

DOLBY LABORATORIES

Investor Relations Data Sheet

Unaudited

All dollar amounts are in thousands

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	FY 2019	Q1 2020
Revenue Data						
Licensing	\$ 260,279	\$ 310,308	\$ 271,897	\$ 264,796	\$ 1,107,280	\$ 257,683
Products and services	42,097	27,950	30,262	34,031	\$ 134,340	34,194
Total Revenue	\$ 302,376	\$ 338,258	\$ 302,159	\$ 298,827	\$ 1,241,620	\$ 291,877
Total Revenue growth % (year-over-year)	1 %	13 %	41 %	24 %	18 %	(3)%
Total Revenue growth % (quarterly sequential)	26 %	12 %	(11)%	(1)%	n/a	(2)%
Broadcast Licensing	38 %	39 %	49 %	44 %	43 %	40 %
Mobile Licensing	13 %	22 %	17 %	17 %	17 %	13 %
Consumer Electronics Licensing	17 %	14 %	11 %	14 %	14 %	19 %
PC Licensing	9 %	13 %	9 %	9 %	10 %	12 %
Other Licensing	23 %	12 %	14 %	16 %	16 %	16 %
Total Licensing	100 %	100 %	100 %	100 %	100 %	100 %
Licensing Revenue growth % (year-over-year)	(4)%	14 %	48 %	23 %	18 %	(1)%
Licensing Revenue growth % (quarterly sequential)	21 %	19 %	(12)%	(3)%	n/a	(3)%
Margins						
GAAP gross margin: Licensing	95.6 %	94.8 %	95.1 %	93.7 %	94.8 %	95.2 %
Non-GAAP gross margin: Licensing	95.8 %	95.0 %	95.3 %	93.9 %	95.0 %	95.4 %
GAAP gross margin: Products and services	35.3 %	26.7 %	12.8 %	14.2 %	23.1 %	27.0 %
Non-GAAP gross margin: Products and services	37.8 %	30.4 %	16.3 %	18.9 %	26.7 %	29.7 %
GAAP gross margin: Overall	87.2 %	89.2 %	86.9 %	84.6 %	87.0 %	87.2 %
Non-GAAP gross margin: Overall	87.8 %	89.7 %	87.4 %	85.4 %	87.6 %	87.7 %
GAAP operating margin (see footnote 1)	23 %	30 %	11 %	17 %	21 %	17 %
Non-GAAP operating margin (see footnote 1)	30 %	37 %	28 %	26 %	31 %	25 %
Other Data						
GAAP effective tax rate	(32.5)%	33.1 %	5.2 %	21.9 %	9.5 %	10.8 %
Non-GAAP effective tax rate	19.2 %	17.1 %	15.1 %	18.2 %	17.4 %	18.3 %
Capital expenditures	\$ 18,539	\$ 37,543	\$ 23,588	\$ 16,611	\$ 96,281	\$ 23,385
Free cash flow	\$ 38,413	\$ 11,349	\$ 67,762	\$ 113,869	\$ 231,393	\$ 7,774
Cash, cash equivalents, and investments	\$ 1,167,772	\$ 1,084,577	\$ 1,048,649	\$ 1,095,943	\$ 1,095,943	\$ 1,053,383
Payment of cash dividend	\$ 19,573	\$ 19,462	\$ 19,283	\$ 19,178	\$ 77,496	\$ 22,081
Repurchase of common stock	\$ 112,545	\$ 85,335	\$ 88,632	\$ 54,073	\$ 340,585	\$ 30,003
Shares repurchased	1,642,107	1,318,250	1,405,065	902,187	5,267,609	432,042
Total employees	2,163	2,194	2,178	2,193	2,193	2,231

DOLBY LABORATORIES

Non-GAAP Percentage Reconciliation

Unaudited

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	FY 2019	Q1 2020
Margins						
GAAP gross margin: Licensing	95.6 %	94.8%	95.1%	93.7%	94.8 %	95.2 %
Amortization of acquired intangibles	0.2 %	0.2%	0.2%	0.2%	0.2 %	0.2 %
Non-GAAP gross margin: Licensing	95.8 %	95.0%	95.3%	93.9%	95.0 %	95.4 %
GAAP gross margin: Products and services	35.3 %	26.7 %	12.8 %	14.2 %	23.1 %	27.0 %
Stock-based compensation	1.2 %	1.4 %	1.4 %	1.2 %	1.3 %	1.6 %
Amortization of acquired intangibles	1.3 %	2.3 %	2.1 %	3.5 %	2.3 %	1.1 %
Non-GAAP gross margin: Products and services	37.8 %	30.4%	16.3%	18.9 %	26.7 %	29.7 %
GAAP gross margin: Overall	87.2 %	89.2%	86.9%	84.6%	87.0 %	87.2 %
Stock-based compensation	0.2 %	0.1%	0.1%	0.2%	0.1 %	0.2 %
Amortization of acquired intangibles	0.4 %	0.4%	0.4%	0.6%	0.5 %	0.3 %
Non-GAAP gross margin: Overall	87.8 %	89.7%	87.4%	85.4%	87.6 %	87.7 %
GAAP operating margin (see footnote 1)	23%	30%	11%	17%	21 %	17%
Stock-based compensation	6%	6%	6%	6%	6 %	7%
Amortization of acquired intangibles	1%	1%	1%	1%	1 %	1%
Restructuring charges, net	0%	0 %	10 %	2%	3 %	0%
Non-GAAP operating margin (see footnote 1)	30%	37%	28%	26%	31 %	25%
Other Data						
GAAP effective tax rate	(32.5)%	33.1 %	5.2 %	21.9 %	9.5 %	10.8 %
Stock-based compensation	4.5 %	1.2 %	4.5 %	2.4 %	2.9 %	7.6 %
Amortization of acquired intangibles	(0.1)%	—%	0.2 %	—%	—%	(0.1)%
Restructuring charges, net	—%	—%	2.5 %	—%	—%	—%
Tax Reform	47.3 %	(17.2)%	2.7 %	(6.1)%	5.0 %	—%
Non-GAAP effective tax rate	19.2 %	17.1 %	15.1 %	18.2 %	17.4 %	18.3 %

DOLBY LABORATORIES

Reconciliation of GAAP to Non-GAAP Financial Measures: Current Quarter

Unaudited

In thousands, except per share amounts

	Fiscal Quarter Ended December 27, 2019						
	GAAP	Amortization of intangibles from business combinations	Stock-based compensation	Restructuring	Tax Reform	Tax effect of Non-GAAP adjustments	Non-GAAP
Revenue:							
Licensing	\$ 257,683	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 257,683
Products and services	34,194	-	-	-	-	-	34,194
Total revenue	291,877	-	-	-	-	-	291,877
Cost of revenue:							
Cost of licensing	12,342	(599)	-	-	-	-	11,743
Cost of products and services	24,973	(393)	(543)	-	-	-	24,037
Total cost of revenue	37,315	(992)	(543)	-	-	-	35,780
Gross margin	254,562	992	543	-	-	-	256,097
Operating expenses:							
Research and development	57,650	(127)	(6,987)	-	-	-	50,536
Sales and marketing	95,118	(808)	(8,174)	-	-	-	86,136
General and administrative	52,529	(312)	(6,910)	-	-	-	45,307
Restructuring charges, net	675	-	-	(675)	-	-	-
Total operating expenses	205,972	(1,247)	(22,071)	(675)	-	-	181,979
Operating income	48,590	2,239	22,614	675	-	-	74,118
Interest income	4,932	-	-	-	-	-	4,932
Interest expense	(72)	-	-	-	-	-	(72)
Other income, net	1,004	-	-	-	-	-	1,004
Income before income taxes	54,454	2,239	22,614	675	-	-	79,982
Provision for income taxes	(5,863)	-	-	-	-	(8,810)	(14,673)
Net income including controlling interest	48,591	2,239	22,614	675	-	(8,810)	65,309
Less: net (income) attributable to controlling interest	162	-	-	-	-	-	162
Net income attributable to Dolby Laboratories, Inc.	\$ 48,753	\$ 2,239	\$ 22,614	\$ 675	\$ -	\$ (8,810)	\$ 65,471
Net income per share:							
Diluted	\$ 0.47	0.02	0.22	0.01	-	(0.08)	\$ 0.64
Weighted-average shares outstanding:							
Diluted	103,078						103,078

DOLBY LABORATORIES

Reconciliation of GAAP to Non-GAAP Financial Measures: Previous Quarter

Unaudited

In thousands, except per share amounts

	Fiscal Quarter Ended December 28, 2018						
	GAAP	Amortization of intangibles from business combinations	Stock-based compensation	Restructuring	Tax Reform	Tax effect of Non-GAAP adjustments	Non-GAAP
Revenue:							
Licensing	\$ 260,279	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 260,279
Products and services	42,097	-	-	-	-	-	42,097
Total revenue	302,376	-	-	-	-	-	302,376
Cost of revenue:							
Cost of licensing	11,397	(593)	-	-	-	-	10,804
Cost of products and services	27,232	(576)	(488)	-	-	-	26,168
Total cost of revenue	38,629	(1,169)	(488)	-	-	-	36,972
Gross margin	263,747	1,169	488	-	-	-	265,404
Operating expenses:							
Research and development	58,647	166	(6,241)	-	-	-	52,572
Sales and marketing	85,602	(831)	(8,217)	-	-	-	76,554
General and administrative	50,813	-	(6,536)	-	-	-	44,277
Restructuring charges, net	14	-	-	(14)	-	-	-
Total operating expenses	195,076	(665)	(20,994)	(14)	-	-	173,403
Operating income	68,671	1,834	21,482	14	-	-	92,001
Interest income	5,185	-	-	-	-	-	5,185
Interest expense	(45)	-	-	-	-	-	(45)
Other income, net	443	-	-	-	-	-	443
Income before income taxes	74,254	1,834	21,482	14	-	-	97,584
Provision for income tax (expense)/benefit	24,104	-	-	-	(36,049)	(6,760)	(18,705)
Net income including controlling interest	98,358	1,834	21,482	14	(36,049)	(6,760)	78,879
Less: net (income) attributable to controlling interest	(139)	-	-	-	-	-	(139)
Net income attributable to Dolby Laboratories, Inc.	\$ 98,219	\$ 1,834	\$ 21,482	\$ 14	\$ (36,049)	\$ (6,760)	\$ 78,740
Net income per share:							
Diluted	\$ 0.93	0.02	0.20	-	(0.34)	(0.07)	\$ 0.74
Weighted-average shares outstanding:							
Diluted	106,130						106,130

DOLBY LABORATORIES

Reconciliation of GAAP to Non-GAAP Financial Measures: Fiscal Second Quarter 2020 and Fiscal 2020 Estimates

Unaudited

In millions, except per share amounts

Gross margin:			Q2 2020	
			%	\$ (calculated per revenue estimates)
Estimated revenue (low - high end of range)				\$370 - \$390
GAAP gross margin (low - high end of range)			89 %	\$329 - \$347
Stock-based compensation			0.2 %	1
Amortization of acquired intangibles (low - high end of range)			0.8 %	3
Non-GAAP gross margin (low - high end of range)			90 %	\$333 - \$351
Operating expenses:			Q2 2020	
GAAP operating expenses (low - high end of range)			\$213 - \$219	
Stock-based compensation			(21)	
Amortization of acquisition-related intangibles			(1)	
Non-GAAP operating expenses (low - high end of range)			\$191- \$197	
Effective tax rate:				
GAAP effective tax rate (low - high end of range)				
Stock-based compensation (low - high end of range)				
Amortization of acquired intangibles (low - high end of range)				
Non-GAAP effective tax rate (low - high end of range)				
Diluted earnings per share:			Q2 2020	
			Low	High
GAAP diluted earnings per share	\$	0.97	\$	1.03
Stock-based compensation		0.21		0.21
Amortization of acquired intangibles		0.02		0.02
Income tax adjustments	\$	(0.05)	\$	(0.05)
Non-GAAP diluted earnings per share	\$	1.15	\$	1.21
Shares used in computing diluted earnings per share			103	103

Fiscal 2020	
	\$ (calculated per revenue estimates)
	\$1300 - \$1350
87% - 88%	\$1131 - \$1188
0.2 %	3
0.8 %	10 - 11
88% - 89%	\$1144 - \$1202
Fiscal 2020	
	\$829 - \$849
	(84)
	(5)
	\$740 - \$760
Fiscal 2020	
	17% - 19%
	2 - 3%
	(1%) - 0%
	18% - 20%
Fiscal 2020	
Low	High
\$ 2.64	\$ 2.74
0.84	0.84
0.09	0.09
\$ (0.17)	\$ (0.17)
\$ 3.40	\$ 3.50
103	103

DOLBY LABORATORIES

Investor Relations Data Sheet Footnotes

Footnotes:

1) Operating Margins are calculated as Operating Income divided by Revenue.

Other Information:

- Minor rounding differences may exist as a result of the effect of rounding to the nearest dollar amount or percentage.
- These schedules have been derived from, and should be read in conjunction with, our financial statements in our reports on Forms 10-Q and 10-K which are filed with the SEC. Our Forms 10-Q may be viewed on our website at <http://investor.dolby.com/sec-filings> Group: Quarterly Filings and our Forms 10-K may be viewed on our website at <http://investor.dolby.com/sec-filings> Group: Annual Filings.

- To supplement Dolby's financial statements presented on a GAAP basis, Dolby provides certain non-GAAP financial measures to provide investors with an additional tool to evaluate Dolby's operating results in a manner that focuses on what Dolby's management believes to be its ongoing business operations. Specifically, we exclude the following as adjustments from one or more of our non-GAAP financial measures: **Stock-based compensation expense**. Stock-based compensation, unlike cash-based compensation, utilizes subjective assumptions in the methodologies used to value the various stock-based award types that we grant. These assumptions may differ from those used by other companies. To facilitate more meaningful comparisons between our underlying operating results and those of other companies, we exclude stock-based compensation expense.

Amortization of acquisition-related intangibles. We amortize intangible assets acquired in connection with acquisitions. These intangible assets consist of patents and technology, customer relationships and other intangibles. We record amortization charges relating to these intangible assets in our GAAP financial statements and view these charges as items arising from pre-acquisition activities that are determined by the timing and valuation of our acquisitions. As these amortization charges do not directly correlate to our operations during any particular period, and often remain unchanged between reporting periods, we exclude these charges to facilitate an evaluation of our current operating results and comparisons to our past operating performance.

Restructuring charges. Restructuring charges are costs associated with a formal restructuring plan and primarily relate to employee severance benefits and asset impairments. We exclude restructuring costs, including any adjustments to charges recorded in prior periods, as we believe that these costs are not representative of our normal operating activities and therefore, excluding these amounts enables a more effective comparison to our past operating performance.

Income tax adjustments. We believe that excluding the income tax effect of the aforementioned non-GAAP adjustments provides a more accurate view of our underlying operating results to management and investors.

Impact from Tax Reform. The enactment of Tax Reform requires estimates based on Dolby's current understanding of the new tax laws. These charges are the result of a discrete and infrequent event that are not representative of current operating results and therefore, excluding these preliminary amounts enables a more effective comparison to our past operating performance.

Using the aforementioned adjustments, Dolby provides various non-GAAP financial measures including, but not limited to: non-GAAP net income, non-GAAP diluted earnings per share, non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating margin, and non-GAAP effective tax rate. Dolby's management believes it is useful for itself and investors to review both GAAP and non-GAAP measures in order to assess the performance of Dolby's business. Dolby's management does not itself, nor does it suggest that investors should, consider non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Whenever Dolby uses non-GAAP financial measures, it provides a reconciliation of the non-GAAP financial measures to the most closely applicable GAAP financial measures. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures as detailed above. Investors are also encouraged to review Dolby's GAAP financial statements as reported in its US Securities and Exchange Commission (SEC) filings.