is an asset that is often overlooked in our business model.

At this point, I would like to turn the call over to Jaisun to highlight some other important aspects of our 3rd quarter results.

Jaisun Garcha:

Thank you Atul.

As Atul mentioned, most of our metrics were solidly positive, with the exception of our Recognized Revenue, which showed a 20% decline compared to Q3 2017. However, this is one of the last remnants of our revenue recognition transition. Promotions business is short-term, largely recognized in the quarter that it is signed. In Q3 2017 longer-term Loyalty and API accounted for 43% of

revenue, but in our most recent quarter, Q3 2018, these longer-term categories had grown to approximately 60% of revenue. So, this is an apples to oranges comparison on a year-over-year basis, as this quarter had a very high level of long-term revenue, which is recognized over many quarters. A better way to measure the quarter is by looking at Bookings, which rose 42% to $3.82 MM in Q3 2018 compared to $2.69 MM in Q3 2017.

The revenue comparisons are a reminder that there will be some lingering elements of our transition to a long-term model that will remain for a little while longer.

This is a reporting period where the leverage in our business model began to emerge. Snipp is going to exit 2018 with a very lean operation that will positively benefit from sales success in terms of margin improvement. For example, in September 2017 we had 120 full-time employees. Today, we are generating even more business with just 82 full-time employees. Putting a dollar figure on this, our Salaries and Compensation was $1.66 MM in Q3 2018, compared to $2.24 MM in Q3 2017, a terrific 26% improvement.

Our G&A improvement was another highlight in Q3, coming in 16% lower at just under $219,000.

We've been in cost cutting mode for quite a while now, so getting these kinds of double-digit improvements at this late stage in the process is very encouraging. These are the kind of cost structure improvements that will have staying power, so our ability to make incremental sales even more profitable is

greatly enhanced. When you are in cost cutting mode for many quarters in a row, looking for operational improvements becomes habit forming. So, we might be in the late innings of that particular focus, but we are not done yet.

Atul mentioned the quality of our revenue streams and customer base, so I would like to add one more item to that discussion. Our bad debt expense for all of 2018 is $1,711 essentially a rounding error and a testament to our customer list, which is an A+ roster of dependable clients. We have to blind our press releases when we announce our contracts at the request of those customers, but we are very encouraged that our client base continues to grow, both in number and quality. We work with some of the largest companies in the world and are forging relationships that can be measured in years with many of these customers.

Our cash position at quarter end was about $1.4 MM, a 256% improvement over YE 2017; and our accounts receivable was $3.2 MM. So, we ended the quarter in terrific shape on both measures. And to clarify we have NO debt.

One area of strength in 2018 has been our EU business, which is growing and now accounts for 15% of revenue. While North America continues to be fertile ground, geographic diversity in our sales mix really broadens our sales territory, particularly in pitching larger deals involving multi-nationals.

Campaign infrastructure costs are probably the biggest variable in our business these days and can vary quite a bit in each quarter, depending upon the timing and nature of the programs in work. In Q3 2018, that line item came in at about $700,000, considerably lower than any of the prior four quarters, which have averaged closer to $1.2 MM. Only about a third of these costs are controllable, but we expect this impact to gradually decrease as our long-term revenue grows.

On top of the obvious cost saving initiatives such as reduced headcount, we have also been implementing and continue to explore operational changes that are improving our cost structure and efficiency. These include areas such as hosting, software licensing, and similar functional categories where new vendors or applications may prove beneficial. To date, we have put in place improvements that will add up to close to $2.0 MM in cost savings when they are completed, a majority of which are already hitting our books for the back half of this year.

We've talked a lot about trends in this call and there is a reason for that. All of the trends in our business are finally heading in the right direction. For example, in each of the last three years our loyalty and API sales have grown by approximately 10%, and in the process steadily increasing the high margin portion of the business.

The change has been steady, but is now undeniable. For example, back in 2015 promotions represented 80% of sales, but during Q3 2018 accounted for only 40%. In fact, 2018 is the year in which Loyalty passed promotions and now accounts for more than 51% of sales. API has been fairly steady at 7% of revenue. The combined growth of Loyalty and API is very important in terms of understanding our future, because these programs are our highest margin deals, approaching 90% margins.

These trends are setting the stage for continued margin improvement in the future.

Now I would like to turn the call over to Atul for some final thoughts.

Atul Sabharwal:

Thank you Jaisun.

I want to make a few comments on our efforts in the Cannabis space since I do get asked a lot about it. As most of you know, the final phase of legalization took place in Canada during October and the industry entered a very focused state as they grappled with supply issues and similar challenges typical to the start of a new market. Interest in our product suites remains strong, but we fully expect a maturation and consolidation process before market leaders begin to use our services. If history is any lesson, competition in the highly regulated market will eventually force these companies to pursue customer retention and development tools like ours. We have planted many-many seeds and are surely but steadily becoming a familiar name to many of these companies. But we are not waiting for the traditional portfolio of sales that we expect to get from this sector, we have already begun selling our platform in earnest and have secured our first client already for our latest offering called SnippResearch – an industry first program in the space that launched this Monday for a paying client looking to utilize our platform to better understand the purchase experience of recreational cannabis

consumers. Expect to hear more about this in the coming days and potentially a formal announcement. Since we have not spoken about this initiative before, for anybody who is curious about our industry agnostic Research efforts or its application to the Cannabis industry please feel free to visit either our industry generic Research Portal at www.snipp.com/snippresearch or the application of our research expertise for our first paying client at www.cannabis.snippresearch.com! You can also navigate to these sites easily from our website – www.snipp.com. Under the tab Solutions you can simply click on SnippResearch to access these programs.

I would also like to make a few comments about our newest acquisition, Ziploop. We intend to migrate all of our customer programs over to Ziploop by January 1st, 2019. We started with our largest programs and are exceptionally pleased with the outcome. Early results indicate that we have cut the time to process receipts in half and doubled our capacity, so the impact has been significant and the associated cost benefits will begin to hit our books in the later stages of the first quarter. This acquisition also came with a product that will allow us to sell to our same clients but different groups within these clients, promotions tied to building and incentivizing their sales force and influencers which we hope to further roll out in the first half of next year. In addition Ziploop was focused on selling solutions to mall operators and we are currently servicing via them some of the largest malls in the world including the West Edmonton Mall and Mall of America to name a few players. We hope to expand on this market segment in the

coming months. Many of their customers were hesitant to renew or spend more with them given the size of the company but since the acquisition we have already closed a new mall operator with over 15 locations and in discussions with many more existing or prior clients of Ziploop who feel more comfortable in pulling the trigger on longer term programs that have larger investments

With the capabilities of Ziploop exceeding our expectations in this early implementation period, we look forward to providing future updates as we further integrate this acquisition onto the Snipp platform. Overall, we think we can save nearly $250,000 a year in operating costs as an immediate impact from this recent acquisition.

Continuing to staying focused on costs, we think we have another $500-800K in annual savings that we can still realize, mostly through operational areas in segments such as hosting and software. If we can lower our cost base down another 10-15% and continue to increase our high margin sales, we will be perfectly positioned to embark on a new phase of sustained profitable growth. In either event we can at this point forecast profitability for the rest of the year, something we had promised investors earlier this year that we would be cash flow positive for the back half of 2018.

With all of our major cost saving programs in place, our focus is turning even more strongly toward initiatives to increase our sales. We have a variety of actions being assessed for feasibility as well as in implementation. Some have already resulted in great starts and for example we will shortly be announcing a seven

figure deal that resulted from one of these new opportunities we embarked on that only closed yesterday, so sales acceleration will continue to be our top priority over the next year. We know the business is out there, so we are looking at some new tools to better target and close new relationships and contracts. This is one part of our business that has been steady, but that needs to improve in future quarters. Part of that is finding the right person to lead our sales initiative going forward as our transition to long term recurring revenues and completion of our product suite takes place

Finally, I would like to sum up our outlook by saying that we are the most optimistic that we have been in many years about the state of our business. That also includes the competitive landscape, where our lead as a best-in-class solution continues to grow. We have new revenue initiatives that we are working on that will be the subject of future updates and our cost cutting will be ongoing for at least the next few quarters. Our growing database of consumer spending practices get more valuable every day, also adding to the unrealized value of the company.

Consistent profitability is a near obsession with us, but we now have the streamlined operation, capacity, and product mix to finally achieve and build on that status. With just one month left before year end, I can say with confidence that our outlook for Q4 and beyond is very positive. And, I am looking forward to reporting even better quarters in the future as we enter what we think could be an extended growth phase.

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:

Thanks everyone for joining us today. We look forward to updating you on our progress next quarter.

Operator:

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