

Transcript of
Dolphin Entertainment, Inc.
Dolphin Entertainment First Quarter 2023 Earnings Call
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Participants

James Carbonara - Managing Partner-Hayden IR, Inc.
Bill O'Dowd - Chairman & CEO, Dolphin Entertainment, Inc.
Mirta Negrini - CFO & COO, Dolphin Entertainment, Inc.

Analysts

Allen Klee - Maxim Group, LLC

Presentation

Operator

Good day, everyone, and welcome to today's Dolphin Entertainment First Quarter 2023 Earnings Call. At this time, all participants are in a listen-only mode. [Operator Instructions]. Please note this call may be recorded. [Operator Instructions].

It is now my pleasure to turn the conference over to Mr. James Carbonara. Please go ahead.

James Carbonara - Managing Partner-Hayden IR, Inc.

Thank you, operator, and once again, welcome to Dolphin Entertainment's First Quarter 2023 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 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 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'd like to turn the call over to Bill O'Dowd, Chief Executive Officer of Dolphin Entertainment. Bill, please proceed.

Bill O'Dowd - Chairman & CEO, Dolphin Entertainment, Inc.

Thanks, James, and hi, everyone, and 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 open it up for Q&A.

So from a financial highlights perspective, we're happy to report that our first quarter revenue grew by 8% year-over-year to \$9.9 million. Since Q1 is always our lowest revenue quarter because of the seasonality in our business and especially with our influencer marketing companies, we expect Q2 revenue to be meaningfully higher and believe that we will hit our expected year-over-year revenue growth target of 20% to 25% for full-year 2023, basically saying we're on track.

We are also pleased that our operating loss per share for Q1 stayed the same as last year despite adding a second influencer firm into our Q1 results. And as noted just a second ago, we expect our influencer marketing firms to be down in Q1 due to seasonality, but also expect them to more than make up the ground in the rest of the year to deliver annual profits to Dolphin.

Moving to operational updates. A clear highlight occurred after the quarter ended with the announcement that Amazon Studios acquired the worldwide rights to The Blue Angels. I know we spoke just six weeks ago, and this has occurred since. If you recall, this time last year, we announced a multi-year agreement with IMAX to jointly finance the development and production of a slate of feature length documentaries for the global market.

The first project greenlit was The Blue Angels, developed and coproduced by J.J. Abrams, Bad Robot Productions and Zipper Bros Films. The Blue Angels started filming last summer and has finished production. We expect the film to hit IMAX theaters in the second half of this year. In terms of financial implications, we expect to generate approximately \$3.5 million of revenue to Dolphin from the acquisition agreement, which would result in a 75% ROI before the inclusion of any revenues to Dolphin from the ticket sales from IMAX institutional theaters.

This fantastic return on The Blue Angels provides a formidable proof-of-concept for our Dolphin Ventures model, formerly known as Dolphin 2.0, of taking equity in projects that we market. Dolphin Ventures also saw a boost in Q1 with the announcement that veteran Fortune 500 Executive Ellie Doty has joined as Chief Marketing Officer. The rationale is that we expect to source, evaluate, and engage in multiple ventures opportunities over the next 12 to 24 months, opportunities wherein we get paid a cash fee to secure the services of the various Dolphin agencies working on the account, but also where we receive equity in the product or services we are marketing.

Additionally, as Chief Marketing Officer, part of Ellie's role will be to communicate what we have built and giving an additional platform to both the work we are doing and to the incredible leaders within our Dolphin family. Ellie is one of those leaders herself.

Leaders like Shore Fire Media, Dolphin's industry-leading music PR firm, whose client Rhiannon Giddens, was just awarded the Pulitzer Prize in Music, which followed Shore Fire clients receiving a collective 14 Grammy Awards in Q1, including Song of the Year and Best New Artist. That many Grammys is a reflection of the breadth and depth of Shore Fire's roster, which is what allowed it to place clients across a wide variety of major promotional vehicles in Q1, including Good Morning America, the TODAY Show, the Kelly Clarkson Show and Rolling Stone, just to name a few.

We have leaders like 42West, our film and television PR powerhouse, who has helped clients and worked on projects resulting in four nominations for the 76th Tony Awards, four awards at the Sundance Film Festival and five awards at the South by Southwest Film Festival this year already.

Additionally, 42West worked on the Top Gun: Maverick campaign, which resulted in an Academy Award for Best Sound and six Oscar nominations, which follows a worldwide box office total of \$1.49 billion in 2022, the biggest of client Tom Cruise's career to date. I realized I should have just rounded up to \$1.5 billion instead of \$1.49 billion. But hey, all right. Unsurprisingly, 42West and Shore Fire Media were once again honored by the Observer's PR Power List.

We have leaders like The Door, our leading culinary hospitality and lifestyle PR firm, who just welcomed Carbone Fine Food to their ever growing roster of clients in the consumer packaged goods space, while client Gigi Hadid paid tribute to Karl Lagerfeld in a stunning custom made Givenchy dress on the steps of the 2023 Met Gala, and client Viceroy Hotels made Travel and Leisure's 2023 top 500 Best Hotels list.

Leaders like Be Social and Socialyte, our top influencer marketing agencies that represent over 200 leading creator talent with hundreds of millions of followers on social media. Our creators were recently asked to join campaigns for Saks, TianDe, Jose Cuervo tequila, Revlon and Pinterest, among dozens of others in Q1. Be Social and Socialyte were named Top Talent Managers for Creators by Business Insider.

And lastly, leaders like Viewpoint Creative, Dolphin's respected creative relations agency and video production boutique -- creative agency -- excuse me. Viewpoint's work in Q1 and year-to-date included a brand image campaign for CBS News New York, Big Red's Hot Sauce and PayPal, of course.

Now I'll turn to providing updates on some of our projects, where Dolphin and its shareholders have equity and participate in the upside that our best-in-class marketing companies regularly enable for our clients. Starting with Midnight Theatre. As a reminder, Dolphin manages all aspects of publicity and marketing for Midnight Theatre and its restaurant, Hidden Leaf, while

also facilitating talent and commercial relationships within the entertainment and culinary industries. Dolphin also holds a meaningful ownership stake in the venture.

As we ramp up the programming at the theater throughout the summer, aiming to have a full seven day a week schedule shortly after Labor Day, we have played host to an array of talent, including Gloria Steinem; Nu York Cabaret; The Moth; The Daily Show's Roy Wood Jr., who incidentally just hosted the White House Correspondents' dinner; the Amy Schumer shows; Rachel Feinstein; Broadway's Andrew Barth Feldman, who co-stars with Jennifer Lawrence in an upcoming comedy film from Sony, that by all accounts looks like it could be a summer hit; as well as screenings of Academy Award winning Everything Everywhere All at Once; and NCAA March Madness in 4K high definition, just to name a few. Go, Bluejays.

We also anticipate putting out our first original production called A Brief History of Magic in Midnight Theatre in July. We're very excited for that as it should allow us to double the number of shows per month this summer versus what we did this winter and spring, and so the theater is kicking into gear.

Turning back to our multi-year agreement with IMAX to jointly finance the development and production of a slate of feature length documentaries. You heard at the top of the call that with the sale to Amazon Studios of our first project together, The Blue Angels, that this partnership could not have gotten off to a better start. We're now looking for and evaluating opportunities for our second documentary together. We also anticipate doing more work with IMAX. We're actively sourcing and developing live shows with them that we can broadcast from Midnight Theatre into IMAX theaters nationwide. We expect to have a lot more to talk about on this topic between now and our Q2 earnings call.

In summary, it's been a great start to the year with record Q1 revenues. And as in previous years, we are confident that Q2 will be even significantly higher in revenues than Q1 and Dolphin Ventures, previously known as Dolphin 2.0, will enjoy a fantastic return on its investment in The Blue Angels with revenues from IMAX institutional theaters still to come.

Thank you for joining us. And to that end, I'll now turn it over to Mirta.

Mirta Negrini - CFO & COO, Dolphin Entertainment, Inc.

Thank you, Bill, and good afternoon, everyone. I will now discuss results for the quarter ended March 31, 2023. Revenue for the quarter ended March 31, 2023, was approximately \$9.9 million, 8% above the revenue for the quarter ended March 31, 2022. Overall operating expenses for the three months ended March 31, 2023 were approximately \$12.5 million compared to approximately \$11.1 million in the same period in the prior year.

Operating expenses are composed of direct costs; payroll and benefits; selling, general, and administrative expenses, SG&A; changes in the fair value of contingent consideration; depreciation and amortization; and legal and professional fees. Direct costs for the quarter ended March 31, 2023 were \$219,000 compared to \$1.1 million in the same period in prior year. Payroll costs were approximately \$9.1 million compared to \$7 million in the same period in the

prior year. SG&A expenses of \$1.9 million compared to \$1.5 million for the same period in the prior year. Legal and professional fees were \$763,000 compared to \$938,000 in the same period of the prior year.

Operating loss for the quarter ended March 31, 2023 of \$2.566 million, includes non-cash items from depreciation and amortization of \$533,096 and a loss from the change in the fair value of contingent consideration of \$15,485, along with one-time and non-recurring audit fees of \$300,000. This compares to an operating loss for the quarter ended March 31, 2022 of \$1,889,060, which includes non-cash items from depreciation and amortization of \$407,238 and a loss from the change in the fair value of contingent consideration of \$161,451, along with one-time and non-recurring professional fee expenses of approximately \$300,000, primarily related to the 2021 audit.

Net loss for the quarter ended March 31, 2023, of \$2,969,320, included non-cash items from depreciation and amortization of \$533,096 and a loss from the change in the fair value of contingent consideration of \$15,485, along with one-time and non-recurring audit fees of \$300,000. This compares to a net loss for the quarter ended March 31, 2022 of \$1,717,832, which includes non-cash items from depreciation and amortization of \$407,000 to \$407,238 and a loss from the change in the fair value of contingent consideration of \$161,451, along with one-time and non-recurring professional fee expenses of approximately \$300,000, primarily related to the 2021 audit.

Basic and fully diluted loss per share was \$0.23 per share based on 12,640,285 weighted average shares outstanding. This compares to \$0.20 of basic loss per share and 8,713,700 weighted average shares and \$0.23 fully diluted loss per share based on 8,846,567 weighted average shares outstanding in the same period in the prior year. Unrestricted cash and cash equivalents of \$7.9 million as of March 31, 2023 as compared to \$6.1 million as of March 31, 2022.

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. [Operator Instructions]. Our first question will come from Allen Klee with Maxim Group.

Q: Good afternoon. Congratulations on the quarter. Questions on Blue Angels. So I think I heard you say that you're done with the production. Remind us when the goal is for this to hit the theaters. How many theaters it goes and for how long? And then when it becomes available? And when do you recognize the revenue from Amazon? Thank you.

Bill O'Dowd - Chairman & CEO, Dolphin Entertainment, Inc.

Sure. Yes, this is a big deal, so we should unpack it a little bit. And certainly didn't expect to have such an amazing result on the first one out of the gate. So thank you for highlighting it, Allen. The -- we did -- we just announced the deal a year ago this week in Cannes, where I'm

going tomorrow, and we started filming last summer. We finished filming in March. We're editing it now. We expect to -- as of now, the plan is to be in theaters this fall late September, October. Of course, those things can move up or back, depending on a wide variety of factors, but that's the current plan. It would hit Amazon 30 days or so after it goes into theaters. With a documentary like this, we'd love to capture a little bit of the tailwinds to try and do a flying analogy maybe of Top Gun: Maverick, certainly helped us with the hype and excitement around this film, which by all accounts is turning out beautiful.

We would recognize this \$3.5 million in stages. But by the time it goes on the Amazon service, it would be -- recognize at least 90% of the revenue, if not the full 100%. And if we're missing that last 10%, it would come very shortly thereafter. So if the film's released this year, we should recognize it all during the year, and that's exciting for us.

Q: That's great. So as we look into 2023, and we're thinking about Dolphin Ventures, you have -- could you kind of go through what you've publicly said already of projects that are out there that could hit in revenue for yourselves this year?

Bill O'Dowd - Chairman & CEO, Dolphin Entertainment, Inc.

Sure. Yes, it really is this -- Blue Angels really is kind of kicking off, being able to recognize revenue from Dolphin Ventures. So it's an exciting time. Well, obviously, Blue Angels will happen, which is fantastic. And I should point out, before I forget to, I'm sure somebody would kill me, that the deal with Amazon is fabulous for us. We also will have additional revenue on the project from IMAX institutional theaters forever.

So that's exciting as well that we share with IMAX, of course, and the creatives on the film. But this will have a nice annuity, we believe for us. And so that 75% ROI, not bad less than 12 months later. So that's annualized. So less than 12 months will be higher, we will continue to increase over the years. So we're excited about what the next documentary might be with IMAX.

And then that leads to directly answer your question, Allen. We'll have more to talk about on our Q2 earnings call. But the ability to do more projects with IMAX will include some live streaming out of our theater. That could result in some revenue generally, during 2023. Midnight Theatre as a whole will be up running and fully operational very shortly. We've got the restaurant open. We're -- we've got shows in there now, about three many weeks, three weeks -- three nights a week, excuse me.

When we have our magic show up in July, that will give us comfort that we could be more in the four, five night-a-week range and then shortly after Labor Day. With that -- when that happens -- and shortly after Labor Day, excuse me, we expect to be seven days a week. So when that does happen, Midnight Theatre will be generating meaningful revenue, we believe here in 2023 and will be a nice catalyst for us. Be on the lookout for that press release about our magic show.

And then we have other Dolphin Ventures in the works. We do own a stake in Crafthouse Cocktails. Those types of deals, I know many people on the call are fans of, wherein we put up no money, we don't make an investment of cash, but a company gets access to our Super Group.

So we get paid a cash fee every month in the structure, and we get equity in the company that we're promoting or the venture that we're promoting.

Those, we -- without giving a specific number and not stealing thunder from future announcements, I do believe we've identified the next couple of those and are working towards closing and anticipate being able to announce the next one shortly or in the coming weeks, let's just leave it at that, ahead of our Q2 earnings call.

So our goal there is maybe a year from the holidays, have six to eight of those types of ventures in our portfolio. Each will have an exit strategy. Maybe it's selling the company that we're working with, maybe it's doing a fund raiser, et cetera, but it would give us an exit within two to three years of it entering our portfolio.

And having a slate like that, we obviously expect some of them to have Blue Angels type results. It wouldn't qualify to be a venture for us if it wouldn't result in seven figures, certainly, to Dolphin and a few of them where we have high hopes that it could be exits of eight figures or more. So obviously, for a company of our size, a \$10 million exit is extremely meaningful.

So we're excited for that, and we're able to ramp that up because of hiring Ellie, putting the management team in place for Ventures. We'll have more to say on that over the summer and being able to handle six to eight of those at once and manage them to success. So that's -- from a 2023 perspective, I'd say those are the big highlights. So more IMAX, Midnight Theatre and more Ventures that we'll be able to share with everyone.

Q: Thank you. That's great color. The writers' strike that's going on, do you -- does that have an impact on your business? Or does it have to be going on for a long time for that to happen?

Bill O'Dowd - Chairman & CEO, Dolphin Entertainment, Inc.

Yes. No, we're blessed. We're similar to the movie theaters in that we're kind of insulated in terms of -- it would have to go on a long time because the projects we've already been hired to promote through the end of this year, we're identifying projects to promote early to middle of next year. Those are already finished films, much like Blue Angels would be, right? So it will affect TV production if it goes on throughout the summer. And I wish I could be more optimistic about how quickly this may be over, but I think most of the industry is not optimistic at the moment. But it will not affect our business, no, happy to say.

Q: Okay. That's great. In terms of Socialyte and Be Social, how do you feel about integrate the combining of the two and the opportunity you have with these two powerful companies now working together?

Bill O'Dowd - Chairman & CEO, Dolphin Entertainment, Inc.

Yes, I mean, in terms of Dolphin 1.0, our core businesses, this combination, quite frankly, is probably the most exciting thing going because as listeners of these earnings calls know in the last couple, we bought Socialyte the day of our earnings call back in November, and we've been

working to integrate -- get these two companies ready to merge and which we'll be announcing over the summer a new name and excitement around what will be, when they are together, we think the largest and most formidable influencer marketing agency in all of entertainment.

With that said, it's only going to grow because we're going to invest in the growth of that combined company, more divisions, more segments, more platforms we promote on because influencer marketing, I don't know if it's the fastest-growing area in all of marketing, but if it's not, it's got to be very near the top. And anybody that's followed anything in marketing the last five years knows that influencer marketing is going only in one direction.

Because when you think about it, 10 years ago, it started with mommy bloggers. And five years ago, you might have Instagram campaigns. TikTok challenged the industry to come in with short-form video. And now think of all the different segments that are promoted online, right? I mean, it's affected every industry, from books, remember, BookTok a thing.

Let's talk college athletes, NIL, I played basketball at Creighton. Those who have met me in person know I'm seven feet tall. It's a far different world today than when I played in terms of NIL. Those are influencers. And video gaming influencers. We really have synergies we can create with our large video gaming business within 42West and the influencer marketing firms, which we don't do today.

We are heavily, heavily female and beauty, lifestyle, wellness and are the market leader, which is the core cornerstone of influencer marketing today. But in the next three to five years, I'd love to see us be twice as big, 3x as big in influencer marketing. This year, influencer marketing will represent 25% of our revenues, up from 0 before we bought Be Social, right? And it would be a great success story if in three to five years influencer marketing is half of our revenues, which is saying a lot considering how strong our PR firms are. So that combination on our core business, that merger and doing it right this summer and into the Fall, will set us up for a lot of growth in the future years.

Q: Thank you. On the last call, you said that you had a desire to acquire a company in the live events space. Subsequent to that, we picked up a company that's kind of does things like that, and I got educated on what a good business it is. But how do you think about how live events could play into what you do?

Bill O'Dowd - Chairman & CEO, Dolphin Entertainment, Inc.

Well, it's nothing new for us in that, that type of company was always something we said would be part of our group since 2017, right? It was going to be the last piece we had because just we wanted to have the PR firms in place first and the influencer marketing agencies because they will water -- there'll be firehoses of water to potential clients for the right live events company that deals in our space.

Because the live events can mean a lot of things to a lot of people, it can be a very lucrative business, especially, though, when you've got sister agencies like they will. Why? Every movie premiere is a live event. Every streaming service show premiere is a live event. Look -- think of

all the different movies. I'm going to Cannes. We're blessed to represent Martin Scorsese. He's got Killers of the Flower Moon premiering this Saturday, Di Caprio's in it. That's a live event. And how many of those we represent every year?

But how about every hotel opening that The Door does? How about every restaurant opening The Door does? How about everything that can be done at Midnight Theatre? We've hosted, oh, my goodness. I don't even know now, is it 10, 12 premieres in Midnight Theatre? We're not fully open. So it's very hard. Call it live events, call it experiential marketing. I have a very good friend that's listening in on this call now that's a big, big magazine publisher. I think he's probably made more money from his live events than he has from his magazines.

That type of, like I say, experiential marketing is the other piece of earned media, which is what we specialize in. PR, influencer marketing and experiential marketing, that is the cornerstone of our strategy. One last -- just while I'm riffing on this answer. 42West is the unquestioned leader, right, film and TV marketing. We are promoting -- proud to say you'll see a press release out on this, this week or next week. We're promoting the Harry Potter Exhibition that's coming to New York. We have a friends and family Thursday, and I think it's open to the public Friday, if I've got that right. I'll be over in Cannes.

Well, obviously, that's a big, big exhibition, right? I wonder if they're going to do well financially. I'll think about it. Now those types of opportunities, obviously. Warner Brothers owns the IP on that, but whether it's food festivals, music festivals, exhibitions, immersive experiences, think of the Van Gogh exhibits and everything else I just said before. And if you're going to bring celebrities to those types of events which we would look for a company that does that, I think the world is your oyster at that point. So yes, I do think that live events should be a part of our future, for sure.

Q: That's great. My last question is not as exciting, but more financial.

Bill O'Dowd - Chairman & CEO, Dolphin Entertainment, Inc.

Not as exciting as Harry Potter, Allen?

Q: No, just how to think about the -- with your mix of business now, you mentioned 1Q is the seasonally slowest quarter. How to think about how, just in general, the other quarters are relatively?

Bill O'Dowd - Chairman & CEO, Dolphin Entertainment, Inc.

Yes. As we wait more and more with influencer marketing, we're just going to have to get used to this because smoothing it out over the year just won't be possible. Q2, Q3 sequentially ramp up traditionally. With our PR business, too, by the way, but PR has, I'll call it a dip in Q1. Influencer marketing is -- I don't -- there's no other word for it other than seasonality because Q4 is through the roof for influencer marketing traditionally because the brands want to hire the influencers for holiday sales. And then the brands shut off their budgets until you get to Spring.

Coachella and other events, back to live events, traditionally start a heavy brand marketing season with influencers.

So Q1 is always going to be down for us and Q4 could -- well, every single year will be our highest revenue quarter. It will be very interesting to see what happens this year since we've got two influencer marketing campaigns, which by then will be one merged entity. But still -- so yes, I think that's going to be true. This year's second half of the year is going to be overweight anyway because of the recognizing -- probably recognizing the revenue of Blue Angels.

So -- but I think as a rule going forward, we'll grow year-over-year every quarter as we've done for the past three years. We're confident in that because each of our companies learns to cross-sell with the other, better, stronger, faster and easier. We've added one more component that allows them to cross-sell with now at Socialyte. So we'll -- our Q2 should be better than last year's Q2. Our Q3 will be better than last year's Q3, et cetera, et cetera. But Q4 will always be overweight, and Q1 will always be underweight. Q2 and Q3 are often quite similar. Was that helpful?

Q: Yes. Thank you so much and congratulations.

Bill O'Dowd - Chairman & CEO, Dolphin Entertainment, Inc.

Thank you. It's an exciting time. Just don't expect 75% ROI on every venture. Ellie might have a heart attack, Allen.

Q: Thank you.

Bill O'Dowd - Chairman & CEO, Dolphin Entertainment, Inc.

Thank you.

Operator

Thank you. At this time, there are no additional questioners. I'd like to turn it back to Mr. O'Dowd for closing remarks.

Bill O'Dowd - Chairman & CEO, Dolphin Entertainment, Inc.

Oh, gosh. Okay. Well, first of all, I teach at the University of Miami. A shout-out out to all Hurricanes who just graduated and those past graduates that are on this call, and there are a few of those as well. And I know the Q1 call, I always feel a little guilty because I get to talk to everybody twice in six weeks. And usually, not a lot has changed.

Obviously, The Blue Angels is -- has pride of place on this earnings call. I'm very happy that we were able to, together, get off to such a great start with our Ventures. It's exciting times. And of course, having been in this business a long time, 27 years, and having formed multiyear

partnerships with studios and networks in the past, I think having a success like that right out of the gate just cements the relationship we believe we've built with IMAX.

And I think there's -- when two good companies, with all of our reach together, whiteboard additional ways to work together, good things come out of it. So I'm excited for that and sharing some of those ideas that we'll be executing on over the summer and into the Q2 earnings call. Obviously, I've been asked more than once, what's the next documentary? Well, we're going to bask in the glow of this one for a month or two and really make sure that we kick the right next project together. We have some great exciting submissions.

But thank you all for listening. Thank you for giving us the opportunity to tell you our good news, and I look forward to the next earnings call in about three months. So thank you, everybody.

Operator

Thank you. Ladies and gentlemen, this concludes today's presentation. You may now disconnect.