# Call Participants

## EXECUTIVES

**Kevin J. Yeaman**
*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**
*William Blair & Company L.L.C., Research Division*

**Steven Bruce Frankel**
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# Presentation

**Operator**

Ladies and gentlemen, thank you for standing by. Welcome to the Dolby Laboratories Conference Call discussing First Quarter Fiscal Year 2025 results. [Operator Instructions] As a reminder, this call is being recorded, Wednesday, January 29, 2025.

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

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

Thank you, operator, and good afternoon. Welcome to Dolby Laboratories first quarter 2025 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 second quarter and full year 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, including, among other things, the impact of macroeconomic events, supply chain issues, inflation rates changes in consumer spending and geopolitical instability on our business. A discussion of these and additional risks and uncertainties can be found in the earnings press release that we issued today under the section captioned forward-looking statements as well as in the Risk Factors section of our most recently 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 non-GAAP financial 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*

Thanks, Peter, and thanks to everyone for joining us today for the first quarter FY '25 earnings call.

Both licensing revenue and total revenue came in towards the high end of the range of the guidance that we provided on our last earnings call, and non-GAAP earnings for the quarter came in above the high end of the range. It's a strong start to the year, which gives us confidence that we are on track to achieve the annual financial guidance we gave on the fourth quarter earnings call.

We continue to expect foundational revenues to be roughly flat for the full year. And we have robust engagement from our broad ecosystem of content creators, distributors and OEM partners. Dolby Atmos, Dolby Vision and imaging patents are well positioned to grow roughly 15% for the full year, and we continue to expect to grow non-GAAP earnings faster than revenue.

I'll cover a few of the highlights for the quarter, and then I'll turn the call over to Robert to review the financials. Our creative community continues to show strong support for Dolby Atmos and Dolby Vision. All 8 of the 2025 Grammy nominees for Best New Artist are available in Dolby Atmos, and 7 out of 8 Grammy nominees for Record of the Year and Album of the Year are available in Dolby Atmos.

For calendar year 2024, over 80% of the domestic box office and almost 70% of the global box office came from Hollywood and local titles released in Dolby Atmos and Dolby Vision. In addition to music and movies, the momentum continues to build across music, TV, live sports and user-generated content. We wrapped up CES a few weeks ago, and the Dolby experience was on display across the show floor, including in cars, TVs, PCs and soundbars.

Starting with auto. We have announced partnerships with over 20 OEMs and those 20-plus OEM brands have over 60 models in market with Dolby Atmos. Many of our partners, after starting with their high-end models, are expanding Dolby Atmos deeper into their lineups. One of our earliest partners, Mercedes, had over 15 models in market by the end of 2024. We are also excited that Li Auto has the first car in market with both Dolby Atmos and Dolby Vision. In-car entertainment is an investment priority for automotive and consumers are spending more time enjoying entertainment in their cars, whether they're waiting to pick someone up or

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getting a charge. With Dolby Atmos and Dolby Vision, the car has transformed into a high-end entertainment experience, and we are excited about the growth opportunity ahead. The broader ecosystem around in-car entertainment also continues to coalesce around the Dolby experience.

At CES, Samsung Display announced that it will include Dolby Vision and automotive displays and Texas Instruments announced that it is now supporting Dolby Atmos and its new family of chips for automakers, all making it easier for OEMs to adopt and implement. Also Pioneer demonstrated Dolby Atmos as an aftermarket solution in a 4-channel sound system. We continue to make progress with further adoption on TVs.

In November, Amazon announced that the Fire TV Omni Mini-LED will support Dolby Atmos and Dolby Vision. And there were a lot of new Dolby Atmos and Dolby Vision enabled TV launches at CES from partners, including Hisense, TCL, Panasonic, Sharp and RCA.

In PCs, OEMs, including Asus, Dell, Lenovo and Samsung, all announced new computers, laptops or peripherals that support Dolby Atmos and/or Dolby Vision.

Also this quarter, Amazon launched its first sound bars supporting Dolby Atmos. Harman Kardon introduced the Enchant soundbar lineup with Dolby Atmos, and Samsung announced new soundbars with Dolby Atmos to complement their TVs.

Looking forward, with a solid first quarter behind us, we remain optimistic for the rest of FY '25 and beyond. We like what we are seeing and hearing from our partners. Our ecosystem is strong. Our momentum with creatives and distributors continues to build and that energy continues to propel our opportunities with our OEM partners.

And so with that, I'll turn it over to Robert, who will take you through the financials in a bit more detail.

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

Thanks, Kevin, and thanks for everyone joining us on the call today.

Before we review the quarter in some detail, I'd like to hit the highlights. Revenue for Q1 was near the high end of the range we laid out in the Q4 earnings call, primarily driven by a favorable true-up and earnings came in above the high end of the range. We are off to a good start for fiscal '25. At the same time, it's early in the year, so we're keeping our full year guidance unchanged. We are making progress on the business front and our partners remain engaged. Our value proposition remains strong, our financials are solid, and we are confident in our long-term growth prospects. Q1 revenue was $357 million, up 13% compared to the year ago quarter. Licensing revenue of $330 million was up 12% year-over-year. This includes a $70 million favorable true-up for Q4 fiscal '24 shipments reported that were above our original estimate. The true-up was across all end markets, but was most notable in broadcast and auto. Products and services revenue was $27 million, up 22% year-over-year. Detailed licensing performance by end mark is on our IR website. And as a reminder, timing of recoveries, minimum volume commitments and true-ups can drive volatility between quarters. A notable movement this quarter was in mobile, which was up 74% year-over-year. The 2 main reasons for this increase are revenue from GE licensing and the timing of minimum volume commitments.

Moving to the bottom line. In Q1, we earned $1.14 per diluted share on a non-GAAP basis above the high end of our guidance, primarily due to a stronger revenue, and we generated $107 million in operating cash flow. We repurchased $15 million worth of common stock and have about $387 million remaining on our 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 $611 million.

GAAP operating expenses in the quarter included a restructuring charge of approximately $5 million as we continue to align our resources with our business priorities.

Turning to guidance. Our full year revenue is typically weighted more towards the first half of the year. Last year, the weighting was 53%, 47% first half to second half, and we expect a similar weighting this year. For Q2 fiscal year '25, we expect revenue between $355 million and $385 million. Within that, licensing revenue is estimated to range from $330 million to $360 million.

Gross margin should be approximately 91% on a non-GAAP basis. We expect non-GAAP operating expenses to be between $190 million and $200 million. Our effective tax rate for Q2 is projected to be around 18.5% on a non-GAAP basis. So as a result, we estimate that non-GAAP EPS should be between $1.19 and $1.34 per diluted share.

Moving on to the full year. We are maintaining our full year guidance for revenue and earnings. To repeat and reiterate what we said last quarter, for the full year, we expect non-GAAP earnings to be between $3.99 and $4.14 on revenue between $1.33 billion

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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. We expect revenue from foundational audio technology to be roughly flat and revenue from Dolby Atmos, Dolby Vision and imaging patents to grow roughly 15%.

From an end market perspective, there's no change to what we communicated last quarter. We expect growth in mobile and other markets. Broadcast and PC are expected to be flattish and consumer electronics is expected to be down mid-single digits for the year.

To wrap things up, the creation and distribution of Dolby-enabled content continues to grow nicely, and our partners are still very engaged. Our financials remain strong, and we are well positioned for long-term growth.
With that, I'd like to turn it back to the operator to open the line for your questions. Operator?

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# Question and Answer

**Operator**

[Operator Instructions] We'll go first to Steven Frankel, Rosenblatt Securities.

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

I appreciate the opportunity to ask some questions. And the comment on the relative flatness of foundational for the year, was that also true in Q1, or you're seeing any different trends in the beginning of the year?

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

Steve, it's Robert here. We focus on the full year being -- our view is still to be flattish, but nothing in Q1 indicated to anything other than that.

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

Okay. And then in the outsized growth in mobile in Q1, was that simply a pull-in of something that maybe you thought would land later in the year, or that's just the timing of the ebbs and flows of these deals? Or is there anything kind of a level deeper about penetration rates or deal sizes that we could read into this number as well?

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

Two things, Steve. One is just, as you know, within mobile, we've talked about the fact that there's more -- a higher prevalence of minimum volume commitments, so timing can vary from quarter-to-quarter on mobile. The other thing is the integration of GE licensing, while that affected all markets, mobile was -- had the largest impact.

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

Okay. And then on your CES review, the Samsung OLED screens for cars seems pretty exciting. What do you think the timetable is for that to be beginning to show up in models. Is that something that happens pretty quickly, or is this your typical OEM auto design cycle that these vehicles could be a couple of years out?

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

Yes. So -- well, first of all, we're really excited about the opportunity with Dolby Vision in addition to the strong momentum we have with Dolby Atmos. I mean clearly, in-car entertainment is a big investment priority for automotive, and we have put ourselves at the center of that. As you know, we were demonstrating the first car to have Dolby Vision in market, that's Li Auto, at CES, we're demonstrating that. So we think that the ecosystem is ready for it. I think the Samsung partnership, in particular, shows that they also see the opportunity. And so having them natively integrating Dolby Vision into their displays for automotive. I think both validates the opportunity and makes it easier for implementation cycles. We've obviously didn't -- we've been working on this, Steve. So we would expect more progress throughout the year, and we're excited to extend what we've done with Dolby Atmos in the car to include Dolby Vision and Dolby Atmos.

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

Okay. One last quick one for Robert. On the outsized true-up in the quarter, was that 1 manufacturer in particular or it was just in general, in Q4, you undershot where actual volumes ended up?

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

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Yes. There's not 1 particular vendor -- excuse me, OEM or partner that stands out. It was really up across all markets, but particularly in TVs and auto.

**Operator**

We'll take the next question from Patrick Sholl, Barrington Research.

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

Just on the the expected growth for Atmos Vision and the image patent licensing. Can you maybe talk about some of like the key variables that would take you to like the higher end of your target growth range for that versus what might be kind of a drag in 2025?

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

Yes. I think the -- so the biggest factors there from an end market point of view are automotive, where we feel great about the momentum we have, and it's just a matter of the pace of adoption and especially the pace of rollout. So that's the biggest variable there. So we'll keep you up to speed on all of our wins each quarter as far as that is going. TV in the living room, we have -- last year, our adoption rate grew to about 30% of 4K TVs with Dolby Atmos and Dolby Vision, the increase from 25% a couple of years before that was the work that we've been saying that we're doing paying off, and that's working with TV manufacturers to extend the Dolby experience deeper into their lineups, where we have particular traction with the likes of Hisense, TCL. They're also doing well market share-wise. And then mobile, where we're our -- one of our highest focus areas is getting more Dolby Vision and Dolby Vision capture in mobile. And on the content side, bringing up to speed the ecosystem for user capture content, being able to share and edit that content. So those are the 3 areas. And so what's going to drive it, what would produce upside is if there -- obviously, if more of those things are shipping and obviously the pace of wins and getting them into the market, and how popular those models are.

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

Okay. Just then on Dolby Cinema, I guess, could you provide any sort of update on the screen base for that?

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

Yes, we did ad screens this quarter. It wasn't a significant increase, but it's getting going again. Certainly, after the last 4 years, where it's been a tough environment for exhibitors to invest, we've seen a significant pickup in the outlook for being able to ad screens going forward. We did see year-over-year improvement in both Dolby Cinema and cinema products. And -- so we're working with our partners there. And as I think -- as we said before, over these last 4 years, the percentage of the box office that accrues to the premium screens, the premium large format screens like Dolby Cinema, has increased significantly. And so as exhibitors are beginning to look forward, they have greater confidence in the '25 and '26 box office, and they look to invest where they want to invest is in premium screens.

**Operator**

Next, you'll hear from Ralph Schackart, William Blair.

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

If you compare contrast as you look out into 2025 now versus maybe a year ago as you're looking out in 2024, maybe speak to some of the product momentum you see now versus maybe you saw then? And obviously, the macro environment foundational is better. But just maybe if you could start there and then I'll follow up for either you or Robert.

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

Yes. Thanks, Ralph. Well, so first of all, we came into the year a quarter ago saying that our customers and partners were increasingly optimistic that the environment has stabilized, which is what gave us -- which is why we guided to roughly flat for foundational, and they continue to be highly engaged on Dolby Atmos, Dolby Vision, and we continue to be excited about that. I think also, as it relates to automotive, where we more than doubled the number of OEM partners over the course of FY '24, each of those -- most of those partners are looking to extend -- expand deeper into their lineups. We've now added -- we have Dolby Vision with Li Auto. We have,

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obviously, a pipeline that we're looking to grow there. So I think we're just -- our -- one of our higher growth areas is coming off a larger base, and we continue to have strong momentum. In TV in the living rooms, getting that ball rolling again, where we were at 25% of 4K TVs for about 2 years, having risen that to 30% and continuing to have a lot of initiatives in the pipeline to keep to keep that growing. And as also said earlier, we're optimistic about the further potential for Dolby Vision, Dolby Vision Capture and the mobile echo system.

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

Great. And then just maybe a follow-up on IO, did a lot of investor questions just to kind of get a sense of how you could frame the opportunity. I know you did a while ago, and then the model sort of pivoted since then. So maybe if you could take a step back and sort of frame the opportunity for us. And then just to maybe kind of bolt on to that. As we think about IO, it's -- I guess the benefits in the in-app environment are pretty clear. But maybe if you could speak to the opportunity beyond apps, is there an enterprise play here or sort of give us a sense of how that product could evolve over time?

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

Yes, of course. So yes, you talked about the pivot, which was coming into FY '24 when we went from kind of a self-service developer model to recognizing a very strong demand signal for companies in and around sports that are looking to offer more real -- continue to evolve and improve their real-time interactive digital experiences, which are such an important part of how their audiences are engaging these days. In particular, our ability to stream high-quality audio video content in ultra-low latency, so we can do it in seconds, we can do it in sub-seconds, whereas the average today could be 7 seconds, but you could have 15, you could have 25. And that makes it hard to have an experience where you're watching the game, I'm watching the game here in Chicago -- I'm in San Francisco, I see the touch down 15 seconds before you, right? So -- and on top of that, we've built other functionality. And of course with THEO, we brought on a great list of customers that are in our target areas, and we have a more complete solution. So I would say, Ralph, that it continues to be those digital experiences. We think our -- we see as a significant investment priority for these organizations. And so that continues to be the first thing we're going to talk about. But yes, it does extend into experiences that might not be digital. One customer that we added earlier this year, which has now gotten up to speed and is using the solution is Paddy Power, which Paddy Power is sports betting shop in Ireland. It's the first of the Flutter -- it was the original Flutter company, which Flutter now has over 15 entities. And Paddy Power is using us for their in-shop experience. And so when you go into the shop, and you're watching the horse race for them, low latency has always been important. And -- but they were doing it early. So they were using sort of a start-up and some of their own stuff. And the reliability was a real problem. It would cut out even if it was going, you might not be able to discern the number of the horse. And so they went forward with us. We're now live in 600 betting shops. Each of those shops has 2 -- can have up to 2 dozen or more streams going on at different events at any given time, and the reliability has just gone up dramatically. And so they've had a dramatic reduction in service calls because they're now getting the high-quality audio video stream in low latency. And of course, we're excited about the fact that they're part of a larger group and that we look forward to that creating more opportunities as we go forward.

**Operator**

Everyone at this time, there are no further questions. Does the management have any closing remarks?

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

No. Thank you for joining us, and we look forward to keeping you up to speed on our progress. Thank you.

**Operator**
Thank you. And once again, ladies and gentlemen, that does conclude this conference. Thank you all for your participation. You may now disconnect.

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