

Transcript of
Dolphin Entertainment, Inc.
Third Quarter 2020 Earnings Call
November 16, 2020

Participants

James Carbonara - Hayden IR
Bill O'Dowd - Chairman & Chief Executive Officer
Mirta Negrini - Chief Financial Officer & Chief Operating Officer

Analysts

Albert Kim - Maxim Group, LLC

Presentation

Operator

Greetings and welcome to the Dolphin Entertainment Third Quarter 2020 Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to Mr. James Carbonara with Hayden IR. Please proceed, sir.

James Carbonara - Hayden IR

Thank you, and once again, welcome to the Dolphin Entertainment Third Quarter 2020 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 the 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, contained in subsequent 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, events 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 - Chairman & Chief Executive Officer

Thanks, James, and thanks everyone, for joining today. As usual, I'm going to start by highlighting some top-level financial results, and then providing some operational updates before turning it over to Mirta to dive deeper into our financial results. And of course, we'll take questions at the end.

Okay, so let's start with the financial results. Well, the obvious headline is that they were better than expected. Revenue grew 23% from Q2 from just under \$5.2 million to just under \$6.4 million. This also represents a 7% year-over-year increase.

More importantly, operating results show a loss of \$493,185, which included non-cash expenses from depreciation/amortization of \$514,097. This represents an improvement by over \$900,000 from Q3 2019.

Lastly, our net loss was less than \$150,000, which obviously also included the non-cash depreciation and amortization expenses of just over \$500,000, I just mentioned, among other non-cash items Mirta will share in a more detailed analysis. All 3 metrics, revenues, operating income, and net income exceeded both our own internal and analyst expectations.

Simply put, we are blessed to have the best PR firms in the entertainment industry, in our Super Group, and they are more than holding their own during the pandemic. And all of this, while new movie releases are not available in theaters and the restaurant industry has faced severe challenges.

At the end of the day, quality matters. It really, really does. And we've got 3 world-class PR firms. We believe we're the only company in America, let alone the only company on NASDAQ, that has more than one PR firm listed in the Top 50 Most Powerful PR Firms in the United States. And in tough times, it's great to have people that are the best at what they do, playing on your team. And our numbers reflect that more than anything else.

And speaking of quality, the other headline to our third quarter was the acquisition of leading influencer marketing firm, Be Social. As noted on our Q2 earnings call, bringing social media influencer marketing into our Super Group was the single biggest goal for Dolphin Entertainment this year.

We want it to be able to design and integrate social media influencer campaigns for our clients, and combine them with our world-class PR capabilities. Simply put now, with Be Social, we can sync promotional calendars online and offline. In a nutshell, that's the basic idea. So Be Social is

a highly, highly strategic acquisition for us. And they, like all 4 companies before them, were our first choice of companies from their vertical. They also are extremely good at what they do. And needless to say, with Be Social in our Entertainment Marketing Super Group, we've already begun cross-selling their services. They were an immediate plug and play across all 3 of our PR agencies. To say that our publicists were happy to add these capabilities would be a vast understatement. Let's just leave it that we're very enthusiastic about this acquisition. It's precisely the next vertical we wanted to add to our Super Group, and the staff and capabilities of Be Social are everything we hoped they would be.

With all that said, I'll segue to operational updates at each of our 5 subsidiaries in order of acquisition. So let's start with 42West. Well, what can I say? The awards just keep rolling in validating 42West as the cornerstone we knew they would be when we uplisted to NASDAQ 3 years ago. Here is the latest.

Last month, Forbes created an inaugural ranking of America's best PR firms. We did not submit ourselves for consideration, because we didn't even know that this was going on. To develop the list, Forbes surveyed more than 12,700 experts and 20,500 customers, who nominated more than 5,000 PR firms nationwide across all industries, 5,000 firms.

Participants were then asked to indicate how likely they were to nominate a particular agency on a scale of zero very unlikely to 10 very likely. Forbes then narrowed the list of the top 200 for recognition with either 4 stars or 5 stars. 42West is one of only 108 PR firms to receive 5 stars, placing in the top 1% of all PR firms in the United States.

I'm very proud and not at all surprised that 42West is consistently recognized as one of the best PR firms in the country. Amanda Lundberg and the entire team have built a culture of excellence in everything they do. They are a trusted strategic partner for their clients in these unprecedented times and they worked very hard and deserve their reputation as the very best in the entertainment business. It would be hard for anyone to argue against over 20,000 customers surveyed across the country.

Now, if you think that's worthy of a mic-drop, hold on, it gets better. 1-month earlier 42West had one of the best nights in company history. In the entertainment industry, this was a really big deal. 42West was involved in various capacities with 33 programs and individuals that earned a total of 145 nominations and won 43 Emmy Awards overall.

During the Emmy's broadcast, 42West clients took home more than half of the awards presented. More than half! Among the highlights was Pop TV's Schitt's Creek, which 42West has been representing since 2018. The series, winner of 9 Emmy Awards overall, made history as the first comedy series to win all 7 major awards in the category in the same year.

42West also served as a consultant for HBO, which led all networks by winning 30 Emmy Awards. HBO's winners included Watchmen, which won Outstanding Limited Series and was the most-honored program of the year with 11 wins; Succession which won Outstanding Drama Series and won 7 awards itself; and Bad Education which won the award for Outstanding Television Movie.

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Also 42West's Crafts division represented Amazon's The Marvelous Mrs. Maisel, which received 4 Creative Arts Emmys. So, to repeat, 42West campaigns with clients won outstanding drama series, outstanding comedy series, swept all 7 comedy awards for the first time in Emmy's history, won the outstanding limited series and the outstanding television movie.

Okay, now we can do the mic-drop, right. We certainly believe that this showing establishes 42West at the very pinnacle of television PR just as they have been for film PR for more than a decade. Also, it now means that our awards season extends for 6 months or more of every year, given 42West's leading position with Oscar nominations for multiple years running now.

Switching to The Door, the restaurant business continues to be extremely challenged. Any hopes we had of a meaningful return for this industry by the end of the year have been dashed. Obviously, though, recent positive news of possible vaccines will be very welcome as they will be for movie theater attendance or 42West. However, for The Door, we are focusing on the fact that their hotel business has already started its rebound and that has been great to see.

On the awards front, Condé Nast Traveler 2020 Readers' Choice Awards recognized an amazing 11 of The Door's hotel clients in their hospitality portfolio. These awards are important, because they're the longest running and most prestigious recognition of excellence in the travel industry. This year more than 715,000 Condé Nast Traveler Readers submitted responses rating their travel experiences across the globe to determine the winners.

Having 11 hotel clients make the list puts The Door also at the very pinnacle of what they do. For those who are curious, this year's line-up of winners among The Door brand and hotel clients includes: The Family Coppola Hideaways, Makeready hotels, The Pontchartrain in New Orleans, which is James Carbonara's favorite hotel, Viceroy Hotels & Resorts and Virgin Hotels. Also, the consumer products division of The Door continues to do very well for us, continuing to steadily increase revenues from Q2.

And now we're happy to report that hotels are on their way back. As for Viewpoint, in line with our goal to broaden their client base, they have launched a quarterly earnings report video service just before Q3 reporting and ahead of major Fall and Winter virtual investor events, including the Virtual CES Conference, and the Virtual JP Morgan Healthcare Conference. Basically, Viewpoint is now offering their award-winning, full-service, live-action and animated video capabilities to publicly traded companies looking to add a dynamic visual component to their quarterly earnings presentations.

And PayPal is their first client. I love this offering. I really, really love it. Because whether you're a mega cap, or micro-cap, this offering allows you to speak directly to your stakeholders, and control your own narrative. These videos are short and digestible. They make the most complex of subjects easy to understand, and they are customized for each company. Most importantly, they can be used in so many different ways. Obviously, they are perfect for every social media feed the company uses. That goes without saying, same with every press release, just put the link at the bottom of the boilerplate and in every presentation.

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But the real value comes from the fact that no one knows the company's story better than the company itself. And Viewpoint's new offering allows CEOs to tell their company's story in the most compelling way possible -- through video. For this reason, the initial response to this offering has been extremely promising. We'll certainly provide updates on this product when we speak again with our 10-K.

Turning to Shore Fire Media, they've been busy in Q3 promoting new albums and new music from artists including Bruce Springsteen, in case anybody hadn't heard about the Boss's new album. Is there anybody in the world that didn't hear about that album? That's awesome, if you haven't heard it yet. Margo Price, Elvis Costello, Diane Warren, Kylie Minogue, among dozens of others. So as you can see the promotion of music online has not slowed down.

That has allowed Shore Fire to come very close to pre-pandemic revenues even with the temporary loss of the live event and touring business. Marilyn Laverty and her team have done a really great job. And we're really proud to have them in the Super Group.

Finally for Be Social, as I said before, we have been busy integrating their influencer marketing capabilities into the campaign offerings of each of our PR firms. Also in their core business, they are about to enter a relatively busy time of the year with holiday season. As you can imagine brands use influencer marketing to drive sales during this all-important time of the year. And this year will certainly be no different. We are very, very happy with this acquisition. And we've only touched the tip of the iceberg of what we plan to do together.

On the production side, we still have 2 great projects ready to go. The wedding comedy, Sisters Before Mistrs with Lea Thompson attached to direct and the road movie action thriller, Special Delivery, with Vaughn Stein attached to direct. We're actively making progress on both projects to be in a position to film safely as the production environment evolves. These opportunities, just like the restaurant business for The Door, and the movie theater business for 42West, will be most favorably impacted by the widespread adoption of an effective vaccine. With the recent news from Pfizer and Moderna, we are hopeful we can enter production by next spring or summer.

So in summary, we're very pleased to report a strong performance in the third quarter. On the last earnings call, I shared the momentum that was felt within our companies generally and specifically from the acquisition of Be Social. Well, that momentum is showing up in our numbers. Our revenues are up 23% from Q2, which is a real credit to the skills, flexibility and client devotion of our Entertainment Publicity and Marketing Super Group. Moreover, we are liquid with \$9.2 million of cash in the bank at quarter's end, even after buying Be Social. And we are looking forward to finishing the year very strong.

At this point, I'll now turn it over to Mirta for more in-depth view of our financials.

Mirta Negrini - Chief Financial Officer & Chief Operating Officer

Thank you, Bill, and good afternoon. Revenues for the third quarter of 2020 were \$6,390,653 as compared to revenues in the third quarter of 2019 in the amount of \$5,948,056. Overall, operating expenses decreased by approximately \$500,000 during the 3 months ended September

30, 2020, as compared to the 3 months ended September 30, 2019. Direct costs decreased by approximately \$100,000 for the 3 months ended September 30, 2020, as compared to the 3 months ended September 30, 2019, primarily due to the elimination of certain Viewpoint's fixed cost.

Selling, general and administrative costs decreased by approximately \$70,000, mainly related to a decrease in travel expenses during the 3 months ended September 30, 2020, as compared to the 3 months ended September 30, 2019.

Legal and professional fees increased by approximately \$19,000 for the 3 months ended September 30, 2020, as compared to the 3 months ended September 30, 2019, primarily due to cost evaluation for convertible notes. Payroll costs decreased by approximately \$351,000 during the 3 months ended September 30, 2020, as compared to the 3 months ended September 30, 2019, primarily due to the salary and staff reductions as a result of a decrease in revenues due to the effect of COVID-19.

Our operating loss for the quarter ended September 30, 2020 of approximately \$493,000 includes non-cash items from depreciation and amortization of approximately \$514,000 as compared to an operating loss of approximately \$1.4 million for the quarter ended September 30, 2019, including approximately \$486,000 of non-cash items from depreciation and amortization.

Net loss for the quarter ended September 30, 2020, was approximately \$138,000, or 0 of basic loss per share based on 33,382,027 weighted average shares, and \$0.01 diluted loss per share based on 34,560,054 weighted average shares. This compares to net loss for the quarter ended September 30, 2019 of approximately \$326,000 or \$0.02 of basic loss per share on 16,071,891 weighted average shares and \$0.05 diluted loss per share based on 19,847,935 weighted average shares outstanding.

We should know that during the quarter ended September 30, 2020, we recorded beneficial conversion features on the conversion of 2 notes payable in the amount of \$100,000 that is recorded in the cash and interest expense and debt amortization. We also recorded net gains on changes in fair value of liabilities in the amount of approximately \$454,000. During the 3 months ended September 30, 2019, we recorded gains on changes in the fair value of liability in the amount of approximately \$722,000.

That concludes my financial remarks. I will now ask the operator to open the phone line for Q&A. Operator, can you please poll for questions?

Operator

Thank you. At this time we will conduct a question-and-answer session. [Operator Instructions] Our first question comes from Jack Vander Aarde with Maxim Group. Please proceed with your question.

Q: Hi, great, and thanks for taking my question. This is Albert Kim speaking for Jack Vander Aarde. But first, congratulations on your quarter and solid third quarter performance despite the current environment. If I could just start with Be Social, your latest addition to the Super Group,

I was just wondering if you could provide some color on kind of their performance thus far since the acquisition.

I know you mentioned that they were one of the great drivers of this quarter's revenue. But just digging a little deeper, if there has been any kind of growth due to organic growth, or has it been mostly through cross-selling? And also, finally, if you could provide some perspective into how much further growth is expected, and possible through continued integration and increasing cross-selling their services.

Bill O'Dowd - Chairman & Chief Executive Officer

Sure. Thank you for the kind words, Albert, at the start. Well, Be Social is a tremendously strategic acquisition. Interestingly, we only acquired them on August 16. So they were with us for just under half of the quarter. So they'll contribute even more in future quarters to our results. They're growing organically. It's a fast-growing sector. They're a fast-growing company within that sector, tremendous management team within Be Social, where it gets exponential for us and for them, but all in one family, right, is in addition to their current client roster of brands that use them to run social influencer marketing campaigns.

We will be adding clients from each of our 3 PR firms. All of whom operate in industries that Be Social currently doesn't service. So that's where the spider-web of cross-selling creates exponential growth. We're actively working with Be Social, integrating their offerings into the consumer product offerings of The Door with their brands. We'll be working with 42 West to have Be Social and their influencer marketing campaign support our movie launches.

42 West has a big roster of movies to launch in the first-half of next year, fingers to the sky, right? And, of course, I don't need to tell you how influential online marketing is for music with Shore Fire. So, more good things to come from Be Social, but they're immediately paying dividends for us now.

Q: Okay, all right. Thank you so much. That was helpful. And if I could just switch frames to the overall business, as you mentioned, there has been news about COVID vaccine developments and potential distribution by early 2021, have these announcements made any impact for your expectations in the future regarding like growth and recovery? Or was your expectation kind of already set in mind that around this timeline it was going to recover any better?

Bill O'Dowd - Chairman & Chief Executive Officer

Well, I mean, I think like the rest – thank you for that question. Like the rest of the world, boy, we're all hopeful, right? I'm very proud of the results we just announced, right? We're blessed. We're very fortunate. I mean, back in March and April, what I'm about to say, I would not have thought possible, which is I think it's fairly certain at this point we can state that our revenues in 2020 will be higher than our revenues in 2019. That's an incredible result, that there's no chance any of us thought would have been possible.

And that's a real tribute to the 150 or so people that work within Dolphin. So I don't want to pretend that I knew that that was going to happen 8 months ago. Conversely, I think looking

back in the crystal ball back in April, I think we all would have hoped that the restaurant business for The Door would have been further along by now. It's just not.

As I mentioned in my prepared remarks, the hotel business is coming back nicely. But we've been able to do all of this without the restaurant business at The Door and without movies in theaters for 42 West. When those 2 things can happen and Dolphin can go back into production, we'll really jump, right. So we're all hopeful for a vaccine that will make the consumer feel comfortable and local restrictions to be relaxed around movie theaters and restaurants. And if that were to happen in the spring, all the better. But we're managing ourselves now with the current reality, which is those 2 things are not really available at scale.

Q: That's really great to hear. It's sounding like a very exciting few quarters coming up. And if I could just ask a very final question, I know it might not – it might be early or I understand it's not something you can share yet. But have there been any updates to kind of potential addition to the Super Group to finish off the roster? I think back in 2017 you made remarks about having planned to have 6 businesses in the roster by 2020. So could you give us a little more update on that?

Bill O'Dowd - Chairman & Chief Executive Officer

Sure. Yeah. So it's a question people want to know, I guess, Albert, right? Well, we do want 6 companies in the core group. I stated on the Q2 earnings call that our goal is to have a 6th company inside the Super Group by the end of the year. I still believe that to be a realistic goal. We're working very hard for that.

With that said, as I mentioned on the Q2 earnings calls, at some point, the original 6th company, which is a live event production company, would be one that we'd be looking to add. It still doesn't feel right to us that this is the right time to do that. We're still probably a few months away from having visibility as to when live events will safely return.

But I do think we can add a very exciting company by the end of the year, and then hopefully in a vertical that will be complementary to what we already own. We're very excited for this. And, as I mentioned then just to kind of correlate, when we uplisted 3 years ago, we talked about the initial 3 years being a period of acquiring companies, right, a core group that we could build on in subsequent years.

At the end of the 3 years, then we would start in 2021, looking to own some of the assets that we're promoting. And I think when we transition to that in the next few weeks, then that's the point at which it gets really exciting for the CEOs of our companies, the reason why they joined our Super Group in the first place, and the ability to flex our muscles with some of the things that we choose to invest in.

So in many ways 2021 is going to be the most exciting year of this journey for us, even though so many great things were accomplished in 2020.

Q: All right, that sounds great. Thank you so much. And, again, congratulations on your quarter. That's all the questions I have. Thank you,

Bill O’Dowd - Chairman & Chief Executive Officer

Sure. Thank you.

Operator

Thank you. We have come to the end of the Q&A session. I would like to turn the call back over to management for closing comments.

Bill O’Dowd - Chairman & Chief Executive Officer

Sure, well, that’s quick. Well, I think the only other thing I’d probably say is for those – I know that some technical investors have enjoyed seeing the progress on our balance sheet. Just to kind of circle back on that in Q3, for those following, with the acquisitions we made over the first 2 years of this journey, we had a working capital deficit of a little over \$15.5 million on December 31. That working capital deficit as of September 30 is now down to \$2.4 million, less than \$2.4 million. That’s over \$13 million improvement obviously. In addition, that includes current liabilities or lease liabilities of \$1.8 million. So we’re very, very close. And I would expect that we turn that around in the first quarter to next year finish that trajectory.

In addition, we’re sitting on \$9.2 million in cash at quarter’s end. That is after we purchased Be Social. So we’re feeling very strong. Our results have consistently improved quarter to quarter, and we’ve beaten both our internal and consensus analyst expectations in every major metric. So we feel very blessed. We hope the last 6 weeks of the year finish as strong as our journey to this point.

And I appreciate everyone coming to the call and listening. It will be a long stretch before we speak again at the K. So we’ll make hopefully a couple of nice announcements in the interim. And look forward to speaking again soon. Thank you all very much for your time.

Operator

Thank you. This does conclude today’s teleconference. You may disconnect your lines at this time and thank you for your participation and have a great day.