

James Carbonara - Investor Relations, Hayden IR

Thank you. And once again, welcome to Dolphin's second quarter 2022 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 statement 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 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 risk factors 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 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 - Chief Executive Officer, Dolphin Entertainment, Inc.

Thanks, James, and hi, everyone. Good afternoon and thank you for joining us today. As always, we'll start with a review of some financial and operating highlights followed by a full financial review and then we'll open it up for Q&A.

So, starting with the financials, Q2 revenue of \$10.3 million represented a 19% increase year-over-year.

Six-month 2022 revenue was \$19.5 million, up 23% year over year.

That's all organic revenue growth, coming from our Dolphin 1.0 business of entertainment marketing.

We continue to believe Dolphin is positioned to exceed \$40 million in annual revenue for 2022 and to generate a larger EBITDA profit in 2022 versus last year.

Turning to key profit metrics, operating income was \$587,000. This includes non-cash items from depreciation and amortization of \$415,000 as well as an impairment of the right-of-use asset in the

amount of \$98,857 related to the sublease of one of Dolphin's offices, offset by a gain from the change in the fair value of contingent consideration of approximately \$670,000. That nets out to an operating profit of approximately \$441,000 – all while we continue to invest in Dolphin 2.0 which offers upside optionality.

And, as great as positive operating income is, our balance sheet is also worthy of extra focus. At the apex of our acquisition strategy to build the Super Group, our debt reached a high of over \$16 million. It has now reached a record low of below \$5.3 million. That is a dramatic reduction. Furthermore, the vast majority of our debt is long-term. And even so, the total remaining debt is less than our cash on hand.

But that only tells part of the story. It's also extremely important to point out that all puts, all puts and all but one Earn-Out contingent consideration has been paid from all 6 of our acquisitions. This complete transformation of our balance sheet has allowed us to remove our financial statement disclosure ongoing concern and we believe serves as a differentiating factor for us in the marketplace.

Simply put, financially speaking, we have moved to the next milestone for Dolphin, no going concern, more cash on the books than all remaining debt, which is at the lowest amount it's been since we listed on NASDAQ in 2017 and almost all of the debt remaining is long-term anyway. All puts have been paid, all but one Earn-Out paid. Basically, we finished paying for the Super Group, and we can now look to building profits and diversifying our investments.

At this point in our company's history and continuing with our financial update, in June, we announced a change of auditor to Grant Thornton LLP. Grant Thornton is a firm with more entertainment industry experience, providing professional services to 65% of Fortune 1000 companies in the media and entertainment space, 65%, and half of the major studios. Dolphin is growing, and we believe Grant Thornton best understands where we are heading and has the systems and procedures in place to ensure timely filing of Qs and Ks.

We are now current in our financial reporting, and look forward to staying that way.

I'm excited to share some of those 2.0 updates, but first let's move to operational highlights on Dolphin 1.0, our Super Group of companies helping us to grow revenue on a double-digit basis, profitably, and which both enables and turbo-charges our 2.0 investments, that in success could result in exponential upside.

We'll start with our Entertainment PR Powerhouse, 42West. During the second quarter, 42West helped longtime client, Tom Cruise, launch the sequel to his 1986 film Top Gun. With more than \$1.3 billion in global box-office revenue so far, "Top Gun: Maverick," has already surpassed "Titanic" to become Paramount's biggest domestic movie of all time. Also, we have announced that 42West is hard at work on 97 Emmy nomination campaigns, a truly staggering number.

If 42West keeps your eyes popping, **The Door, our leading culinary hospitality and lifestyle PR firm,** will have your mouth watering. During Q2, the Door worked on campaigns ranging from

Pat LaFrieda's TOMAHAWK GIFT BOX, which includes a colossal 40oz Prime Tomahawk Rib Steak alongside tender filet mignons and other grilling staples. As temperatures soared this summer, the Door also rolled out a promotion for HäagenDazs' new City Sweets ice cream collection. Preparing for Fall, The Door also began promoting New York City's biggest wine and food festival – which will return October 13–16 and is celebrating its 15th anniversary with over 80 events – including a musical performance from Joseph “Rev Run” Simmons from Run DMC.

Speaking of music, **Shore Fire Media**, Dolphin's industry-leading music PR firm, itself had an eventful quarter, as it was awards season (and what a season Shore Fire had). Shore Fire musicians won seven Grammys plus a Lifetime Achievement Award for client Bonnie Raitt, whose brand new album also topped 6 Billboard charts. Chance The Rapper showcased new music at the BET Awards and hot gospel act Maverick City were among the top nominees at the Billboard Music Awards. Shore Fire also added Canada's top music awards show, The JUNOs, to its roster. Shore Fire client Steve Aoki was named Ad Week's Creative Visionary of the Year. Not to be outdone, Shore Fire corporate clients, streaming platform Mandolin and debate series Intelligence Squared, were also award winners, named the #1 most innovative music company by Fast company and top podcast event by Adweek, respectively. Shore Fire placements also included client Chance the Rapper on the Late Show with Steven Colbert, Mandy Moore performing on the Today Show and the Tonight Show with Jimmy Fallon, Jewel appearing as musical guest on Late Night with Seth Myers, as well as Kesha appearing on Seth Myers to promote her new show on Discovery Plus - and so much more.

Moving along to Dolphin's influencer marketing group, **Be Social** kicked off the quarter with their Spring Showroom, working with brands from Lulus to POM Wonderful – capped off with a spring trend report, before heading off to Coachella to elevate clients. Also, during the quarter BeSocial worked on projects that included CoCo Chanel, a partnership with Barbie and Forever 21, and paired the hottest spring and summer styles with a timeless classic, Michael Jordan's Air Jordan brand, produced by Nike.

Turning now to **Viewpoint**, Dolphin's respected creative agency and video production boutique. Viewpoint completed marketing videos and brand work for a wide range of clients in Q2 including A&E networks, CBS, AAA and PayPal.

That concludes my update on Dolphin 1.0,

Turning to **Dolphin 2.0**, where Dolphin and its shareholders have equity in projects and participate in the upside that our best-in-class marketing companies regularly enable for our clients.

As a reminder, for anyone new on the call or to the Dolphin story, we define the work of our Super Group under Dolphin 1.0 as the very best at marketing pop culture. And we define what we call Dolphin 2.0 as using pop culture to market assets that we own. In terms of a business model, I'll remind you that broadly speaking, there are 2 types of Dolphin 2.0 initiatives, ones where we develop assets in the categories of content, consumer products or live events, and ones where we receive ownership stakes in other people's companies that have assets in those categories. That's the core thesis behind Dolphin 2.0 -- taking ownership stakes in assets that we know how to market.

Put more simply, we want to own some of the types of things that we know we can market better than anybody else.

As a reminder, we have a couple of models for 2.0 which include Ownership Stakes only, but also Equity Plus Asset Development.

For **Ownership stake only**, we typically look to receive somewhere between 5% and 10% of the equity in the respective company in addition to the monthly cash fee.

Examples include Crafhouse Cocktails, a pioneering brand of ready-to-drink all-natural classic cocktails that is promoted by the Super Group and led by The Door to help market their award-winning product. During the quarter, promotional activity included brand activations with Wiz Khalifa. Crafhouse also went global in Q2, and is now available in London, England.

With respect to the other types of Dolphin 2.0 initiatives wherein we develop and own assets that we are excited to market, we do not receive a monthly cash fee since we would often only be paying it to ourselves, but as a result, we take a larger ownership position in the product or venture. Examples of these types of Dolphin 2.0 investments would be Midnight Theatre and the NFT marketplace we have built.

Let's start with Midnight Theatre, it was actually the first week in July, so just after Q2 ended, that Midnight Theatre's restaurant, Hidden Leaf opened. Hidden Leaf is the newest restaurant concept from Brooklyn restaurateur Josh Cohen of Chez Ma Tante, Lilia and Saint Vitus fame, opened its doors at 75 Manhattan West Plaza.

The beautiful standalone restaurant tucked inside our exciting, new performance venue Midnight Theatre, features a pan-Asian menu created by Executive Chef Chai Trivedi of Pranna, Tamarind, Buddakan and Eventi Hotel fame. Internationally renowned bartender Iain Griffiths, co-founder of the wildly acclaimed and influential Dandelyan and White Lyan bars in London, is making their first permanent foray into the NYC drinks scene with the opening of Hidden Leaf's bar and its street level companion, a high-energy aperitivo bar Midnight Cafe.

A few weeks later Midnight Theatre also held the first of many anticipated private events prior to its official opening this fall, with the premier of Kevin Durant's basketball documentary, 'NYC Point Gods. NYC Point Gods profiles the highly influential 80s and 90s NYC hoops legends that emerged out of New York City, highlighting some of the most famous point guards in New York City history, including Rafer Alston, Kenny Anderson, Mark Jackson, Stephon Marbury, God Shammgod, Kenny Smith, Rod Strickland and Dwayne "Pearl" Washington.

We're highly encouraged at the potential for private events at Midnight Theatre and we're excited to share more in coming quarters, especially as the Theatre opens publicly this fall.

As a reminder, for modeling purposes, there are 100 seats in the restaurant, and there will be 160 seats in the theater. So, anyone can model out an average ticket price and the number of turns in the restaurant and do the same in the theater with an assumption of a number of shows per week.

This will quickly get you to a revenue model. And, you can apply a reasonable profit margin standard in the industry

Dolphin is the largest single owner within Midnight Theatre, and we manage all aspects of publicity and marketing for the venue, both the restaurant and the theater, as well as facilitate talent and commercial relationships within the entertainment and culinary industries. We invested \$1 million into the venture for a stake of approximately 12.5%. We also invested in options for up to another approximately 25%. And then, in success, of course, we will look to add locations around the country and around the world.

Now, I'll turn to NFTs.

In terms of the launch of two high-profile NFT collections that we have previously discussed, Flower Girls and Creature Chronicles, we have decided to push those launches from this summer to this Fall. Our decision was based on the calculation that the native crypto community will be stronger in the coming months than it has been in the previous 2-3 months. We have high hopes for both of these collections, and want to give them each the best possible chance of success.

But the postponement of the release of those two collections does not mean that our NFT teams have been idle. Far from it. As many of you know, during the second quarter We Come In Peace, our Web 3 agency, developed a full slate of metaverse-related clients and NFT projects to market for others.

WCIP worked on promoting a new NFT-gated community called the Venice Music Collective built for independent music artists, in partnership with music and tech industry entrepreneurs Troy Carter and Suzy Ryoo, WCIP has also helped to bring to market a generative NFT project that reimagines a new visual language for Web3 that is made up of variations of the 26 letters in the English alphabet called The Symbols. Finally, WCIP was tapped by reBASE, the first ever geo-minting NFT platform, to help market and promote a new metaverse and NFT initiative co-founded by Bella Hadid. The marketing campaign for Bella's collection has already started and has gained a large number of followers.

Now turning to our most recent Dolphin 2.0 initiative, our multiyear coproduction and distribution agreement with **IMAX** for a slate of documentary features. The first project we have greenlit is Blue Angels, developed and co-produced with the renowned producer J.J. Abrams and his Bad Robot Productions, along with Zipper Bros Films.

Blue Angels is currently in production and is expected to hit IMAX theaters in the second half of 2023. We are tremendously excited by this partnership with the IMAX team as we work together to build a slate of unforgettable documentaries that need to be seen on the big screen.

And I can say, I've seen the first footage from this film, and it is nothing short of spectacular. We will be very excited to bring this picture to market, and we believe it will be a tremendous

ambassador for Dolphin's aspirations to invest in content a one of the four legs of our Dolphin 2.0 stool.

To remind those on the call, we

In summary, we're very excited about these five Dolphin 2.0 investments, on top of a growing, sustainable 1.0 business that generated an operating profit here in Q2. Purely on Dolphin 1.0 alone we are on a path to exceed \$40 million in revenue this year, and generate a larger EBITDA profit than last year. As I mentioned, 1.0 enables and turbo-charges our opportunities with 2.0, and we're excited to keep building on that portfolio of investments for Dolphin and our fellow shareholders.

Thank you for joining us on this ride and to walk through the financials, and I'll now turn it over to Mirta Negrini, our Chief Financial Officer.

Mirta Negrini - Chief Financial Officer, Dolphin Entertainment, Inc.

Thank you, Bill, and good afternoon, everyone. I will now discuss results for the quarter ended June 30, 2022. Revenues for the quarter were approximately \$10.3 million as compared to \$8.6 million for the quarter ended June 30, 2021.

Overall operating expenses for the quarter ended June 30, 2022, were approximately \$9.7 million compared to approximately \$8.4 million in the same period of prior year.

Operating expenses are composed of direct costs, payroll and benefits, selling, general and administrative costs, changes in the fair value of contingent consideration, depreciation and amortization, and legal and professional fees.

Direct costs for the quarter ended June 30, 2022, were approximately \$939,000 compared to \$833,000 in the same period in the prior year. The increase is primarily a result of expenses incurred in our NFT business.

Payroll and benefit costs for the quarter ended June 30, 2022, were approximately \$7.0 million compared to \$5.7 million in the same period in the prior year. The increase was primarily due to additional headcount in 2022 to support the growth of our business.

Selling, general and administrative expenses for the quarter ended June 30, 2022, were approximately \$1.4 million, compared to \$1.2 million in the period in the prior year – the increase was primary due to ___.

Legal and professional fees were approximately \$613,000 for the quarter ended June 30, 2022, compared to \$457,000 for the quarter ended June 30, 2021. The increase was primarily due to ___.

Operating income for the quarter ended June 30, 2022 of \$587,815, includes non-cash items from depreciation and amortization of \$415,547 and a change in the fair value of contingent consideration of \$(670,878), compared to operating income of 221,293 for the quarter ended June 30, 2021, which included non-cash items from depreciation and amortization of \$478,270 and a change in the fair value of contingent consideration of \$(165,000).

Net Income for the quarter ended June 30, 2022 was \$710,865, includes non-cash items from (i) depreciation and amortization of \$415,547, (ii) a change in the fair value of contingent consideration of \$(670,878), (iii) and a change in the fair value of warrants and convertible notes of \$279,022, compared to net income for the quarter ended June 30, 2021 of \$1,349,942 which includes non-cash items from (i) depreciation and amortization of \$478,270, (ii) a change in the fair value of contingent consideration of \$(165,000), (iii) a change in the fair value of warrants and convertible notes of 333,974 (iv) and the benefit of a net \$1.0 million in non-cash items stemming from a \$1.0 million gain on extinguishment of debt

For the quarter ended June 30, 2022, \$0.07 basic earnings per share is based on 9,498,266 weighted average shares and \$0.05 fully diluted earnings per share is based on 9,626,143 weighted average shares compared to a basic earnings per share of \$0.17 based on 7,664,000 weighted average shares and \$0.13 fully diluted earnings per share based on 7,913,396 weighted average shares for the quarter ended June 30, 2021.

Cash and cash equivalents of \$7.2 million as of June 30, 2022 as compared to \$7.7 million as of June 30, 2021.

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