

**Transcript of
Dolphin Entertainment, Inc.
Second Quarter 2019 Earnings Call
August 13, 2019**

Participants

James Carbonara – Hayden IR
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 Dolphin Entertainment’s Second Quarter 2019 Earnings Call. All lines have been placed on a listen-only mode, and the floor will be open for questions and comments following the presentation. [Operator instructions].

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

James Carbonara – Hayden IR

Thank you, good day, and once again welcome to Dolphin Entertainment’s Second 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 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 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 statement 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 – 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.

First up, the financial results, I'm happy to report that total revenue increased 20% year-over-year to \$6.3 million, and that this revenue was derived entirely from our core segment of Entertainment Publicity and Marketing. As such, it represents a year-over-year increase of 23% for that segment as well as the new record for that segment, obviously. As you might imagine, we are very pleased with our revenue growth, which was higher than we had anticipated, which I can explain.

As we mentioned in our earnings release, there's seasonality in our movie marketing business with Q2 representing the low point in any given year, as it is the only quarter without any awards business. In other words, there are no Emmy campaigns, nor any for the Golden Globes or Oscars. Thus, for Q2 revenue to be better than Q1 and to improve by 23% from the prior year for the EPM segment shows the power, we believe, of the revenue diversification we are achieving with the creation of our Entertainment Marketing Super Group. And as stated in our Q1 earnings release and on our Q1 earnings call, we are managing toward revenue growth in 2019. We are very happy with 23% year-over-year growth.

On the bottom line, our Q2 operating loss excluding depreciation and amortization expenses was entirely the result of the seasonality I just mentioned of revenues in our movie marketing division. With the return of awards season in Q3, we expect continued revenue growth and a much stronger bottom line for the rest of the year, even as we invest in additional personnel, such as the consumer products' PR team at The Door.

And speaking of 42West's movie division, I'll start my operational updates there. Our awards season is lining up very nicely. We have a lot of projects that are awards contenders, including a Tom Hanks' biopic on Mr. Rogers entitled *A Beautiful Day in the Neighborhood*, and a Meryl Streep movie about the Panama Papers called *The Laundromat*. Both of those movies will have red carpet screenings at the Toronto Film Festival. And we have several other projects there, which along with the overlapping Telluride and Venice Film Festivals represent the kickoff of the awards business on either side of the Labor Day weekend.

Also, we have started the conversations with multiple new streaming platforms scheduled to launch either later this year or next year. Without naming them for obvious reasons, I can say that we've had several meetings for sets of individual projects from those platforms, which should create organic revenue growth for the movie and television division in 2020 and beyond, even excluding the growth in our awards business.

In the second quarter, we also added another senior talent publicist who brought a good client list of Broadway film and television stars, including Stephanie J. Block who won the Best Actress Tony award this June for her role as Cher in *Cher the Musical*, as well as highly regarded actor Ben Platt, the lead of the new Netflix series, *The Politician*, from acclaimed show runner Ryan Murphy. Ben may be most well-known for winning the Tony award himself for his leading role in *Dear Evan Hansen*.

Turning to The Door, we saw continued organic growth in the quarter. While we are speaking directionally and do not break out specific numbers, I can say that revenue growth is extremely strong, and that is without the consumer products division that we've invested in during the first half of this year kicking in yet. We expect the first consumer products clients to sign in the second half of this year, which will only accelerate revenue growth in 2020 as well. And with the investment already have being made, those revenues will fall straight to the bottom line relative to Qs 1 and 2 of this year.

Moving to Viewpoint, they also a good second quarter with an increase in revenues and operating margin. Our work for that company over the next 12 months will be to adjust from a roughly 75/25 revenue mix between entertainment clients and corporate clients to closer to 50/50 next year. We will do that in part by cross-selling business from the consumer products division at The Door, which is a great example of sales synergies between the companies.

Additionally, Viewpoint signed a very large multibillion-dollar biotech company in Q2 as a client for various videos and internal podcasts, and we feel that industry holds a lot of potential for corporate video work. In the biotech space, both sales and investment presentations are significantly aided by strong explainer videos, as we call them, which can use a combination of graphics and animation to actually show what the technology or medicine is doing. Those are tough concepts to get across in just text. And since Viewpoint is based in Boston, which is home to almost 1,000 biotech companies ranging from small startups to billion-dollar pharmaceutical companies, we feel there is a large addressable market right in Viewpoint's backyard.

So, moving on to the M&A front, we are confident we'll have another acquisition done before the end of the year. Our goal is to have all six core competency companies of the Super Group acquired within 2020. And sitting here today, we believe we are on schedule with first choice companies identified and engaged in two of the three remaining fields. Completing the Super Group is our top priority. We believe reaching that goal will accelerate revenue growth even further as the cross-selling of services will amplify exponentially as the number of sister companies increase.

Instead of having three companies each cross-selling with two other companies as we have now, 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. And secondly, of course, having the 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.

Well, thank you again for your time and attention. It's definitely fun to announce record revenues for two straight quarters, and fingers crossed, we'll be able to make it three straight in November. At Dolphin, we feel that momentum and hope to accelerate it even further with another acquisition before year's end.

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, total revenue increased 20% to \$6,273,983 for Q2 as compared to the same period in prior year. We derived the majority of our revenues from our Entertainment Publicity and Marketing segment. And in Q2, that was 100% of our revenue. Our Entertainment Publicity and Marketing revenue increased by 23% for Q2 of 2019 to the same \$6,273,983 as compared to the same period in prior year. The increase was due to the revenues of The Door and Viewpoint, which more than offset the seasonality decrease in our 42West division.

Revenues from our Content Production segment were zero as compared to \$97,961 for the same period in the prior year. The decrease is primarily due to the normal revenue cycle of our motion picture *Max Steel*.

Overall expenses increased by approximately \$2.3 million. Within the \$2.3 million increase, direct costs increased by approximately \$1 million for the three months ended June 30, 2019, as compared to the three months ended June 30, 2018. The increase is primarily due to the direct costs associated with the operations of Viewpoint. Also, within the \$2.3 million increase in expenses, payroll expenses increased by approximately \$0.6

million for the three months ended June 30, 2019, as compared to the three months ended June 30, 2018. The increase is due to the addition of payroll from The Door and Viewpoint.

Our operating loss for the quarter of \$1.2 million included direct costs of \$1.3 million and noncash items from depreciation and amortization of \$478,560 compared to operating income of \$69,267, which included direct costs of \$295,765 and noncash items from depreciation and amortization of \$375,163 in the prior year.

Net loss for the quarter ended June 30, 2019 was approximately \$0.9 million or \$0.06 of basic loss per share based on 15,969,926 weighted average shares and \$0.06 diluted loss per share based on 19,172,087 weighted average shares. This compares to net income for the quarter ended June 30, 2018 of \$170,474 or \$0.01 basic share earnings based on 12,349,014 weighted average shares and \$0.01 diluted loss per share based on 14,032,001 weighted average shares fully diluted.

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. Go ahead, Austin.

Q: Congrats on the quarter. Thanks for taking my questions. If possible, could you provide the Viewpoint revenue contribution, and maybe talk about the kind of attach rate you're getting from your clients in 42West and The Door that you've been able to do Viewpoint projects for?

Bill O'Dowd – Chief Executive Officer

Yes, to utilize Viewpoint's services on? Yes, sure. Hi, Austin. We don't break out the revenue by company, but Viewpoint has successfully integrated into the sales pitches of The Door almost fully at this point and still a little bit more work to do on the 42West side.

With that said, I think it's easy to say it's more than a weekly occurrence of joint pitches that utilize Viewpoint services at The Door. The consumer products team at The Door, led by Nicole Lowe, utilizes the ability to have corporate video on a regular basis in the pitches for the new business. So, it's almost assumed as I may have mentioned on the last earnings call. So, I'd say that integration's pretty complete.

And, we're starting to see a little bit of it going the other way where even Viewpoint, as they get called for some of their video services, could lead into clients for The Door on the consumer products side. But it's mostly The Door attaching Viewpoint at this point.

Q: Great. That's really helpful. I know last quarter you kind of gave a little bit of context on how the Oscar business year-over-year had impacted your quarter, maybe that was Q4. Can you talk about how maybe the Emmys awards season is shaping up on a year-over-year basis?

Bill O'Dowd – Chief Executive Officer

Sure, yes. And to that point, I mean, we're quite excited over here because Q1 was a very strong quarter. It set a record at the time and the extra push on that was the phenomenal year that 42West had on the awards business for the Oscars or films in general, from Golden Globes through the Oscars. So, it was a very tough comparison for Q2 where we don't have any awards business on the motion picture side and the lifeblood of the independent film business is slowest in April, May and June. I mean, you have *Avengers* coming out, and the summer tent pole season, remember when it started on Memorial Day? Well, that's long gone. Forget May 1st, it's starting the last week of April.

So, to have the same three companies beat the first quarter without that movie business, in its lull for the year, is remarkable to us. It really is showing how the cross-selling and the synergies are working as we believed they would, as we knew they would, and how it's happening. And again, this is just three companies cross-selling. Imagine when it's six cross-selling each other.

But, with that said, the Emmy business is lining up nicely. Also, to answer your question directly on that, we do have a strong presence at the Emmys.

But, really, as much as the Emmys are important in September, the biggest factor of September is the launch of the film campaigns. Because the films that come out of Telluride, Venice Film Festival and Toronto, those are the launching pads. I think some crazy number of nine of the past ten Best Picture winners launched at one of those festivals, if I'm not mistaken. It might even be ten out of ten. So, signing those films, the campaigns start right away, carry through the fall and into Oscars in February.

So, the dual combination of the film business and the Emmys in September will help the third quarter for sure.

Q: And as it relates to your EBITDA loss, I know the commentary was about it being directly linked to revenue, but wondering if there is any bit of that that's due to hiring in The Door, 42West talent and Viewpoint sales that you commented on last quarter. And if that is the case, can you talk about how far through that initiative you are, if you'll be adding more, if you're kind of at the right size for those teams?

Bill O'Dowd – Chief Executive Officer

Sure, happy to. Yes, it's that combination of we knew the second quarter has a dip on the movies side. Mind you, we're still up 23% year-over-year and up from Q1, but we wanted to make those investments in personnel. And as we manage towards that revenue growth for this year and keep the bottom line as close to zero as we can, the second quarter will be the dip, but just like we had in the first quarter with much better bottom line. We'll have that back here in the third and fourth.

With that said, the real reason is we're investing in personnel. Like the consumer products team we mentioned in the first quarter at The Door, you still pay those people in the second quarter, and the third and the fourth. So those investments in personnel—we hired new publicists at 42West in the second quarter, we're going to continue to do that. We have hired already in the third quarter. So, it will carry through this year.

We have a lot of opportunities to bring in really great senior publicists. I believe you commented that the two largest competitors to 42West just merged under Interpublic Group, Rogers & Cowan and PMK. There has been a displacement or an opportunity with several senior publicists. We'll take that opportunity for the right people, and that's an investment this year that will only accelerate revenue growth and profits next year.

So, we like 23% year-over-year. We'll see how close we can continue to get to that number and then consolidate for operating margin for next year.

Q: And my final question, just a quick one, if you could update on your outlook for your Content Productions slate? What's the timing on that, do you think?

Bill O'Dowd – Chief Executive Officer

Sure, and I will answer that, and I completely forgot to mention because you had led into it, too, yes, the additional costs in the second quarter around direct production costs—that's what made me think of it when you said that—related to Viewpoint. So, you can see the spike on the expense side of the direct production costs year-over-year. That's because we have the Viewpoint business and it's going well. So, you expense towards that in the

second quarter. Those investments are paying off with the revenue growth and will pay off in margin when we stop making those investments or at the same speed we're doing it now.

On the production side, well, Toronto's kind of a kickoff for us. We have the scripts ready. When we spoke last obviously at the Cannes Film Festival, we have the continued conversations at Toronto to find the matching finance money on the individual projects. We're excited for it. And if all goes well, we'll stick to the timing that we've outlined before, late this year, early first quarter next year for that.

Q: Thanks very much, and congrats again.

Operator

And our next question comes from Allen Klee from Maxim Group. Go ahead, Allen.

Q: This is Jack Vander Aarde on for Allen Klee, just a couple of questions for me. I'll start by saying congrats on the strong quarter. Revenue growth was very strong. I was wondering if you can provide—I think someone was trying to probe for it, but what percentage of the revenue 42West represented during the quarter?

Bill O'Dowd – Chief Executive Officer

Yes, I wish we broke it out for you guys, but they are growing and we're excited for that. We're replacing brick by brick on the talent side. And obviously, the movie division is growing year-over-year, but it's a dip in the second quarter just relative to the first, third and fourth.

Q: Then between The Door and Viewpoint, which I suppose the strength in those two businesses offset 42West or any softness from that business, so can you maybe share which of those two businesses positively surprised you the most in terms of the revenue contributed, relative to what your expectations were for each of those businesses heading into the quarter?

Bill O'Dowd – Chief Executive Officer

Sure, I'll be happy to. And just to clarify, the movie division of 42West is very strong. It's just the seasonality of that business was the normal result. The talent division of 42West is growing quarter-over-quarter ever since last summer. So, we like that, the progress of that rebuild. Leslee Dart and her team have done a phenomenal job there.

You love all your children equally, Jack. I'm not a father, but I hope to be one day. With that said, you give them a strong pat on the back when they're doing well. And I think special kudos need to go out to Charlie and Lois at The Door. The Door is just a phenomenally well-run company. The culture there is phenomenal. I think that contributes to their success. Every single month this year is up substantially from the same month last year, and by the way, last year set a record for them. So, the momentum at The Door is very strong, and that's both the revenue and bottom line, and that is without the consumer products really kicking in yet. The investments we're making this year in that team and the personnel is going to just further accelerate that company. The Door's been phenomenal.

And also, with their integration with Viewpoint being complete, that went ahead of schedule. I think that's going to help both those companies even further. So yes, I would say that.

I know I made this point in the prepared remarks but when you think about the second quarter which ended on June 30 last year, we only had 42West. And you can't cross-sell with yourself. So, it's been less than 12 months from June 30 that we've been able to bring in The Door at the start of the third quarter, bring in Viewpoint somewhere middle of the fourth quarter. It takes time to integrate, to bring in these companies and learn how to cross-sell with each other. It's the tip of the iceberg. It's the start of the process of this type of revenue growth

when you can cross-sell. And three companies that can cross-sell with two sisters is great. But when you have six companies that can cross-sell with five sisters each, by definition, you should be in a stronger place for even further accelerated revenue growth.

So, what we feel, we feel that the second quarter and the first quarter proved the thesis. Only 18 months ago or so, we said we believe that with 42West we could acquire other companies in the entertainment market space; that they would want to join a group that they could cross-sell with 42West. And we felt on our K call that we proved that by being able to bring in The Door, which is a phenomenal company, and Viewpoint. And I think here at the midway point of this year, certainly another strong quarter like this, I think people will understand or see how you can accelerate revenue growth when you can cross-sell. And if we achieve our goal of having a fourth company before the end of the year, having companies five and six locked in next year, if not sooner, then it's going to be a phenomenal accelerator for us.

Q: That's great. Okay, thank you for that color, too. And then just lastly, I think you guys mentioned that you hired another talent publicist during the quarter. Can you share how many publicists are currently employed, and then how many you expect to add, I guess, for the remainder of the year or the next 12 months or so?

Bill O'Dowd – Chief Executive Officer

It's becoming a distant memory, and we like it that way, but the departure of the talent, several talent publicists from 42West last summer and into the early fall is behind us. I think I said that both on the K call and the Q call, first quarter, which is great. We added four publicists last fall. We added another one this spring, another one now. So, I imagine the combination of us being aggressive and looking for the right people, combined with the dislocation that's occurring in the market, I imagine we'll be adding another handful in the next—I don't know if by the end of the year, but certainly in the next few months.

Yes, we'll continue to invest with the opportunity in front of us for good publicists, good senior publicists, while we continue to invest in the consumer products team at The Door.

Q: Great. Thanks, again, and congrats on the quarter.

Operator

[Operator instructions]. There appear to be no further questions at this time. I'd now like to turn it back to the management. Thank you.

Bill O'Dowd – Chief Executive Officer

Well, thank you. I appreciate everyone joining us. Obviously, like I said in the prepared remarks, it's fun to do calls with these types of results. I'm appreciative to all the stakeholders in the company, as we're building this. We feel that momentum, as I mentioned, very much. A lot of excitement around some of the big clients we're going after and some of the new opportunities because we have the capabilities to do that. I think you'll see more of that.

And as you look for milestones out of us, please look for those announcements of the next acquisition and hopefully another great quarter. So, thank you all very much for your time, and we'll talk again after quarter three. Bye, everyone.