

Call Participants

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President, CEO & Director

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Robert J. Park
Senior VP & CFO

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Patrick William Sholl
*Barrington Research Associates, Inc.,
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Ralph Edward Schackart
*William Blair & Company L.L.C.,
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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 third quarter fiscal year 2025 results. [Operator Instructions] As a reminder, this call is being recorded, this Thursday, July 31, 2025.

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. Welcome to Dolby Laboratories third quarter 2025 earnings conference call. Joining me today are Kevin Yeaman, Dolby Laboratories CEO; and Robert Park, CFO. As a reminder, today's discussion will include forward-looking statements, including our fiscal 2025 fourth 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 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 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 joining us for our third quarter fiscal '25 earnings call. Results for the third quarter were generally in line with our expectations. Both licensing revenue and total revenue came in above the midpoint of the range of guidance we provided on our second quarter earnings call, and non-GAAP earnings came in just above the high end of the range.

On our last earnings call, we talked about the macro environment and the related challenges to our visibility as we provided our outlook for the remainder of the year. Robert will go through the details in a moment. At a high level, the macro remains uncertain, our outlook remains unchanged, and we continue to monitor the environment while staying focused on the things that we can control.

I'd like to cover some of the highlights from the quarter before I turn the call over to Robert to discuss the financials. We continue to see strong engagement with our ecosystem of content creators, distributors and device OEMs. Starting with music, over 90% of the billboard 100 artists record in Dolby Atmos. We are also seeing momentum in back catalogs being remixed and rereleased in Dolby Atmos from bands like The Rolling Stones, Phil Collins, The Grateful Dead, Fleetwood Mac and the Dube Brothers.

In sports, FIFA Club World Cup soccer, the Stanley Cup Finals, the French Open, the Indian Premier League playoffs and finals and the World Test Cricket Championship Final were all available in Dolby. HBO Max, which is streaming most of its sports in Dolby Atmos and Dolby Vision, is launching its streaming service in a dozen new countries this summer as the platform approaches availability in 100 markets.

In the cinema, Mission: Impossible - The Final Reckoning, How To Train Your Dragon, F1 The Movie, Jurassic World Rebirth, Superman and The Fantastic Four, just to name a few, are all in Dolby Atmos and Dolby Vision. Across music, sports and movies, it's clear that the creative community continues to embrace the value of content created with Dolby Atmos and Dolby Vision.

Moving on to end markets. Let's start with automotive, where we continue to enjoy strong momentum. Last quarter, we talked about strong customer demand for OEMs to raise the bar on the quality of in-car entertainment and big wins with Porsche and the Cadillac

EV lineup. This quarter, we were excited to add Audi as a partner. Dolby Atmos is now available in the Q7, the Q8, the A8 and the e-tron GT.

In India, the release of Tata's new Harrier EV with Dolby Atmos was well received in the market. Additionally, Mahindra announced that the Thar ROXX will offer Dolby Atmos. We now have partnerships with 2 of the top 3 Indian auto manufacturers, Tata and Mahindra, in the third largest car market in the world behind China and the U.S. To date, we have announced Dolby Atmos partnerships with almost 30 OEMs. We believe the strong progress we've made over the last 3 years is a testament to how well our offerings resonate with the direction the auto industry is going.

In mobile, Motorola rolled out its first smartphone with Dolby Vision Capture and Xiaomi added 2 new phones with Dolby Atmos and Dolby Vision. Many of the most popular social media platforms in China support Dolby Vision, including Xiaohongshu, also known as RedNote, Kuaishou and Bilibili. We are seeing the increased adoption by Chinese phone OEMs so that their customers can create and share high-quality user-generated content. This quarter, OPPO partnered with RedNote to launch its flagship smartphone, the X8, featuring Dolby Vision Capture for user-generated content.

Our progress in China demonstrates the value Dolby Vision brings to social media, enabling creators to make the best, most engaging content possible, and we are focused on bringing this experience to the rest of the world.

Moving on to other devices. Dolby Technologies were a part of several new TV and speaker launches from partners, including Samsung, Haier, TCL, Marshall, JBL and LG. We also worked with long-time partners, Lenovo and Google to launch the world's first Chromebook with Dolby Atmos.

So to wrap up, we had solid results for the quarter, and we continue to see strong engagement with content creators, content distributors and device manufacturers. There continues to be increasing demand for the most compelling and immersive audio visual content and more ways than ever to experience that content. The number of experiences in Dolby Atmos and Dolby Vision continues to grow across music, sports, podcasts, user-generated content, movies and TV. In mobile devices, TVs, PCs, cars and sound bars. All of this gives us confidence in our ability to drive growth by bringing more Dolby experiences to more people around the world.

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

Robert J. Park
Senior VP & CFO

Thanks, Kevin, and good afternoon to everyone on the call. Before we review the quarter in some detail, I'd like to hit the highlights. First, revenues for Q3 were above the midpoint of the range we laid out in the Q2 earnings call and earnings came in just above the high end of the range.

Second, the macro environment remains uncertain and dynamic. That said, our guidance for the full year is generally in line with what we communicated last quarter with revenues expected to be between \$1.33 billion and \$1.36 billion and earnings to be between \$3.88 and \$4.03 for the year.

Third, we feel good about our long-term growth prospects as we continue to make progress with end market wins and strengthening our ecosystem. Our value proposition remains strong and our financials are solid. Q3 revenue was \$316 million, up 9% year-over-year and licensing revenue of \$290 million was also up 9% year-over-year. Product and services revenue was \$26 million, up 18% year-over-year.

Licensing revenue came in at the high end of the guidance range due to activity expected in the fourth quarter coming in early. 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 Q3, these timing factors contributed to a 17% year-over-year growth in Broadcast, 11% year-over-year decline in Mobile and 22% year-over-year growth in PC. For the full year, we still expect broadcast growth to be flattish in Mobile and other end markets to grow mid-teens. PC growth is expected to be up mid-single digits and CE, which we had previously expected to be down mid-single digits, is now expected to be down low teens for the full year, mainly driven by lower device shipments and lower recoveries.

Moving on to the bottom line. We earned \$0.78 per diluted share on a non-GAAP basis, above the high end of our guidance due to higher revenue and lower operating expenses, partially offset by lower nonoperating income. We generated \$68 million in operating cash flow and finished the quarter with \$777 million in cash and investments. We repurchased \$40 million worth of common stock and have about \$312 million remaining on our repurchase plan authorization. We declared a \$0.33 dividend, up 10% from our dividend a year ago.

Moving on to guidance. Q4 revenue is expected to be between \$288 million and \$318 million. Within that, licensing revenue ranges from \$263 million to \$293 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 21% on a non-GAAP basis, non-GAAP EPS is expected to come in between \$0.61 and \$0.76 per diluted share.

For the full year, we expect revenues to be between \$1.33 billion and \$1.36 billion and for licensing revenue to be between \$1.23 billion and \$1.26 billion. We expect non-GAAP operating expenses to be between \$765 million and \$775 million and non-GAAP earnings per share to be between \$3.88 and \$4.03.

In closing, the creation and distribution of Dolby-enabled content continues to grow, and our partners are still very engaged as we have a number of new end market wins this year. Our financials remain solid with high gross margins, healthy cash flows and a strong balance sheet.

With that, I'd like to turn it back to the operator to open the line for your questions. Operator?

Question and Answer

Operator

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

Patrick William Sholl

Barrington Research Associates, Inc., Research Division

I was just curious on the broadcast side. With the I guess, comment period open on like a transition to ATSC 3.0. I'm just curious how you view that potential transition impacting like the adoption on Atmos and Vision within broadcast and the range of devices?

Kevin J. Yeaman

President, CEO & Director

We don't anticipate any impact of that. I mean our codecs are supported within the standards. Typically, the technologies like Dolby Atmos sit on top of the codec and that's really a value-based sale to the customer, and we continue to build on that ecosystem across music, sports, movies and TV, increasingly other forms of content across all device types, including the TV. So I wouldn't expect that to -- not a top factor in our mind as it relates to continuing to expand the presence of Dolby Atmos.

Patrick William Sholl

Barrington Research Associates, Inc., Research Division

Okay. And then just within the Q4 guidance, you mentioned shipment volume expectations on CE. I was just wondering if you could provide any more color just on like shipment volumes more broadly within the Q4 guidance.

Robert J. Park

Senior VP & CFO

Yes. Patrick, it's Robert here. As we said on our last call, we expect some slight headwinds for the year. And then in Q3, we saw some softness in unit shipments, particularly in set-top boxes and to a lesser extent, consumer electronics. And we had a negative true-up of \$4 million for the quarter. And yes, that's what we anticipate the full year, but our guide for the full year is still within the range we talked about last quarter.

Operator

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

Ralph Edward Schackart

William Blair & Company L.L.C., Research Division

Just on the macro, now that there appears to be some more trade agreement certainty that are being announced. I know it's fluid, but how much does this help with adoption of Atmos or Vision to the extent there may have been any hesitation when there was previous, I guess, more tariff uncertainty.

Kevin J. Yeaman

President, CEO & Director

Yes. I think at the highest level, Ralph, I mean certainly, we've seen some more -- have seen a few more trade deals. And hopefully, that is a path to people having better certainty to plan around. I would say, as we sit here today, it doesn't feel very different than where we were last quarter. There's still uncertainty around some of the trade deals and those are in place around what impact they might have. But at the same time, I would also point out that we continue to see strong engagement for Dolby Atmos and Dolby Vision.

So I haven't seen the uncertainty affecting the desire to have higher quality experiences. And so where the uncertainty is around how many of those devices will ship depending on how all this plays out. And as Robert said, we're maintaining our guidance keeping it the same, which allows for a few slight headwinds. But path to stability would be good and we still are focused on what we can control, which is bringing more Dolby experiences to more people around the world. That's what will drive growth in the long term.

Ralph Edward Schackart

William Blair & Company L.L.C., Research Division

Great. And just as it relates to Dolby Vision and autos, I know the Chinese OEMs have been sort of early adopters there. But just if you could provide some perspective on how you would frame that opportunity and potentially how that would broaden out outside of what's, I think, currently just the Chinese OEMs?

Kevin J. Yeaman
President, CEO & Director

Yes. We think it's a significant opportunity as we see the beginnings of expanding from the music experience in the car to the complete in-car entertainment experience. You're right, we have about 4 wins, and it is in China. And in China, there's just a really great availability of the services that people use every day. If you can get it on your mobile device, you probably get it in your car. And of course, there's more screens, whether that's for rear seat entertainment or whether it's a surprisingly significant amount of time that people spend in their cars when the car isn't moving, that could be waiting to pick up kids from practice, it could be charging the car, it could be looking for a quiet moment before you go into that meeting.

And we do think that, that is -- that, that will extend into the rest of the world where we have engagements within and outside of China. And so we're optimistic that, that will be a good opportunity for us.

Operator

[Operator Instructions] Your next question comes from the line of Steve Frankel of Rosenblatt Securities.

Steven Bruce Frankel
Rosenblatt Securities Inc., Research Division

Kevin, maybe I want to revisit the statement you guys have made in the past about being able to return to double-digit growth, let's even recast it in the current environment of high single-digit growth. I mean, is that still something achievable with your current product set?

Kevin J. Yeaman
President, CEO & Director

Yes. We believe it is. And leading up to the pandemic, we were in that high single digit. And as you know, we believe that Dolby Atmos, Dolby Vision and imaging patents has a great expansion opportunity. That category as a whole grew at a compounded annual growth rate of about 20% over the last 4 years. Our target going forward is 15% to 25%, and we're excited about the opportunities that we're pursuing right now.

We're excited about our pipeline of innovation and our ability to continue to build on those experiences and extend into new ones. And then, of course, on the foundational side, that's where we've been far more sensitive to the -- what we've been seeing in the economic environment. But we do believe that once that stabilizes, and we see that settle into low single-digit growth, that's the formula for double-digit growth.

And in the meantime, the part of the business that -- the part of the categories that are growing, Dolby Atmos, Dolby Vision and imaging patents has grown to 40% of the total. So we're getting a lot more contribution from those categories. And then, of course, we continue to look to create new growth drivers as well.

Steven Bruce Frankel
Rosenblatt Securities Inc., Research Division

And just to confirm that the trends you laid out in the beginning of the year in terms of the relative share of imaging patents, Vision and Atmos relative to foundational, has that played out pretty much how you predicted year-to-date or given the weakness in the foundational business, has this other piece done a little better than you thought year-to-date?

Kevin J. Yeaman
President, CEO & Director

We're seeing it playing out more or less as we expected for the year so far.

Steven Bruce Frankel
Rosenblatt Securities Inc., Research Division

Okay. And then on that negative true-up, could you tell us what piece of the business accounted for most of that.

Robert J. Park
Senior VP & CFO

Yes. Steve, the negative \$4 million true-up for the quarter was primarily a set-top box in [broadcast].

Operator

With no further questions, this concludes today's conference call. We thank you for participating and look forward to speaking with you on the next quarter. You may now disconnect.

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