# Call Participants

## EXECUTIVES

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*President, CEO & Director*

**Peter L. Goldmacher**
*Vice President of Investor Relations*

**Robert J. Park**
*Senior VP & CFO*

## ANALYSTS

**Patrick William Sholl**
*Barrington Research Associates, Inc., Research Division*

**Ralph Edward Schackart**
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# Presentation

**Operator**

Hello, ladies and gentlemen. Thank you for standing by. Welcome to the Dolby Laboratories conference call discussing fiscal fourth quarter results. [Operator Instructions] As a reminder, this call is being recorded Tuesday, November 19, 2024.

I would now like to turn the conference over to Mr. Peter Goldmacher, Vice President of Investor Relations. Peter, please go ahead.

**Peter L. Goldmacher**
*Vice President of Investor Relations*

Good afternoon, and welcome to Dolby Laboratories Fourth Quarter 2024 Earnings Conference Call. Joining me today are Kevin Yeaman, Dolby Laboratories' CEO; and Robert Park, Dolby Laboratories' CFO.

As a reminder, today's discussion will include forward-looking statements, including our fiscal 2025 first quarter and full year outlook, management's expectations for our future performance, and other statements regarding our plans, opportunities and expectations. These statements are subject to risks and uncertainties that may cause actual results to differ materially from the statements made today, including, among other things, changes in customer demand, changes in laws and regulations and the impact of macroeconomic events on our business. A discussion of these and additional risks and uncertainties can be found in our earnings press release as well as in the Risk Factors section of our Forms 10-K and 10-Q. Dolby assumes no obligation to update any forward-looking statements.

During today's call, we will discuss non-GAAP financial measures. These measures should be considered in addition to and not as substitute for GAAP measures. A reconciliation between GAAP and non-GAAP financial measures is available in our earnings press release and in the Interactive Analyst Center on the Investor Relations section of our website.

With that, I'd like to turn the call over to Kevin.

**Kevin J. Yeaman**
*President, CEO & Director*

Thank you, Peter, and thanks to everyone for joining the call today. I'll start with an overview of the quarter and the year, talk about some highlights in Q4, and then I'll cover what we're expecting in FY '25 before turning the call over to Robert to review the financial details.

Looking back on the quarter and the year, Global Consumer Electronics sales underwhelmed all year, and the box office never found its footing. At the same time, we made solid progress in many important areas, including strong momentum in content creation and new partner wins, particularly music, sports and automotive.

We're excited about the growth opportunities going forward. We're seeing good momentum for Dolby Atmos and Dolby Vision. The GE licensing business gives us a stronger position in imaging patents, and we expect the THEO acquisition to accelerate our emerging Dolby.io business.

I'd like to spend a few minutes on some Q4 highlights before I share some perspectives on FY '25. Starting with content, one of the most important aspects of our ecosystem, sports and music are growing in their ability to drive the business forward.

First, with sports, we spoke last quarter about the increasing amount of sports content available in Dolby with major events, including Wimbledon, the Olympics, soccer and Cricket as well as the decision by Max to stream all of its live sports content in Dolby Atmos and Dolby Vision. This fall, both Major League Baseball Championship series were broadcast in Dolby Atmos and Dolby Vision on Max, and the World Series was broadcast in Dolby Vision on Fox.

We also had wins in important regional markets, including e-gaming in China with the League of Legends Final streaming live in Dolby Atmos and more e-gaming in India, with the Battlegrounds Grand Finals premiering in Dolby Atmos on Disney Star. And we continue to have strong traction in Dolby Atmos and Dolby Vision in TV and movies, including Netflix, Disney and Apple.

Turning to music. The momentum continues to build with over 1,200 studios globally equipped with Dolby Atmos capabilities and over 90% of Billboard's Global Top 100 artists having released music in Dolby Atmos. Music is a big driver for multiple device categories and is the #1 driver for Dolby Atmos adoption on automotive.

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Speaking of automotive, we continue to make good progress. We came into the year with 10 OEM partners for Dolby Atmos. During the year, we more than doubled that. So entering 2025, we have more than 20 partners and a strong pipeline. In the fourth quarter, we signed up 2 more partners, Wey, a Chinese car company that specializes in premium crossovers and SUVs; and Smart, a joint venture between Mercedes and Geely. The in-car entertainment experience is an investment priority for automotive OEMs and remains a bright spot for us going forward.

In TVs, we're seeing growth of Dolby Atmos and Dolby Vision in midrange TVs, complementing strong adoption in higher-end TVs. TCL and Hisense, continue to grow their adoption while brands like Philips, Xiaomi, BPL in India and Polytron in Indonesia are rolling out Dolby Atmos and Dolby Vision on more affordable TVs.

Our speaker and sound bar partners including TCL, JBL, Yamaha, Klipsch and Sharp announced new products with Dolby Atmos. And Vizio announced the first Dolby Atmos-enabled sound bar to retail for less than $100. Meta announced that in the Meta Quest, its mixed-reality headset, will include Dolby Atmos.

So just to recap the quarter and the year, while consumer device sales remained soft and last year's strikes continued to impact the cinema business, we continue to increase the amount of content and the number of devices taking advantage of Dolby Atmos and Dolby Vision, bringing the Dolby experience to more people around the world.

Looking forward to FY '25. While the market forecast for aggregate device sales are flattish, we do see revenue from foundational audio technology stabilizing. We're excited about the momentum we have in automotive, and the progress we are making in growing adoption in mobile and TV.

The GE deal adds to the strength of our imaging patent licensing portfolio. And THEO improves our opportunity with Dolby.io by bringing on a great roster of customers, including the NFL, NASCAR and Sky and a broader product portfolio in a compelling emerging market.

The cinema industry is optimistic about the box office slate, which is good for our cinema business. We're confident about our long-term opportunities and our ability to generate growth.

With that, I'd like to turn the call over to Robert to discuss the details of our financial performance.

**Robert J. Park**
*Senior VP & CFO*

Thank you, Kevin.

Revenue for the quarter came in at $305 million, up 5% year-over-year. Non-GAAP earnings of $0.81 per share were up 25% year-over-year, driven by lower tax rate and higher gross margins in the quarter. Licensing revenue was $283 million, including $7 million from the GE licensing acquisition, up 7% year-over-year. Products and services revenue was $22 million, down 13% year-over-year.

We generated $116 million in operating cash flow. We repurchased $20 million of common stock and have $402 million remaining on our share repurchase plan authorization. We declared a $0.33 dividend, up 10% from our dividend a year ago, and ended the quarter with cash and investments of approximately $571 million. We also closed a $250 million credit facility for additional cost-efficient financial flexibility.

For the full year fiscal '24, we reported non-GAAP earnings of $3.79, up 6% and above the high end of guidance on revenues of $1.27 billion, which was down 2% year-over-year. For the year, Dolby Atmos, Dolby Vision and imaging patents revenue came in a little better than we expected coming into the year, growing approximately 14%. Dolby Atmos and Dolby Vision grew in line with our expectations and imaging patents came in stronger than expected due to earlier-than-anticipated revenue recognition from a deal with a large partner.

This growth was offset by headwinds in our foundational audio technologies revenue, which came in lower than we expected, declining approximately 10%. Dolby Atmos, Dolby Vision and imaging patents were just over 40% of licensing revenue for the year and foundational was just under 60% of licensing revenue for the year.

Detailed licensing revenue performance by end market is on the IR portion of our website. As a reminder, timing of recoveries, minimum volume commitments and true-ups can drive quarterly volatility, but trends tend to be smoother over time.

Looking at some end market specific performance, we performed pretty much as expected in mobile and consumer electronics which were down slightly for the full year, and PCs, which were up 14% for the full year, primarily due to the timing of deals.

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Broadcast was weaker than expected, down 9% due to weaker set-top box shipments and lower recoveries as we discussed last quarter. And Other grew 11%, in line with our expectations as strong growth in auto was partially offset by lower revenue in gaming and Dolby Cinema.

Moving on to guidance. For the first fiscal quarter of 2025, we expect non-GAAP earnings to be between $0.96 and $1.11 and on a range of revenue between $330 million and $360 million. Within that, we expect licensing revenue to be between $305 million and $335 million. Gross margins should be approximately 90% on a non-GAAP basis, and we expect non-GAAP operating expenses to be between $190 million and $200 million.

For the full year, we expect non-GAAP earnings to be between $3.99 and $4.14 on revenue between $1.33 billion and $1.39 billion. We expect license revenue to be between $1.22 billion and $1.28 billion and non-GAAP operating expenses to be between $765 million and $775 million.

This guidance implies operating margin expansion of roughly 2 percentage points as we continue to focus on aligning our resources to the most compelling opportunities. The GE licensing deal is expected to contribute roughly $55 million to total revenue and be accretive to non-GAAP operating margins and earnings.

We expect revenue from foundational audio technology to be roughly flat, consistent with the market expectation for overall device shipments. Revenue from Dolby Atmos, Dolby Vision and imaging patents should see roughly 15% growth in fiscal year '25.

Dolby Atmos and Dolby Vision is expected to grow roughly 15% organically and imaging patents is expected to grow roughly 15% as the acquired revenue from GE licensing is partially offset by the tough comp in imaging patents.

From an end market perspective, we expect consumer electronics to be down mid-single digits and Broadcast and PC to be flattish. We expect mid-teens growth in mobile, driven by the GE licensing acquisition and recoveries and mid-teens growth in Other on strength in auto and Dolby Cinema.

One comment on our fiscal year '25 GAAP results I'd like to make everyone aware of, we expect to expense approximately $30 million in amortization of intangibles related to the GE licensing acquisition. This will negatively impact GAAP earnings by about $0.25. This has no impact on cash flow or non-GAAP earnings.

To wrap things up, the creation and distribution of Dolby-enabled content continues to drive growth in our ecosystem, and our partners are very engaged. Our financials remain solid, and we are well positioned for strong growth when economic conditions improve.

With that, I'd like to turn the call back over to Peter for some closing comments.

**Peter L. Goldmacher**
*Vice President of Investor Relations*

Thanks, Robert.

Two more quick things before I turn the call back to the operator to open up the lines for Q&A. The first is we've rewritten the business overview and MD&A section of our 10-K to enhance understanding of our key offerings and markets. And second, we're going to have a casual event for investors at CES on Wednesday, January 8, from 7 to 9 a.m.

We'll be in quiet period, so there won't be any formal remarks or commentary on the business, but we always appreciate the opportunity to show up our technology. If you'd like to join us, please reach out to me for details or send a note to ir@dolby.com. With that, operator, can we please open the call for Q&A?

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# Question and Answer

**Operator**

[Operator Instructions] Your first question comes from the line of Patrick Sholl with Barrington Research.

**Patrick William Sholl**
*Barrington Research Associates, Inc., Research Division*

I was just wondering, with some of the recent technology acquisitions like with THEO, the extent to which like you're able to enter into new revenue-generating verticals such as with like the THEO ads side of things or if that would just be part of the traditional licensing model.

**Kevin J. Yeaman**
*President, CEO & Director*

Yes. Thank you. What this does -- so as we've been -- it was about a year ago that we really refocused this effort on the sports and entertainment vertical specifically. And what we're focused on is delivering solutions to companies that are looking to offer real-time interactive experiences that are increasing audio engagement -- audience engagement, we say audio a lot around here.

So -- and what THEO does is it broadens our ability to do that. They have a large customer base with a lot of names in the sports and entertainment space. The customers who we would often see together as separate companies, we're now a combined force, focusing on building these experiences. And it also brings a more complete solution to bear.

So we're excited about the combination. If I look over this last year, we brought on a lot of new customers that are starting with some percentage of their volume or perhaps one of their many entities. So we think as we go forward, we have an opportunity to make them successful and expand those accounts. And with THEO, we have the opportunity to go win a lot of new customers.

**Patrick William Sholl**
*Barrington Research Associates, Inc., Research Division*

Okay. And then just with the shift in administration and the expectations on tariffs, I guess how has that sort of like informed your expectations? Maybe on the foundational revenue side to the extent that the potential tariffs impact prices and shipping volumes.

**Kevin J. Yeaman**
*President, CEO & Director*

Yes, it's early for us to speculate on tariffs or the impact of those tariffs. We are seeing foundational stabilizing into next year. As you know, it's been under pressure in the last several years as unit shipment volumes were down. On top of that, coming into FY '24, we had some tough comps. So as we go into '25, the comps are stable. And our customers are expressing more confidence that things have stabilized for them and that they're looking to get constructive going forward. So we continue to monitor the environment for any changes, but too early for us to speculate on the specific implications.

**Operator**

Your next question comes from Ralph Schackart with William Blair.

**Ralph Edward Schackart**
*William Blair & Company L.L.C., Research Division*

Looking quickly at the guide and normalizing for the acquisition, it looks like there might be sort of lower single-digit growth organically. I just want to kind of confirm that's within sort of what you're thinking? And then assuming that's true, Kevin, can you maybe give some perspective on the potential for sustainable growth from here? And I know the market is still pretty dynamic, but it sounds like you had a lot of headwinds as you're exiting this fiscal year. It sounds like foundational's stabilizing still good growth momentum in the new products. Maybe you could sort of help us frame the growth going from here as well.

**Kevin J. Yeaman**
*President, CEO & Director*

Yes. Thanks, Ralph. So at the highest level, we're still targeting low single-digit growth in foundational. And as you point out, we see that stabilizing going to FY '25. So that's a big improvement over the last several years. And then we see Dolby Atmos and Dolby

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Vision growing at about 15% organically. Imaging patents is overcoming a tough comp, but with the GE licensing deal, we're at about 15% overall there.

So our overall formula is if we can grow foundational low single digits and hit our target of 15% to 25% for Atmos vision and imaging patents, that gets us around that double-digit mark. On top of that, of course, we are excited about the opportunity we have with Dolby.io. And of course, we have a strong innovation pipeline.

**Ralph Edward Schackart**
*William Blair & Company L.L.C., Research Division*

Great. Maybe just on Dolby.io, maybe give some perspective on maybe the growth profile this year. I know it's probably coming off of a small base, but maybe a better question to ask is, when can it start to really kind of contribute to overall results going forward?

**Kevin J. Yeaman**
*President, CEO & Director*

Yes. So our Dolby.io revenue is reflected in services -- in the product and services line. And as you point out, yes, it's coming off a smaller number, but we do expect strong growth. And like I said, the focus is on -- we've won a lot of great customers this last year where we have a lot of potential for expansion and cross-selling with the addition of THEO. And combined, we're focused on really growing the number of customers as we go into FY '25.

**Operator**

Your next question comes from Steven Frankel with Rosenblatt.

**Steven Bruce Frankel**
*Rosenblatt Securities Inc., Research Division*

Good afternoon, and maybe just a little more insight into the split in the patent business now between the tough comp and GE. What's the organic growth of the patent business implied in that plus 15% in total?

**Kevin J. Yeaman**
*President, CEO & Director*

Yes. So thanks, Steve. So as Robert said in his prepared remarks, one of the reasons why we were ahead of what we said at the beginning of the year for '24 on Dolby Vision, Dolby Atmos and imaging patents is that we did have a large transaction land earlier than we expected. So that's the comp we're overcoming.

Dolby Atmos and Dolby Vision organically is growing 15%. Organically, imaging patents will be down as a result of that comp. And then with GE licensing, the category is up about -- is about 15% higher.

**Steven Bruce Frankel**
*Rosenblatt Securities Inc., Research Division*

Down single digits or more than that?

**Kevin J. Yeaman**
*President, CEO & Director*

Down mid- to high single digits.

**Operator**
This will conclude today's question-and-answer session as well as today's call. Thank you for joining. You may now disconnect your lines.

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