

**Transcript of
Dolphin Entertainment
Second Quarter 2018 Earnings Call
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Participants

James Carbonara - Hayden Investor Relations
Bill O'Dowd - Chief Executive Officer
Mirta Negrini - Chief Financial Officer

Analysts

Austin Moldow - Canaccord Genuity
Patrick Murphy - Maxim Group
Jon Hickman - Ladenburg Thalmann

Presentation

Operator

Greetings, and welcome to the Dolphin Entertainment Second Quarter 2018 Earnings Conference Call. At this time, all participants are in listen-only mode. A 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, James Carbonara with Hayden Investor Relations. Thank you, sir. You may begin.

James Carbonara - Hayden Investor Relations

Thank you. Good morning, and once again welcome to Dolphin Entertainment's Second 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. This statement is made pursuant to the safe harbor for forward-looking statements described in the Private Securities Litigation Reform Act of 1995. 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 Security Exchange Act of 1934. Although the company believes that the expectations and assumptions reflected in these forward-looking statements are reasonable, it makes no assurances that such expectations or assumptions will prove to have been correct. Actual results may differ materially from those expressed or implied in forward-looking statements due to various risks and uncertainties.

For a discussion of such risks and uncertainties which could cause actual results to differ from those expressed or implied in the forward-looking statements, please see the risk factors detailed 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 knowledge, events, or circumstances.

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. Hi, good morning everyone, and thank you for joining our second quarter earnings call. I'll begin by going through our results at a high level and then spend some time discussing our recent acquisition of The Door. Following that, I'll turn it over to Mirta to further discuss our financial results. Then lastly, we'll open it up for a Q&A.

Starting with the results, as you saw reported last night, Dolphin's revenue for the second quarter was \$5.2 million, down from the \$7.8 million in Q2 of 2017. The decrease in this quarter was almost entirely the result of less sales for Max Steel from our production division. Our entertainment publicity revenues for the first quarter were \$5.1 million, essentially flat with Q2 of last year. Until our acquisition of The Door in July, which I'll discuss shortly, our entertainment publicity segment results reflected the results of 42West. Near the end of the quarter in June, three senior publicists and their support staff departed 42West, and although we are disappointed to see them leave us (all of them have been with 42West for over ten years), we wish them nothing but the best. We are in the process of interviewing replacements now and we've actually just completed our first new hire.

Meanwhile, our movie and television marketing segment within 42West continued a busy year. The second quarter saw the release of various films we worked on, including the very successful remake of the Goldie Hawn/Kurt Russell comedy classic, *Overboard*, with the gender roles reversed in the current film. Also, we started the promotion on many films to be released this fall, including *Mile 22* starring Mark Wahlberg coming out this Friday and the upcoming thriller, *A Simple Favor* from Lionsgate and our client, director Paul Feig, which stars Blake Lively and Anna Kendrick. That movie is scheduled for release in September.

Also, our major celebrity clients have films they promoted in the second quarter, including Tom Cruise with the world-wide promotion of blockbuster film, *Mission: Impossible Fallout*, which achieved the box office opening that was the best ever for the franchise and the second biggest of Cruise's career. Also, Meryl Streep was busy promoting *Mama Mia! Here We Go Again*, which personally I think should be the title of Carbonara reading the safe harbor statement.

Anyway, we're proud of the work that 42West does and of course they are at the center of the investment thesis for Dolphin, specifically 42West provides us with the opportunity to purchase other entertainment marketing companies that desire access to 42West clients for their own businesses. We believe that this allows us to create what we refer to as a "Super Group" that can handle all aspects of entertainment marketing.

For those on the call that are new to our company, it's worthwhile to mention how we view the entertainment industry in the public markets. In some ways, we're similar to other industries or verticals like automobile manufacturers or commercial airlines. There are only seven major studios, and if you add Netflix and one or two other companies, you've pretty much described almost all of film and television distribution in the United States. The studios dominate the feature film distribution business and they also own the broadcast networks other than CBS. They own almost all of the cable networks and, other than Netflix and Amazon, they own the streaming services.

Unlike the automobile and airline industries that I just mentioned, which have their own versions of the big seven studios, the entertainment industry doesn't really have a middle class of billion dollar public companies. There are very, very few. We don't have our equivalent of large, public auto parts manufacturers, rental car companies, auto insurance providers, etc. Instead, our entertainment industry ecosystem consists primarily of thousands of privately-held companies.

And, what do these privately-held companies do? Well, to simplify a little, they either produce content to put on those various platforms, just like our legacy Dolphin Entertainment business, or they market the content, just like 42West. So, unlike production companies, the marketing companies are expected to work collaboratively. In

other words, marketing a movie or a television show, or quite frankly any form of entertainment really, is a collaborative effort among many marketing disciplines all working together on one campaign. And, we see a great opportunity to purchase other privately-held companies that provide entertainment marketing services, which we believe will complement and expand our existing entertainment publicity segment such that we would have in-house a single collaborative group capable of marketing Hollywood's largest projects.

For example, think about what you would need to market a movie like *Mission: Impossible Fallout*. Well, you would need a PR company naturally. You would also need a social media campaign. Someone's got to build and continuously fill a Facebook page, a Twitter feed, an Instagram feed, and so on. So, you need a social media marketing firm, and we'd like to bring one of those into our "Super Group." And, what does that social media marketing firm use to promote the film? Text articles? Not likely. They use video. In today's day and age, video, video, video. Video that someone has to produce. So, you need a promotional video creation company. And, we'd like to bring one of those into our "Super Group."

Then, there's a tremendous call to bring your movie to the press and public in advance of its release. You're going to want to throw a red carpet premiere. You may want an installation at Comic-Con and other fan experiences. So, you need an experiential marketing company and, as you can guess, we'd like to bring one of those into our "Super Group."

We believe that the various businesses I just described share a powerful similarity. They would all benefit from a close, direct relationship with the PR firm hired to run the campaign and the access to all seven studios and the celebrity roster from 42West. The opportunity to cross-sell such a suite of services would not only take advantage of 42West's market-leading position, it would be a unique set of assets under one roof in the entertainment industry.

We currently have a highly developed pipeline of the companies and the verticals we want. And, as I mentioned a few moments ago, and as many of you already knew, we just last month bought our most recent company, the leading lifestyle and hospitality PR agency, The Door. The Door represents clients from television personalities like Rachael Ray, to high-end restaurant groups and celebrity chefs across the country, to high-end hotel groups like Viceroy Hotels, to leading consumer product companies like FAO Schwarz and the re-launch of their flagship store at Rockefeller Center this fall. And, speaking of New York, The Door also recently signed the Times Square Alliance as a marquee client.

So, why The Door? Well, on the surface, we believe that The Door will absolutely benefit from access to 42West and its clients. In today's world, if you're a lifestyle hospitality brand, you had better spend a lot of time cultivating your image amongst your clientele, and ideally figure out a way to have a conversation with them. And, what does that clientele want to talk about? You guessed it. You can't even pitch for the PR business from those clients without fully detailing your access to pop culture and those who influence it. Which celebrities? Which movie premieres? Which red carpet store openings? Which social media mentions?

So, as you might imagine, cross-selling the entertainment access that 42West provides to the potential clientele of The Door simply makes sense. And, The Door gets it. Both of their founders and co-CEOs, Lois O'Neill and Charlie Dougiello, come from traditional entertainment PR, Lois from the music labels and Charlie from television. They've always taken an entertainment approach to the lifestyle and hospitality business, and it's one of the reasons they've been so successful. Their primary reason for doing this deal was very straightforward. They wanted to be the only PR agency in their space that was the sister agency to 42West. And, collectively, we feel we can significantly increase the revenues and the profits of The Door in a short period of time, which is why we structured the purchase to include an earnout that sets an EBITDA target that is more than quadruple their EBITDA in 2017.

To provide a sense of the financials for The Door for full-year 2017, revenue for The Door was \$5.5 million and operating income before guaranteed payments to partners was approximately \$570,000. During Q1 of 2018, revenue for The Door was \$1.6 million and operating income before guaranteed payments to partners was approximately \$200,000. So, the company has grown organically over these periods. We can't wait to see what it will do next year, after it's been able to pitch with 42West.

And, if I may introduce just a braggy point for a moment, *The New York Observer* comes out every December with a list of the power rankings of the top 50 PR firms of any type in the US. Well, 42West was ranked number 4 this past December and The Door, even though a smaller agency, was ranked number 3. Number 4 and number 3. We feel really, really good about that.

Now, think about what could happen when we have a 42West level or The Door level event planning firm, or social media marketing firm, and a content creation firm? What could you do if you had all of those A list companies under one roof? That's what's pretty exciting for us and we believe will be exciting for the owners of those complementary businesses because they will likely see that. Some of that's why we acquired The Door as the next step in forming our "Super Group." This is because now, when we go into assembling the rest of the "Super Group," we have both of the PR companies that we wanted already in the fold, that's both PR agencies that can refer business to the next company we acquire.

Let's use an example of an experiential marketing firm. Sure, 42West will cross-sell with that company to its studio and streaming platform clientele, but we think that The Door will be able to help attract additional business as part of that group with its client roster of premier hotels and high-end restaurants across the country. It may be smaller than 42West from a revenue and profits perspective, but it may very well cross-sell more business to that experiential marketing firm and to some other verticals. That's why we wanted The Door now, next. To a large degree we don't expect that will matter in which order we purchase the rest of the "Super Group." If we get a content creation company next and an experiential marketing company next, it doesn't really matter. But, it would have been a shame to have brought The Door in last and missed the opportunity to double up on cross-selling clients along the way.

Finally, with respect to our legacy content production business, we remain committed to moving a film slate into production, which we expect to contribute additional revenues in the form of producers' fees along with upside optionality to use business speak thereafter. When our next film enters the green light phase, which we expect to happen in 2018, we'll be sure to share more.

In summary, on our earnings calls earlier this year, which are the first we did after listing on NASDAQ, we spent our time explaining the 42West business and why it was so crucial to our strategy. On this call, we wanted to take time to again share our core M&A strategy, which is at the heart of the investment thesis for Dolphin, and to describe the next of these acquisitions, The Door. In upcoming quarters, we hope to share more exciting acquisitions as well as the launch of our content production business, which together will represent us firing on all cylinders.

As I hope you can hear, we're excited about where we stand after two quarters of being a NASDAQ-listed company. We are delivering on what we said we could do, and what we said we wanted to do when we up-listed last December. We are working on assembling our "Super Group" of privately-held, already profitable, best-in-class entertainment marketing companies. Quite frankly, I don't know how you can do better than number 3 and number 4 in the PR world, and we believe that The Door and 42West, respectively number 3 and number 4, are proof that we can execute on this strategy.

Two years ago, when I met the co-CEOs of 42West for the first time in a hotel suite in New York City, it was just an idea, a dream. Well, nine months later, last March, we were married. Nine months after that, last December,

we were on NASDAQ. One week later in January, I flew to New York again to meet in a hotel suite again, with The Door. From a standing start, six months later here we are, and we are working diligently on the other companies we want, and that's very exciting for us, and we hope very exciting for you.

I thank you for your time and attention. And, at this time, 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 June 30, 2018, revenue was \$5.1 million, down from \$7.8 million for the quarter ended June 30, 2017. And, as Bill mentioned, essentially the entire difference were higher sales of our Max Steel project in 2017. Our operating income was approximately \$100,000 compared to an operating loss of approximately \$200,000 in the same quarter last year. Net income was approximately \$200,000 compared to a net loss of approximately \$1.6 million in the same quarter last year.

During the first six months ending June 30, 2018, revenue was \$11 million, up from \$8.4 million for the six months ended June 30, 2017. Our operating losses were approximately \$300,000 compared to an operating loss of approximately \$1 million in the first six months of 2017. Net income was approximately \$1 million compared to net income of approximately \$3.4 million in the first six months of last year. But, please note that the changes in fair value of derivative liabilities accounted for \$6 million of the net income for the six months ended June 30, 2017 as compared with only \$1.9 million for the net income for the six months ended June 30, 2018.

Stockholders' equity has increased to \$5.3 million as of June 30, 2018 compared to a stockholders' deficit of \$3 million on June 30, 2017.

Lastly, cash and cash equivalents were \$2 million on June 30, 2018. Not included in that figure, however, are the proceeds from a public offering we completed after the quarter ended on July 24, 2018, which provided us with net proceeds of approximately \$5.6 million after deducting the underwriter's discount. We issued 2 million shares of common stock in this underwritten public offering at a price to the public of \$3 per share. In contrast to prior offerings, we issued no warrants in this transaction.

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. The floor is now open for questions. [Operator instructions]. Our first question is coming from Austin Moldow of Canaccord Genuity. Please go ahead.

Q: Hi, Bill and team. Thanks for taking my question. First one, on the departures at 42West, wondering if any impact was felt in Q2, if we should expect a revenue impact in Q3 and Q4, and just generally what should we expect for returning to growth in the 42West segment?

Bill O'Dowd - Chief Executive Officer

Hi, Austin. Yes, good morning. Minimal impact in Q2. There will be an impact in Q3 as we hire new publicists to replace the ones that left. So, Q3, Q4 maybe as well. But, we'll have greater visibility into the impact and the speed at which we're replacing it on our November 15th earnings call.

Q: Okay, and sort of just a more general question. What's the structure of most of your employee base or publicists, and are there contracts involved, or just generally what are the retention practices so that something like this doesn't happen all the time I guess?

Bill O'Dowd - Chief Executive Officer

Sure, it depends on the division. In the core movie division, there are employment agreements in place with all the senior publicists. Talent publicists, traditionally in the industry, do not and it's very difficult to impossible in California to enforce a non-compete on talent publicists. So, we've had a tremendous track record. Over 12 years to the company, 13 years, this is the first high-level talent departure situation, but fortunately for us it's a healthy industry of talent publicists, and we'll move on and replace.

Q: Okay, and generally when publicists leave, assuming they take whatever business they have with them, is that what affects the top line? And then, also, as we look into the three segments within 42West, were the departures felt only in talent?

Bill O'Dowd - Chief Executive Officer

Yes, well primarily in talent. There was some in the brand division as well. The third of the publicists was from the brand strategic communications division, but those were primarily in the talent division.

Q: Okay, and a final question. One of the companies you say you want to acquire is a content creation firm, and I know looking back to when you combined with 42West, the pitch was, combining Dolphin's production expertise, would benefit, I thought, the content production area. So, how do I reconcile what Dolphin was already able to do on content production with the kind of entity you're looking to acquire?

Bill O'Dowd - Chief Executive Officer

Sure, Dolphin is helping 42West already, and we see it's a happy answer of we see large growth there. We're actually in the middle of producing the first of the promotional videos for a movie that's coming out this fall that a studio bought a couple of those videos to use to promote the film. We see that business growing rapidly for us, and as such we see an opportunity, and always did, to purchase a company that does exclusively the promotional video creation.

And quite frankly, we'll need, as Dolphin goes into its feature film production slate—we would either need to hire more people at the Dolphin level, but we like the idea of buying a company that's already profitable, at an accretive valuation, just like we did with The Door. It's better for our stock. So, we think we can grow that rapidly and think it would be better to acquire a company than staff up.

Q: Okay, thanks very much.

Bill O'Dowd - Chief Executive Officer

Sure.

Operator

Thank you. Our next question is coming from Patrick Murphy of Maxim Group. Please go ahead.

Q: Hi, good morning, guys. Thanks for the question. So, in regards to M&A, you lay out a couple of areas, including another public relations firm, social media marketing, promotional video content creation, event marketing, entertainment research. I know you said that The Door was the one you wanted to get in there first, but are there any of these that you view as superior or paramount that you're really looking to target next?

Bill O'Dowd - Chief Executive Officer

Yes, great question, Patrick. Not really. The Door has the other verticals from entertainment that we really like. Obviously, with 42West we have motion pictures and television, which are key drivers to all seven studios. Netflix, Amazon, these are our clients. All of them are our clients. And, with The Door, we're adding the very

large section of celebrity chefs, food—and that’s not a small industry, as many of you may know on the call—as well as they do a really healthy business in live events, which we like a lot.

As such then, as I was mentioning in my prepared remarks, they’re a tremendous resource for us on referrals within the ‘Super Group.’ And, also, they’re a way into the vastly larger section of consumer products that many of which want to access, either entertainment generally or traditionally defined and/or experiential marketing access to the consumer in live events and experiences. So, which again, The Door does a tremendous job at.

So, I don’t know that one is more important than the other in the “Super Group” or that it matters which order. We’ve had conversations. We like and have identified companies in those verticals, and if one comes in two months before the next one I don’t know that it really matters at this point.

Q: Okay, that’s helpful. So, with the acquisition of The Door, you spoke about how they’ll be able to access 42West’s client base to help growth at The Door. Do you also see opportunities for 42West to be able to leverage The Door’s relationships and see some growth there?

Bill O’Dowd - Chief Executive Officer

Yes, I do. I don’t mean to say it’s not a two-way street because it would be. But, also, I don’t want to understate the importance of 42West from a brand and access standpoint. On previous calls, I’d mentioned they’re considered the leader in entertainment PR. Obviously, their position in the power rankings indicate that. And really, because while there are other firms that have talent publicists, there are not many other firms quite frankly—basically two—that have movie and television and those studio corporate clients. We’re also the agency of record for the world’s largest online social network. So, those types of clients allow the building of the “Super Group,” if you will, because it’s the studios that need to put the Comic-Con installations together.

It’s the studios that would want to run a social media campaign for a project or a music label, etc. It’s the studios that would want, and are paying for right now—actually this Friday, as we shoot promotional videos with some major movie stars in New York City for a movie coming out this fall. So, we’re very, very precious about that movie and television division of 42West because it’s a unique asset. And, 42West and our strategic communications group will absolutely benefit from The Door.

We’ll jointly pitch, but it’s within this “Super Group.” It’s the PR agencies that often are the gatekeepers for the other clients expanding their work and getting more revenue. And, so having both 42West and The Door will help each of these other verticals. And, we’ve publicly stated now that the three that are generally important—those are the pillars of entertainment marketing—PR, social media, video, and to a large degree experiential marketing. We could fill in some other verticals around that but those are the core ones.

I hope that answered your question, Patrick.

Q: Yes, it definitely does. And then, just one final question. We saw reduction in SG&A this quarter. I was wondering if there was anything specific that was attributable to and if that’s sustainable on a go-forward basis? Thanks.

Bill O’Dowd - Chief Executive Officer

Sure. Yes, we had some. As we fully integrate these assets, we’ve had some savings. And, we do think it’s sustainable.

Q: Alright, thanks, guys. Congrats on the quarter.

Bill O’Dowd - Chief Executive Officer

Thank you.

Operator

Thank you. The next question is coming from Jon Hickman of Ladenburg Thalmann. Please go ahead.

Q: Hi. Most of my questions have already been answered, but I was wondering if you could give us some indication of when you put these two companies together right now—I'm sure you're working on that. You've had a couple months already. So, you've lost some business from your departures but you've gained some business from The Door. Going forward should we keep our expectations kind of muted for what the revenues might be for the next couple quarters until you've replaced your lost talent people from 42West?

Bill O'Dowd - Chief Executive Officer

Sure, and thanks for being up early. I think the way that we're looking at it is we will replace that revenue of the talent publicists, but the uncertainty of the speed at which we'll do it. We want to hire the right people. We have such a great company culture, and that's really attributable to Leslee, Amanda, and Allan because 42West and the fact that there's a tremendous loyalty, generally speaking, among the staff. So, it's that off-set speed that we really need to think through and why we think with another 60, 90 days we will have a really complete answer on that.

So, it's a timing thing for us obviously, rather than just go and hire people right now, the first people who walk in the door with an application. So, I don't know how to answer what other people should—or how to think about it from that perspective as we work through it. I do know that we feel very confident in the plan and what the next 12 months and 24 months will yield when the "Super Group" is finished, and we're then jointly doing projects together, and the exponential growth that that will represent. But, we will need some time to put The Door and the replacements together.

Q: One more question. So, these departures, how big of a surprise was that to Allan? Or, I take it they were mostly in the LA area.

Bill O'Dowd - Chief Executive Officer

There was one New York and one LA on the talent side. It's personal because these are women that have been with the company pretty much since the founding, and one of them had been a receptionist at Leslee Dart's old firm and came over. But, it's part of the business. If you're in a personal services business, a law firm, an accounting firm, an audit firm, a who-knows-what, people move. And they move for different reasons. It could be family obligations. It could be their spouse took a job in another city. It could be a variety of reasons.

So, it's a shame because we've had such little turnover in our company versus the rest of the industry. It's just a shame when it happens at once, but that's okay. And, the great news is it's a healthy, vibrant talent publicist industry. There are a lot of people that want to work at 42West and we just want to make sure we're hiring the right ones. And, this happens once every 12 years, so I guess hopefully that's the trend that will continue.

Q: Okay, thank you.

Bill O'Dowd - Chief Executive Officer

No, thank you, Jon.

Operator

Thank you. At this time, I would like to turn the floor back over to Mr. O'Dowd for closing comments.

Bill O'Dowd - Chief Executive Officer

Oh wow, okay. Well, thank you, everyone, for joining the call. I appreciate it and we're very excited about The Door. We're excited to share some of the upcoming clients as we get that business and show that we are highly confident in the ability to cross-sell between The Door and 42West. We expect to show those results, and when we get together on Q3 we'll hopefully have some more exciting news about either future acquisitions or the film pipeline, etc.

So, thank you all very much and I appreciate your time this morning.