

**Transcript of
Dolphin Entertainment, Inc.
Third Quarter 2019 Earnings Call
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Participants

James Carbonara
Bill O'Dowd – Chief Executive Officer
Mirta Negrini – Chief Financial Officer

Analysts

Austin Moldow – Canaccord
Jack Vander Aarde – Maxim Group

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Dolphin Entertainment Third Quarter 2019 Earnings Call. All lines have been placed on a listen-only mode, and the floor will be opened for questions and comments following the presentation. [Operator instructions].

At this time, it is my pleasure to turn the floor over to your host, James Carbonara. Sir, the floor is yours.

James Carbonara

Thank you, and once again, welcome to Dolphin Entertainment's Third Quarter 2019 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 expectations and assumptions reflected in these forward-looking statements are reasonable, it makes no assurances that such expectations 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 risk factors detailed in the company's annual report on Form 10-K, those contained in subsequently filed quarterly reports on Form 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, event, or circumstances.

Now, I would like to 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, and thanks, everyone, for joining today. As usual, I'll arrange my comments as follows. 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.

On a general note, this past quarter was one of blocking and tackling without an acquisition or big event, but we believe this work in the trenches has set us up nicely for our anticipated success here in Q4 and going forward. So, first up the financial results.

In short, we feel that we are ahead of pace. I'm happy to report that results exceeded consensus expectations for both revenues and earnings per share. Total quarterly revenue increased 4% year-over-year, and nine-month revenue has increased 11%, and this revenue was derived almost entirely from our core segment of entertainment publicity and marketing.

Furthermore, our net income has improved from a loss of \$900,000 and \$0.06 per share in Q2, to a loss of \$350,000 and \$0.02 per share in Q3. On this pace, we anticipate positive net income here in Q4 and going forward, which represents a very important milestone for us. Obviously, our desire for further accretive acquisitions will only accelerate our growth in both revenues and net income.

We attribute this growth in revenues and improvement in net income to the cross-selling of services between members of our entertainment marketing super group. So, this seems like as good a time as any to share updates on those companies and, speaking of cross-selling, during the quarter, 42 West and The Door teamed up to work on the 45th Annual Saturn Awards, which honor the very bests in science fiction, fantasy, and horror entertainment and which took place in Los Angeles on Friday, September 13th, somewhat fittingly, I think.

This work required the combination of 42 West's expertise in talent and entertainment content and public relations, and The Door's experience promoting live events and providing lifestyle branding and social media services. Together, 42 West and The Door led several efforts for the Saturn Awards including public relations, social media, digital marketing, branding, design, and website creation. This project is a perfect example of two of our companies coming together to win a high-profile piece of business because of their joint expertise.

Additionally, in the third quarter, 42 West hired veteran publicist, Jodie Magid Oriol, as a vice president in its New York Entertainment Marketing division. In her new role, Jodie is working closely with Leslee, Amanda, and Entertainment Marketing division presidents, Tom Piechura and Susan Ciccone. Jodie has a fantastic client list of primarily writers and directors which will only strengthen what we believe is the best roster in the business.

Just to give a couple of examples, Jodie's clients include contenders for this year's Oscars in Marielle Heller, director of the Mr. Rogers bio-pic, *A Beautiful Day in the Neighborhood*, starring our very own Tom Hanks; and Charles Randolph, writer of *The Big Short* and the current release *Bombshell* starring Nicole Kidman, Charlize Theron, and Margot Robbie. Jodie has previously served as Senior Vice President, Theatrical Publicity at Lionsgate. We are thrilled to have Jodie with us and know she will be a tremendous asset to our entire organization.

For the company as a whole, 42 West is in its busy season promoting movies and television series. On the movie side, again, just to name a couple we have director Roland Emmerich and his Lionsgate release, *Midway*, out in theaters now which opened to Number One in the box office this past weekend, as well as *The Irishman* coming soon on Netflix, directed by our signature client, Martin Scorsese. Fingers crossed definitely for Best Picture and Best Director nominations for that film.

On the television side, some high-profile work would include the second season of *Jack Ryan* on Amazon as well as multiple new series on Apple TV which launched last week. You may have seen an announcement or two about that one.

We are particularly excited about the launch of additional streaming platforms. As many of you know, up until last week, there were three major streaming platforms in the United States: Netflix, Amazon, and Hulu. Two major competitors launched in the past week, Apple TV and Disney+, and another two are scheduled to launch next spring, HBO Max and Peacock from NBC Universal. That means that the streaming landscape will increase from three platforms to seven in less than a year. All of the competitors will be spending billions of dollars each on original programming, in some cases more than \$10 billion, in an attempt to gain subscribers.

Of course, this strategy will only work if the potential new subscribers actually know about such new programming and which platform is showing it, which in one sentence explains the organic growth in our business. Simply put, somebody has to promote all this new, original content to the consumer. We believe that 42 West is uniquely positioned to capitalize on this arms race between the streaming platforms, as the popular press likes to describe it. It should also be noted that all of this additional marketing is only just beginning.

As mentioned a moment ago, two new entrants only launched this past week, and two more don't even launch until next year. Thus, all of the revenue growth we've experienced this year has come without the benefit of these new streaming platforms operating at full throttle. We feel we have a long runway of organic growth ahead of us.

Let me switch gears now to The Door, which is doing fantastically well for us. Our big news here for the quarter is our expansion into the South Florida market with our Miami office, which is also home to Dolphin Entertainment's headquarters. As many of you know, The Door's headquarters are in New York City, and the agency also has locations across the country in Chicago, Los Angeles, and Nashville. The Door's growing roster of clients in South Florida already includes numerous signature clients including two separate restaurant groups, and the office is already profitable for us.

The new office is led by Vice President, Luciana Salame. Luciana is a Miami native, like myself, who has a decade of experience with national public relations and marketing campaigns specializing in the hospitality industry, leading client engagements such as the South Beach and New York Wine and Food Festivals; James Beard award-winning chefs such as Vivian Howard and Kelly Fields; esteemed restaurateurs such as Keith McNally and his restaurants, Pastis, Augustine, and Morandi; Flour Shop, home of the exploding sprinkle cakes; and David Chang's fast-casual fried chicken chain, Fuku, among several others. Congratulations, Luciana, on a fantastic launch in an important new market for us.

Moving to Viewpoint, the third quarter is the low quarter of the year given the seasonality of their traditional television business. As we expand Viewpoint's client roster in the coming quarters to include more work outside of the traditional September to May television cycle, we will reduce the seasonality. As noted on our second quarter earnings call, our goal with Viewpoint in the next year is to move them from a client mix of 75% entertainment clients to one of only 50% pure entertainment clients.

With that sector mix, we can greatly reduce the swing in Q3 revenues that it typically experiences. We're already seeing that here in Q4. We are launching some marketing initiatives to introduce their work on a larger scale within the consumer, biotech, and medical industries, as also mentioned on our second quarter earnings call. More to come there in the coming quarters.

Moving onto the M&A front, we remain confident we'll have another acquisition done before the end of the year. As we've highlighted repeatedly on past earnings calls, our goal is to have all six core competency companies of a super group acquired within 2020, and completing the super group is our top priority since we believe it will

accelerate revenue growth even further due to the cross-selling of services amplifying exponentially as the number of sister companies increase.

In other words, instead of having three companies each cross-selling with two other companies, we will have six companies each cross-selling with five other companies. Thus, we believe that completing the super group is more than just doubling the number of companies we have. It is a huge revenue and operating margin accelerator.

Secondly, of course, having a complete super group will allow us to expand confidently in 2020 into more direct ownership of assets which we can market, such as live events and film and television production.

Thank you, all, again for your time and attention. As you might imagine, we remain excited here at Dolphin, and it's always a good feeling to come in ahead of consensus expectations on the financial side, which seems like a good segue to turn it over to Mirta for a more in-depth review of our financials.

Mirta Negrini – Chief Financial Officer

Thank you, Bill, and good afternoon. As Bill stated earlier, total revenue increased by 4% to \$5,940,440 for Q3 as compared to the same period in the prior year. The majority of the revenue was derived from our entertainment publicity and marketing segment.

Revenues from our content production segment were approximately \$8,000 in Q3 of 2019, and we did not have any revenues from content production in Q3 of 2018. As we have previously discussed, revenues of a film are primarily earned right after the release of the film, and the decrease in revenues is part of a normal revenue cycle of a motion picture.

Overall expenses increased by approximately \$1.1 million. Direct costs increased by approximately \$1.2 million for the three months ended September 30, 2019 as compared to September 30, 2018. The increase is primarily due to an impairment of capitalized production costs related to *Max Steel* of approximately \$700,000, and direct costs related to Viewpoint that was not included in the consolidated statement of the company in Q3 of 2018 as we acquired them in October of that year.

Payroll costs increased by approximately \$300,000 primarily due to additional hires at The Door, and the payroll costs of Viewpoint that were not included in the Q3 2018 numbers.

Our operating loss for the quarter of \$1.4 million includes impairment costs under the caption direct cost of approximately \$700,000, as discussed before, and non-cash items from depreciation and amortization of approximately \$500,000 as compared to an operating loss of approximately \$500,000 for the quarter ended September 30, 2018 including \$600,000 of non-cash items from depreciation and amortization.

Net loss for the quarter ended September 30 2019 was \$350,831 or \$0.02 of basic loss per share based on 16,071,891 weighted-average shares and \$0.05 diluted loss per share based on 19,847,935 weighted-average shares. This compares to net income for the quarter ended September 30, 2018 of \$180,145 or \$0.01 for both basic and diluted earnings per share based on 14,565,766 weighted-average shares outstanding.

We should note that we had an \$819,451 tax benefit in Q3 of 2018 and did not have tax expense or benefit in the current quarter.

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?

Operator

Thank you. The floor is now open for questions. [Operator instructions]. Our first question comes from Austin Moldow from Canaccord. Please state your question.

Q: Hi. Thanks for taking my questions. My first one is on top line growth for the individual publicity segment. I'm wondering if you can just give a little context to how your three main divisions are growing, 42 West, The Door, and Viewpoint growing year-over-year on a pro forma basis. I know in 42 West's case, in particular, I think this is the first quarter you're sort of lapping the old talent headwinds, so if you could just talk about how that year-over-year growth is trending, and if you expect it to maybe turn around this quarter or next quarter maybe.

Bill O'Dowd – Chief Executive Officer

Yes, sure. Happy to. The third quarter last year continued the talent headwinds, I guess you'd say. It was throughout that entire quarter that we dealt with that issue. So, we're really happy with the results of continued increased revenues as a whole given the unfavorable comparison.

We are growing with our talent department at 42 West. We're happy. We've hired in the last 12 months effectively five, six new talent publicists, senior publicists I should say, promoted a couple of deserving publicists as well on top of that. We feel good about it, and it will contribute to the double-digit growth we expect for next year like we have, and are experiencing through nine months of this year.

The Door is just doing fantastic. It's just great, and the revenue growth there is solid, and their contribution—well, they're already profitable, but their contribution will increase next year as we get the payoff of the consumer division that we've invested in heavily this year in full in 2020.

Viewpoint, we haven't had them integrated for even a full year yet. They're doing a great job getting efficient for us. They're obviously the reason we have so much higher direct production cost this year than we've ever had before because of their business, but we think that as they continue to integrate into the sales process, they're going to be a valuable contributor both top line and bottom line next year.

I guess I should go back on 42 West as a whole. We need to talk about their movie division. It just continues to roll. Great signature clients. Adding Jodie this past quarter will just continue to make it very difficult for anyone else to argue that they have a better movie division than we do.

Q: Great. Thanks. I wanted to ask if you can—is there any way to quantify the work you're doing with new streaming services, maybe in how you did with them last year and how you're doing this year with the launch of new ones? I imagine even though the two new ones only launched recently, they probably had to do a little marketing in the run-up to the launches as well. If you could comment on that, that'd be great.

Bill O'Dowd – Chief Executive Officer

Sure. That's a very prescient comment because as I put in my general comments, I think the general public is understanding what the entertainment community has seen coming since you could argue Bob Iger in 2015 or 2016 with Disney that there's going to be a real competition in the streaming space.

As I was trying to indicate in my comments, while the general consumer is starting to feel it now, especially in the past seven days where you can't escape the launch of Apple TV or Disney+, the real heavy-duty marketing for those services is only just now starting to ramp up. Those services haven't even begun to spend anywhere near what they're going to on a go-forward basis for next year or the year after and the year after that. And, we're still missing two new entrants in the market—very big entrants—HBO Max and Peacock from NBC Universal.

So, the early part of this year, the first half of this year, we're experiencing this double-digit revenue growth organically without the help of those additional customers. We are working with those new streaming platforms, and we'll be working with at least one of the two that launch next year.

So, I think the movie division could really singlehandedly help us generate double-digit revenue growth across the whole company, knock on wood as we say that. I think also it's important—most people would assume this. Those services aren't launching at full rollout, meaning they're not launching 15 new series a quarter upon launch. They're going to ramp into that, and as they do, and as Netflix continues to increase its annual programming spending every year, challenging others to keep pace, there's just going to be a tremendous amount of new content being produced, and someone has to promote that to make sure that the consumer knows not just that the program exists, but on which platform it exists.

Q: Got it. Last quick question. Your comment on positive net income, is that dependent on M&A happening in the near future, or is that on an organic basis?

Bill O'Dowd – Chief Executive Officer

We believe on and we expect on an organic basis.

Q: Okay. Thanks very much for taking my questions.

Bill O'Dowd – Chief Executive Officer

Sure.

Operator

Our next question comes from Jack Vander Aarde with Maxim Group. Please state your question.

Q: Hi, guys. Nice quarter. Just a few questions from me. Bill, you talked about the production side of the business and where that's heading with these new streaming player entrants, and that's still even kind of early stage. I noticed that content production did contribute, while a small amount, it did contribute to revenue this quarter. I'm just curious to know, was this anything new, or was this revenue flow through from *Max Steel* and the ancillary market channels?

Bill O'Dowd – Chief Executive Officer

That's right. It was ancillary revenue on *Max Steel*.

Q: Okay. Got it. Then, you talked about how you could see production really ramping up as you go forward maybe leading to double-digit growth for the whole company. Is there any sense of granularity you can provide on a quarterly basis for your expectation of how content production revenue could shape up as we go into 2020 on a quarterly basis?

Bill O'Dowd – Chief Executive Officer

Sure. I apologize if I wasn't clear. I was commenting about the movie division at 42 West, the promotion of movies and streaming services programming which can include original movies and series because of the organic growth we expect from, knock on wood, having access to seven streaming services as potential clients, and several which already are clients.

As we look at our own content production in 2020, and as we want to get into that and use our collection of assets across all of our companies, we are and remain excited by that. We've been developing towards that, and as we also look to strive to finish this, our next acquisition, as soon as possible, and finish the super group as soon as

possible because it's that organic chemistry between those companies that will just set us on a great path of a long runway of continued revenue and net income growth, we're prioritizing finishing those and expect to start the production, our own original productions either commensurate with that or maybe just before we finish the super group. I think our original production revenue will wait toward the second half of next year rather than the first because we want to use our capital to complete the super group.

Q: Got it. That's helpful. Thanks for the correction on what I misheard from your earlier comments. Mirta, I want to revisit your comments on the direct costs. Did I hear correctly that those included \$0.7 million of impairment from *Max Steel* for this quarter?

Mirta Negrini – Chief Financial Officer

Yes, so what happened was we entered—I don't know if you remember from other quarters that we had a prints and advertising loan that we had taken to cover the cost of releasing the film of *Max Steel*, and we entered into a revenue participation agreement with the creditor of that loan in which we agreed to exchange up to \$900,000 of future revenues of *Max Steel* for extinguishment of that loan.

There's no guarantee that we will have any future revenues of *Max Steel*, but they will get the first \$900,000. So, at that point, we had to test for impairment on deferred production costs and decided to write those off. We also got a gain on the extinguishment of about \$700,000 as well.

Q: Okay, got it. That's helpful. Then, I guess just to follow-up from that. Going forward, where would you see a normal run rate for what you'd expect for direct costs for Q4 and then on a quarterly basis thereafter?

Mirta Negrini – Chief Financial Officer

I think from the—we will have very little direct costs coming from the content production, so I think you can expect that on the entertainment publicity in the quarter we'll be somewhere between I think \$1.2 million and \$1.5 million of direct costs.

Q: Okay, got it. Then, my last question, Bill, I just wanted to revisit The Door in the new Miami office. It sounds pretty exciting. It's impressive that you guys are already profitable, I believe you said, in that office. Does that include the two clients you mentioned, I think restaurant clients? Will they be contributing to Q4? So, should I see a significant, relatively at a smaller basis, a significant sequential contribution from The Door in Q4 relative to this Q3?

Bill O'Dowd – Chief Executive Officer

Yes, I would say so. They're just doing great, and we couldn't be more proud of the team, Charlie, Lois, the whole group over there. We have so many different growth initiatives with them, and it seems like we're firing on all cylinders, Miami's launch just being one of them. Common business sense tells you it usually takes time to ramp up a startup office, right, an initial office, but in Miami, we launched it in effectively August, and had enough clients to be profitable going into the fourth quarter. So, it's exciting times for us with The Door's business.

Q: Great. That's helpful, and that's it for me. Great quarter, guys.

Bill O'Dowd – Chief Executive Officer

Thank you.

Operator

That was the final question.

Bill O'Dowd – Chief Executive Officer

Okay. Well, thank you, everyone, for joining us today. Despite my froggy throat, we're very excited over here at Dolphin. We look forward to a good fourth quarter, and fingers crossed and knocking on wood, we can continue to pursue our acquisition strategy with success.

So, thanks, everyone, for joining with us today, and we'll talk soon.