

## **Operator**

Good afternoon, ladies and gentlemen, and welcome to Dolphin Entertainment's First Quarter 2022 Earnings Call. At this time, all participants have been placed on a listen-only mode and we will open the floor for your questions and comments after the presentation.

It is now 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 First 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**

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:

Q1 revenue of \$9.2 million represented a 28% increase year over year. This increase represents pure organic growth derived from the cross-selling of services within our Super Group of entertainment marketing companies. We feel this strong start to the year positions Dolphin to exceed \$40 million in annual revenue for 2022.

Commensurately, we continue to expect to generate a larger EBITDA profit in 2022 versus last year.

Turning back to Q1, on the operating line – though our operating loss for the quarter ended March 31, 2022 was \$(963,709), that includes non-cash items from depreciation and amortization of \$407,238. It also includes nearly ~\$440,000 in 1x investments related to our NFT business, and our marketplace is now completely finished. More on our upcoming NFT collections in a little bit. Finally, that Q1 operating number also includes approximately \$400,000 of one-time, non-recurring professional fee expenses related primarily to our annual audit which was ultimately filed in May and Dolphin 2.0 initiatives.

Even with those non-cash and one-time charges, Q1 was an improvement of over \$600,000 from the \$1.6 million operating loss in Q1 2021, which also included non-cash items from depreciation and amortization of \$482,712 and changes to fair value of contingent consideration of \$365,000.

Now I would like to move to the balance sheet. Let's stop and pause on this for a few minutes because this is possibly the most important point to make on today's call. Our balance sheet improvement is worth 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 \$6 million. \$5.7 million to be exact. That is a dramatic reduction. Furthermore, the vast majority of our debt is long-term and, even so, the \$5.7 million of remaining debt is far less than our cash on hand of \$9.6 million.

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 six of our acquisitions, and we now have shareholder's equity of just under \$25 million. This complete transformation of our balance sheet has allowed us to remove

our financial statement disclosure on going 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 its 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've 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 & Entertainment space, 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.

Now, let's move to some operational updates on our Super Group, the companies that are making those great numbers happen.

We'll start with Shore Fire Media. Dolphin's industry-leading music PR firm, which has had a great 2022, kicking off Q1 by once again helming the red carpet at the Bud Light Super Bowl Music Fest, with three nights of All-Star Talent, including Green Day and Miley Cyrus, Blake Shelton and Gwen Stefani with Mickey Guyton; and Halsey & Machine Gun Kelly; as well as other special guests. Also, Shore Fire just announced the first dates and locations for Bruce Springsteen's 2023 World Tour. Hopefully, we'll see some of those listening to this call out there with the Boss next year.

Moving along to Be Social, Dolphin's influencer marketing group. It has been a busy start to the year that has included brand campaigns for red-hot Australian company Canva, EyeBuyDirect and LightStim with Kylie Jenner, while the talent management team has negotiated campaigns with blue-chip brands such as Prada, Revlon, L'Oreal Paris, and Pinterest.

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 Q1, including NBC Sports/Peacock, AAA, PayPal, and Harvard Business School.

Finally, it's not a surprise that once again 42West and The Door were named to the Observer's annual list of 50 Most Powerful Firms. 42West was ranked #2 in the nation, the highest-ranking of any entertainment firm and The Door was ranked #22.

Both have had a very successful start to 2022, with 42West most recently helping long-time client Tom Cruise launch "Top Gun: Maverick" to the largest domestic Memorial Day opening in history, grossing \$160.5 million. The film has performed remarkably well this summer, and has now passed \$1.2 billion at the worldwide box office.

For its part, The Door has also had a strong start to the year. Already having landed the fast growing plant-based quick service restaurant PLNT Burger in late 2021, a venture between longtime Door clients Spike Mendelsohn and entrepreneur Seth Goldman (Honest Tea), The Door was brought on to launch Chef Spike and Goldman's newest venture Eat the Change®, a plant-based snack company. You might have seen the recent announcement by Goldman that he will bring Honest Tea back into the fold to Eat the Change after its discontinuation with Coca Cola. With both of these brands - PLNT Burger and Eat the Change - under The Door's watch, The Door is a major player in the movement of planet-friendly eating.

Kudos to the Door and to 42West, proving yet again why they are perennially on the Observer's most powerful PR companies list.

That concludes my update on Dolphin 1.0 and is the perfect segue into Dolphin 2.0.

Because, with Dolphin 2.0 we want Dolphin and its shareholders to have some equity in projects and participate in the upside optionality that our best-in-class marketing companies routinely facilitate for our clients.

That's why in December 2021 we took an equity ownership stake in a ready to drink beverage company called Craffhouse Cocktails. And why this past May we announced, a multi-year agreement with IMAX. That's the thesis behind Dolphin 2.0, taking ownership stakes in assets that we know how to market.

We just gave concrete examples that we know how to market ready-to-drink beverages and feature films. Now, we have ownership stakes in both areas.

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 two 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 three categories.

Let's talk about the second type of Dolphin 2.0 investment first – when we take ownership stakes in other people's companies. I'll start with Crafthouse Cocktails, a pioneering brand of ready-to-drink all-natural classic cocktails. They have an award-winning product line. And they wanted the Super Group, led by The Door, to help market their product. They pay us a cash fee every month to do just that, and we have also received an ownership stake in the company in return for the added value of the services and relationships extended by the entire Super Group.

With respect to these types of Dolphin 2.0 initiatives, we typically look to receive somewhere between 5% and 10% of the equity in the respective company in addition to the monthly cash fee.

With respect to the other types of Dolphin 2.0 initiatives, wherein we develop assets that we are excited to market, we do not receive a monthly cash fee since we would often be simply paying it to ourselves. But correspondingly, 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 been building.

Let's start with Midnight Theatre, a contemporary variety theater and restaurant that will be a true anchor for Manhattan West, the \$4.5 billion development from Brookfield that's between 31<sup>st</sup> and 33<sup>rd</sup> and between 9<sup>th</sup> and 10<sup>th</sup> Avenues, in Manhattan. Inside Midnight Theatre, there is Hidden Leaf, which we opened just a couple of weeks ago, the newest restaurant concept from our partner, Brooklyn restaurateur Josh Cohen. Many of you know Josh's other restaurants, including Lilia's, one of the hardest to get into restaurants in America (and favorite date night spot of multiple celebrities), as well as Chez Ma Tante, So, Hidden Leaf is a drop-dead gorgeous standalone restaurant within Midnight Theatre, and you would think it was straight out of the Great Gatsby –it is stunning -- with beautiful and timeless art deco design. The restaurant features a pan-Asian menu created by Executive Chef Chai Trivedi, previously from Tamarind and Buddakan for those foodies out there. I have too many favorites to name off the menu, but the dim sum and the small plates are out of this world. Also, Josh has recruited internationally renowned bartender Iain Griffiths, co-founder of the wildly acclaimed and influential London bars, Dandelyan and White Lyan, who is making his 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 Café. As you can see, these are world class talent in the food and beverage space to pair with what we believe will be a world-class venue in Midnight Theatre, which we expect to be open for preview shows in August and with a Grand Opening in September.

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. As we've mentioned before, we're hopeful that Midnight Theater creates a relatively straightforward or predictable range of modeling because even though it has two components, a restaurant and a theater, it has many of the variables already defined for the model.

There are 100 seats in the restaurant, and there will be 160 seats in the theater, so you 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 of course, we will look to operate the venue at a reasonable profit margin standard in the industry. You can quickly see how this opportunity can become very exciting for a company at this stage of Dolphin in 2022.

We invested \$1 million into the venture for a stake of approximately 12.5%. We also invested in the options for up to another approximately 25%. As you can tell, we're very excited for Midnight Theatre. In success, of course, we will look to add locations around the country and around the world.

Now, I'll turn to NFTs. In the first quarter of 2022, Dolphin Entertainment launched our Web3 marketing, consulting and communications agency, We Come In Peace (WCIP), after attracting over two dozen NFT and Metaverse clients within the past year. We didn't need to acquire an agency in this space. We already had the clients to launch the leading agency!

In the first quarter, WCIP partnered with celebrity chefs and restaurateurs Tom Colicchio and Spike Mendelsohn to develop Chfty, a collection of NFTs that provide owners with access to a culinary community led by the founders with virtual and in-person cooking events. The collection went on sale in March and quickly sold out. WCIP's partnership with Chfty will continue with the creation of a larger Web3 culinary ecosystem aimed at helping chefs, foodies, and brands integrate into Web3.

WCIP has quickly developed a full slate of metaverse related clients and NFT projects, including ones with supermodel Bella Hadid and music industry mogul Troy Carter. Our summer slate includes drops of more than half a dozen NFT collections, and we look forward to updating you on our progress when we speak again in a few weeks for our Q2 Earnings Call.

Lastly, our most recent Dolphin 2.0 initiative is the announcement I referenced earlier -- Dolphin Entertainment has struck a Multi-Year Co-Production 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 renowned producer, JJ Abrams, and his Bad Robot Productions, along with Zipper Bros Films. Blue Angels follows the newest class of the storied Navy and Marine Corps flight squadron through intense training and into their first season of heart-stopping aerial artistry, while also sharing the emotional stories of the veterans on the team who, this year, will take their final flights. It will mark the first time the iconic blue and yellow F/A-18 Super Hornets will be featured in IMAX. The film is being shot with state-of-the-art IMAX cameras, and will provide a truly unique view of these incredible pilots as, for the first time ever, audiences will be able to go inside the formation, inside the cockpit, and inside the helmet for a visceral, adrenaline rush, ride of a lifetime.

Blue Angels is currently in production and is expected to hit IMAX theaters in the second half of 2023.

IMAX is simply best-in-class when it comes to the movie-going experience. And certain stories, like The Blue Angels, can only be enjoyed to their fullest potential if seen in the IMAX Experience. 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.

So, there we are – for now – in the summer of 2022. In summary, we’re extremely pleased with these first five Dolphin 2.0 initiatives, and hopefully, today’s conversation provided some additional detail. I would like to also reiterate that these 2.0 investments are on top of a growing 1.0 business. And, most importantly for today, we are very proud of our balance sheet, and expect it to be a differentiating factor for us in the quarters and years to come. All of this was our thesis when we uplisted to NASDAQ in December of 2017 and began assembling the Super Group. It’s fun to be where we are now, but we’re only getting started. The best is still ahead of us.

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

### **Mirta Negrini**

Thank you, Bill, and good afternoon, everyone.

I will now discuss results for the quarter ended March 31, 2022. Revenues for the quarter were approximately \$9.2 million as compared to \$7.2 million for the quarter ended March 31, 2021. Overall operating expenses for the quarter ended March 31, 2022 were approximately \$10.1 million compared to approximately \$8.7 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 March 31, 2022, were approximately \$1.1 million compared to \$829,000 in the same period in the prior year. The increase is primarily a result of expenses incurred in our investment of NFT's.

Payroll and benefit costs for the quarter ended March 31, 2022, were approximately \$7.0 million compared to \$5.2 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 March 31, 2022, were approximately \$1.5 million unchanged from the same period in the prior year.

Legal and professional fees were approximately \$938,000 for the quarter ended March 31, 2022 compared to \$344,000 for the quarter ended March 31, 2021. The increase was primarily due to approximately \$400,000 of one-time, non-recurring legal and professional fees related to the Q3 2021 restatement, fee overrun of 2021 audit fees and certain Dolphin 2.0 initiatives.

Operating loss for the quarter ended March 31, 2022 of \$(963,709), includes non-cash items from depreciation and amortization of \$407,238 and a gain in the change of the fair value of contingent consideration of \$(763,900), compared to an operating loss of \$(1.6) million for the quarter ended March 31, 2021, which included non-cash items from depreciation and amortization of \$482,712 and a loss in the change of the fair value of contingent consideration of \$365,000.

Net loss for the quarter ended March 31, 2022 was \$(792,481) which included non-cash items from (i) depreciation and amortization of \$407,238, (ii) \$(763,900) gain in the change of the fair value of contingent consideration and (iii) \$347,858 from changes in the fair value of a convertible promissory note and warrants as compared to a net loss of \$(5.3) million for the quarter ended March 31, 2021, which included \$4.4 million in non-cash items stemming from depreciation and amortization of \$482,712 and negative changes in fair value of derivative liabilities, convertible notes payable, warrants, put rights and contingent consideration of \$3.9 million in the aggregate.

For the quarter ended March 31, 2022, \$0.09 basic loss per share is based on 8,713,700 weighted average shares, and \$0.13 fully diluted loss per share is based on 8,846,567 weighted average shares, compared to basic and diluted loss per share of \$0.73, both based on 7,267,297 weighted average shares for the quarter ended March 31, 2021.



Cash and cash equivalents as of March 31, 2022, were \$9.6 million compared to \$7.7 million as of March 31, 2021.

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