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DLB.N - Dolby Laboratories Inc Annual Shareholders Meeting

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CORPORATE PARTICIPANTS

Andy Sherman *Dolby Laboratories, Inc. - Executive VP, General Counsel & Corporate Secretary*

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

CONFERENCE CALL PARTICIPANTS

Jeff Seiders

PRESENTATION

Operator

Hello. And welcome to the 2021 Annual Meeting of Stockholders of Dolby Laboratories, Inc. Please note that today's meeting is being recorded. (Operator Instructions) It is now my pleasure to turn today's meeting over to Andy Sherman, Executive Vice President, General Counsel and Corporate Secretary of Dolby Laboratories. Mr. Sherman, the floor is yours.

Andy Sherman - *Dolby Laboratories, Inc. - Executive VP, General Counsel & Corporate Secretary*

Thank you, operator. Good morning, and welcome to the Dolby Laboratories 2021 Annual Meeting of Stockholders. I'm Andy Sherman, Dolby's General Counsel and Corporate Secretary, and I'll serve as the Chairman and Secretary of this meeting.

Due to the continuing public health impact of COVID-19 and to protect the health and well-being of our stockholders and employees, we're holding our annual meeting in a fully virtual format for the first time this year. Copies of the agenda and the rules of procedure for the meeting are available at our annual meeting website. Please note that stockholders who logged into the meeting using a 15 digit control number, have the opportunity to participate in today's meeting by voting, asking questions or submitting comments during the meeting by following the instructions on our annual meeting website. Attendees and guess mode may not vote, ask questions or submit comments at the meeting. After the formal part of the meeting, our President, Chief Executive, Kevin Yeaman, will lead a management presentation and hold a Q&A session to the extent that we have any questions that are received during this meeting.

So with that, let's get started. Joining virtually today are all of the members of our Board of Directors, for management, in addition to Kevin, we're joined by other members of our senior leadership team. We're also joined by representatives of KPMG, the company's independent auditor. Representing Computershare Trust company, the transfer agent of the company is Jeff Seiders who will serve as the inspector of election. We're also joined by representatives of Wilson Sonsini Goodrich & Rosati, the company's outside counsel. With that, I hereby call the meeting to order.

Stockholders of record as at the close of business on December 7, 2020, are entitled to notice of and to vote at this meeting. A list of stockholders of record as of that date is available on the annual meeting website for inspection by stockholders who logged into this meeting using the 15 digit control number. We've provided or made available to stockholders copies of the notice of annual meeting, the proxy statement, the fiscal 2020 annual report. We'll file evidence of the mailing of these materials with our minutes. Jeff Seiders of Computershare Trust company has been appointed as the inspector of election. His oath of office has been filed with the minutes of this meeting. The meeting has been properly called and proper notice has been given. I'll now ask the inspector of election to please present his report.

Jeff Seiders

Mr. Chairman and Secretary, a majority of the voting power of the outstanding shares of Class A and Class B common stock is present or represented by proxy.

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Andy Sherman - *Dolby Laboratories, Inc. - Executive VP, General Counsel & Corporate Secretary*

Thank you, Mr. Seiders. A quorum is present. We're now ready to transact business. It is now 10:33 a.m. on February 2, 2021. The polls are now open. Stockholders who logged into this meeting using a 15 digit control number may vote their shares. However, if you've previously voted your shares, your vote has been received by the company's inspector of election, and no further action is needed unless you wish to revoke or change your vote. We'll dispense with the reading of the minutes from last year's meetings. Copies of these materials will be available to stockholders who wish to review them.

There are 3 items of business on the agenda for the meeting. First is the election of 8 directors. Those 8 nominees receiving the highest number of votes of shares present in person or by proxy at this meeting will be elected as directors. The nominees, if elected, will serve until the 2022 annual meeting of stockholders or until their successors are elected and qualified. Biographical information about each director nominee, including his or her qualifications and experiences is contained in the 2021 annual meeting proxy statement. The nominees for election as directors of the company are: Peter Gotcher, Chairman of the Board, Chairman of the Nominating and Governance Committee, Kevin Yeaman, President, Chief Executive Officer; Ms. Chau, Dave Dolby; Simon Segars; Roger Siboni, Chairman of the Audit Committee; Anjali Sud; and Avadis Tevanian, Chairman of the Compensation Committee and Technology Strategy Committee.

Bill Jasper, who has provided more than 40 years of distinguished service to Dolby and its stockholders, including as a Director and a former President and CEO, is retiring from the Board and receiving the honorary title of Director Emeritus. On behalf of the company and its Board of Directors we acknowledge with gratitude, Mr. Jasper's, years of service and contributions for the company and its stockholders, and we wish him well in his retirement.

Dolby has not received timely notice under the company's bylaws of any other nominations for directors by stockholders. The next order of business is the consideration of two other proposals, which are described in more detail in the proxy statement. Proposal number two, an advisory vote to approve the compensation of the company's named executive officers. Proposal number three, the ratification of the appointment of KPMG as the company's independent auditor for the fiscal year ending 2021. With respect to proposal number one, the 8 nominees receiving the most votes in favor will be elected. With respect to proposals 2 and 3, the affirmative for vote of a majority of the voting power of shares present and entitled to vote or by proxy, at this meeting, is required to approve those proposals.

At this time, we will pause for a few seconds to make sure that all the votes are in.

(Voting)

Andy Sherman - *Dolby Laboratories, Inc. - Executive VP, General Counsel & Corporate Secretary*

It is now 10:36 a.m., February 2, and the polls are now closed. Is the inspector of election prepared to report on the results?

Jeff Seiders

Mr. Chairman and Secretary, I have in hand a signed inspector's report and hereby report that all 8 director nominees have been elected and that proposals 2 and 3 have been approved.

Andy Sherman - *Dolby Laboratories, Inc. - Executive VP, General Counsel & Corporate Secretary*

Thank you, Mr. Inspector. This concludes our formal agenda. The annual meeting is now adjourned. Next, we'll have a management presentation followed by a Q&A session. Management and representatives of KPMG will be available to answer any appropriate questions that have been submitted.

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Before turning it over to Kevin, I'd like to point out that the management presentation may contain forward-looking statements. There are risks and uncertainties associated with these forward-looking statements, and actual results may differ materially. For more information, please see the risk factors in our latest quarterly report on Form 10-Q filed with the SEC. Dolby assumes no obligation and does not intend to update any forward-looking statements made during this meeting as a result of new information or future events.

In addition, please note that today's presentation includes the use of certain non-GAAP financial measures to provide investors with additional information to evaluate Dolby's operating results in a manner that focuses on what Dolby's management believes to be its ongoing business operations. For additional information, and to view a reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures, please visit Dolby's Investor Relations website at investor.dolby.com. With that, it's my pleasure to welcome and turn the floor over to Kevin, Dolby's President, Chief Executive Officer. Kevin, over to you.

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

All right. Thank you, Andy, and thank you, everybody, for joining us today. So before I get started, Andy, thanked Bill Jasper a moment ago, I would like to take a moment to thank Bill as well. We at Dolby -- Dolby has been in business for over 50 years. And those of us who have the pleasure to work at Dolby every day, appreciate each day that what we do, we stand on the shoulders of all of those who built this incredible foundation. And we -- you might say we stand on the shoulders of giants and Bill is one of those giants. And so Bill, I just want to thank you for everything you've done to give us such a strong foundation to build on and for everything you've done that will carry us forward into the future.

With that, I'm going to take you through a summary of the year. I'll start with some highlights of our financial performance. And then I want to spend most of our time talking about what we're focused on at Dolby in order to bring more Dolby experiences to the world and drive revenue and earnings growth. As we were coming into FY'20, we were coming off a 3-year period where we were growing revenues in the mid to high single digits annually, about 7% a year and EPS at about 10% a year, so a little higher than revenue.

And of course, as we came into FY'20, we did not know that COVID was right around the corner. And if you look at how this plays out on a quarterly basis, we began the year on kind of our -- on a similar growth trajectory. And it was toward the end of Q2 that COVID began to impact us. And then you see that Q3, there was a noticeable impact. And that's for a couple of reasons. First of all, most of our revenue at Dolby is generated from the licensing of our technologies and solutions into consumer devices. And that means that when consumer device sales and shipments go up, our revenue goes up with it. And when it goes down, that has an impact on our revenues. And the way COVID affected that, particularly as we moved into Q3, was as there were a number of store shutdowns and it affected consumer spending and there was also -- there were also disruptions in the supply chain, which affected the supply of some of those devices. So that affected us through the second half of the year.

As did Cinema, which is a smaller percentage of our revenue. But of course, many cinemas around the world were shut down or under attendance restrictions and many of the biggest titles from Hollywood were delayed or pushed into the future. So that was kind of the environment as we navigated through the second half. We continue to focus on growing adoption and getting new wins. And we had a lot of success, which we'll talk about in a moment.

As we move into '21, we did see -- we did get off to a strong start to the year. This is in spite of the fact that Cinema has not yet recovered. So we had significantly lower Cinema revenues year-over-year. We did benefit from some of the timing of revenue under our contracts, but we also saw a significant improvement in consumer spending and device shipments relative to what the industry was expecting in Q4 leading into Q1. And that's what resulted, along with kind of normal seasonality as we go into the holiday period, a very strong first quarter. So certainly, there continues to be uncertainty as it relates to how the recovery looks and how COVID progresses or subsides, hopefully. But we're pleased to be off to a strong start to FY'21.

And I think that our overall financial metrics really speak to the strength of our financial model in the context of a year like this. In spite of the uncertainties around COVID and the impacts to our business, we did continue to generate 19% operating margins on a GAAP basis, 27% on a non-GAAP basis. Again most of our revenue comes from licensing to consumer devices, so we enjoyed very high gross margins on that revenue. And that's what has enabled us to continue to generate strong operating margins and strong cash flow from operations. So we're in a strong financial position as we go forward, and we have a strong financial model upon which to build.

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So let me now spend some time talking to you about what we're focused on at Dolby and where we see opportunities for growth in the future. And it starts with why we do what we do? At Dolby, we very much believe that people want to have compelling and immersive experiences. That good enough is rarely good enough for artists or consumers and that through the science of engineering -- the science and engineering of site and sound, we can continue to raise the bar on those experiences. So for us, it's about how these experiences make consumers feel. It's about allowing artists to better tell their stories. And it's about the shared experiences that result from that and making them more emotive than they otherwise would have been.

And so our focus every day is on expanding the number of people around the world that can enjoy Dolby experiences. We focus on continuing to innovate so that we continue to raise the bar on the quality of those experiences. And when we do those things, that's what drives revenue and earnings growth into the future. So let me talk about where we see those opportunities. And for us, it really does start with content. We work directly with creative professionals to expand their palette with the use of our audio visual technologies. And Dolby Vision and Dolby Atmos are state-of-the-art visual and audio technologies. And we continue to enjoy increasing adoption across many forms of content.

And it started in the movies. And while there -- as we talked about, there have been fewer titles this last year, those titles that are released continue to support Dolby Vision and Dolby Atmos. We do believe that while we still cannot predict the timing of the recovery, we do believe that when the big titles come back to the cinema and people are allowed to go that people will want to enjoy the moviegoing experience. And then when they do, they're going to want an experience that is the best that it can possibly be. They will tend toward the best experiences. And Dolby Cinema is the best way to see a movie in the cinema.

We did see in the first quarter, about 12 new Dolby Cinema locations completed around the world, including 1 in Taiwan, which was our first there. So moving beyond the cinema, we, of course, are very focused on bringing this content -- movie and TV content into the home. And we made a lot of progress on that front this year. We came into the year with a very strong foundation with partners such as Netflix, Tencent, Rakuten supporting the Dolby Vision, Dolby Atmos experience. We got off to the year with a big start, both Disney+ and Apple TV+ launched in the early part of 2020 with support for Dolby Vision and Dolby Atmos on day 1. And then as we came out of the year, HBO Max is the most recent streaming service to support the Dolby Vision and Dolby Atmos experience.

And the significance of this is that the more content that is available in Dolby Vision and Dolby Atmos, the stronger the value proposition for our device partners to include Dolby Vision and Dolby Atmos so that consumers can experience in the best possible way. And in fact, we have continued to see broader adoption of both Dolby Vision and Dolby Atmos. Our first -- we started with TV. Our first Dolby Vision television came to market just under 5 years ago. And in 2020, between 15% and 20% of 4K TV shipments included Dolby Vision and an increasing number of those included Dolby Atmos along with it. 4K TVs were just over 50% of the overall TV shipments. That will continue to grow. So we have a very strong presence on televisions, and we still have the opportunity to increase our adoption.

We've also seen at an increasing number of soundbars and the virtual CES is just completed. We saw our partners like Sony and LG announce new models with Dolby Vision and Dolby Atmos. We saw partners that adopted Dolby Vision IQ, which, in addition to the high dynamic range experience and the deeper colors, also allows the television to adapt to ambient light and the type of content to make sure that you're getting the best picture all the time.

We've also continued to expand our presence beyond the living room into PCs, mobile devices and gaming consoles. We had a number of PC partners, including Dell, Lenovo and ASUS, adopt Dolby Vision and Dolby Atmos experiences. We also, at CES, announced our first PC from -- PCs from Lenovo that will support the Dolby Voice experience for communications, which we think is an attractive value proposition, given the increasing amount of time we're all spending communicating on our PCs.

As far as mobile, at the outset of 2020, Apple adopted Dolby Atmos playback. So they now support Dolby Vision and Dolby Atmos across the iPhone, Mac, iPad. And we have a number of partners, including Samsung that support Dolby Atmos on their high-end mobile devices. And in gaming, the Xbox has been supporting the streaming of movie and TV content through -- via the Xbox services.

So as we continue to see an opportunity to grow the number of -- the adoption of devices that support the significant and growing amount of movie and TV content in Dolby, we're also looking at bringing that Dolby experience to new types of experiences. And 2020 was a big year. We

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began the year with the launch of Dolby Atmos Music. We started with Amazon Music HD streaming to the Echo Studio. We subsequently added TIDAL, the streaming service, and TIDAL has begun to make that stream available to a number of soundbars and other devices that support Dolby Atmos. And we have an increasing number of artists that are wanting to create their content and make it available in Dolby Atmos. It's not uncommon for us to hear from them that it is an entirely different experience in Dolby Atmos. We've even seen people brought to tears the first time they've heard their music in Dolby Atmos, which is not necessarily our goal, but it is our goal to create -- set a new bar for what the music experience can be.

We're also focused on bringing Dolby Vision and Dolby Atmos to the gaming experience. So with the most recent Xbox release, they will be providing an update later this year that will enable Vision and Atmos for the gaming experience. And we think this opens up a lot of new opportunities for us, not just in console gaming, but also in PC gaming and mobile gaming. And in fact, just this last quarter, Tencent was the first to incorporate Dolby Atmos into a mobile game, QQ Speed.

And the other big area of focus for us to bring the Dolby experience to more types of content is in user-generated content. In the fall, Apple announced support for Dolby Vision capture on the iPhone 12. So for the first time, consumers can capture and enjoy and share content that is created in Dolby Vision. We've also seen a number of social media partners begin to support Dolby Technologies, Bilibili, a large video sharing service in China, is broadcasting live events to its mobile users in Dolby Atmos and BT is supporting Premier League football.

So we made a lot of progress this year in bringing Dolby experiences much further beyond movie and TV into music, gaming, user-generated content, and we continue to see a significant opportunity to do that. And the reason that's important for us is that it increases our value proposition for the devices that we're on today, and it opens up the opportunity to bring the Dolby experience to many more devices. By focusing on the use cases that are -- the most important use cases for mobile devices and PCs, we expand the breadth of devices that we think will want to have the Dolby experience. It also opens up new categories like automotive, which we think will be a significant value proposition for Dolby Atmos Music.

So beyond the significant opportunity we see for bringing more Dolby Vision and Dolby Atmos experiences to the world, we also -- our most recent initiative, which we launched in May of 2020, is our developer platform, Dolby.io. And Dolby.io is -- we see as an opportunity to bring our decades of experience and technology to the developers of the apps and services that we use every day, so that they can significantly improve the quality of their media and interactions in those services. And our first sets of APIs, which they can access through our developer platform, focus on interactivity APIs, which enable high-quality, audio/video communication in real time. That includes our Dolby Voice technology, which makes for a much more natural and engaging voice experience. And we also have a set of media APIs, which today are focused on being able to significantly improve the quality of recorded audio content.

So having been in the market for about 8 months, these are some of the use cases we're seeing here in the early days. Just to highlight a few in the online learning space, which is a space that we think can benefit greatly from high-quality interactivity as well as media, one of our most recent developers to go live with our technologies is Kiddom, which is an educational platform, providing the platform for a number of school districts, allowing for much higher quality interaction between teachers and students.

We have Soundcloud using our music mastering API, which enables users of the Soundcloud platform to master the songs and the work that they've created using Dolby's technology. And it speaks to our goal of being able to bring the technologies that were previously available to the highest end creatives to democratizing that experience to all developers and the people that use their apps and services. So we're in the early days with Dolby.io, but we are excited about this ability to open up the Dolby experience to the everyday apps and services that we increasingly enjoy.

So our focus today is learning from these early users continuing, to evolve the platform so that we can increase engagement, increase the number of use cases that we can make a difference with and bringing more developers to the platform.

So that is our focus at Dolby. That's what we're up to. We are focused on bringing Dolby experiences to more people around the world, more of the experiences they enjoy every day. And when we do those things, that's what creates the opportunity for revenue and earnings growth. And with that, I will turn it over to questions.

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QUESTIONS AND ANSWERS

Andy Sherman - *Dolby Laboratories, Inc. - Executive VP, General Counsel & Corporate Secretary*

Thanks, Kevin. Just checking for questions here. It looks like we have no questions at this time. There being no further business. We now conclude today's meeting. Once again, thank you all for joining us today and for your continued support of Dolby Labs. Back over to you, operator.

Operator

Thank you. Ladies and gentlemen, this concludes the 2021 Annual Meeting of Stockholders of Dolby Laboratories. You may now disconnect.

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