ISSUERDIRECT
Trading Under the Symbol: ISDR

Transcript of
Dolphin Entertainment
Fourth Quarter and Full Year 2017 Earnings Call
April 4, 2018

Participants

James Carbonara – IR Strategy and Operations, Hayden IR
Bill O'Dowd – Chief Executive Officer, Dolphin Entertainment
Mirta Negrini – Chief Financial Officer, Dolphin Entertainment

Analyst

Patrick Murphy – Equity Research Associate, Maxim Group

Presentation

Operator
Greetings, and welcome to the Dolphin Entertainment Fourth Quarter and Full Year 2017 Earnings 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 your host, James Carbonara, Hayden IR Representative.

James Carbonara – IR Strategy and Operations
Thank you. Good afternoon. Welcome to Dolphin Entertainment's Full Year 2017 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. 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 reflected in such forward-looking statements are reasonable, it can make no assurances that such expectations will prove to have been correct.

Actual results may differ considerably from the company's expectations due to changes in operating performance and other technical and economic factors. For discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, key risk factors in the company's reports on Forms 10-K and 10-Q, as well as 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 events or circumstance. We cannot assure you that projected results or events will be achieved.

Now, I will turn the call over to Bill O'Dowd, President and Chief Executive Officer of Dolphin Entertainment. Bill, please proceed.

Bill O'Dowd – Chief Executive Officer
Thanks, James. That is a tough act to follow, the Safe Harbor, holy cow. Good day everyone, and thanks for joining our 2017 Full Year Earnings Call today.

Obviously, we feel like we had a great year in 2017 starting with the acquisition of 42West on March 30th of last year, which led into, by the end of the year, uplifting the NASDAQ come December 21st, and on the 26th of December, closing a public offering with gross proceeds of just over $5 million. In the middle there in July, we changed our name to Dolphin Entertainment as well.

What's in store for 2018? Well, in a nutshell, our objective is to create continued and meaningful growth, both top and bottom line. How do we intend to accomplish it? Primarily, by building an ever expanding family of PR and marketing services companies around 42West. We can do this through buying companies or bringing in acqui-hires, individuals or teams that supplement what we're already doing with 42West. We've done one of those already. The first such acqui-hire took place last July when 42West recruited long-time Walt Disney exec, Joe Quenqua. He could help us extend our PR capabilities in the theater and other live events.

In the months to come, we expect to announce more such additions in other areas. It's something to look for. At the same time, we're very focused on pursuing an ambitious series of accretive corporate acquisitions in entertainment marketing verticals that would benefit from 42West's position within the industry, as well as our client roster, either the celebrities or the studios and SVOD services that we already work with.

Our confidence in the viability of this acquisition strategy stems in so small part from our extremely positive experience to date with 42West. To speak plainly, our acquisition of 42West has been everything we expected and more. If you're not familiar with 42West, I know most of the people on the call are, the client roster of our celebrities, dozens and dozens of A-list celebrities both movie stars and pop stars, is quite impressive. Every major studio is a client. All the leading SVOD services, numerous tech, social media, and consumer products companies with an interest in the entertainment space.

It's a formidable business in its own right. It's enjoying consistently strong organic growth, as we are announcing for our full year results. Its prominence, I think, in the entertainment industry makes it a very attractive deal magnet for just the kind of companies we're looking to acquire. As a result, we're confidently committed to our goal of closing a second major acquisition on 2018. We continue and expect to continue making acquisitions at this pace for at least the next three years.

Although our focus is on growing, the entertainment marketing side of Dolphin, that doesn't mean that we don't have plans for the content side of our company as well. We expect to enter production on a feature film by the fourth quarter of this year. We have a development slate of projects ready to go that allows us to stay in production through 2019.

Although the first film that goes into production at the end of this year, won't be in theaters for at least 12 months after we start the production, we will earn producer's fees immediately upon the start of production that should add to both our top line revenues and bottom line profits for this year. Given the relatively small size of our investment in feature films, these family feature films, we think that the potential upside and the sequel potential that they have, gives us a large optionality value to our company.

Taking all these into account, we hope you'll understand why we're enthusiastic about where we've been, and where we see ourselves going. Turning to a few of the highlights in our financial results, I think the headline would be the dramatic increase in revenue, acquiring 42West, and we've grown revenue substantially. It's up 238% from 2016 to 2017. We were reporting revenue of $22.4 million last year. I think the other stat before, so I don't steal Mirta's thunder, when she's about to speak on our financial results, I think the one that we're possibly most proud of is, for those who've known our company prior to this past year, converting much of the legacy debt of the company into equity and really turning around our shareholders equity story.

In the past 12 months that we've reported, or I guess, year-end 2016, we had a negative shareholders equity of just under $32 million. We've reported now, year-end 2017 shareholders equity of a positive, just over $6 million. That's an improvement of just about $38 million. It's quite a ramp that we feel we're riding and look forward to continuing that improvement in the years to come.

We also think it's a good time to be in our space. Looking a little further ahead, I think as many of you have heard either on a roadshow or in a couple of the conferences I spoke to in the last month, the headlines around or the knowledge in a broad investor base about the increase in original content spending is pretty prevalent. People kind of know, because it's reported so frequently in New York Times or Wall Street Journal about Netflix's increases in spending on original content, for example from $6 billion last year to an anticipated $8 billion this year, and more in the years to come. You know that Hulu's spending more. Amazon's well over $4 billion now. Facebook's entered the game with an announcement of $1 billion. Apple's in the game, in a big way, with Spielberg's series starting and hiring a couple of executives from Sony. They're going to spend over $1 billion.

All of that original content as well [indiscernible], and there's just more to come. This arms race is not going to slow down. It's only going to increase for the years to come. The simple fact of life, it's a great time to be in the entertainment marketing businesses, is the intuitive sentence that doesn't get as many headlines, but it's so true which is all of that content needs to be marketed by someone. The value of that promotion is only increasing, because it's harder and harder to reach the consumer. If a handful of years ago, you had about 200, 250 original TV shows on the air, today you've got over 500. How will the consumer know that your series is available?

Those rising tides are lifting all boats, and it's a great time to feel like you're in the biggest boat in the entertainment industry, if I continue with that metaphor. So we're very proud of 42West, and I think that little background gives a sense of why their organic growth is so strong. We think we'll continue to sign new clients and increase revenues.

We did announce that in the last quarter and early in this year, we've signed quite a few new clients, including Oscar winning director, Guillermo del Toro, who obviously directed The Shape of Water. We have rising pop superstar, Camila Cabello, another Miami person. Bill Maher, Marc Maron, the big podcaster. It was a good end of the year for us in signing talent as well as films. We're engaged to work on releasing our awards campaigns for 27 films, not just Warner's Justice League or Fox's Murder on the Orient Express, or The Post, but Oscar nominated films like I, Tonya as well.

These clients just add to the list we already have, the Meryl Streeps, the Tom Cruises, the Daniel Day Lewises, Will Smith, Tom Hanks, Rihanna, Scorsese, John Legend, Reese Witherspoon, Charlize, Halle, Emma. It's hard to go through a week and not have a client that's got a movie coming out or in John Legend's case, a great performance in Jesus Christ Superstar on broadcast network television. We're very, again, proud of our client list and are excited by it.

Looking ahead, we have a clear two-prong strategy for growth. We want to continue to expand our PR and marketing services. Execute on the development pipeline of feature films and on our content side, while pursuing our acquisition strategy of synergistic, complementary, entertainment marketing companies in verticals that will leverage our celebrity and studio relationships. We can bundle those services. We can increase profitability. We can really drive for revenue growth for these other companies, and we're excited for it.

With that, I'll turn it over to Mirta to get into a little bit of a deeper dive into our financial results. Mirta?

Mirta Negrini – Chief Financial Officer
Thank you, Bill. Good afternoon to everyone on the call, and thank you for joining. As Bill mentioned, our revenues for the year ended December 31, 2017, were $22.4 million. That's up from $9.4 million for the year ended December 31, 2016. The increase in revenue is primarily due to the revenues generated by 42West that was acquired on March 30th, so we haven't had a full year with them yet.

Our operating loss for this year, ending 2017, is $1.1 million, and that's down from the operating loss in 2016 of $17.7 million. I also want to note that the 2017 number includes depreciation and amortization of approximately $1.2 million. A large part of that is due to intangible assets that were created with the acquisition of 42West. We also amortized our deferred production cost from our film, Max Steel, and that was about $3.4 million that are all part of that operating loss.

Net income was $6.9 million for the year ended 2017, as compared to a net loss of $37.2 million for the prior year, for 2016. As Bill mentioned, we have positive shareholder equity of $6.1 million, compared to a shareholder deficit of $31.9 million in 2016.

I also wanted to share, we've put together the pro forma financials, assuming that the acquisition of 42West had happened January 1st, instead of March 30th. Those numbers would reveal revenues of $27.1 million, and then operating losses of $100,000. Again, that would include the amortization of these intangibles. Then, a net income of $8.6 million. We closed our public offering on December 26th with gross proceeds of $5,011,875.

That concludes my financial remarks. I will now ask the operator to open the phone lines for questions and answers. Operator, can you please poll for questions?

Operator
At this time, we'll be conducting a question-and-answer session. [Operator instructions]. One moment please while we poll for questions.

As a reminder, we are now conducting a question-and-answer session. [Operator instructions] One moment please while we poll for questions.

Our first question is from Patrick Murphy, Maxim Group. Please proceed with your questions.

Q: Hi guys. Good afternoon. Just a quick question on the acqui-hire that you recently had last year. Can you give us a little bit more color on that, what segments you're seeing growth in, and how that has helped your business so far? Thanks.

Bill O'Dowd – Chief Executive Officer
Sure. Thank you, Patrick, for the question. Yes, I'll be happy to tell you a little bit more about that. So this was a nice complement for us. Joe's a long-time veteran, Joe Quenqua of the PR business. Been with Disney for 12 years. Very close relationships over there.

He has wide variety of clients, but we were also particularly attracted to the fact that he would add live events and Broadway. We are pleased to be able to say that we do the PR work for this small, little musical that just opened called, Frozen. I hope Disney will achieve the success they want from that with parents and children, for years or decades to come, as well as other properties from Disney that are on Broadway.

So that's a great example of a relationship, and a new business sector that's clearly in entertainment but something that we had not previously focused on. I don't want to minimize the broad array of clients that Joe brings, but there's a good example of something that we had not previously been doing that we can expand now.

As you all may well know, musical theater's not just Broadway, they're touring. It's a national business, so we're excited for it, and we think there will be, as I mentioned, other verticals that we can expand into through strategic acqui-hires or teams.

Q: Can you give us any insight on what those verticals may be? I know you touched on musical theater with this recent one. What are some other ones you're looking at down the road?

Bill O'Dowd – Chief Executive Officer
Sure. Without wanting to get too granular or guaranteeing any particular vertical, of course, I'll give you a great example. 42West has a division dedicated to targeted marketing. We feel we're the industry leader in Hispanic marketing of major film franchises. We work on quite a few, from Fast and the Furious for Universal, Despicable Me franchise, otherwise known as the Minions, the DC Comics' Justice League Superman, Batman, Wonder Woman movies for Warner Bros.

Having a specific targeted marketing capability in Hispanic audience, both English language and Spanish language, I should say too, is a particular source of pride. We think there are opportunities to increase the number of targeted marketing demographics that we serve, and we believe that the clients that we already have, for the Hispanic side of that business, will be anxious to work with us in other areas as well. So that would be one example.

I also think that we're kicking around in music. I think, we have a fantastic music practice. You heard just a handful of our clients in that area, and it's rapidly growing for us. But music's a very broad range. We're large in pop and in hip hop. I think we could look for other areas as well.

Q: Ok, great. That's very helpful. One more last one, if you wouldn't mind. So far, this first quarter, the slate of movies has been pretty well in the box office especially with Black Panther. Can you just say if this has had any direct impact on your PR business, or what you're seeing on that end?

Bill O'Dowd – Chief Executive Officer
What we like to say is that we're platform agnostic. We want all platforms to succeed. We promote films that are in theaters, as Black Panther would be a good example of that. We did not work on Black Panther, but we represent Michael B. Jordan, so we're very happy for his role on it. We also, of course, promote content that's available on Netflix and Amazon. Marvelous Mrs. Maisel, for example on Amazon, and contents that are on the other SVOD services, as well as content that'll be coming to pure digital platforms.

With that said though, yes, we are happy that the feature film business outperformed most expectations in the first quarter, the theatrical feature film business, I mean. The second quarter in the summer is shaping up to be very strong. There's certainly great interest in Avengers. Some of you may be anticipating as well. It should drive a very good summer,

Q: Thank you very much.

Bill O'Dowd – Chief Executive Officer
Sure, thank you.

Operator
Ladies and gentlemen, we have reached the end of the question-and-answer session. I would like to turn the call back to Bill O'Dowd, CEO for closing remarks.

Bill O'Dowd – Chief Executive Officer
Well, thank you. I just want to thank everybody for joining us today, as we kick off our first and conclude our first earnings call ever. Hopefully we'll keep many of you tuned in for the future installments. It's like the old TV producer, we're leaving you with a cliffhanger. How will we do? Tune in at the end of the first quarter. Thank you again for your time. Appreciate it, everyone.