Call Participants

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Robert J. Park
Senior VP & CFO

ANALYSTS

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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 second quarter fiscal year 2025 results. [Operator Instructions] As a reminder, this call is being recorded, Thursday, May 1, 2025.

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

Peter L. Goldmacher
Vice President of Investor Relations

Good afternoon. Welcome to Dolby Laboratories Second Quarter 2025 Earnings Conference Call.

Joining me today are Kevin Yeaman, Dolby Laboratories CEO; and Robert Park, our CFO.

As a reminder, today's discussion will include forward-looking statements, including our fiscal 2025 third 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, tariffs and other trade barriers, 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 our 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 non-GAAP financial measures and 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 on our second quarter FY '25 earnings call.

In the second quarter, both licensing revenue and total revenue came in at the midpoint of the range of guidance we provided on our last earnings call, and non-GAAP earnings for the quarter came in at the high end of the range. As we approach the end of the quarter, all indications were that we were on track to be at or above the midpoint of our revenue guidance for the full year. As we speak today, there is, of course, a significant amount of uncertainty in the macroeconomic environment. We don't have the degree of visibility that we normally have as we develop our outlook for the remainder of the year.

Given the variability and potential outcomes, we are revising our revenue range from $1.33 billion to $1.39 billion to a range of $1.31 billion to $1.38 billion for the year. Our current assessment based on limited data points is that we are likely to experience slight headwinds as a result of the macroeconomic environment. This could change quickly, and there are a broad range of scenarios based on how things evolve going forward. On the one hand, if we see progress in trade deals and increasing clarity in the macro environment, we could be at the mid- to high end of this range. On the other hand, if lack of certainty drags on or even escalates further, that would point to the mid- to low end of our range.

We are monitoring the situation closely, and Robert will walk you through the details on these numbers in a few minutes. In the meantime, we are staying focused on the things that drive growth in the long term. We continue to have strong engagement across our broad ecosystem of content creators, distributors and OEM partners, and we are performing well on the partnerships that drive growth by bringing more Dolby experiences to more people around the world.

I'd like to spend a few minutes on some highlights in the quarter, starting with automotive. We continue to see high demand for raising the bar on the quality of the in-car entertainment experience. This quarter, Porsche announced that Dolby Atmos will be available in the 2026 Taycan, Panamera, Cayenne and 911 models. And Cadillac announced that it will include Dolby Atmos throughout its entire 2026 lineup of EVs. Also, Volvo, Xiaomi and Hyundai all announced new models coming to market. Additionally, 2 more auto

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manufacturers, NIO and Zeekr, have decided to deploy Dolby Vision for a total of 3 brands and 9 car models offering Dolby Atmos and Dolby Vision. Automotive is an increasingly important part of our business and the momentum continues to build.

In mobile, we are focusing on bringing the Dolby Atmos and Dolby Vision experience to all the ways that consumers enjoy content on their smartphones. User-generated content, primarily on social media and short-form video platforms, represent an important opportunity for us to drive further adoption of Dolby Vision into the mobile phone market. Apple has supported Dolby Vision and Dolby Vision Capture across its iPhone lineup for a while, and we continue to make progress in expanding Dolby Vision into the Android device ecosystem.

In China, where we already have strong adoption across social media and video sharing services, we added 2 new partners. Xiaohongshu, also known as RedNote, is a Chinese social media platform and an e-commerce marketplace, primarily focused on lifestyle, beauty, fashion and travel. And Kuaishou is a popular Chinese social media platform specializing in short-form video content similar to TikTok.

We are also seeing increased support across popular video editing apps, reflecting increased interest in Dolby Vision for user-generated content. Filmora has announced plans to support Dolby Vision and CapCut, which currently supports Dolby Vision for iOS, is expanding its support to include Android. This ecosystem support is an important part of the virtuous cycle that drives OEMs to adopt Dolby Vision deeper into their device lineups.

Earlier this year, Oppo launched its first Android device with Dolby Vision capture as the default mode and about a month ago, added 3 more phones and a tablet with Dolby Vision capture and playback. Realme and Xiaomi also launched new models that support Dolby Vision. We are focused on working with these partners to expand Dolby Vision deeper into their lineups and on expanding our presence with global social media and video sharing platforms.

Moving on to the living room and the TV ecosystem. We continue to focus on bringing Dolby to more content and more devices. This past quarter, both the Super Bowl and March Madness were available in Dolby Atmos and Dolby Vision, continuing our momentum in sports. Waipu.tv, the market leader in IPTV in Germany, announced support for Dolby Atmos and Dolby Vision. And TOD, the leading streaming platform for sports and entertainment in the Middle East and North Africa, launched a 4K set-top box with Dolby Atmos and Dolby Vision.

More content in Dolby gives consumers a reason to upgrade their TVs and more reasons for OEMs to adopt Dolby further into their lineups. This quarter in the U.K., Sky released the popular Sky Glass Gen 2 TV with Dolby Vision and a Dolby Atmos soundbar built into the TV. Also, LG, Sharp and Hisense all announced new TV models with Dolby Vision.

And a quick update on cinema. Filmmakers, studios and moviegoers all value a premium movie experience and exhibitors are focusing their investment dollars on rolling out more high-end theaters, which are garnering a higher share of the box office. At CinemaCon, we announced that AMC and Dolby will add an additional 40 Dolby Cinemas at AMC locations in the United States through the end of 2027. We've also announced that we will be adding Dolby Vision and Dolby Atmos to theaters in India this year, beginning with 6 exhibitors in major cities, and we also added a handful of new Dolby Atmos and Dolby Vision theaters in South Korea.

Stepping back, while there's uncertainty in the economic environment, we had a strong quarter, and we had great wins across our main focus areas. We are well prepared to operate across a wide range of scenarios, and we are in a solid financial position. We continue to have strong engagement from content creators, distributors and our OEM partners across our ecosystems, and we will remain focused on the things that we can control and that drive long-term growth.

With that, I'd like to turn the call over to Robert to discuss the financials in more detail.

Robert J. Park
Senior VP & CFO

Thanks, Kevin, and good afternoon to everyone on the call.

Before we get into the details, I'd like to point out 3 important takeaways. First, Q2 revenue came in at the midpoint of the range and earnings came in at the high end of the range we communicated last quarter. Second, we are adjusting the full year revenue range to reflect the current environment, and I'll give you some color on that. And third, Dolby is a durable business. We have strong financial fundamentals, and we've successfully navigated difficult times before.

With that as a backdrop, let's get into the details. Q2 revenue was $370 million, in line with the midpoint of guidance and up 1% year-over-year, and licensing revenue of $346 million was up 2% year-over-year. Products and services revenue was $24 million, slightly

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below the midpoint of guidance and down 10% year-over-year. Detailed licensing performance by end market is on our IR website. And as a reminder, timing of recoveries, minimum volume commitments and true-ups can drive volatility between quarters. In Q2, these timing factors contributed to an 11% decline in Broadcast and a 17% increase in PC revenue on a year-over-year basis. For the full year, we still expect strong growth in mobile and other markets, Broadcast and PC to be flattish and CE to be down mid-single digits.

Moving on to the bottom line. In Q2, we earned $1.34 per diluted share on a non-GAAP basis, up 5% year-over-year and at the high end of our guidance, largely due to some OpEx spend that was pushed out to the second half. We generated $175 million in operating cash flow and finished the quarter with $701 million in cash and investments. We repurchased $35 million worth of common stock and have about $352 million remaining on our repurchase plan authorization. We declared a $0.33 dividend, up 10% from our dividend a year ago.

Now I'd like to turn my comments to how we're thinking about Q3 and the full year. To reiterate some of the important context Kevin shared with you in his opening comments, the lack of visibility brought about by the current economic situation has limited our ability to forecast the business with the degree of precision we are used to. There are a wider range of scenarios in front of us than there usually are at this point in the year. So we have adjusted our revenue outlook to reflect this. Let me walk you through this in a little more detail.

The outlook for consumer spending on devices is a key factor in our forecast. It is difficult to make general statements about the impact of any broad-based weakness in the economy on our overall business or how the uncertainty will affect consumer spending on devices for the remainder of the year. Even if we make high-level assumptions about potential impacts of the macro environment on device shipments, the details matter. For example, which types of devices are most impacted, which Dolby technologies are on these devices and are high-end or low-end devices being disproportionately affected. These are just some of the many factors that could impact our revenue.

With that in mind, and to help you think about potential scenarios for the second half of the year, we estimate that if there were a 5% change in overall device shipments for the remainder of the year, it could have an approximate impact on our revenue of roughly 2% to 4% or $15 million to $25 million for the remainder of this year. As a reminder, most of our licensing revenue is based on unit shipments. In general, we estimate revenues from unit shipments each quarter and true it up the following quarter based on actual reported shipments from our partners. Our royalty reporting is generally about 1 quarter in arrears because device shipment data is not real time.

I would also like to share a few more endpoint-specific factors to keep in mind as the macroeconomic situation evolves. Mobile tends to have a higher concentration of minimum volume commitments, so it is less sensitive to near-term changes in device shipments relative to, say, Broadcast, PC or CEN markets. We are still in early days in the opportunity for auto. And currently, the majority of our auto revenue is from non-U.S. OEMs shipping to non-U.S. markets.

The last point I'd like to make is that as you think about the impact of U.S. trade deals, we estimate that approximately 25% of our licensing revenues from consumer device shipments are from those sold into the U.S. These are some of the things to keep in mind as the environment continues to evolve.

Now moving on to our outlook for Q3 and the full year. Our outlook for Q3 is for revenue to be between $290 million and $320 million. Within that, licensing revenue ranges from $265 million to $295 million. Gross margins are expected to be approximately 88% on a non-GAAP basis. Our outlook for non-GAAP operating expenses is between $190 million and $200 million. And with our effective tax rate for Q2 at about 20.5% on a non-GAAP basis, non-GAAP EPS is expected to come in between $0.62 and $0.77 per diluted share. For the full year, we have widened and lowered the range of revenue to be between $1.31 billion and $1.38 billion. Our outlook for licensing revenue is to be between $1.21 billion and $1.28 billion. We see non-GAAP operating expenses between $760 million and $775 million and non-GAAP earnings per share to be between $3.88 and $4.03.

In closing, I'd like to remind you that Dolby has successfully navigated many technological and economic cycles. We have a resilient business model with a diversified global revenue base, deep partner relationships, high gross margins and a healthy balance sheet. We are well positioned to manage the business, and we will continue to focus on things that put us on a path of 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] Your first question comes from the line of Ralph Schackart with William Blair.

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

Thanks for extra color on the call today as it relates to the outlook. Just maybe first, as you're talking to your OEM partners, just curious, those that may be in less, I guess, lower tariff regions, I guess, what's sort of the ability for them to increase capacity if that should play out? That's the first question. Then I'll have a second.

Kevin J. Yeaman
President, CEO & Director

Yes. So thanks, Ralph. Of course, it varies by end market. One data point I would share on that note is the location of manufacture for TVs, Mexico is the largest location to manufacture, generally exempt under the exempt from tariff status. It's about 10% in China. Across the rest of our portfolio, it really varies by OEM. So I think ultimately, as Robert said, when we model our forecast is about how many devices we are going to ship, and it's happening in real time, people deciding whether to increase prices because of those -- because of any tariffs, whether it's going to affect consumer spending, whether they're adjusting supply chains. But at this point, especially given that mobile is less sensitive to unit shipments, as Robert said, in the short term, TVs are mostly in Mexico. From where we sit today, we think it's likely that we'll experience some slight headwinds, but that could change quickly depending on how it evolves from here.

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

Great. And Robert, I missed this in the prepared remarks. Maybe you could just clarify, you talked about 25% of the units sold in the U.S. Was that in reference to the total volume of products that Dolby reports as revenue? Maybe can you just kind of clarify that, please?

Robert J. Park
Senior VP & CFO

Yes. Ralph, so while our ship to and ship from data is limited, we estimate that approximately 25% of our licensing revenue from consumer device shipments are from those sold into the U.S. and a large portion of that is yes.

Kevin J. Yeaman
President, CEO & Director

So for all of our licensing revenue, about 25% is related to purchases in the U.S., consumer devices in the U.S.

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

Okay. That's helpful. And just maybe last one, maybe a little bit bigger picture. Obviously, we've been getting good traction with Vision and Atmos. As it relates to some of the economic noise that's going on right now, has that stalled any conversations there? I guess, maybe lost momentum? Just kind of curious the momentum you're seeing on those 2 growth products?

Kevin J. Yeaman
President, CEO & Director

No, we continue to have really strong engagement with partners across the ecosystem. I talked about some of those today, automotive, in particular, where we continue to see people leaning into really investing in the in-car entertainment experience. Dolby Atmos Music is leading the way. You saw us announce Porsche has announced plans to launch 4 of its models with Dolby Atmos. Cadillac announced its plans to expand into the entirety of its EV lineup for 2026. And we also are now up to 3 Dolby Vision customers. So we're excited to move from Dolby Atmos Music in the car and expanding that into the entire audiovisual experience.

Operator

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Our next question comes from the line of Steven Frankel with Rosenblatt.

Steven Bruce Frankel
Rosenblatt Securities Inc., Research Division

Thank you for the extra insight. In terms of the overall environment, to what extent if you see the environment continuing to deteriorate, might you adjust OpEx for the back half of the year? Or is that expense level pretty much locked in at this point?

Kevin J. Yeaman
President, CEO & Director

Well, the first thing I would say, Steve, is given the uncertainty, we're going to stay focused on what we know to drive long-term value. So we're not making any quick -- we're not making any fast changes to our operating plans. On the other hand, through periods of uncertainty, we've learned to make sure and be very attuned to whether there are any changes in the environment, which has any impact on any one of our individual growth opportunities to the upside or the downside. So we would make adjust -- we'll look to be quick to adjust to that if and when that happens. Right now, we're staying the course. And we're always -- and I think you've seen us over the last couple of years looking for opportunities to be as efficient as we can everywhere we can.

Steven Bruce Frankel
Rosenblatt Securities Inc., Research Division

And you continue to make great progress in the car with Atmos Music. What do you think it takes to get to the tipping point? Is it hitting a particular car brand at a mainstream price point? Is it just getting a couple more wins? What do you think the catalyst will be that will really tick this market?

Kevin J. Yeaman
President, CEO & Director

Well, look, I think we're doing -- we're really pleased with the momentum we have now. And we continue every quarter to bring on new manufacturers. We see new and existing customers of ours expanding deeper into their lineups. They are, as you would expect, from us usually starting -- they're starting at the higher end of their lineups. And so we're also working with them and looking forward to when we start to get into high-volume mainstream models. So that would be another big milestone. But in the meantime, we're very happy with the momentum.

Steven Bruce Frankel
Rosenblatt Securities Inc., Research Division

Great. And for Robert, what were true-ups in the quarter?

Robert J. Park
Senior VP & CFO

True-ups for Q2 is about $1 million.

Operator

Our next question comes from the line of Patrick Sholl with Barrington Research.

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

Just another question on auto. Just curious in terms of like the type of vehicles that you're getting adoption from Vision as well as Atmos, if that's more focused on EV or like a specific dash screen size or anything like that? And then on products and services, I was wondering if you could detail any like tariff exposure on that side?

Kevin J. Yeaman
President, CEO & Director

Yes. So on automotive, our first 3 customers are Chinese EV manufacturers. We also in the onset of Atmos saw China move fast. And I think it's just a function of their -- they move fast. And I think that we also are seeing concentration in EVs because those models are designed in a way which allows for faster implementations and people are being aggressive about investing in the in-car entertainment experience. They also tend to have more screens. But this is really -- there are some interesting stats about how much time people

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spend in their cars when the car isn't moving at all. And so for some parts of the world or really anywhere in the world, whether you're kind of -- you're waiting to pick up somebody from somewhere or you have time in that car, then people are using their cars as moving entertainment centers and communication centers. So I think overall, that's what's driving it, and it will start with the ability to stream movies and shows and other types of content.

On the second part of the question, do you want to take the impact, Robert?

Robert J. Park
Senior VP & CFO

Yes. The question on impact on our products business, fairly small, the impact of the tariffs. Yes, there are -- we do manufacture our products overseas, but a large portion of those products are shipped to non-U.S. markets and the impact on the tariff rates for those are pretty marginal.

Operator

There are no further questions at this time. I will hand things back over to Peter for closing remarks.

Peter L. Goldmacher
Vice President of Investor Relations

Thanks, operator. Thanks, everyone, for joining the call. We'll talk to you next quarter.

Operator
Thank you for joining us. You may now disconnect.

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