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Transcript of
Dolphin Entertainment
Fourth Quarter 2018 Earnings Call
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Participants
James Carbonara – Investor Relations
Bill O'Dowd – Chief Executive Officer
Mirta Negrini – Chief Financial Officer

Analysts
Allen Klee – Maxim
Austin Moldow – Canaccord Genuity

Presentation

Operator
Greetings. Welcome to the Dolphin Entertainment Fourth 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]. Please note this conference is being recorded.

I will now turn the conference over to your host, James Carbonara, Investor Relations. Mr. Carbonara, you may begin.

James Carbonara – Investor Relations
Thank you. Good day, and once again welcome to Dolphin Entertainment's year-end 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 Securities 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 2018 annual report on Form 10-K, those contained in its subsequently filed quarterly reports on Forms 10-Q as well as in 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. With *Game of Thrones* returning last night, it's great to hear your voice, man. Glad you made it safe.

So, I'll organize my comments as following: first, I'll highlight our financial results. Second, I'll spend some time providing operational updates. And, third, I'll turn it over to Mirta to dive deeper into our financial results before having our Q&A.

As for the financial results, our total revenue for 2018 increased to $22.6 million from $22.4 million in 2017. This total revenue growth was achieved despite both a decrease of $5.3 million in sales revenue for *Max Steel* from our content production segment since sales for that project are effectively completed, and the departure of three senior level publicists at 42West in June of last year.

Revenue on our core segment of entertainment publicity and marketing was $21.9 million for 2018 compared to $16.4 million in 2017. This increase in entertainment publicity and marketing revenue was attributable to growth in the movie and TV division of 42West as well as the acquisitions of The Door and Viewpoint Creative in the second half of the year, along with having a full year of operations at 42West, all of which more than offset the loss of revenues from the departure of the aforementioned publicists as revenues in the segment increased by $5.5 million year-over-year.

This revenue diversification is a key benefit of our acquisition strategy. One year ago, the talent division of 42West represented over 40% of our entertainment publicity and marketing revenue. Today, it is less than half of that, and one year from now we don't anticipate any single division of our business being even 25% of our total revenues, including our thriving movie and television division of 42West.

On an operational front, the movie and TV division of 42West seems like a great place to start. Many of you saw our announcement regarding our fantastic night at the Academy Awards -- 47 nominations, which were approximately 40% of all nominations and 8 wins, which were one-third of all awards handed out that night. Absolutely tremendous work by the 42West teams. We couldn't be more proud.

Also on the 42West front, we hired four seasoned talent publicists in the second half of last year to begin the process of replacing the revenues lost by the publicist departures beginning last June. We expect to continue hiring senior talent publicists throughout 2019.

And speaking of senior publicists, The Door has hired a few of their own, beginning with Nicole Lowe who has been tapped to launch a consumer products PR division. Nicole has extensive experience in the consumer products PR space, having previously worked on client accounts of Verizon, Unilever, Target, Sony, Intercontinental Hotels and many, many others. We have also invested in the hiring of a full team for Nicole, based in New York City, that is ready to hit the ground running here in the second quarter.

We expect Nicole's division to expand upon the organic growth that The Door is already experiencing with its market leading reputation in the hospitality and lifestyle industries. The past few months have seen tremendous PR campaigns for both the re-launch of FAO Schwarz and Rockefeller Center in November and the opening of Hudson Yards in March, the $25 billion development for which The Door represents all food and beverage.

Coverage seemed to be everywhere for both of these launches, from morning talk shows to late night talk shows, national news, local news, magazines, newspapers, literally everywhere, and both launches are perfect examples of The Door's capabilities. This seems like a good point to share that The Door and 42West once again earned spots on *The Observer's* prestigious PR Power 50, a widely respected ranking of the 50 top public relations firms of any type in the nation. This marks the third year in a row that both firms made the list and the second year in a row they were both in the top 15. In addition, 2 of the 15 young professionals singled out by *The Observer* as rising stars to watch in the PR industry work for us, and I'd like to give a special shout out to Ashton Fontana of 42West and Kayla Inanc of The Door.

Finally, a few words on our integration of Viewpoint, our most recent acquisition, which was completed in the fourth quarter. You might recall that Viewpoint is a full-service boutique creative branding and production agency with a reputation as one of the top producers of promotional and brand support videos for a wide variety of leading cable networks, media companies and consumer product brands. Viewpoint's roster of television network clients have included A&E Networks, AMC Network, Discovery Networks, ESPN, HBO, National Geographic and Showtime among others. Consumer brand clients for Viewpoint have included Applebee's, Gillette, JC Penney, Hershey's, Microsoft, Reebok, Staples and Wendy's, among others.

We are very pleased with the cross-education of the various sale teams at 42West, The Door and Viewpoint. Original video production for the marketing of entertainment content is nothing short of essential in today's environment. Digital marketing is only going to take progressively larger pieces of the marketing pie and to market effectively on digital platforms means that you have to be able to create engaging marketing content and primarily video. Viewpoint is an extremely strategic acquisition for us and they are now fully integrated into the new sales pitches of The Door and as appropriate, 42West.

In summary, on December 21, 2017 Dolphin listed on NASDAQ with a very straightforward investment thesis. We believed then that our acquisition of 42West in March of 2017 would serve as a deal magnet and that we could attract and acquire previously privately-held, already profitable firms in order to build a unique super group of best-in-class entertainment marketing companies. That was 16 months ago. Now we believe that our acquisitions of The Door and Viewpoint in the second half of 2018 serve as proof of this thesis.

We know we can acquire these companies, the companies that we want and the companies that will give us a full suite of entertainment PR verticals and the complementary service providers. When we are done, we will have a unique collection of assets that we believe will position us as the leader in earned media services for the entertainment industry.

We believe this is the right time for this strategy. We are in an era of tremendous investment in original entertainment content by the studios, networks, and, most evidently the leading streaming platforms which we believe positions our companies for strong organic growth for years to come. This rising tide will lift all boats and we believe it will lift our market-leading companies the most and the longest. We further believe that all of our companies will benefit from the ability to cross-sell services such as the production of original promotion and video content from Viewpoint, thereby increasing both revenues and profits while raising the average revenue per client.

Thus, in this environment and with the competitive advantages we are creating, we expect to meet or exceed consensus analyst annual revenue estimates for 2019. To that end, we anticipate reporting robust Q1 results on the heels of the successful award season for 42West and our outlook for 2019 is bolstered by the Q1 investment and the creation of the consumer products PR division within The Door. Furthermore, we believe there's further upside to annual revenue estimates as we expect to continue to focus on near-term M&A opportunities to further build out our entertainment marketing super group.

Thank you for your time and attention. At this point, I'll turn it over to Mirta for a more in-depth review of the financials.

Mirta Negrini – Chief Financial Officer

Thank you, Bill, and good afternoon. As Bill stated earlier, for the year ended December 31, 2018, revenue was $22.6 million compared to $22.4 million for 2017. Our entertainment publicity and marketing revenue for 2018 was $21.9 million compared to $16.4 million for 2017. The increase in revenue from entertainment publicity and marketing of approximately $5.5 million for the year ended December 31, 2018 was due to six months of revenues of The Door acquired July 5, 2018, two months of revenue of Viewpoint acquired October 31, 2018 and a full year of revenue from 42West, partially offset by a decrease in the revenues of 42West caused by the departure of several publicists in June of 2018. Revenues from entertainment publicity and marketing for the year ended December 31, 2017 included only nine months of revenues of 42West.

Revenues from content production decreased by $5.3 million for the year ended December 31, 2018 as compared to the year ended December 31, 2017 primarily due to the normal revenue cycle of our motion picture *Max Steel*. The majority of the revenues of a motion picture are recognized in the first 12 months following the release of the film. *Max Steel* was released on October 14, 2016 and we have already recognized the revenues from the theatrical release, a majority of home entertainment, example DVD, and from international licensing arrangements. We continue to record revenues to a lesser extent from home entertainment and from pay and free TV in the domestic markets.

For the year ended December 31, 2018 we also recorded $200,000 of revenue from domestic ancillary markets related to our motion picture *Believe* that was released in December of 2013.

Overall expenses increased by approximately $3.1 million for the year ended December 31, 2018 as compared to the year ended December 31, 2017. The increase is primarily due to six months of expenses for The Door which was acquired on July 5, 2018, two months of expenses for Viewpoint which was acquired on October 31, 2018 and a full year of expenses for 42West. For the year ended December 31, 2017 we included expenses for 42West from the date of acquisition which was March 30, 2017.

Direct costs decreased by approximately $2.5 million for the year ended December 31, 2018 as compared to the year ended December 31, 2017. This decrease is due to the decrease in sales of *Max Steel* since deferred production costs are amortized based on the ratio of current period revenues over estimated total revenues of the film. Direct costs related to the entertainment publicity and marketing segment were approximately $1.6 million in 2018 as compared to $900,000 in 2017. The increase was primarily due to the direct costs associated with the operations of The Door and Viewpoint from the dates of acquisition and a full year of direct costs for 42West. Entertainment publicity and marketing direct costs for 2017 were composed of only nine months of expenses for 42West.

Goodwill impairment increased by approximately $1.9 million for the year ended December 31, 2018 as compared to the year ended December 31, 2017 as a result of our test of goodwill that determined that the carrying value of our goodwill was higher than the fair value of the goodwill for the reporting unit 42West within the entertainment publicity and marketing segment. We did not have any goodwill impairment for the year ended December 31, 2017.

Operating loss for 2018 of $4.1 million included $2 million of depreciation and amortization and $1.9 million of goodwill impairment that I just mentioned compared to a 2017 operating loss of $1 million which included $1.3 million of depreciation. The change year-over-year is related to a decrease in the content production sales revenue less direct costs from approximately $2.2 million in 2017 to approximately $300,000 in 2018, a difference of $1.9 million. As mentioned above, this is related to the normal revenue cycle of our movie *Max Steel*. Furthermore, non-recurring non-cash expenses for 2018 included a goodwill impairment of approximately $1.9 million that I just mentioned, the write-off of accounts receivable of *Max Steel* of approximately $500,000 and the write-off of deferred production costs of approximately $200,000.

For the fiscal year ended December 31, 2018 our net loss was $2.9 million. Although we had net income of $6.9 million for the year ended December 31, 2017, a substantial portion of such net income was attributable to a change in fair value of warrant liability and to a gain on extinguishment of debt. Stockholders' equity was $10.8 million as of December 31, 2018 compared to stockholders' equity of $6.1 million on December 31, 2017, an increase of $4.7 million in stockholders' equity. That concludes my financial remarks.

I will now ask the operator to open the phone lines for Q&A. Operator, can you please poll for questions?

<u>Operator</u>
At this time we will be conducting a question-and-answer session. [Operator instructions]. One moment please while we poll for questions. Our first question comes from Allen Klee, Maxim. Please proceed with your question.

Q: Thank you for the outlook on '19. I was just wondering if you might be able to drill down a little bit of—you say that you can beat consensus estimates. Is there any sense of magnitude of that?

<u>Bill O'Dowd – Chief Executive Officer</u>
Thank you for the question, Allen. Hi. Happy Monday. I don't think I feel comfortable saying by how much, but we're feeling quite confident at the moment and, with such a great start to the year in Q1, we'll just leave it at that if I could.

Q: Okay. How should we think about—to the extent that you can ramp up and cross-sell Viewpoint, what that could potentially do to like an average revenue per client?

<u>Bill O'Dowd – Chief Executive Officer</u>
Yes. This is one of the really exciting things I think for us with Viewpoint. On a typical consumer PR campaign, using that division as an example, Nicole Lowe has tremendous experience incorporating video creation capabilities into her pitches for new consumer product clients. If some of those fees—they can be fairly wide-ranging, but anywhere from a low of maybe $10,000 to a high of $30,000/$40,000 a month on average. I'd say some can exceed that of course, but a typical video creation campaign could result in videos in the $100,000 to $250,000 per video for a campaign.

So, you can see where even a six-month campaign at $30,000 or $40,000 a month could be matched if only a couple of videos are asked to be made or exceeded. So, that type of cross-selling, especially because oftentimes the PR campaign that's designed by the public relations firm or asked for by the client includes original video to get the brand message out, is a natural cross-sell for us and it's true across all divisions of each of the public relations firms.

Q: Thank you. Could you talk about what your plans are in the production and distribution area for '19?

<u>Bill O'Dowd – Chief Executive Officer</u>
Sure, yes. We're excited. We have the scripts ready to go. We're out attaching directors now for a couple of projects, looking to be in production in the second half of the year on the first of them and early in the first half of next year for the next. So, we have the scripts divided into a couple of segments, original theatrical productions, meaning movies for theaters in the $5 million to $10 million budget range, and then some original movies for streaming platforms that would be in the $2 million to $5 million range. We have a healthy development slate of multiple projects for each. So, I expect we'll be making an announcement on some attachments of either directors or casts in the next quarter.

Q: Okay. Then just a housekeeping one. For your share count is there a good number to think about going forward?

Mirta Negrini – Chief Financial Officer
Are you looking at a fully diluted basis?

Q: Yes, fully diluted.

Mirta Negrini – Chief Financial Officer
So, for the fully diluted we have included on these financials a little over 16 million.

Q: Okay. Thank you so much.

Mirta Negrini – Chief Financial Officer
Thanks.

Operator
As a reminder, we are now conducting a question-and-answer session. [Operator instructions]. One moment please while we poll for questions. Our next question comes from Austin Moldow, Canaccord Genuity. Please proceed with your question.

Q: Hi. Thanks for taking my questions. First one is, would you be able to give any color on the contribution Viewpoint had in Q4 so we can perhaps try to get at an organic number for the publicity segment?

Bill O'Dowd – Chief Executive Officer
Sure. Thanks, Austin, for the question. I don't know that we're actually breaking out the individual companies in our K or going forward. It's all part of that entertainment publicity segment. It gets a little tricky for us especially since some of that may cross-sell into different companies depending on what's organic to Viewpoint, but it was a very small contribution since we only had them for two months and much of the work on the videos that they had already had ordered prior to our acquisition were booked before we took control of the company.

Q: Okay. Thanks for that. My next two questions are on The Door's growth. Well, the first part is on growth. Given the new consumer division launched, I think in the past you said that you'd like to hit double-digit or over 10% top line growth for The Door. Given the new division launch, is there potential to accelerate beyond that?

Bill O'Dowd – Chief Executive Officer
Yes. I think it'll almost guarantee the original goal and it's highly possible we'll double the original goal of 10% to 15% double-digit revenue growth for The Door, and in future years it'll significantly accelerate, because we have just finished assembling the team now. It's Nicole plus several publicists with her so we can handle larger accounts. We're very excited for that division. It's a division that we didn't even have when we purchased Viewpoint. So, it really shows how they all interconnect, I hope, going forward.

Q: Got it. On the point about bringing over a whole team for Nicole, does that impact or should we think about that impacting margins in the near term?

Bill O'Dowd – Chief Executive Officer
I think so. We're highly confident in our ability to, I guess, turn the faucet and create margin growth when we're done building or investing in either the teams or the companies. But, in the short term, we're looking at our revenue expansion and the growth of the platform. The way we look at it, we have a very nice platform here with 42West and The Door on the PR side and the first of our service providers with Viewpoint. There are two or three other either service providers we could acquire and/or one or two more entertainment PR verticals that we'd like

to have. And when that platform is finished, when that super group is finished, then the margins will, we believe, expand greatly, but it's taking some short-term investment. Yes.

Q: Okay. Got it. My last question is on the movie and TV segment. Considering it's your, I think, largest individual segment, can you speak to the revenue growth you're seeing there? And qualitatively would you be able to compare this Oscar season to last year's perhaps in terms of total number of projects or billings or anything like that?

Bill O'Dowd – Chief Executive Officer
Sure, yes. It is our largest segment within the entertainment publicity and marketing group. The Oscar season this year was up over 15%—I think almost 20% year-over-year for revenue, which just flows straight through in that segment. So yes, it was significant for us and we hope to keep building on that.

We also may look to increase of the number of television projects we do for both Emmy season and then through the Golden Globes. So, television award season can start as early as September with the Emmys, well before September as you campaign for the Emmys and then carry through the Golden Globes, which many of you may know are awards that honor both television and film. They're in early January and then they really kick off many of the awards nights for the film business through Oscar night.

Q: Got it. Okay. Thanks very much and congrats on the quarter.

Bill O'Dowd – Chief Executive Officer
Thank you.

Operator
Our next question comes from Allen Klee, Maxim. Please proceed with your question.

Q: Oh, hi. So, I understand that 2019 will be an investment year and will create a lot more revenue opportunity longer term. Is there a way to think about expense growth in '19 relative to revenue growth?

Bill O'Dowd – Chief Executive Officer
Well, we're managing towards positive cash and that's our belief, and so we invest from the dollars we're making off the assets that we currently have. But, in terms of actual expense growth versus revenue growth overall factoring in potential acquisitions that would be tougher to estimate.

Q: Okay. And when you say positive cash, what do you mean by that?

Bill O'Dowd – Chief Executive Officer
Taking away non-recurring, non-cash items and depreciation and amortization, we believe like last year we could operate with positive cash.

Q: Okay, great. Thank you.

Mirta Negrini – Chief Financial Officer
Yes. To add to that from what Bill said, with the acquisitions that we have made in 2018 we think that even though we're adding divisions like we talked about the customer products division, those will add revenues, but it won't add a significant amount of expenses other than some payroll costs because we won't need to add office space or other G&A expenses—we'll just be able to use what we currently have.

Q: Great. Thank you.

Operator
We have reached the end of the question-and-answer session. I would like to turn the call back over to Bill O'Dowd for closing remarks.

Bill O'Dowd – Chief Executive Officer
Well, thank you. I mean, I guess just a final thought on a personal note -- it's my 50th birthday today. I can't think of a better way to get to spend it than talking about a company that I'm extremely passionate about and believe in what we're creating. That little recap of the 16 months since we listed on NASDAQ and hopefully 16 months from now this super group will not just be thriving organically and through cross sales, but we may have another member or two of it and I think people will be rightly excited by that possibility.

So, thank you all for joining on the call and taking the time to hear about our results. Look forward to talking again in a few short weeks about Q1. Thank you all very much.