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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 2026 results. [Operator Instructions] As a reminder, this call is being recorded. 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 Second Quarter Fiscal Year 2026 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 2026 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, 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 annual 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 on the call today. Revenue and non-GAAP earnings for the quarter came in consistent with the expectations we provided on the call last quarter, and we are maintaining our full year guidance. Robert will share more details on the financials in a few minutes. Dolby occupies a unique position across the creator content platform device ecosystem. We continue to strengthen our position, creating growth opportunities across existing and new business areas.

Over the last few quarters, we have made great progress, bringing more Dolby content to more content platforms. Top-tier social media companies are increasingly recognizing the value of streaming content in Dolby Vision. Meta has adopted Dolby Vision for content streamed on iOS for both Instagram and Facebook, and Douyin in China has enabled Dolby Vision for content on both iOS and Android. In music, over 90% of the artists featured on Billboard's Year-End Top 100 artists for the last 3 years are creating music in Dolby Atmos. At the Grammys, Dolby Atmos was well represented in all major categories, including all nominees for best new artists.

In sports, more and more content is available in Dolby. Just this quarter, the Super Bowl and the Winter Olympics were available in Dolby Vision and Dolby Atmos. The T20 Cricket World Cup in India and the 2026 Formula 1 season streaming on Apple are available in Dolby Vision. HBO Max is streaming a wide variety of sports content in Dolby Atmos and Dolby Vision. And while not exactly sports, they also stream NASA's Artemis II mission in Dolby Vision. And Peacock is also streaming sports in Dolby Atmos with plans to begin streaming in Dolby Vision.

We also continue to expand further into mass market TV. Amazon recently announced that it has added support for Dolby Vision to its ad-supported tier. And TV Azteca, the second largest mass media company in Mexico, announced that it will bring Dolby Atmos to free-to-air broadcast. And finally, in the cinema, all of the top 30 grossing films domestically for calendar 2025 were in Dolby Atmos and Dolby Vision. And all major category winners at the Academy Awards in March and the BAFTAs in February were in Dolby Atmos and Dolby Vision, including F1, the movie, Sinners and One Battle After Another. All of this is simply to say high-quality content matters and more content in Dolby means more reasons to adopt Dolby Atmos and Dolby Vision across end markets and devices.

And it was another big quarter for automotive. At the Beijing Auto Show last week, BMW announced Dolby Atmos support in the 7 Series globally and the iX3 in China. Just 2 weeks before that at the Paris Auto Show, BYD launched its Denza line with Dolby

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Atmos, BYD's first car with Dolby Atmos in the European market. Also this quarter, Lexus announced their first Dolby Atmos-enabled cars and NIO expanded its Dolby Atmos adoption to the Firefly, a compact EV sub-brand for Singapore and Thailand. There is a broader shift across the automotive industry where the vehicle is now a place for high-quality entertainment, and we continue to benefit from this trend.

Turning to mobile. The progress we are making in music and with social media platforms continues to strengthen our value proposition across mobile devices. Dolby Vision capture and playback and Dolby Atmos are included across Apple's lineup, including the 17E, their latest iPhone starting at $599 that was launched this quarter. Xiaomi announced its flagship Redmi Note 15 Pro series with Dolby Vision, Dolby Vision capture and Dolby Atmos. Vivo released the X300 Ultra with Dolby Vision as well as their iQOO 15 Ultra, a gaming-focused sub-brand that has both Dolby Atmos and Dolby Vision. We continue to perform well in high-end phones, and we're excited that Douyin is now fully supporting Dolby Vision on Android, which should help us continue to work our way further into mid-range Android phones.

Moving on to the living room. As I mentioned earlier, our momentum in sports content is an important driver for new TV sales. In addition, we're excited about the first Dolby Vision 2 TVs coming to market by the end of this fiscal year. Hisense, TCL and Philips have announced plans to release a wide range of Dolby Vision 2-enabled TVs globally with Peacock and Canal+ committed to delivering content. We expect Dolby Vision 2 to increase ASPs and drive deeper adoption into TV lineups.

In addition to driving growth from the adoption of more Dolby technology on more devices, we are beginning to generate revenue from content platforms as content platforms are increasingly competing on experience, not just access to content. The video distribution program, the patent pool that licenses imaging patents to content streamers continues to bring on additional licensors, including this quarter, Sharp and SK Planet, bringing the total to 40. These new licensors bring important patents and validation to the pool, which generates incremental momentum. The licensee pipeline is strong.

With Dolby OptiView, we are bringing value to sports content platforms that are seeking to increase fan engagement with real-time personalized experiences. Our wins this quarter include Genius Sports, a leading data technology and broadcast partner that serves the global sports betting and media ecosystem. This win reinforces Dolby OptiView's positioning in the sports ecosystem where partners prioritize fan engagement and real-time experiences. In the U.K., William Hill is now using Dolby OptiView to deliver horse racing, providing consistent low-latency content across its online platforms in time-sensitive live workflows. At the NAB Show in Las Vegas this month, our vision for the future of live sports experiences resonated strongly with many of our key customer prospects. We are excited about the potential for Dolby OptiView.

Wrapping up, we continue to strengthen our position across the entertainment ecosystem. We have momentum across our key growth drivers for Dolby Atmos and Dolby Vision. We're excited about our opportunity to drive growth beyond devices with the video distribution program and Dolby OptiView. All of this gives us confidence in our opportunity to drive long-term growth.

And with that, I'll turn it over to Robert to cover the financials.

Robert J. Park
Senior VP & CFO

Thank you, Kevin, and thanks to everyone joining us on the call today. Revenue for the quarter came in at $396 million, which was within the guidance we shared last quarter. Non-GAAP earnings per share was $1.37, also within the range of guidance. Licensing revenue was $372 million and products and services revenue was $23 million. We generated approximately $93 million in operating cash flow, repurchased $65 million of common stock and have approximately $142 million remaining on our share repurchase authorization. We declared a $0.36 dividend, up 9% from our dividend a year ago and ended the quarter with cash and investments of approximately $675 million. GAAP operating expenses in Q2 include a $2 million restructuring charge related to actions initiated last year.

Detailed licensing performance by end market can be found on our IR website. As a reminder, end market growth rates are typically smoother on an annual basis as the timing of recoveries, minimum volume commitments and true-ups can drive quarterly volatility. In terms of end market performance for the quarter, it's worth noting that Broadcast was up 26% year-over-year due to the large recovery we mentioned on the last call, and mobile was down 6% year-over-year due to timing of deals. We still expect both broadcast and mobile to be up mid-single digits for the full year.

Turning to guidance. We are maintaining our full year guidance. Overall, we are pleased with our performance to date, and things are generally tracking as expected. We expect fiscal '26 total revenue to range from $1.4 billion to $1.45 billion. Within that, licensing revenue is expected to be between $1.295 billion and $1.345 billion. We are targeting non-GAAP operating expenses between $780

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million and $800 million. This guidance implies operating margin improvement of between 50 and 100 basis points on a non-GAAP basis. We continue to expect non-GAAP earnings per share to be between $4.30 and $4.45.

Our expectations for foundational and Dolby Atmos, Dolby Vision and imaging patents full year growth rates are unchanged from what we communicated last quarter, with Dolby Atmos, Dolby Vision and imaging patents growing roughly 15% and comprising nearly half of our licensing revenue. We continue to expect foundational revenue to be down slightly. We also expect end market growth rates for the full year to be similar to what we communicated last quarter, with growth in other primarily driven by Dolby Atmos adoption in auto, the video distribution program and Dolby Cinema, partially offset by lower gaming. Growth in mobile and broadcast is driven by adoption of Dolby Atmos and Dolby Vision, growth in imaging patent programs and higher recoveries. We expect CE to be roughly flat and declines in PC primarily due to lower unit sales.

Now turning to Q3. For Q3 fiscal '26, we expect revenue to be between $295 million and $325 million. Within that, we expect licensing revenue to be between $270 million and $300 million. Gross margins should be approximately 88% on a non-GAAP basis, and we expect non-GAAP operating expenses to be between $200 million and $210 million. Non-GAAP earnings per share is expected to be between $0.56 and $0.71. In summary, the business remains healthy, and we are encouraged by the progress we're making across our key growth initiatives. Our financials remain solid with organic revenue growth, high gross margins, expanding operating margins, healthy cash flows and a strong balance sheet.
With that, we'll open the line for your questions.

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Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Vikram Kesavabhotla of Baird.

John Francis Rigatti
Robert W. Baird & Co. Incorporated, Research Division

This is John Rigatti on for Vikram Kesavabhotla. I guess, first, if you could just talk about your consumption-based revenue streams that you've referenced over the last couple of quarters. I think you noted those should get to about 10% of revenue in the next 3 years. What should the shape of that ramp look like? Should we think about that kind of equal parts over the next 3 years? Or is that more back-end weighted? And then I have a follow-up.

Kevin J. Yeaman
President, CEO & Director

Yes. Thank you. Well, we're really pleased with the progress with both Dolby OptiView and the video distribution program. As you know, Dolby OptiView, we're focused on creating live sports experiences that are tailored to the fan, where unlike broadcast where everyone sees the same thing, streaming technology enables us to customize what each viewer sees. And that's the promise of streaming, and we're yet to -- the world is yet to get there in sports. And at NAB, we were previewing our sports intelligence platform, and that platform uses AI to analyze viewer preferences, match them to what's happening in the action. It enables you to create a story that really resonates for each viewer. And so we were demonstrating this across motor, racing, football and other sports.

We also showed how we can use AI to generate highlights, reformat content to fit any screen size, shape and deliver it to whatever device a viewer happens to be watching on. And of course, it's Dolby OptiView. So all this is done -- it's essential that this is done at very low delay and synchronized at the same time for all the users. So these were resonating really strongly. We've got a growing roster of customers, NFL, NASCAR, sports information, solutions or services rather.

And this quarter, we're excited to add Genius Sports. So each of them are really in the early stages of rolling out what we have for Dolby OptiView today, but they're also really engaged in where we're going with the future, and they're looking for a company like Dolby who has decades of experience that they can trust to really move into this future.

And the video distribution program, we've seen a lot of these pools come together, and we're really pleased with the way this one is coming together. We announced it at the beginning of this year. We brought on 40 licensors. That's what brings together the value proposition. We brought on half a dozen licensees, and we expect that to continue to grow through the year.

John Francis Rigatti
Robert W. Baird & Co. Incorporated, Research Division

Great. And I guess just the second one on memory pricing. I mean those dynamics have been pretty well documented. I think last quarter, you said kind of PC and mobile were the two end markets that were maybe most exposed to some of those dynamics. I guess just an update on what you're seeing on the memory pricing front, if you're seeing -- kind of what you're seeing as far as any impact on demand there, how that's factored into the guidance? And then outside of maybe mobile and PC, are there any other end markets where that's a particularly notable driver?

Kevin J. Yeaman
President, CEO & Director

Yes. Of course, we're watching that very closely as we are all the macro factors, memory pricing, volatility in oil prices and how that might affect supply chain, consumer sentiment readings, all of which we're watching very closely. And yes, memory pricing where we see from an end market point of view, where customers are most -- seeing the most impact on that is in mobile and PC, less so in areas like TV, where memory isn't as much of the BOM. And like a lot of companies, like many of the banks said in their earnings, we're seeing all these macro factors on the one hand. But on the other hand, we've not seen a significant impact to our business to date.

We, of course, update all of our guidance to reflect what we're learning from our customers, what we're seeing from industry analysts. We do have a diverse set of end markets, and we're diversifying our revenue streams. So where we saw minor adjustments in some areas, we had other areas that we're doing well to offset that. And so we feel good about our guidance for the year.

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Operator

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

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

Maybe just following up on that last question. Like just in your discussions with customers, has there been any indication in terms of like SKUs that they're prioritizing within some of their devices on those that might be impacted on the memory prices?

Kevin J. Yeaman
President, CEO & Director

Yes. So yes, thank you. If we focus on mobile, again, we do see a trend towards them wanting to, first and foremost, take care of the high end. And that benefits us as it relates to Dolby Atmos and Dolby Vision. But -- and this really varies by customer in terms of how they're approaching this, whether they are planning to raise prices, how that affects device volumes. But again, we haven't seen a significant impact to date. And remember that most of our mobile business is through minimum volume commitments, and we're just over halfway through the year. So we have pretty good visibility. And so that moderates the impact of kind of where they're going. And -- so to date, no adjustments worth noting to the extent we have minor changes, it's offset by strength in other areas.

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

Okay. And then on auto, can you provide any greater detail on, I guess, like market penetration in some of the early adoption markets, I guess, maybe specifically like in China? And I guess, maybe percentage of like the new car market in there that you're a part of and how you expect that to maybe roll out across other markets?

Kevin J. Yeaman
President, CEO & Director

Yes. It was a big quarter for automotive, as I said in my remarks, we are getting pretty high penetration of having brought on board a lot of the premium lines. We still have a long way to go in getting those to market and the revenue growth that's going to come from that. We also have begun to see good progress kind of moving deeper into lineups. One that I didn't mention in my remarks is that in China, the Hyundai IONIQ was launched with Dolby Atmos, and that's significant because that's a 4-channel, 8-speaker implementation. So that's a hardware footprint that would be quite normal for a mass market car. So we're really pleased to see that. So we're continuing to bring on new customers, BMW, Lexus. We have very high -- a lot of penetration in China, and we're increasing progress outside of China with the wins we announced this quarter.

And we're also seeing progress with the Chinese companies expanding outside of China. So one of the things I mentioned is that at the Paris Auto Show, BYD launched its Denza line with Dolby Atmos. And so BYD has been a customer of ours, but that's the first car of theirs for the -- outside of China with Dolby Atmos.

Operator

[Operator Instructions] Your next question comes from the line of Ralph Schackart of William Blair.

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

Kevin, I think you just mentioned that Hyundai had a 4-channel Atmos implementation in China. Can you just remind us when that product was launched? And then maybe kind of building on that, what are the implications for Hyundai or other kind of mass market vehicles to expand outside of China with a similar implementation of the Atmos.

Kevin J. Yeaman
President, CEO & Director

Yes. So that was announced very recently. I don't have the exact date, Ralph, I can get back to you on that, but that was very recent. I think it was announced at the Beijing Auto Show, which is just a couple of weeks ago. So we were at CES demoing the 4-channel implementation, which was really looking to show manufacturers the difference we could make at the mass market level. So we're excited to see this first launch. Obviously, we will work with each of our partners then to expand into different lines and different geographies. And we feel good about the pipeline and that we can continue to drive Dolby Atmos further into these lineups.

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

Great. And then I think on the call, you had mentioned in the prepared remarks, Douyin is adopting Dolby Vision. And then maybe kind of more broadly with that announcement and then your previous announcement with Meta also adopting Vision with all its properties or across some of its properties, maybe sort of an update how that might be steering some of the conversations with prospective mobile OEMs.

Kevin J. Yeaman
President, CEO & Director

Yes. Thank you. So China is where, as you know, we have -- is really where we began with Dolby Vision and -- well, started with Apple. And then on social media platforms, we've had enormous success in China. And the significance of what I said about Douyin is they started a couple of quarters ago with iOS, and they've now completed rolling out Dolby Vision content across all of Android. And I also talked about a few of the wins we had in China with Xiaomi, with Vivo. So we continue to bring on new partners.

And with Instagram and Facebook adopting here in the U.S., we do see that increasing the pipeline for Dolby Vision and Dolby Vision capture across mobile devices. And it also gives us an opportunity as we form these relationships to really earn their trust that we can help them achieve what their priorities are as it relates to audio-video experiences, and that feeds our innovation pipeline and creates new opportunities to -- new growth opportunities in the future.

Operator
There are no further questions at this time. This concludes today's call. Thank you for attending. You may now disconnect.

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