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DLB.N - Q1 2021 Dolby Laboratories Inc Earnings Call

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OVERVIEW:

Co. reported 1Q21 revenue of $390m, GAAP net income of $135.2m and non-GAAP net income of $153.3m. Also reported 1Q21 GAAP net diluted EPS of $1.30 and non-GAAP net diluted EPS of $1.48. Expects 2Q21 revenue to be $280-310m, GAAP diluted EPS to be $0.36-0.51 and non-GAAP diluted EPS to be $0.57-0.72.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Dolby Laboratories Conference Call discussing Fiscal First Quarter Results. (Operator Instructions) As a reminder, this call is being recorded, Thursday, January 28, 2021.

I would now like to turn the conference over to Jason Dea, Director of Investor Relations for Dolby Laboratories. Please go ahead, Jason.

Jason Dea - *Dolby Laboratories, Inc. - Director of Corporate Finance & IR*

Good afternoon. Welcome to Dolby Laboratories First Quarter 2021 Conference Call. Joining me today are Kevin Yeaman, Dolby Laboratories President and CEO; and Lewis Chew, Executive Vice President and Chief Financial Officer.

As a reminder, today's discussion will include forward-looking statements, including our second quarter fiscal 2021 outlook and our assumptions underlying that outlook. These statements are subject to risks and uncertainties that may cause actual results to differ materially from the statements made today. In particular, the extent of the continued impact of COVID-19 on our business remains uncertain at this time. A discussion of these and additional risks and uncertainties can be found in the earnings press release that we issued today under the section captioned Forward-Looking Statements as well as in the Risk Factors section of our most recent annual report on Form 10-K. Dolby assumes no obligation and does not intend to update any forward-looking statements made during this call as a result of new information or future events.

During today's call, we will discuss GAAP and non-GAAP financial measures. A reconciliation between the 2 is available in our earnings press release and in the Dolby Laboratories Investor Relations data sheet on the Investor Relations section of our website.

After the content of today's call, Lewis will begin with a recap of Dolby's financial results and provide our second quarter 2021 outlook, and Kevin will finish with the discussion of the business.

So with that introduction behind us, I will now turn the call over to Lewis.

Lewis Chew - *Dolby Laboratories, Inc - Executive Vice President & Chief Financial Officer*

Okay. Thank you, Jason. Good afternoon, everybody. Thanks for joining the call. I think I'll jump right into the numbers. First quarter revenue was $390 million, which was above the guidance range of $330 million to $360 million and was also above the $271 million we saw in Q4 and the $292 million in Q1 of last year. Revenues were better than what we guided as we had a true-up in the quarter of about $20 million that relates to Q4 shipments, and we also had some recoveries in Q1 that came in sooner in the year than we thought. So that's more of a shift in timing within the fiscal year. Q1 also benefited from higher estimated market TAMs.

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In terms of the sequential growth from Q4, Q1 benefited from timing of revenue under contracts and higher recoveries, along with higher adoption, and this was consistent with what I highlighted at the beginning of the quarter. And in addition, sequential growth was helped by holiday seasonality, which is sort of a typical factor.

In the year-over-year comparison, all of our cinema-related revenue streams were down significantly from last year's Q1, and that's because of COVID. But then more than offsetting that were higher revenues from timing under contracts, higher recoveries and greater adoption of Dolby.

So the Q1 revenue of $390 million was composed of $373 million in licensing and $17 million in products and services.

So let me discuss the trends in-licensing revenue by end market starting with Broadcast. Broadcast represented about 37% of total licensing in the first quarter. Broadcast revenues increased by about 36% year-over-year, and that was driven by higher recoveries; higher adoption of Dolby, including our patent programs; and a higher true-up, which relates to the Q4 shipments. And this was offset partially by lower market volume in set-top boxes. On a sequential basis, Broadcast was up by about 16%, driven by holiday seasonality for TVs, higher recoveries and higher adoption, offset partially by the lower set-top box activity.

Mobile represented approximately 28% of total licensing in Q1. Mobile increased by a little over 200% from last year and about 170% from last quarter due primarily to timing of revenue under customer contracts and also helped by higher customer adoption.

Consumer Electronics represented about 14% of total licensing in the first quarter. On a year-over-year basis, CE licensing was up by about 6%, mainly due to higher adoption of Dolby, including our patent programs. On a sequential basis, CE increased by about 52%, driven by higher seasonality, higher adoption in our patent programs and timing of revenue under contracts.

PC represented about 9% of total licensing in Q1. PC was higher than last year by about 3% due to increased adoption of Dolby's premium technologies like Dolby Atmos and Dolby Vision. And this was offset partially by declining ASPs that comes from mix of disc versus non-disc units. Sequentially, PC was up by about 5%, driven by higher adoption of those premium Dolby technology.

Other Markets represented about 12% in total licensing in the first quarter. They were up by about 8% year-over-year, driven by higher gaming from new console releases and also from higher Via admin fees and via the patent pool program that we administer. And that was offset partially by significantly lower Dolby Cinema box office share because of COVID. On a sequential basis, Other Markets was up by about 33%, driven by higher revenue from gaming and from the Via admin fees.

Beyond licensing, our products and services revenue was $16.9 million in Q1 compared to $14.3 million in Q4 and $34.2 million in last year's Q1. We had anticipated the large year-over-year decrease in our guidance because most of this revenue comes from equipment that's sold to cinema exhibitors, and these customers continue to be negatively impacted by the pandemic. The Q1 total was slightly above guidance, and that was mostly attributable to exhibitors in China.

Now I'd like to discuss Q1 margins and operating expenses. Total gross margin in the first quarter was 90.9% on a GAAP basis and 91.5% on a non-GAAP basis. Products and services gross margin on a GAAP basis was minus $5.5 million in Q1 compared to minus $15.5 million in the fourth quarter, and the fourth quarter included large excess of obsolete inventory charges because of our decision to exit the conferencing hardware arena. We are taking steps to reduce the cost structure in manufacturing, and we should start to see some impact of this by the end of this quarter. This quarter, meaning Q2. Products and services gross margin on a non-GAAP basis was minus $3.9 million in Q1 compared to minus $14.1 million in the fourth quarter. And I would apply the same comments here as I did in the GAAP section.

Operating expenses. Operating expenses in the first quarter on a GAAP basis were $189.8 million compared to $198.7 million in Q4. The Q1 total includes $13.9 million of gain from sale of assets as we completed the disposition of our former Brisbane manufacturing site during the quarter. But it also includes $10 million of restructuring expense, primarily for severances and the related benefits, consistent with the comments that I made at the beginning of the quarter when I provided guidance. Operating expenses in the first quarter on a non-GAAP basis were $167.1 million compared to $176.5 million in the fourth quarter. Non-GAAP operating expenses were below what we've guided primarily due to various marketing programs that shifted out in timing as well as lower bad debt expenses than we had projected.

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Operating income in the first quarter was $164.7 million on a GAAP basis or 42.3% of revenue compared to $48.6 million or 16.6% of revenue in Q1 of last year. Operating income in the first quarter on a non-GAAP basis was $189.7 million or 48.7% of revenue compared to $74.1 million or 25.4% of revenue in Q1 of last year.

Income tax in Q1 was 14.5% on a GAAP basis and 19.9% on a non-GAAP basis. Net income on a GAAP basis in the first quarter was $135.2 million or $1.30 per diluted share compared to $48.8 million or $0.47 per diluted share in last year's Q1. Net income on a non-GAAP basis in the first quarter was $153.3 million or $1.48 per diluted share compared to $65.5 million or $0.64 per diluted share in Q1 of last year. For both GAAP and non-GAAP, net income in the first quarter was above guidance due to revenue higher than what we projected, combined with operating expenses lower than what we had estimated.

During the first quarter, we generated about $82 million in cash from operations, which compares to about $31 million generated from operations in last year's first quarter. And we ended the first quarter this year with about $1.2 billion in cash and investments.

During the first quarter, we bought back about 500,000 shares of our common stock and ended the quarter with about $147 million of stock repurchase authorization still available to us.

We also announced today a cash dividend of $0.22 per share. The dividend will be payable on February 19, 2021, to shareholders of record on February 9, 2021.

Now let's discuss the forward outlook. As a reminder, the approach we took at the beginning of the fiscal year was to give specific guidance for Q1, like normal, and then give a scenario of a revenue range for Q2 and then give some qualitative comments on the second half of the year. We took that approach because of the uncertainties from COVID, which was causing very limited forward visibility. Now nearly 3 months later, it's fair to say that visibility remains very limited. Not surprising, given the ongoing disruption we're seeing around the world from pandemic. So today, we'll take a similar approach to what we did before. I will discuss full P&L guidance for Q2 and then provide some color on the second half of the year, but not detailed guidance.

Let me start by reminding you of a couple of comments I made last quarter that remained true today. At that time, I said that for the first half of FY '21, we were anticipating year-over-year growth in licensing revenue from higher adoption of Dolby technologies, but we are also expecting year-over-year decline in products and services revenue because of the COVID impact on the cinema industry.

Let's talk more specifically now then about the Q2 revenue outlook. Last quarter, I provided a Q2 revenue scenario of $270 million to $300 million for the quarter. Today, our scenario is that Q2 revenue could range from $280 million to $310 million. The TAM data for Q2 has risen modestly compared to what we were seeing a few months ago, and we have factored that into this latest scenario.

And to reinforce something I said last quarter, the transition from Q1 to Q2 this year reflects higher revenue in Q1 from timing under customer contracts and also recoveries. Last year, in FY '20, that order was reversed in the sense that Q2 was the quarter that benefited more from the timing and recoveries. So if I combine the Q2 actual that we just reported with the Q2 outlook I mentioned a second ago, that would put our first half revenue outlook range at $670 million to $700 million compared to our previous outlook range of $600 million to $660 million. So that's the first half.

Now let's talk about revenue in the second half of FY '21. There's 4 main factors that I'd like to highlight: TAMs, the pace of recovery in cinema space, timing of revenue and higher adoption of Dolby. Let me explain a bit more. First of all, the industry TAM data that we're currently seeing from analysts continues to indicate that TAMs are projected to be lower in our second half on a year-over-year basis, mainly because of an uptick in shipment volume of certain devices like TVs and PCs that happened in the second half of FY '20 but is not projected to repeat in the same time frame of FY '21. Second, in the cinema space, the recovery that people might have been expecting seems to be pushing out in time, and that's judging by trends in content by big titles and screen openings or closings.

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Third, as I alluded to earlier, some of the upside in our Q1 revenue, the quarter we just reported, came from deals closing sooner than we thought, in other words, moving from second half into the first half. And fourth, we would anticipate that a higher adoption of Dolby technologies would drive year-over-year growth.

And then from a sequential perspective, i.e., transitioning from first half '21 to second half '21, we had said before and we continue to say that we anticipate second half revenue would be below first half because of a combination of lower seasonality in consumer device shipments and lower revenue from timing under contracts and from recoveries. So considering these various factors, we could see a scenario for second half revenue in the mid- to high 500s. But as I said earlier, we'll stop short of providing detailed guidance because of the limited visibility right now. And of course, we plan to provide you all with an update in 3 months when we publish our Q2 actual results.

So let me quickly finish up by providing an outlook on the rest of the P&L for Q2. I already highlighted the revenue range of $280 million to $310 million in total, of which licensing would comprise $270 million to $295 million, while products and services would comprise $10 million to $15 million. Q2 gross margin on a GAAP basis is estimated to range from 88% to 89%, and the non-GAAP gross margin is estimated to range from 89% to 90%. Within that, products and services gross margin is estimated to range from minus $3 million to minus $4 million on a GAAP basis and from minus $2 million to minus $3 million on a non-GAAP basis. Operating expenses in Q2 on a GAAP basis are estimated to range from $200 million to $210 million. In Q2, our annual salary increases for all the employees go into effect, and we also anticipate more activity in marketing programs as well as R&D projects.

Operating expenses in Q2 on a non-GAAP basis are estimated to range from $175 million to $185 million, and the projected increase from Q1 is driven by the same comments I made about the GAAP operating expenses.

Other income is projected to range from $1 million to $2 million for the quarter, and our effective tax rate for Q2 is projected to range from 20% to 21% on both a GAAP and non-GAAP basis. So based on the combination of the factors I just covered, we estimate that Q2 diluted earnings per share could range from $0.36 to $0.51 on a GAAP basis, and from $0.57 to $0.72 on a non-GAAP basis.

That's all I have. Over to you, Kevin.

Kevin J. Yeaman - *Dolby Laboratories, Inc. - President, CEO & Director*

Thank you, Lewis, and good afternoon, everyone. Our fiscal year is off to a great start, and we continue to enable Dolby experiences to more people around the world. Dolby Vision and Dolby Atmos are increasingly available across a broad range of new devices and services, and we are enabling more Dolby experiences in music and gaming, which is adding to our value proposition for broader adoption in areas such as Mobile and PC. On top of that, we are excited about bringing Dolby to address everyday virtual experiences and interactions through Dolby.io. All of this adds to our confidence in the significant growth opportunities that we see ahead of us.

As consumers spend an increased amount of time enjoying content within their homes, it is clear that the quality of these experiences matter. And Dolby Vision and Dolby Atmos are consistently highlighted among the devices and services that enable the best way for people to enjoy their content. The combined Dolby experience was highlighted at CES throughout the latest TV lineups from our partners, including LG, Sony and Panasonic. TCL and Skyworth also announced they are adding support for Dolby Vision IQ, which optimizes the picture on your TV to the surrounding light and the content being viewed. Earlier this quarter, OPPO launched their first TVs, which includes support for the combined Dolby Vision and Dolby Atmos experience. And Dolby Atmos continues to be highlighted among the top sound bars in the market, including the latest products announced at CES from LG, JBL and TCL.

As we move beyond the living room, our partners are increasing the ways in which consumers can enjoy Dolby experience, including new adoption and headphones. Apple is supporting Dolby Atmos in AirPods Max, adding to the ways the consumer can enjoy the Dolby experience across Apple's devices and services. Samsung recently announced that their Galaxy Buds Pro supports Dolby Atmos and includes Dolby head tracking technology, which enables consumers to have a realistic and immersive sound experience as they physically move in relation to where their content is being played.

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Within PC, we continue to see growing momentum for broader adoption of Dolby technologies. Lenovo announced that they will be bringing the first PCs with Dolby Voice to market. Dolby Voice for PCs will optimize the communications experience to create clearer and more natural meeting experiences. This is another example of how we are bringing new value to our partners by addressing a primary use case for how consumers interact with their PCs on an everyday basis. Lenovo also continues to support Dolby Vision and Dolby Atmos across their latest PC lineups. Additionally, Dell continues to release new PCs that support Dolby Vision. And in India, we saw new Nokia PCs from Flipkart come to market with the combined experience.

With a broad range of OEM partners and devices that support Dolby Vision and Dolby Atmos, it is becoming easier for consumers to discover content available in Dolby. HBO Max became the latest major streaming service to support the combined Dolby Vision and Dolby Atmos experience, starting with the release of Wonder Woman 1984. They joined top streaming services around the world like Netflix, Disney+, Apple TV+, Tencent, Rakuten and more that are enabling content and the combined experience. In addition, Amazon Prime video began to stream live English Premier League matches in Dolby Atmos, and Canal Plus is now supporting Dolby Atmos within their on-demand services in Poland.

And while we're on the topic of movie and TV content, let me spend a moment on Dolby Cinema. As Lewis said, the environment remains challenging across the industry. At the same time, in certain regions where consumers have been able to return to the cinema and there is strong local content, we have seen that consumers will seek out a premium experience. As the industry continues to evolve, we are confident that Dolby Cinema enables the best way to enjoy a movie and our partners remain deeply engaged. 12 new Dolby Cinema locations around the world were opened this quarter, including our first site in Taiwan.

So as we continue building on our strong presence within movie and TV content, we see significant opportunities to enable more Dolby experiences in areas like music and gaming. The music and Dolby experience continues to expand globally across artists, services and devices. Several new artists around the world released music in Dolby Atmos for the first time this quarter. Anghami, one of the largest music streaming services in the Middle East, announced that they will be enabling support for Dolby Atmos music within their Anghami Plus] service. TIDAL continues to expand the number of devices within the home that enable the Dolby Atmos music experience with their TIDAL Connect feature. The music and Dolby experience adds to our value proposition for deeper adoption within mobile, and creates new opportunities in new device categories like automotive, where we see strong initial engagement from potential partners.

Moving on to gaming. The Xbox Series X and Series S will be the first consoles to support the combined Dolby Vision and Dolby Atmos experience for gaming content with updates scheduled for later this year. New gaming titles like Call of Duty: Cold War and Immortals Fenyx Rising were released this quarter with support for Dolby Atmos. As we grow the amount of gaming content in Dolby, we increase the reasons for broader adoption in mobile and PC devices. Lenovo and ASUS recently announced new gaming PCs that will support Dolby experiences. And this quarter, QQ Speed Mobile by Tencent became the first mobile game with Dolby Atmos.

Tencent games and Anghami Plus are examples of the growing momentum we have in enabling more Dolby experiences in gaming and music that address more of the content that consumers are most engaged with on their mobile devices. With the release of iPhone 12 at the beginning of the quarter, consumers can now record, share and enjoy their videos in Dolby Vision. BT is now streaming live sports in Dolby Atmos to mobile devices via their BT Sports app. And Bilibili, one of the largest video sharing sites in China, began supporting content in Dolby Atmos.

As we continue to increase the amount of relevant content, we are adding to our value proposition for deeper and broader adoption of Dolby within mobile devices.

We also continue to deepen our engagement within the developer community with Dolby.io. Having been in market now for about 8 months, let me highlight a couple of opportunities that we are focused on. First, there is an increasing demand for high-quality real time interactions across a broad range of apps and services, including social media, live performance and online education. This is the use case for our interactivity APIs with Dolby Voice. For example, Kiddom, a digital platform for online education, is expanding their usage to include our full suite of interactivity APIs, including Dolby Voice, to improve the quality of the communications experience between teachers and students.

Second, we see an opportunity to bring higher quality to recorded media content, starting with audio. Video platforms are embedding our media APIs to enable higher quality audio experiences ranging from social media and podcasts, to product videos and even footage used for news

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broadcasts. While we are still in the early days, we are learning from our engagement with developers to continue to involve our offer -- evolve our offering, increase usage and broaden the number of use cases that we can address.

So to wrap up, the combined Dolby Vision and Dolby Atmos experience is consistently highlighted among the best ways to enjoy movie and TV content. We are seeing the Dolby experience expand across new forms of content, for music and gaming to user-generated content, all of which build upon our value proposition for broader adoption across devices and services. The engagement with our developer platform continues to grow, bringing Dolby to a broader world of content experiences and interactions. All of this gives us confidence in our ability to drive revenue and earnings growth into the future.

And with that, I will turn it over to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Steven Frankel with Colliers.

Steven Bruce Frankel - *Colliers Securities LLC, Research Division - Senior VP & Director of Research*

So Kevin, just picking up on the steam of the combined Atmos/Vision experience, especially in the TV market. Maybe give us a feel for how much you think that combined experience has increased for the 2021 TVs versus 2020. So do you have any numbers you'd like to share with us or any comments along those lines?

Kevin J. Yeaman - *Dolby Laboratories, Inc. - President, CEO & Director*

Well, thanks, Steve. So first of all, as you know, we have said that we were on about 10% of 4K TVs, which are about half of the TV market in '19, and we grew to kind of the mid- to high teens in '20. And even throughout '20, increasingly, we are seeing the combination of Vision and Atmos on those TVs. And I don't have any specific numbers in terms of attach rate for you, but I tell you that we're pleased at CES with the presence of Dolby Vision and Dolby Atmos, the increasing presence across the TV lineups that were announced and also the additional partners for Dolby Vision IQ.

So at the end of the day, we continue to see a significant opportunity to broaden both Dolby Vision and build the Atmos in the living room, whether that's in TV or sound bars, and as well as progress in other devices. And then, of course, we think that the work we've done to expand into new experiences, gaming, music and the beginnings of user-generated mobile-first content, really expands the opportunity in PC, Mobile and beyond.

Steven Bruce Frankel - *Colliers Securities LLC, Research Division - Senior VP & Director of Research*

And picking up on music. Maybe an update on the device side and how many types of new devices might we expect in 2021? And when do you think we'll start seeing aftermarket car devices with Atmos?

Kevin J. Yeaman - *Dolby Laboratories, Inc. - President, CEO & Director*

So ultimately, Steve, we would envision that any of these devices that we're winning with Dolby Atmos will be able to ultimately support the Dolby Atmos music experience. And right now, that's just a matter of the pace at which our streaming service partners expand the support for those devices in the market.

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And what I would say is the -- a big focus for us is continuing to create more outlets for Dolby Atmos music. And so certainly, adding streaming services is a big focus of ours. And I think that's what will stimulate the -- more demand for Dolby Atmos, specifically for music on devices that may not have yet been compelled to have it, including automotive.

Steven Bruce Frankel - *Colliers Securities LLC, Research Division - Senior VP & Director of Research*

Great. And then one last one. Picking up on your cinema comments, and I know IMAX has talked about how they've gained market share from the plain vanilla theatrical experience in China as markets recovered. Can you share any data on how your business has fared post recovery in China?

Kevin J. Yeaman - *Dolby Laboratories, Inc. - President, CEO & Director*

Yes. So first of all, clearly, China is far ahead of the U.S. in terms of coming out the other side of COVID. There have been some -- they've had some great box office titles, which have led to great weekends and great weeks at a time. And I can say that we have seen, from our perspective, a higher percentage of that box office is in Dolby Cinema. And I think that just is consistent with our hypothesis, which is that when the big titles come back, people are going to want to see big titles in the cinema and that they're going to want to see them in the best possible way.

Steven Bruce Frankel - *Colliers Securities LLC, Research Division - Senior VP & Director of Research*

Great. And then I'll sneak in one last one. So on io, how should we judge this business over the next few quarters? Should it be around the number of events you're running for developers or the number of new designs? How should we think about the business in the short run?

Kevin J. Yeaman - *Dolby Laboratories, Inc. - President, CEO & Director*

Yes. Clearly, it's -- we've been in market now for about 8 months, as you know. So it's early days. What we're most focused on is getting people to the platform, getting developers using the APIs and then, of course, getting more of them -- putting them into production and becoming a paid customer for those APIs.

And as we do that, we're learning a lot about where the best opportunities for us lie and that better informs our road map to keep evolving it on a regular basis. So yes, it's about how many developers are engaging with us and how many people are ultimately using our APIs in the context of their services and operations.

Operator

Next, we'll move on to Paul Chung with JPMorgan.

Paul Chung - *JPMorgan Chase & Co, Research Division - VP & IT Hardware Analyst*

So just another follow-up on the io business. I know it's early days, but can you help us kind of frame the potential there?

And then I know you have some pricing info on the website, but -- how did margins kind of shake out over time?

And then any kind of meaningful anchor clients you want to call out across any of the verticals?

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Kevin J. Yeaman - *Dolby Laboratories, Inc. - President, CEO & Director*

Sure. So I guess, I'll -- let me start with the market. And again, this is early days. So we're excited about -- we're excited about the opportunity. And as we see it -- I highlighted a couple of those opportunities is that I think that we're seeing an increase in demand for applications and services of all types to enable interactivity in their applications. And that's exactly what we're aiming to do. There's also, as you know, an increasing amount of media content in the cloud created by all of us. And we see a significant opportunity to provide every creator with the capability to improve the quality of that content. And specifically today, we're beginning with the ability to clean up recorded audio.

Some of our early customers on the recorded audio side, we have a platform VEED.IO, which people use to prepare and post content to social media and other channels. We have a customer on the name of CitNOW, which is a digital platform for the automotive industry and one of the features of that is that you can do seller videos. And we are -- they are using us to improve the audio quality across all of those seller videos, which is -- we've seen interest from other people who do similar kind of activities.

On the interactivity side, I highlighted in my remarks, Kiddom, we're excited about that. We think online education is in that sweet spot of the need for real time communication combined with high-quality media. I would -- we also have an interesting customer by the name of Talkspirit, which is an online collaboration platform, which is using our full suite of APIs.

So those are a couple of the highlights for now. And we're -- like I said, we're focused on continuing to get more developers engaged, and we look forward to sharing more with you as we go forward.

Paul Chung - *JPMorgan Chase & Co, Research Division - VP & IT Hardware Analyst*

Okay. Great. And then my follow-up is on -- if I think about fiscal year '21, I keep the second half revenues in line with your guidance? The mix shift to licensing benefit, kind of slower pace of OpEx maybe implies maybe a 35% operating margin for the full year. And then maybe possibly free cash flow well above $300 million. Is this kind of a fair assessment? Is this kind of the new normal for the business, at least until cinema comes back, maybe next calendar year that it may weigh in costs and margins?

Lewis Chew - *Dolby Laboratories, Inc - Executive Vice President & Chief Financial Officer*

Paul, this is Lewis. A lot of, as usual, your question contains a lot of detail that we didn't provide. But that's okay. I think it's a fair question, but I think to be fair, we purposefully tried to give all of you on the call here today some color for what we're seeing in the revenue scenario. Because revenue is such a big driver of activities, we didn't give any flavor for OpEx because we're managing that a little bit more quarter-to-quarter right now. You saw that this quarter, we came in below target because we pushed out some of the marketing initiatives that -- from a timing standpoint, only.

So I think it would be best for me not to comment off the cuff on the specificity of your numbers from now other than to say that as a business, we have historically been a very strong, both margin and cash flow-producing company. And once we get over the hump of COVID, I don't see any reason why we wouldn't return to that same structure. But right now, we still are in the middle of COVID, and we should not pretend that we haven't been affected by COVID because before COVID hit our revenues, we're running at a higher rate, setting aside the quarter that we just reported, which had its own goodness in there.

So how about if down the road as we get closer to the end of the tunnel for the COVID will get more specifically into forecasting the margins looking further out over time. For now, all I can do is point you towards the guidance that I provided today for Q2, which does have margin information in it and then indicate that right now, the most we're comfortable saying is that we see a scenario of revenue in the second half in the mid- to high 500s.

Operator

(Operator Instructions) We'll move next to Jim Goss with Barrington Research.

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James Charles Goss - *Barrington Research Associates, Inc., Research Division - MD*

I'd like you, if you would, to get a little more granular on the -- that tremendous gain in mobile revenues in terms of percentage change in share. Is it broad-based? Or are there specific providers? I know Apple has been a pretty important partner for you? What can you talk about in terms of that? How much was pull forward? And what may we expect in the coming quarters?

Lewis Chew - *Dolby Laboratories, Inc - Executive Vice President & Chief Financial Officer*

Jim, this is Lewis. I probably went over it fairly quickly in my script. So I apologize for that. But the vast majority of the benefit we saw that caused the Mobile numbers to look so impressive this quarter relative to us would say a normalized number is revenue that from a timing standpoint landed in this quarter. We have historically not attributed to that to any specific customer because that's not our practice to do that. But I'd point out that last year, we had some timing of revenues that would have landed maybe in the second quarter. So I tried to highlight that.

But clearly, the bump that we saw in Mobile revenue this quarter came from revenues that was disproportionately landing in Q1 versus the rest of the year, which is not uncommon for us as a company. We have a variety of different structures or transactions with customers that cause that to happen, that's pretty normal. But beyond that, we really can't comment on any specific customers, no matter what letter of the alphabet that they start with.

James Charles Goss - *Barrington Research Associates, Inc., Research Division - MD*

Okay. And in a number of times in the past, you've reported a much better-than-expected quarter, and then it seemed a lot of it was pulled forward from the next quarter or 2. It doesn't seem that, that's the case this time, given your second quarter guidance, it seems pretty consistent with what we've been expecting for that quarter. So is that a sign that your overall level of business despite COVID is better than -- at the elevated levels relative to what you might have hoped for?

Lewis Chew - *Dolby Laboratories, Inc - Executive Vice President & Chief Financial Officer*

Jim, Lewis again. There was a portion of our goodness in Q1 that was a shift in timing. I would say that any time we head into a new year, especially in this environment with COVID, we model as best as we can not only which deals we think we will be able to realize but when they might land and to what degree, how much? And there was some of that revenue that landed in Q1 that we might have mentally been modeling more for the second half of the year.

I would say less so Q2, I wouldn't call it a pull forward, just please understand that in a big wide range of customers that we have, it's not a pure science when something will occur. It's not like putting something on a manufacturing line and modeling out when it's going to come out the other end. We have a lot of things that go into a transaction, not the least of which is negotiating a variety of terms. So there is some revenue in Q1 that we believe would normally we would have thought it would have landed in the second half of the year. If I had to size that, it's probably in that sort of $15 million to $20 million worth. But obviously, the quarter was very strong anyway. But I wouldn't say that a large part of that came out of Q2.

The primary reason I highlighted in my prepared comments about Q2 was, I made some comments last quarter about how we saw Q2 shaping up. And then since that time, the market TAMs have bumped up modestly. So that's why the Q2 bumped up, but it wasn't affected as much by this comment you're asking me about the timing shift from revenue we thought could have landed in another quarter, that was more from the second half of the year moving into Q1.

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James Charles Goss - *Barrington Research Associates, Inc., Research Division - MD*

Okay. And one other follow-up would be, I'm wondering, with the advent of multiple services, Atmos and Vision in particular, could you talk about royalty rate trends in terms of you may be getting multiple bites at the apple in certain of the devices versus the one you might have had in the past. And is that helping somewhat of this disparity and the improved margins you've highlighted that you didn't want to get into that much? But in terms of affecting the top line, is that part of what's going on?

Lewis Chew - *Dolby Laboratories, Inc - Executive Vice President & Chief Financial Officer*

Jim, I'll take the first cut at this, and then if there's any color that Kevin wants to add. But I think at a very high level -- the primary thing that is driving our improved margins at the highest level is really the mix of our revenue. Because COVID has disproportionately impacted our products and services revenue and driven those down disproportionately to our licensing, where licensing continues to grow, the licensing revenue just naturally carries a much higher-margin than the products piece of the equation. So therefore, that's what would benefit the total company margins, it's more of a mix between that, as opposed to some sort of pricing leverage we have from licensing more products because licensing, just as a general comment, inherently carries a very high-margin within our business construct.

Kevin J. Yeaman - *Dolby Laboratories, Inc. - President, CEO & Director*

Yes. That's -- I think Lewis has covered the margin part of the question. And of course, when we come in higher, as we did in Q1, because of that margin structure, it has a strong benefit to operating margins.

In terms of your ASP question, clearly, getting a bit more adoption of experiences like Dolby Vision and Dolby Atmos on top of the license that they already have Dolby Digital Plus or other of our technologies, certainly, that takes the form of a higher ASP, which is a big part of what contributes to our organic growth. It's about getting on more devices, and it's about broadening the value proposition on those devices. And so that's what we're focused on every day, and we're pretty pleased with the progress this quarter.

Operator

Everyone, that does conclude our question-and-answer session at this time. I'd like to turn it back to Kevin Yeaman for any closing remarks.

Kevin J. Yeaman - *Dolby Laboratories, Inc. - President, CEO & Director*

Great. Thank you, everybody, for joining us today, and we look forward to speaking with you again soon.

Operator

This concludes today's conference. We do thank you all for your participation. You may now disconnect.

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