

**Transcript of
Dolphin Entertainment
First Quarter 2018 Earnings Call
May 16, 2018**

Participants

James Carbonara – Hayden IR
Bill O’Dowd – Chief Executive Officer
Mirta Negrini – Chief Financial Officer

Analysts

Austin Moldow – Canaccord Genuity
Patrick Murphy – Maxim Group
Ben Andrews – Andrews Capital Management
Brian Kinstlinger – Alliance Global Partners.

Presentation

Operator

Greetings, and welcome to the Dolphin Entertainment First Quarter 2018 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. [Operator instructions]. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. James Carbonara with Hayden IR. Thank you, you may begin.

James Carbonara – Hayden IR

Thank you. Good morning, and once again, welcome to Dolphin Entertainment’s First Quarter 2018 Earnings Call. With me on the call are Bill O’Dowd, Chief Executive Officer, and Mirta Negrini, Chief Financial Officer.

I’d like to begin the call by reading the Safe Harbor statement. All statements made on this call, with the exception of historical facts, may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Although the company believes that the expectations reflected in such forward-looking statements are reasonable, it can make no assurances that such expectations will prove to have been correct. Actual results may differ considerably from the company’s expectations due to changes in operating performance and other technical and economic factors. For a discussion of such risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see risk factors in the company’s reports on forms 10-K and 10-Q, as well as other reports that the company files from time to time with the Securities and Exchange Commission.

Any forward-looking statements included in this earnings call are made only as of the date of this call. We do not undertake any obligation to update or supplement any forward-looking statements to reflect subsequent events or circumstances. We cannot assure you that projected results or events will be achieved.

Now, I will turn the call over to Bill O’Dowd, Chief Executive Officer of Dolphin Entertainment. Bill, please proceed.

Bill O'Dowd – Chief Executive Officer

Thanks, James. Man, I don't know how you do it, but your Safe Harbor reading just gets better by the quarter. Anyway, good morning, everyone, and thank you for joining our first quarter earnings call. I'll begin by going through our results at a high level and then add a little bit of color to the good numbers. Following that, I'll turn it over to Mirta to dive a bit deeper into our financials, then we'll open it up for Q&A.

We feel we're off to a great start in 2018. As you saw reported last night, Dolphin's revenue in the first quarter was \$5.78 million, so actually the \$5.8 million instead of the \$5.7 million we put in the release, up from \$0.5 million in Q1 of 2017. The majority of this growth was driven by our acquisition of 42 West which occurred on March 30th of last year. Simply put, 42 West has really performed for us. Last year's numbers were terrific and, in fact, set new highs on both revenue and EBITDA and we have just continued the growth rate through the first quarter of this year.

42 West's revenues in the first quarter were \$5.455 million, which represent a 16.34% increase over Q1 of last year. Also, I think it's worth pointing out that 88.88% of this revenue came from repeat clients. That is clients of 42 West in 2017. That type of client loyalty provides a tremendous starting point for revenues, of course, and allows for strong predictability of cash flows and the ability to manage expenses. I know that I've been asked on more than one occasion in the past two months as we started speaking at conferences after our NASDAQ up-listing our insight into the stickiness of clients at 42 West, assuming that it would be an impressive number and I'm happy to report that I think our repeat business is even higher than most have assumed.

The other major strength at 42 West is our diversity of revenues. As a reminder we have three divisions; Celebrity PR; Entertainment Content Marketing, in other words PR for feature films and television series; and Strategic Communications, or in other words, PR for companies or institutions in the entertainment industry that are not seeking to promote a particular film or TV project. The fact that we have all three of these divisions separate us from every other entertainment industry PR firm. They also allow us to not have to rely on one or two large clients. In fact, our largest client has increased their business with us significantly in the first quarter and still only represents just over 6% of our total revenue, and that revenue is spread out amongst several projects in our Entertainment Content Marketing division.

Also, we've added some strong new clients in our Celebrity PR division. In our earnings release I mentioned film and TV star Taraji Henson, as well as a very popular comedian and podcaster, Marc Maron, and also recording artist Camila Cabello. I imagine there's no one on this call who hasn't heard her hit single, "Havana." It must be nice to be both that young and a multi-platinum artist. It might be something in the water in Miami, just a quick aside there.

So, that's 42 West. As you can see, the organic growth in this segment of our business is solid, but I'd be remiss if I didn't point out that we also see inorganic opportunities as well, specifically growth through acquisitions. We believe we have a solid pipeline for acquisitions of companies and personnel to complement 42 West and we continue to believe that we can close the first of these acquisitions in 2018.

Finally, with respect to our legacy content production business, we remain committed to moving the film into production before the end of the year which will contribute additional revenues in 2018 in the form of producer's fees along with upside optionality, to use business speak, for 2019 and beyond. When that film enters the casting and green light phase we'll be sure to share more.

As I hope you can hear, we're excited about where we stand after one quarter of being a NASDAQ-listed company. To recap, 42 West is really performing for us with its organic growth and predictable revenues and we're working diligently to secure our next acquisition to both leverage and expand the client roster of 42 West.

We also expect to be in production on a feature film this year, which will allow us to be firing on all cylinders for revenue growth.

At this time, without further ado, I'd like to turn it over to Mirta to run through the financials.

Mirta Negrini – Chief Financial Officer

Thanks, Bill. As Bill stated earlier, during the first quarter ending March 31, 2018 revenue was \$5.8 million, up from \$0.5 million for the quarter ended March 31, 2017. Our operating losses were approximately \$100,000 compared to an operating loss of approximately \$900,000 in the same quarter last year. Net income was approximately \$800,000 compared to net income of approximately \$4.9 million in the same quarter last year. But, please note that the changes in fair value of derivative liabilities accounted for \$6.8 million of the net income for the quarter ended March 31, 2017 as compared with \$1.3 million of the net income for the quarter ended March 31, 2018.

Shareholder equity was \$5.2 million as of March 31, 2018 compared to a shareholder deficit of \$1.4 million at March 31, 2017. Lastly, cash and cash equivalents were \$4.5 million on March 31, 2018 compared to approximately \$700,000 on March 31, 2017.

That concludes my financial remarks. I will now ask the operator to open the phone lines for questions and answers. Operator, can you please poll for questions?

Operator

Thank you. We will now be conducting a question and answer session. [Operator instructions.] Our first question comes from the line of Austin Moldow with Canaccord Genuity. Please proceed with your question.

Q: Hi. Thanks for taking my questions. I was wondering if we could get a little bit more color on the 42 West segments just in terms of how each of the three are growing. I know Entertainment Content Marketing, I think, experienced some declines last year, and then exited the year growing rather quickly. So, wondering if that continued into Q1 and if there are any other things to call out in the other two segments.

Bill O'Dowd – Chief Executive Officer

Sure. Sorry, guys, Mirta and I are not in the same city, so we probably both hesitated there for a second. Hi, Austin, pleasure to talk to you.

The Entertainment Content Marketing division has continued strong through the start of this year. That's really the only division we have that has some seasonality to it in that the first quarter results are often dependent upon or swing based on the amount of the Academy Awards business, or generally awards business. We have from the first week of January with the Golden Globes through the Oscars. It's a busy time of year if you have the Academy business. We had a very strong year for Academy business this year. So, it has continued well and it's a big factor and maybe the leading factor of why our revenues are up over 16% year-over-year, which is quite a tribute to the 42 West since last year represented the high mark of both revenue and EBITDA.

In terms of the other divisions, yes, Talent continues to steadily perform for us. We're constantly signing new clients as you heard me say with those three examples. And then on Strategic Communications, it is definitely up as well over last year. So, we're happy across the board in all three divisions.

Q: Got it, and if I could just ask one more. I know you spoke about repeat business higher than what we might assume. Can you speak to the retention or how you'd think about your recurring revenue, and in general, your visibility quarter to quarter?

Bill O'Dowd – Chief Executive Officer

I'd be happy to. Really, that came out of questions, as I mentioned in the prepared remarks, it came out of questions I've been asked at different conferences I've spoken at in the last couple of months and really, I wanted to articulate that because it is a strength of the company as well. So, yes, almost 90% of our business comes from clients we retained from 2017 and that's not to say the other 10% is lost, it's just we're growing so we add new clients. It does give us great visibility.

We have projectionist reports we prepare weekly that go 52 weeks ahead for our business, and when you have long-term clients, whether it be celebrities like Meryl or Reese, or whoever, that are obviously, steady month to month to month to month, or our studio clients that know which films we're working on through the summer and fall, it just gives us great visibility. So, that repeat business statistic, we'll continue to provide that and it shows the strength of the company.

Q: Thanks very much and congrats on the quarter.

Bill O'Dowd – Chief Executive Officer

Thank you, Austin.

Operator

Thank you. [Operator instructions.] Our next question comes from the line of Patrick Murphy with Maxim Group. Please proceed with your question.

Q: Good morning, guys. Thanks for the question. I see that in the 10-Q 42 West generated approximately \$500,000 in operating income, which was offset by more than \$600,000 operating loss from the content production business. Was most of this loss attributable to *Max Steel* and if so, how much longer should we expect that this kind of impact on the financials from this business? Thanks.

Mirta Negrini – Chief Financial Officer

Most of it is coming from *Max Steel* and we expect that the *Max Steel* part of the business is going to be done, for the most part, by the end of this year, and it's just going to go decreasing from here. So, we don't expect there to be a big tail to *Max Steel*.

Q: Okay, great. That's what I was figuring. And, for a second question, on payroll it looks like it was down sequentially, but more on the cadence of 2Q and 3Q last year. Does this have to do with end of the year bonuses and should we expect a similar cadence for the rest of 2018?

Mirta Negrini – Chief Financial Officer

The payroll will be down for the rest of 2018 compared to prior year. So, it's not just based on—there was several employees from the content production business that are no longer with the company that were there in 2017. So, you will see that decrease throughout the year.

Q: Great and if I may ask one more question, it's been just over six months since your acqui-hire in the live event and digital content space. Can you give us a little bit more color on the kind of impact that had during the quarter and if your future planned acquisitions, you're expecting the same kind of impact? Thank you.

Bill O'Dowd – Chief Executive Officer

It's a good segue into one that we just added to our Entertainment Content division. Yes, Joe Quenqua has done a great job for us. As I may have mentioned on the call for the K adding business like the Broadway business of Disney and others have been meaningful to us. We also announced a couple weeks ago, the addition of Rachael

Aberlee [ph] in our Entertainment Content Marketing division to really focus on a bicoastal effort of below-the-line Academy Awards business. We had a great quarter in that regard.

Just to give you a sense, for films released in 2017, Rachael and her team secured 21 Oscar nominations from films including, *The Shape of Water*, *War for The Planet of the Apes*, *Phantom Thread*, *Darkest Hour*, *Three Billboards*, *Beauty and the Beast*, and *Victoria & Abdul*. Rachael's PR campaigns contributed to five Oscar wins including Score for *Shape of Water*, Costumes for *Phantom Thread*, Costume Design for *Shape of Water*, Makeup and Hair for *The Darkest Hour*, and Gary Oldman's performance.

And the truth is that without tremendous below-the-line support films typically do not win the best picture, so I think those types of below-the-line wins for *Shape of Water* certainly helped in its campaign for Best Film. So, there's an example. And, I'm just talking about Academy Awards now, but obviously, Rachael and her team also worked on the Director Guild Awards, Producer Guild Awards, etc.

So, that's been a nice addition to our Entertainment Content Marketing division and only goes towards the type of, I think, the part of the investment thesis for 42 West was that it would serve as a platform to attract both corporate acquisitions but also individuals that can really complement our platform, if you will, and that type of specialty business blends very nicely with our general film and television content marketing. So, that may have over answered your question, Patrick, but that type of thing I think we're looking to do more of.

Q: That was perfect. I really appreciate the color. That's going to be it for me, but congrats on the quarter, guys.

Operator

Thank you. [Operator instructions.] Our next question comes from the line of Ben Andrews with Andrews Capital Management. Please proceed with your question.

Q: Good morning. Bill, can you give me a little bit of a history lesson on your relationship with 42 West and how the merger came about?

Bill O'Dowd – Chief Executive Officer

Sure. Good morning. Met with Leslee, Amanda, and Allan, the Co-CEOs of 42 West summer of 2016 and approached them with the idea of combining 42 West and Dolphin in our public vehicle. The opportunities that I think it could afford, specifically as they were the—well, we thought as the premiere entertainment PR firm and that we could attract and acquire other businesses that would complement them very well.

They agreed and were looking to grow in that manner. So, obviously, the acquisition closed March 30th of last year and we almost immediately after we filed the requisite financials filed for the NASDAQ up-listing. But, that's when we met.

Q: And, can you give me a little color on the legacy production company? You do a few hundred thousand in revenue a quarter. I guess when I go through your financials it looks like you have done two feature films and then other types of media, whether it be television shows, I guess, late last year you had an NFL restaurant show or something come out. What exactly is in that library and production outside of the couple of feature films you plan on starting later this year? Help me understand that revenue stream a little more and what's in there.

Bill O'Dowd – Chief Executive Officer

Happy to. The legacy of Dolphin started in '96 as a content producer and most known for our children's television productions like *Zoe 101* or *Ned's Declassified School Survival Guide*, or others like that for Nickelodeon. We see a big opportunity in independent family feature films and on the content production side you can see where that would blend very nicely with 42 West and their ability to market both independent films like some of the ones I

mentioned earlier, but also the studio family franchises like we work on the *Despicable Me* franchise, the *Minions* for Universal along with a host of other properties like that.

The idea is to go into production on a couple of those independent family films a year starting in the fourth quarter of this year. So, to add more color to the question that was asked earlier as well, the content production business will be profitable once we go back into production with a couple of the sports-related scripts that we have in the family space. We earn producers fees during production that are typically 10% to 15% of the budget and then, of course, however the film might do after provides upside. But, once we go back into production we'll be able to book those revenues and show a profit in that division.

Q: The few hundred thousand of revenue I'm seeing every quarter, are those producer fees for shorts that you're working on now, or is that legacy revenue from media? What is that?

Bill O'Dowd – Chief Executive Officer

That's legacy revenue. That's sales revenue from *Max Steel* project released in October of 2016.

Q: Okay, the international piece?

Bill O'Dowd – Chief Executive Officer

Or domestic, home entertainment.

Q: Okay. Is there anything else in there that will generate revenue? I mean will we just see that kind of lessen as time goes on or how should I look at that outside of you doing new projects?

Bill O'Dowd – Chief Executive Officer

I think it really should be viewed as starting in the fourth quarter with the producers fees we'll earn from the next film, because I'd be putting that into the public vehicle, putting the content business in to start with the slate of films that we have starting in the fourth quarter, and continuing on.

Q: Mirta, can you discuss the balance sheet a little bit? Just on the current liability side there's a lot of categories and I see in the queue that you pulled down a new revolver to take out the majority of these put shares in the next couple of months. But, you have a number of categories that are current liabilities, whether it be loans to related parties, or notes payable, and credit lines. How does that all transpire over the next few quarters being that it's current?

Mirta Negrini – Chief Financial Officer

We have convertible notes payable in the amount of \$800,000 that are current that will become due anytime between July and November of this coming year. We've already—we believe that several people will be looking to convert those.

The other big item that we have is the put rights and that's the fair value of the put rights that were given to the sellers of 42 West. We do have a loan from related party and that's to Bill O'Dowd which has been carried on our books for quite a bit. And then the debt that we have is the debt that's related to the production and the marketing and distribution of *Max Steel*. Now, that debt is only repaid with the proceeds of the film. If the film doesn't generate sufficient proceeds to repay these loans then the parent company, Dolphin Entertainment, is not liable for that debt.

Q: You have a backstop of like \$600,000 right?

Mirta Negrini – Chief Financial Officer

Correct. That's the only amount that we have, \$620,000 yes.

Q: So, that's the category of \$2.95 million is what you're talking about on your liabilities?

Mirta Negrini – Chief Financial Officer

Correct.

Q: Okay. And then, the put rights that are non-current, how non-current are those? There's nothing in your financials that I can find. Is that like 2019? How does that play out?

Mirta Negrini – Chief Financial Officer

First quarter of 2020.

Q: Okay, so the \$2.5 million or so will either have to be settled up first quarter of 2020 as far as—

Mirta Negrini – Chief Financial Officer

Correct. If they put them back to the company, then yes, they would be through that time. So, it's anything between the second quarter of 2019 and the first quarter of 2020 is what's in that number.

Q: In the current put rights it looks like the majority of them just got taken down in the past month, like \$1.7 million of the \$2.7 million.

Mirta Negrini – Chief Financial Officer

No, that's an addition. The \$1.6 million is in other current liabilities.

Q: Alright. Thank you.

Mirta Negrini – Chief Financial Officer

The \$1.7 million is part of the \$7.5 million of other current liabilities.

Q: Okay. Thank you.

Operator

Thank you. Our next question comes from the line of Brian Kinstlinger with Alliance Global Partners. Please proceed with your question.

Q: Hi. Good morning, guys. How are you?

Bill O'Dowd – Chief Executive Officer

Good.

Q: I joined late, sorry. I had another call. But, have you updated on timing in your plans for the production of your first or second movies? Is that still second half of the year? Is that still December starting or has that been pushed out?

Bill O'Dowd – Chief Executive Officer

No, it's still in the fourth quarter, exactly, and from that point forward we expect to do two films a year still, but spaced every six months.

Q: Okay. Then, can you, I'm sure you touched on this, maybe highlight M&A and discuss where you're looking to improve the 42 West business? Where can you add new services that complement really well?

Bill O'Dowd – Chief Executive Officer

We feel very confident we'll have an acquisition completed this year before the end of the year. Obviously, we're hopeful, as soon as possible. We've been in active conversations and feel good about our pipeline of potential acquisitions.

Also, and I don't know if you heard this, Brian, but we did add another senior executive, I like the name acqui-hire. So, that helps tremendously in our Entertainment Content Marketing division for below-the-line services, Academy Awards business, etc. I think we'll continue to look to add people like Rachael Aberlee throughout the year in areas of our business that would complement what we already do. So, I think we'll grow with those acquisitions and acqui-hires very nicely.

Q: Now in the past, I think we talked about a 10% organic growth rate. When you add people like this that have a solid book of business, does that mean you can accelerate that growth or is that part of being able to grow 10%?

Bill O'Dowd – Chief Executive Officer

I think it will accelerate the growth.

Q: Okay, and how soon after you address this do you think it takes before these acqui-hires start to ramp and become more mature at what their book of business was?

Bill O'Dowd – Chief Executive Officer

I think it varies on the acqui-hire, but as a fair, I guess, average, probably about 90 days to get fully up to speed and then turn the corner on profitability just because a month or two of the clients starting work and then 30, 45 days to receive the revenue from the billings. So, I would say that's about right. One quarter, somewhere in the second quarter they're kicking into gear.

Q: Okay. Then, when we see blockbusters like *Black Panther*, *Avengers*, it's been a great slate of movies, *Star Wars* is coming, are those times that really help Dolphin because there's a lot of PR? Does it not have much of an impact? Can you just speak to that?

Bill O'Dowd – Chief Executive Officer

It's a curious question and a tough one to answer, but yes, it's been a good second quarter, certainly for Disney, *Black Panther* start of the year and *Avengers*, and *Han Solo* coming out. But, we like to say we're platform agnostic in the sense that we often promote content whether it be the big tent-poles or the smaller independent films, or if it's streaming services product like Netflix or Amazon, or traditional pay television, whether it be an HBO series or whatnot.

So, the big studio blockbusters, the ebb and the flow of that business, we're certainly aware of just being industry participants, but it's not critical or influential in our business whether it's up or down.

Q: So, to characterize that, wow, it's nice that *Avengers* and *Han Solo* may increase ticket sales and there's some big PR around them it may help your business, but it won't be overly meaningful where we'll see a much stronger second quarter than the first quarter, for example. Is that right?

Bill O'Dowd – Chief Executive Officer

Yes, correct.

Q: Alright. Thanks for taking my questions.

Bill O'Dowd – Chief Executive Officer

Thanks, Brian.

Operator

Thank you. [Operator instructions.] Ladies and gentlemen, we have reached the end of our question and answer session. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.