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# EDITED TRANSCRIPT

DLB.N - Q2 2021 Dolby Laboratories Inc Earnings Call

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**OVERVIEW:**

Co. reported 2Q21 revenue of $320m, GAAP net income of $76.2m and GAAP diluted EPS of $0.73. Expects 3Q21 total revenue to be $260-290m, GAAP diluted EPS to be $0.15-0.30 and non-GAAP diluted EPS to be $0.37-0.52.



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## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by. Welcome to the Dolby Laboratories conference call discussing fiscal second quarter results. (Operator Instructions) As a reminder, this call is being recorded, Tuesday, May 4, 2021. I would now like to turn the conference over to Jason Dea, Senior Director of Finance and Investor Relations for Dolby Laboratories. Please go ahead, Jason.

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

Good afternoon. Welcome to Dolby Laboratories Second Quarter 2021 Earnings 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 third quarter and second half 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. 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 quarterly report on Form 10-Q. 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 two is available in our earnings press release and in the Dolby Laboratories Investor Relations data sheet on the Investor Relations section of our website. As for the content of today's call, Kevin will start with a discussion of the business, and [Lewis] (corrected by company after the call) will follow with a recap of Dolby's financial results and provide our third quarter and second half fiscal 2021 outlook. So with that introduction behind us, I will now turn the call over to Kevin.

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

Thank you, Jason, and good afternoon, everyone. With another strong performance in licensing revenues this quarter, we are off to a solid start to our fiscal year. Our first half fiscal 2021 revenues have grown about 10% compared to the first half of fiscal 2020, and earnings have grown at an even higher rate. Our financial results reflect the strength of Dolby's business model and the broad adoption of Dolby Technologies across the devices and services that consumers are seeking to enjoy their content.

Before Lewis takes you through the numbers, I wanted to highlight some of the areas of our progress and the recent examples of how Dolby is enabling a broader range of content. With a growing number of content experiences becoming Dolby experiences, we add to our value proposition



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for deeper adoption in existing device categories, and we address the use cases for adoption in new device categories, which together drive our opportunities for growth.

With Dolby Atmos for music, we are enabling a significant step forward in how people can enjoy their favorite songs, which is creating new opportunities to expand the adoption of Dolby Atmos to a broader range of devices and services. Lucid Motors announced that they will be bringing the first automobile to market that will include Dolby Atmos. The Lucid Air will enable the Dolby Atmos for music experience for the car and is the first example of a significant opportunity to address the primary entertainment use case within automotive. Lucid is just one example of how we are creating more ways for consumers to enjoy a growing library of music in Dolby Atmos.

We have strong engagement with top artists around the world as more songs and albums are being made available in Dolby Atmos, including many recent Grammy-nominated artists like Taylor Swift, Lady Gaga and Megan Thee Stallion. This quarter, Hungama, a top music streaming service in India began supporting Dolby Atmos. They join TIDAL, Amazon Music and Anghami who are currently streaming music in Dolby Atmos. As we continue to build on the momentum for Dolby Atmos for music, we see opportunities for more services to adopt Dolby Atmos, and to deepen our adoption across mobile, PCs, automotive and headphones.

Gaming is another area where we see much of the opportunity ahead of us to bring Dolby Vision and Dolby Atmos to a growing number of experiences. Microsoft Xbox will be the first gaming console to support the combined Dolby experience for games. Xbox gamers will have more ways to enjoy the Dolby experience with new gaming headsets released this quarter from Microsoft and Bang & Olufsen that highlight support for Dolby Atmos.

Lenovo recently launched a new mobile phone designed to support gaming content, the Legion Phone Duel 2 that highlights support for Dolby Atmos. We also saw the first eSports event in Dolby Vision and Dolby Atmos this quarter. As part of Blizzard Entertainment's BlizzConline, we enabled an event that showcased Overwatch matches to be viewed in the combined Dolby experience through PCs and gaming consoles. eSports gives us unique opportunities to engage gamers by bringing Dolby Vision and Dolby Atmos to the experiences that they are passionate about. As we grow the number of Dolby experiences within games, we add to our existing value proposition and drive more reasons for adoption on gaming consoles, PCs and mobile phones.

By expanding our presence in music and gaming, we address two of the primary use cases on a mobile device. At the same time, we see more ways for Dolby to enable the highest quality experiences across more of the content enjoyed on mobile devices. Over the past few quarters, we've highlighted how we are enabling new experiences in mobile, like being able to record in Dolby Vision with the iPhone 12 or being able to enjoy live sports content in Dolby Atmos through a mobile app. This quarter, Earshot, a leading podcast service in India, became the first podcast app to support Dolby Atmos. They will be making Dolby Atmos content available across different genres of podcasts and in multiple languages. As we continue to expand the relevance of Dolby Vision and Dolby Atmos across a broader range of content, we address more of the use cases for mobile devices, driving the reasons for deeper adoption with our partners.

This quarter, Xiaomi launched their first mobile phones that support Dolby Vision and Dolby Atmos. This adds to the growing number of partners that support the Dolby experience within mobile, which is highlighted by the Apple iPhone 12 lineup that features the combined Dolby Vision and Dolby Atmos experience. In addition, Samsung, OPPO and Sony continue to highlight Dolby Atmos with the recent launch of their latest flagship models.

All of this progress adds to our strong position within movie and TV content, which continues to drive more device adoption within the living room. This quarter, Samsung released their Q7 soundbar, highlighting support for Dolby Atmos. Within TVs, our partners around the world, including Xiaomi, Changhong and Skyworth, released new models that support the combined experience. In addition to supporting Dolby Atmos, TCL and Hisense also highlighted support for Dolby Vision IQ within their recent TV launches. With this momentum, we still see a significant opportunity ahead to reach higher levels of adoption with Dolby Vision and Dolby Atmos in the living room, similar to the broad presence of our core audio technologies.



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The adoption of Dolby Vision and Dolby Atmos on devices is driven by a consistent flow of new titles that are being enabled in the combined Dolby experience. Our streaming partners, like Netflix, Disney+, Apple TV+ and HBO Max, continue to make a broad range of titles available in Dolby, and the combined experience is consistently highlighted with the release of their latest tentpole titles.

Let me shift to cinema. As consumers begin to return to the movies, they are seeking out premium experiences and Dolby Cinema is the best way to enjoy a movie. We now have about 90% of our Dolby Cinemas opened globally to certain capacity restrictions. Our engagement with exhibitor partners remains strong as we recently added a new Dolby Cinema partner in China, and we also had 4 new Dolby Cinema locations open during the quarter. We also see initial signs of strong box office performance from titles like Godzilla vs. Kong and successful local content in China, including Detective Chinatown 3 and Hi, Mom that were all available in Dolby Cinema. We look ahead to anticipated titles later this year, including Top Gun: Maverick, A Quiet Place II and Black Widow that will all be available in Dolby Cinema.

During the last year, we have started to bring the Dolby magic that powers the best movie, TV and music experiences to a much broader range of content and interactions with Dolby.io, our developer platform. Our focus is on deepening our engagement with the developer community, growing the number of developers on the platform and building their engagement with our APIs. Just last week, we completed an integration with Box.com and Dolby.io. Companies that use Box can now enable their users to easily improve the quality of their audio directly from where their files are stored within Box, powered by Dolby Media APIs. We are excited to bring unique solutions to Box's broad range of customers and the opportunity to drive more people to engage with Dolby.io. Our interactivity APIs are supporting a wide range of use cases, and we see new customers across multiple industries from online learning to enabling influencers to connect with fans, or even in one case, supporting an application that enables live streaming for medical teams.

As we look ahead, we also see opportunities where real-time interactions come together with recorded media and we can uniquely provide comprehensive solutions by embedding both our interactivity and media APIs. With a growing number of new experiences being enabled by Dolby.io, we are learning from our engagement with developers and evolving our offerings to best support the use cases where we see significant opportunities to bring higher quality media and best-in-class real-time interactions.

So to wrap up, we have growing momentum in enabling Dolby Vision and Dolby Atmos experiences in more forms of content like music and gaming. As we enable our technologies to address a broader range of content, we build upon our strong position within movies and TV and create more reasons for adoption across devices and services. With Dolby.io, our technologies are beginning to address a much larger 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'm going to hand it over to Lewis to take us through the financials.

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**Lewis Chew** - *Dolby Laboratories, Inc. - Executive VP & CFO*

Okay. Thank you, Kevin. Good afternoon, everybody. And of course, May the 4th be with you. As Kevin said, our financial results were very solid this quarter. Revenue and earnings both coming in higher than we previously guided. So let me go through a few details for everyone.

Second quarter revenue of $320 million was above our guidance range of $280 million to $310 million, as the volumes that we had were higher-than-expected in several of our end markets. And then we also benefited from a true-up of about $15 million in the quarter for Q1 shipments reported that were above our estimate.

On a year-over-year basis, second quarter revenue was down from last year's $352 million due to lower recoveries and lower revenue from cinema-related business partially offset by higher adoption of Dolby Technologies and higher market volume in areas like PC and TV. On a sequential basis, total revenue was down from Q1 due to lower recoveries and lower seasonality, and both of these were anticipated when we gave our guidance at the beginning of the quarter. So the Q2 revenue was comprised of $304 million in licensing and $16 million in products and services. So let's go through the trends in licensing revenue by end market, starting with broadcast.



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Broadcast represented about 35% of total licensing in the second quarter. Broadcast revenues decreased by about 19% year-over-year, and that was driven by lower recoveries offset partially by higher market volume along with higher adoption of Dolby. On a sequential basis, broadcast decreased by about 25%, due primarily to lower seasonality along with lower recoveries.

Mobile represented approximately 22% of total licensing in Q2. Mobile decreased by about 12% from last year, that was due to a shift in timing of certain contracts, and that was offset partially by higher adoption of our technologies. On a sequential basis, mobile was down about 38%, due primarily to lower recoveries and timing of revenue under contracts.

PC represented about 17% of total licensing in the second quarter. PC was higher than last year by about 12% due to higher market volume, along with increased adoption of Dolby Vision and Dolby Atmos. And that was offset partially by declining ASP because of mix of our disc versus non-disc units. Sequentially, PC was up by about 56%, driven by timing of revenue under contracts, along with seasonally higher activity from patent programs.

Consumer electronics represented about 16% of total licensing in Q2. On a year-over-year basis, consumer electronics was lower by about 2% due to a shift in timing of certain contracts offset partially by higher volume in devices like sound bars and DMAs, as well as higher adoption of Dolby Vision and Dolby Atmos. On a sequential basis, CE decreased by about 7% due mainly to lower seasonality and timing of revenue under contracts.

Other markets represented about 10% of total licensing in the second quarter. They were up about 14% year-over-year, driven by higher revenue from gaming and automotive, and that was offset partially by lower Dolby cinema revenues. On a sequential basis, other markets decreased by about 22%, driven by lower seasonality in gaming and lower admin fees from Via.

Beyond licensing, our products and services revenue was $16 million in Q2 compared to $16.9 million in Q1 and $23 million in last year's Q2. And the year-over-year decrease was attributable to lower demand in the cinema industry because of the pandemic.

So now I'd like to discuss Q2 margins and operating expenses. Total gross margin in the second quarter was 89.9% on a GAAP basis and 90.5% on a non-GAAP basis. Products and services gross margin -- products and services gross margin on a GAAP basis was minus $345,000 in Q2 compared to minus $5.5 million in the first quarter. Products and services gross margin on a non-GAAP basis was a positive $1.1 million in Q2 compared to a negative $3.9 million in the first quarter. As I mentioned when I gave guidance, we took steps to reduce the cost structure in manufacturing, and that's helping our product gross margins return to positive territory.

Operating expenses in the second quarter on a GAAP basis were $204 million compared to $189.8 million in Q1. The annual salary increases for our employee base went into effect at the beginning of Q2. And also, Q1 operating expenses benefited from a gain on sale of our facility in Brisbane. Operating expenses in the second quarter on a non-GAAP basis were $178.4 million compared to $167.1 million in the first quarter. Non-GAAP operating expenses were pretty much in line with the guidance that we gave.

Operating income in the second quarter was $83.2 million on a GAAP basis or 26% of revenue compared to $105.9 million or 30.1% of revenue in Q2 of last year. Operating income in the second quarter on a non-GAAP basis was $110.9 million or 34.7% of revenue compared to $129 million or 36.7% of revenue in Q2 of last year.

Income tax in Q2 was 10.6% on a GAAP basis and 16% on a non-GAAP basis.

Net income on a GAAP basis in the second quarter was $76.2 million or $0.73 per diluted share, and that compares to $88.5 million or $0.86 per diluted share in last year's Q2. And net income on a non-GAAP basis in the second quarter was $94.8 million or $0.91 per diluted share, that compares to $106.6 million or $1.04 per diluted share in Q2 of last year.

For both GAAP and non-GAAP, net income in the second quarter was above the guidance that we gave and that was due to the revenue coming in higher than what we had expected. During the second quarter, we generated about $83 million in cash from operations which compares to the $66 million generated in last year's second quarter, and we ended the second quarter this year with about $1.2 billion in cash and investments.



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During the second quarter, we bought back about 760,000 shares of our common stock and ended the quarter with about $76 million of stock repurchase authorization still available.

We also announced today a cash dividend of $0.22 per share. The dividend will be payable on May 25, 2021, to shareholders of record on May 17, 2021.

So now let's talk about the forward outlook. 3 months ago, when I went through the outlook for Q2, I said then based on a variety of factors and assumptions, that we could see a scenario for second half revenues in the mid- to high 500s. Now with Q2 behind us, our updated scenario is for second half revenue ranging from $560 million to $600 million.

And if I focus more specifically on Q3, we anticipate that third quarter total revenue could range from $260 million to $290 million. Within that, licensing could range from $250 million to $275 million, while products and services revenue could range from $13 million to $18 million. In terms of the assumptions we've made about market conditions, industry analyst reports indicate that PC TAMs in the second half could be higher on a year-over-year basis. However, for TVs and other consumer devices, industry reports continue to indicate that TAMs could be down in the second half because of an uptick in demand that happened last year in the middle of the pandemic, but might not repeat this year.

At the same time, we are expecting organic growth in the second half, and that's on a year-over-year basis. Driven by broader adoption of our Dolby technologies broadly across various markets. And we also anticipate higher revenue from our cinema-related businesses in the second half as that industry starts to recover compared to where it was last year.

So let me move on to the rest of the P&L outlook for Q3. Q3 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 about breakeven to $1 million positive on a GAAP basis and from $1 million to $2 million positive on a non-GAAP basis.

Operating expenses in Q3 on a GAAP basis are estimated to range from $210 million to $220 million; and operating expenses in Q3 on a non-GAAP basis, are estimated to range from $185 million to $195 million. Now the increase in operating expenses from Q2 to Q3 is being driven mainly by our marketing programs that from a timing standpoint, have more of their activities taking place in the second half this year, which also means that at this point, Q4 expenses could be at least as much as what we spend in Q3. But I'd like to point out that for the year as a whole, the marketing expenses at the high end of our OpEx range would be similar to what they were last year, just timed differently. We'll give you an update on this when we report our Q3 results.

So let's finish up the Q3 outlook. Other income is projected to range from $1 million to $2 million for the third quarter, and that's $1 million to $2 million for the third quarter. And our effective tax rate for Q3 is projected to range from 20% to 21% on both a GAAP and non-GAAP basis. Based on a combination of the factors I just covered, we estimate that Q3 diluted earnings per share could range from $0.15 to $0.30 on a GAAP basis and from $0.37 to $0.52 on a non-GAAP basis.

So with that, I'll kick it back over to Mr. Yeaman.

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

All right. Thank you, Lewis. I promised you I would wait until you got through your remarks to acknowledge our other news for the day.

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**Lewis Chew** - *Dolby Laboratories, Inc. - Executive VP & CFO*

Thank you for doing that.

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

Yes. As I'm sure most of you or all of you saw, we also announced today that Lewis has made a decision to retire later this year. And I want to acknowledge the impact that Lewis has had. Over the last 9 years, Lewis has played an integral role in building our strong financial position, navigating new business models, and just overall supporting the expansion of Dolby experiences. I can't thank Lewis enough for everything he's done for Dolby. He's built a very strong team. He's mentored countless employees, both within and beyond the finance organization. And Lewis is going to be working closely with me to ensure a smooth transition as we work to identify our next CFO. So we've still got Lewis. We're going to enjoy that for now. And then we'll be happy to -- that Lewis will have more time to focus on his family. And of course, Lewis, we will wish you all the best.

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**Lewis Chew** - *Dolby Laboratories, Inc. - Executive VP & CFO*

So Kevin, is it true that when I first told you, you said good riddance?

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

I think you might have misinterpreted that.

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**Lewis Chew** - *Dolby Laboratories, Inc. - Executive VP & CFO*

Well. Yes, it's a wistful moment, but thank you. Thank you to yourself and the Board, investors for most of all for putting up with my bad humor. I can't believe now that they actually have books out there called Dad Jokes because I think all my jokes probably fit into that category, but it has definitely been a privilege to serve as the company's CFO and lot of great memories. And since we're all about the experience, I can definitely say that I've had my own unique Dolby experience here. So I look forward to a smooth transition as we move on to the next phase. Company is in great shape. Great shape, great promise ahead. So I will happily watch from sidelines.

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

All right. Well, Lewis, I haven't heard anyone disagree with you yet when you talk about the quality of your humor. And we are going to make sure and get the most out of your remaining transition time. And with that, I'm sure our audience is eager to get to questions. We've covered a lot of ground. And so let's turn it over to Q&A.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Your first question comes from the line of Ralph Schackart with William Blair.

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**Ralph Edward Schackart** - *William Blair & Company L.L.C., Research Division - Partner & Technology Analyst*

A couple if I could. Just first on Dolby.io. Kevin, I know you get this question often, but just now that you've had another quarter to work with -- work with it. Just any sense of kind of framing the opportunity for investors? And then maybe also too, just in terms of the price, obviously, you have some pricing on the website. Just curious sort of what the receptivity has been on that sort of pricing plan, if it's priced effectively and efficiently? And just kind of maybe what are some of the hurdles from, I guess, gaining more use cases in customers going forward?



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

Sure, Ralph. Thanks for the question. Well, look, in terms of the opportunity, we're -- we continue to be excited. We think there's a significant opportunity and the things to focus on, really, as it relates to our opportunity is the increasing demand for real-time interactivity and doing that in a high-quality way, and we feel like we bring a lot of expertise to bear in addressing that as well as just the amount of media content that is being created and consumed every day in the cloud. And we think we can do a lot to help people create great content, great quality content out of that.

We are excited about our announcement with Box or our partnership with Box, I should say, I said to partner with them. This is going to enable their customers that enable the Dolby integration to have their users able to improve their content easily right where they store their content. And we've seen a lot of interest in the media and entertainment space. Box has a very large presence in media and entertainment. So this is going to allow them to improve their audio much more easily and with a broad range of content. So we're excited about that. And across the board, we're focused on continuing to get more developers signing up, more developers engaged with our APIs.

And yes, the pricing, as you point out, is on the website. And yes, so far, I would say things are going well as far as that goes.

**Ralph Edward Schackart** - *William Blair & Company L.L.C., Research Division - Partner & Technology Analyst*

Great. And then just in terms of cities and states are talking about reopening and capacity constraints eased. Just curious what you're seeing on the cinema side or hearing from exhibitors and what's contemplated in the guide for cinema for the balance of fiscal '21?

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

Yes. So I'll start with the high level. Lewis, I don't know if you might want to chime in more specifically on the guidance. But Ralph, it still is -- I mean, as you point out, it's still city by city, country by country. But in general, we've seen continued -- certainly signs of opening up here in the U.S. I think Europe is beginning to get right back in the right direction. In Asia, they've been -- they're more open. What we've seen is that there have -- there have been some very successful releases. I mentioned a few of them in my prepared remarks. But what I would also say is that the box office has skewed more heavily toward the premium experiences. And so we continue to believe that when people do go back to the movies, they're going to want to experience it in the best possible way. So we think the premium experience is where the action is going to be. And that's where -- and that's where, of course, we're always focused. So yes, we do expect, obviously, there's -- with all the appropriate qualifications around uncertainty. We do see things -- the way we see it right now, we see things continuing to improve throughout the rest of this year, although, of course, the pace is somewhat uncertain.

**Ralph Edward Schackart** - *William Blair & Company L.L.C., Research Division - Partner & Technology Analyst*

Great. And just last, Lewis, just want to wish you congratulations on retirement. This call certainly won't be the same without you on it. And hopefully, you've reserved a Lucid to enjoy retirement?

**Lewis Chew** - *Dolby Laboratories, Inc. - Executive VP & CFO*

Yes. I -- with the pandemic thing, Ralph, I wish I could see the demo, actually see the demo is almost ironic. It's really hear the demo, but see the car in the demo because from the people who I've heard who have experienced it, I've heard it's nothing short of phenomenal. And I believe that there's no reason for them to blow smoke up my, you know what. So yes, I think it will be nice going forward to see some of these cool things evolve. Anyway, thank you.



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**Operator**

Your next question comes from the line of Steven Frankel with Colliers.

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

Lewis, in the back half, are there any material changes in timing shifts between Q3 and Q4 versus last year? I know we had a couple of those in the front half?

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**Lewis Chew** - *Dolby Laboratories, Inc. - Executive VP & CFO*

Yes. This year, I think the back half is a little bit more calm. So I would say, as a high-level answer, no. I think we had more of that -- more of that complexity in the first half of this year. I think now that we've given you guidance for Q3, and I've given you a fairly tight framework for revenue in Q4, we don't have as much of that noise between the 2 quarters this year.

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

Okay. And Kevin, I'm looking for a little more detail on the Box relationship. Is this like -- are you integrated directly in Box or so that I can just kind of check a box and get the product? Or do I have to separately come to Dolby and sign up and once I sign up, it's easy to use within Box?

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

Yes. Thanks, Steve. You sign up with Box. So what happens is Box will -- has included us as one of their partner integrations. And any IT administrator can sign up with Box or work directly with Box to enable their users to access the Dolby's audio enhancement APIs. And at that point, so the users, the payments running through the enterprise. And at that point, it's pretty much as simple as selecting a file and pressing the Dolby button and it comes back with the Dolby enhanced audio content.

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

Okay. That's pretty good. What have you found is the most effective channel for recruiting developers so far with io.

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

Well, I think that -- I would say the -- first of all, it's the events, which, of course, for this -- for the -- since we launched Dolby.io, we've been in virtual mode, but we have been participating in an increasing number of events, whether that's by South by Southwest or university hackathons and getting people engaged and then looking for that to spread by word-of-mouth amongst developers. Obviously, some of our wins have drawn attention, which brings more people into explore. And I think as we look forward, I think there are -- there will be increased opportunities to -- based on the other great things that are going on around Dolby to find ways to authentically connect with developers and get more people coming to learn what we can do for them. Because as I said earlier, there is a massive amount of content, an increasing number of minutes of interactivity. And what we're confident about is that we can improve the quality of those like nobody else.

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

Great. And then on Vision, any update on progress with live content being broadcast in Vision.

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

I'm pausing, Steve, because I'm -- I don't know that I'm as current on that, but we continue to be engaged across a number of opportunities to get larger scale. To date, it's largely been many event specific kind of broadcast, especially now that we're starting to come out the other side of the pandemic so that you get more live events, which is often the first kind of port of call for that kind of thing and some of the restrictions being lifted, is one of the dynamics around both Atmos and Vision in new events was just that in the beginning, it requires a few more people and everybody wanted to minimize the number of people. So we've continued to have a number of private and public kind of event streaming in Vision and/or Atmos, and we definitely see some of that activity beginning to pick up again.

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

Thank you, and I'll echo Ralph's comment. Lewis, congratulations and enjoy your retirement.

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**Lewis Chew** - *Dolby Laboratories, Inc. - Executive VP & CFO*

Thank you. Steve. Great working with you.

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**Operator**

Your next question comes from the line of Paul Chung with JPMorgan.

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

So just another follow-up on Box. So how do we size the opportunity here, just taking their audio file base and the growth rates that you're seeing or uploads were up 50%. What if we assume kind of 100% usage of the Dolby kind of media processing API? How big is that and how to size that? And then what about on the video side, I didn't see Vision mentioned there? Any potential for Vision there as well?

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

So as it relates to the first part of your question, look, it's early days. We're just out of the gate here with the Box integration. But again, we're very excited about it because -- because of the opportunity to work with Box and they are a substantial presence in media and entertainment. I mean we've had a lot of interest in that space. To give you some hypothetical examples of how someone might want to employ our media APIs in that world. As you could imagine, a production company that has people doing voiceovers around the world with varied degrees of quality. That can all be run through our APIs to get a high level of quality. It could be podcasters or newscasters are doing interviews, using their phone outside, you could employ Dolby to clean that up. And there are endless examples because it can apply to a lot of different content. But we're right out of the gate. So we're going to be partnering closely with Box to show their customers what we can do, so that they can begin enabling that and getting usage. And I think -- I'm sorry, can you remind me the second part of your question?

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**Lewis Chew** - *Dolby Laboratories, Inc. - Executive VP & CFO*

Video.

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

Vision. Yes. So yes, right now, the interactivity is, of course, audio/video. Our media APIs are focused on audio enhancement that you can be sure that across our portfolio of APIs, as we look at our road map, we see opportunities to bring our Vision and imaging expertise to that platform.



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

Okay. Great. And the use case makes great sense. Any other use cases? Can you share that, that would fit well with this business? Is there a use case for gaming apps and time spent there? Or even live streaming audio or video or not even live.

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

In the broad sense, I'm going to say, yes and yes, as it relates to potential applications. To give you a couple of examples, we had an announcement recently, I think it was last week or rather a customer of ours had an announcement. Display is a social media company, which allows their creative community to share in the revenue from advertising. And they have taken advantage of Dolby.io to enable those creators to interact directly with their fans. So that's kind of a very social, live example of what can be done. We're also looking at all forms of virtual events. We're working with a company by the name of Homejam, which also connects artists with fans for live virtual concerts and also kind of special experiences. So those are some of the more examples of what we're doing. But again, it's where people are looking to have greater real-time interactivity and high-quality and improve the quality of their media content across the board.

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

Got you. And then last question for Lewis, and I will miss the dad jokes, but I'll give you a free cash flow question. So you had a pretty strong performance in the first half. Kind of relative to previous years, should we expect kind of the second half to be kind of higher than the first half similar to how you've seen over the past couple of years? Or how do we think about kind of seasonality given revenue guide is slightly lower in the second half versus first half?

**Lewis Chew** - *Dolby Laboratories, Inc. - Executive VP & CFO*

Yes. Probably the -- since I didn't give a projection for cash flow because probably the biggest swing factor is things like collection and receivables as opposed to the core business. I would say that your question is spot on in the sense that now that we've lapped 606 and left that first year in our rearview mirror, you can see that our cash flows are now much more highly correlated to our earnings. So I'd say going forward, without, Paul, necessarily picking on any 1 quarter as our revenue and earnings grow, I firmly believe that you'll see that translated into equivalent amount of cash flow as well because we are now all normalized on the whole 606, extra quarter of balance sheet on there because of the estimated revenue and all that. So that's why you're starting to see these quarters where the cash flow from operations is highly linked to the pattern in our net income.

**Operator**

Your next question comes from the line of Jim Goss with Barrington Research.

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

Dolby's traditionally got in terms of maybe a several year lead time from a technology introduction to when it begins to contribute meaningfully. I think over the past couple of years, we've seen Atmos and Vision do that. Is io the current version of that? Or are there other things in mind like music that you think of in those terms? And on a related basis, with io, the pricing is obviously going to be a different type of pricing than the traditional royalties you have, do you think of it in terms of creating contributions in a different way that might match up with the type of pricing you've had or might it be even better when the usage gets more robust. How would you -- a prior question about framing out the opportunity. I'd like to know a little bit more about that as well.



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

Sure. So thanks, Jim. To take your last question first. Again, the way to think about it is what we're looking to do is power as many minutes of interactivity as possible and to improve as enhance the quality of as many media minutes of content as possible because the way we earn revenue is on a per minute processed basis. So this is really -- these are -- this all starts from our long-held belief that the decades of experience that we have, doing the best in audio/video quality, the IP that we have and the know-how that we have can be applied beyond the realms of premium entertainment, movies and TV, gaming, music and apply to all the ways, all the apps and services that we're using every day. So our -- that's what we see as the opportunity. And to your point on kind of cycle times, yes, bringing up an ecosystem like bringing Dolby Vision to life for the first time or Dolby Atmos to life for the first time. You've experienced a couple of times with us the kind of length of time it takes to bring up the first content partner, the first device partner and build from there. I would say that the subsequent cycles might be somewhat shorter than that initial cycle, in other words, applying it to a new realm of content. But in the world of Dolby.io that holds the promise of being a much kind of faster experiment and learn cycle time. So it enables us to put new capabilities on the developer platform. With a goal of learning quickly how developers are responding to it, what more they like to see and how we can apply our know-how, our experience, and in some cases, IP that we already have. In some cases, it will spawn new innovation to serve that world.

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

Okay. And one other area. In the Dolby Cinema, AMC has been your primary partner in the United States. It's had a number of issues. It's focused on recently. I was wondering if there's room for another partner in the U.S. or if you're pretty much tied to that AMC being the one and only partner in terms of Dolby Cinema here, and then in markets outside the U.S., the other way you can grow is to develop new partners in those markets as well. I wonder if you could give any update on that sort of process?

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

Yes. Clearly, this has been a difficult -- we've come through a pretty difficult time for the industry. So first and foremost, they've been focused on keeping up with the implications of the pandemic. But at the same time, we have remained very much engaged with our partners. I mentioned in my prepared remarks that we did add a partner in China. And we added about 4 new screens. Obviously, that was tempered by the pandemic, but there's still -- like I said, I think that when people come back, we're already seeing that the box office has been skewing pretty notably more toward premium experiences than pre pandemic and that's consistent with our thesis that when people do come back, they're going to want to experience it in the best possible way.

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

Okay. And -- but aside from the one in China, that's pretty much where you are at this stage, but that could be another opportunity?

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

Yes, that's the only partner we had in this quarter. Although we have multiple -- as you know, we have multiple partners in China that are up and running.

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

Okay. And Lewis, I would also agree. I wish you well in whatever your next venture is.

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**Lewis Chew** - *Dolby Laboratories, Inc. - Executive VP & CFO*

Thanks, Jim. I appreciate it.



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**Operator**

There are no further questions at this time. I would like to turn the conference back over to Kevin Yeaman for any closing remarks.

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

Great. Well, thank you, everybody, for joining us. We very much appreciate the questions. And of course, we look forward to keeping you updated on our progress.

**Operator**

This concludes today's conference call. You may now disconnect.

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