Dolby Laboratories Reports Second Quarter Fiscal 2020 Financial Results

May 4, 2020

SAN FRANCISCO, May 04, 2020 (GLOBE NEWSWIRE) -- Dolby Laboratories, Inc. (NYSE:DLB) today announced the company’s financial results for the second quarter of fiscal 2020. For the second quarter, Dolby reported total revenue of $351.8 million, compared to $338.3 million for the second quarter of fiscal 2019.

“We are well positioned to navigate these challenging times with the strength of our people, our value proposition, and our financial position,” said Kevin Yeaman, President and CEO, Dolby Laboratories. “Consumers want and need immersive entertainment and communications now more than ever, and Dolby is well positioned to bring these experiences across our entire portfolio of businesses.”

Second quarter GAAP net income was $88.5 million, or $0.86 per diluted share, compared to GAAP net income of $73.4 million, or $0.70 per diluted share for the second quarter of fiscal 2019. On a non-GAAP basis, second quarter net income was $106.6 million, or $1.04 per diluted share, compared to non-GAAP net income of $109.0 million, or $1.04 per diluted share for the second quarter of fiscal 2019. Second quarter cash flows from operations was $65.7 million, compared to $48.9 million for the second quarter of fiscal 2019. A complete listing of Dolby's non-GAAP measures are described and reconciled to the corresponding GAAP measures at the end of this release.

COVID-19

Dolby continues to monitor the evolving situation of the COVID-19 pandemic on all aspects of our company. Our priorities continue to be the safety and well-being of our employees and supporting our communities. Since the initial outbreak of COVID-19, our revenues have been and we expect will continue to be impacted across various markets within licensing and products and services. The implications of COVID-19 on our future results of operations remain uncertain as the situation continues to develop globally.

We expect continued significant uncertainty in global financial markets. Dolby’s financial results for the second quarter of fiscal 2020 rely on estimates of royalty-based revenue that take into consideration the macroeconomic effect of global events, including the COVID-19 pandemic, which may impact supply chain activities and demand for shipments. For more information, see the section captioned “Critical Accounting Policies and Estimates” in our Quarterly Report on Form 10-Q for the second quarter of fiscal 2020, filed on the date hereof.

Dividend

Today, Dolby announced a cash dividend of $0.22 per share of Class A and Class B common stock, payable on May 27, 2020, to stockholders of record as of the close of business on May 18, 2020.

Financial Outlook - Third Quarter Fiscal 2020

The circumstances relating to the COVID-19 pandemic continue to evolve and are difficult to predict. As a result, we are providing third quarter fiscal 2020 estimates that incorporate certain assumptions about the potential impact of COVID-19, based upon a consideration of external and internal data and information. We are unable to provide an estimate for our fourth quarter fiscal 2020 because of a lack of visibility. Therefore, our full year financial outlook as previously stated in our first quarter fiscal 2020 earnings release and related conference call is withdrawn.

Our actual results could differ materially from the estimates we are providing due to the challenging economic environment and highly uncertain effects of COVID-19. For more information, see “Forward-Looking Statements” in this press release for a description of certain risks that we face, and the section captioned “Risk Factors” in our Quarterly Report on Form 10-Q for the second quarter of fiscal 2020, filed on the date hereof.

Dolby is providing the following estimates for its third quarter of fiscal 2020:

- Total Revenue is estimated to range from $225 million to $250 million with the following assumptions incorporated:
  - A vast majority of global cinema sites are currently closed and most are unlikely to reopen before the end of June
  - Unit volume shipments, aggregated across various end markets and devices, could be lower by 15% to 25% relative to what we had previously been modeling
- Gross margin percentages are anticipated to range from 86% to 87% on a GAAP basis and from 87% to 88% on a non-GAAP basis
- Operating expenses are anticipated to range from $191 million to $201 million on a GAAP basis and from $170 million to $180 million on a non-GAAP basis
- Effective tax rate is anticipated to range from 19% to 21% on both a GAAP basis and non-GAAP basis
- Diluted earnings per share is anticipated to range from $0.01 to $0.18 on a GAAP basis and from $0.18 to $0.35 on a non-GAAP basis

Conference Call Information

Members of Dolby management will lead a conference call open to all interested parties to discuss second quarter fiscal 2020 financial results for Dolby Laboratories at 2:00 p.m. PT (5:00 p.m. ET) on Monday, May 4, 2020. Access to the teleconference will be available over the Internet from http://investor.dolby.com/event-calendar or by dialing 1-866-548-4713. International callers can access the conference call at 1-323-794-2093.

A replay of the call will be available from 5:00 p.m. PT on Monday, May 4, 2020, until 8:59 p.m. PT on Monday, May 11, 2020, by dialing...
Non-GAAP Financial Information

To supplement Dolby’s financial statements presented on a GAAP basis, Dolby provides certain non-GAAP financial measures to provide investors with an additional tool to evaluate Dolby’s operating results in a manner that focuses on what Dolby’s management believes to be its ongoing business operations. Specifically, we exclude the following as adjustments from one or more of our non-GAAP financial measures:

Stock-based compensation expense: Stock-based compensation, unlike cash-based compensation, utilizes subjective assumptions in the methodologies used to value the various stock-based award types that we grant. These assumptions may differ from those used by other companies. To facilitate more meaningful comparisons between our underlying operating results and those of other companies, we exclude stock-based compensation expense.

Amortization of acquisition-related intangibles: We amortize intangible assets acquired in connection with acquisitions. These intangible assets consist of patents and technology, customer relationships, and other intangibles. We record amortization charges relating to these intangible assets in our GAAP financial statements, and we view these charges as items arising from pre-acquisition activities that are determined by the timing and valuation of our acquisitions. As these amortization charges do not directly correlate to our operations during any particular period, and often remain unchanged between reporting periods, we exclude these charges to facilitate an evaluation of our current operating results and comparisons to our past operating performance.

Restructuring charges: Restructuring charges are costs associated with restructuring plans and primarily relate to costs associated with exit or disposal activities, employee severance benefits, and asset impairments. We exclude restructuring costs, including any adjustments to charges recorded in prior periods, as we believe that these costs are not representative of our normal operating activities and therefore, excluding these amounts enables a more effective comparison to our past operating performance.

Income tax adjustments: We believe that excluding the income tax effect of the aforementioned non-GAAP adjustments provides a more accurate view of our underlying operating results to management and investors.

Impact from Tax Reform: The enactment of the U.S. Tax Cuts and Jobs Act (Tax Reform), and any related amendments or revisions, requires certain discrete and infrequent charges that are not representative of current operating results and therefore, excluding these amounts enables a more effective comparison to our past operating performance.

Using the aforementioned adjustments, Dolby provides various non-GAAP financial measures including, but not limited to: non-GAAP net income, non-GAAP diluted earnings per share, non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating margin, and non-GAAP effective tax rate. Dolby’s management believes it is useful for itself and investors to review both GAAP and non-GAAP measures to assess the performance of Dolby’s business. Dolby’s management does not itself, nor does it suggest that investors should, consider non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Whenever Dolby uses non-GAAP financial measures, it provides a reconciliation of the non-GAAP financial measures to the most closely applicable GAAP financial measures. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures as detailed above. Investors are also encouraged to review Dolby's GAAP financial statements as reported in its US Securities and Exchange Commission (SEC) filings. A reconciliation between GAAP and non-GAAP financial measures is provided at the end of this press release and on the Dolby investor relations website, http://investor.dolby.com.

Forward-Looking Statements

Certain statements in this press release, including, but not limited to, statements relating to Dolby’s expected financial results for the third quarter of fiscal 2020, our ability to advance our long-term objectives, and future dividend payments are “forward-looking statements” that are subject to risks and uncertainties. These forward-looking statements are based on management's current expectations, and as a result of certain risks and uncertainties, actual results may differ materially from those projected. The following important factors, without limitation, could cause actual results to differ materially from those in the forward-looking statements: the potential impacts of the COVID-19 pandemic on Dolby’s business operations, financial results, and financial position (including the impact to Dolby partners and disruption of the supply chain of consumer products; consumer demand for products that incorporate Dolby technologies; delays in the release of new products or services that contain Dolby technologies; delays in royalty reporting or delinquent payment by partners or licensees; the impact to the overall cinema market, including duration of cinema closures and resulting adverse impact to Dolby’s revenue recognized on box-office sales and demand for cinema products and services; temporary Dolby office closures and other actions to protect Dolby’s workforce; and macroeconomic conditions that affect discretionary spending and access to products that contain Dolby technologies); risks associated with trends in the markets in which Dolby operates, including the Broadcast, Mobile, Consumer Electronics, PC, Cinema, and Other Markets; the loss of, or reduction in sales by, a key customer or licensee; pricing pressures; risks that the continued shift in content distribution from optical disc-based and other traditional media to online and streaming media content could result in fewer devices with Dolby technologies or less revenue from such devices; risks relating to conducting business internationally, including trade restrictions and changes in diplomatic or trade relationships; risks relating to the expiration of patents; the timing of Dolby's receipt of royalty reports and payments from its licensees, including recoveries; changes in tax regulations; timing of revenue recognition under licensing agreements and other contractual arrangements; Dolby's ability to develop, maintain, and strengthen relationships with industry participants; Dolby's ability to develop and deliver innovative technologies in response to new and growing markets; competitive risks; risks associated with conducting business in China and other countries that have historically limited recognition and enforcement of intellectual property and contractual rights; risks associated with the health of the motion picture industry generally; Dolby's ability to increase its revenue streams and to expand its business generally, and to expand its business beyond audio technologies to other technologies; risks associated with acquiring and successfully integrating businesses or technologies; and other risks detailed in Dolby’s SEC filings and reports, including the risks identified under the section captioned “Risk Factors” in our most recent quarterly report on Form 10-Q. Dolby disclaims any obligation to update information contained in these forward-looking statements whether as a result of new information, future events, or otherwise.

About Dolby Laboratories

Dolby Laboratories (NYSE: DLB) is based in San Francisco with offices in over 20 countries around the globe. Dolby transforms the science of sight and sound into spectacular experiences. Through innovative research and engineering, we create breakthrough experiences for billions of people
Dolby, Dolby Cinema, Dolby Vision, Dolby Atmos, Dolby Audio, and Dolby Voice - revolutionize entertainment and communications at the cinema, on the go, in the home, and at work.

Dolby, Dolby Cinema, Dolby Vision, Dolby Atmos, Dolby Audio, Dolby Voice, and the double-D symbol are among the registered and unregistered trademarks of Dolby Laboratories, Inc. in the United States and/or other countries. Other trademarks remain the property of their respective owners.

DOLBY LABORATORIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts; unaudited)

Fiscal Quarter Ended Fiscal Year-To-Date Ended
March 27, March 29, March 27, March 29,
2020 2019 2020 2019

Revenue:
Licensing $ 328,865 $ 310,308 $ 586,548 $ 570,587
Products and services 22,950 27,950 57,144 70,047
Total revenue 351,815 338,258 643,692 640,634

Cost of revenue:
Cost of licensing 13,243 16,074 25,585 27,471
Cost of products and services 23,587 20,501 48,560 47,733
Total cost of revenue 36,830 36,575 74,145 75,204

Gross margin 314,985 301,683 569,547 565,430

Operating expenses:
Research and development 60,086 58,625 117,736 117,272
Sales and marketing 88,485 92,694 183,603 178,296
General and administrative 60,800 47,416 113,329 98,229
Restructuring charges/(credits) (331 ) 18 344 32
Total operating expenses 209,040 198,753 415,012 393,829

Operating income 105,945 102,930 154,535 171,601

Other income/expense:
Interest income 4,721 7,494 9,653 12,679
Interest expense (25 ) (32 ) (97 ) (77 )
Other income/(expense), net 138 (390 ) 1,142 53
Total other income 4,834 7,072 10,698 12,655

Income before income taxes 110,779 110,002 165,233 184,256
Provision for income taxes (22,105 ) (36,427 ) (27,968 ) (12,323 )
Net income including controlling interest 88,674 73,575 137,265 171,933
Less: net income attributable to controlling interest (178 ) (135 ) (16 ) (274 )
Net income attributable to Dolby Laboratories, Inc. $ 88,496 $ 73,440 $ 137,249 $ 171,659

Net income per share:
Basic $ 0.88 $ 0.72 $ 1.36 $ 1.68
Diluted $ 0.86 $ 0.70 $ 1.33 $ 1.63

Weighted-average shares outstanding:
Basic 100,854 102,141 100,595 102,409
Diluted 102,773 104,587 103,133 105,529

DOLBY LABORATORIES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands; unaudited)

March 27, September 27,
2020 2019

ASSETS
Current assets:
Cash and cash equivalents $ 724,931 $ 797,210
Restricted cash 9,513 8,383
**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:
- Accounts payable $9,041
- Accrued liabilities 245,869
- Income taxes payable 15,186
- Contract liabilities 19,745
- Operating lease liabilities 19,991
- Total current liabilities 307,254

Non-current contract liabilities 25,074
Non-current operating lease liabilities 64,423
Other non-current liabilities 178,805
Total liabilities 575,556

Stockholders' equity:
- Class A common stock 58
- Class B common stock 41
- Retained earnings 2,395,575
- Accumulated other comprehensive (loss) (31,615)
- Total stockholders' equity – Dolby Laboratories, Inc. 2,364,059
- Controlling interest 5,218
- Total stockholders' equity 2,369,277

Total liabilities and stockholders' equity $2,944,833

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**DOLBY LABORATORIES, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(in thousands; unaudited)*

<table>
<thead>
<tr>
<th>Fiscal Quarter Ended</th>
<th>March 27, 2020</th>
<th>March 29, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating activities: Net income including controlling interest</td>
<td>$137,265</td>
<td>$171,933</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>40,212</td>
<td>40,799</td>
</tr>
<tr>
<td>Stock-based compensation</td>
<td>43,565</td>
<td>40,717</td>
</tr>
<tr>
<td>Amortization of premium on investments</td>
<td>334</td>
<td>338</td>
</tr>
<tr>
<td>Provision for doubtful accounts</td>
<td>2,955</td>
<td>1,963</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>(15,141)</td>
<td>(38,548)</td>
</tr>
<tr>
<td>Restructuring charge for exit of leased facility</td>
<td>602</td>
<td>—</td>
</tr>
<tr>
<td>Other non-cash items affecting net income</td>
<td>3,753</td>
<td>1,355</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities: Accounts receivable, net</td>
<td>(60,870)</td>
<td>(14,221)</td>
</tr>
<tr>
<td>Contract assets</td>
<td>(28,086)</td>
<td>(78,949)</td>
</tr>
<tr>
<td>Inventories</td>
<td>(5,376)</td>
<td>(7,983)</td>
</tr>
<tr>
<td>Operating lease right-of-use assets</td>
<td>(20,102)</td>
<td>—</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>(16,068)</td>
<td>(15,273)</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>(22,033)</td>
<td>(14,190)</td>
</tr>
<tr>
<td>Income taxes, net</td>
<td>13,238</td>
<td>18,414</td>
</tr>
</tbody>
</table>

**Total operating activities**

Net cash provided by operating activities $184,990 $213,609

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**Financial statements for the periods ending March 27, 2020, and March 29, 2019.**
## Contract liabilities

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating liabilities</td>
<td>2,099</td>
<td>—</td>
</tr>
<tr>
<td>Other non-current</td>
<td>2,100</td>
<td>(1,572)</td>
</tr>
<tr>
<td>Total</td>
<td>96,899</td>
<td>105,844</td>
</tr>
</tbody>
</table>

## Operating Activities

- **Purchases of investment securities**: (167,292) (152,499)
- **Proceeds from sales of investment securities**: 109,907 83,478
- **Proceeds from maturities of investment securities**: 54,599 78,714
- **Purchases of property, plant, and equipment**: (41,782) (56,082)
- **Purchase of intangible assets**: (2,640) (17,065)
- **Net cash used in investing activities**: (47,208) (63,454)

## Financing activities

- **Proceeds from issuance of common stock**: 53,986 27,158
- **Repurchase of common stock**: (101,672) (197,880)
- **Payment of cash dividend**: (44,336) (39,035)
- **Distribution to controlling interest**: (283) (1,014)
- **Shares repurchased for tax withholdings on vesting of restricted stock**: (21,094) (20,680)
- **Payment related to prior purchases of intangible assets**: (91) —
- **Payment of deferred consideration for prior business combination**: (3,000) —
- **Net cash used in financing activities**: (116,490) (231,451)

## Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash

- (4,350) (1,323)

## Net decrease in cash, cash equivalents, and restricted cash

- (71,149) (190,384)

## Cash, cash equivalents, and restricted cash at beginning of period

- 805,593 925,250

## Cash, cash equivalents, and restricted cash at end of period

- 734,444 734,866

### GAAP to Non-GAAP Reconciliations

**GAAP to Non-GAAP Reconciliations**

(in millions, except per share data; unaudited)

The following tables present Dolby’s GAAP financial measures reconciled to the non-GAAP financial measures included in this release for the second quarter of fiscal 2020 and 2019:

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Quarter Ended</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>March 27, 2020</td>
<td>March 29, 2019</td>
</tr>
<tr>
<td>GAAP net income</td>
<td>$ 88.5</td>
<td>$ 73.4</td>
</tr>
<tr>
<td>Stock-based compensation (1)</td>
<td>21.0</td>
<td>19.2</td>
</tr>
<tr>
<td>Amortization of acquisition-related intangibles (2)</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Restructuring credits</td>
<td>(0.3)</td>
<td>—</td>
</tr>
<tr>
<td>Impact of Tax Reform</td>
<td>—</td>
<td>18.9</td>
</tr>
<tr>
<td>Income tax adjustments</td>
<td>(5.0)</td>
<td>(4.9)</td>
</tr>
<tr>
<td>Non-GAAP net income</td>
<td>$ 106.6</td>
<td>$ 109.0</td>
</tr>
</tbody>
</table>

(1) Stock-based compensation included in above line items:

- Cost of products and services: 0.5 0.4
- Research and development: 6.2 5.8
- Sales and marketing: 7.7 7.2
- General and administrative: 6.6 5.8

(2) Amortization of acquisition-related intangibles included in above line items:

- Cost of licensing: 1.1 0.6
- Cost of products and services: 0.8 0.7
- Research and development: 0.1 0.1
- Sales and marketing: 0.7 1.0
- General and administrative: (0.3) —
Diluted earnings per share:

<table>
<thead>
<tr>
<th>GAAP diluted earnings per share</th>
<th>$0.86</th>
<th>$0.70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock-based compensation</td>
<td>0.21</td>
<td>0.18</td>
</tr>
<tr>
<td>Amortization of acquisition-related intangibles</td>
<td>0.02</td>
<td>0.02</td>
</tr>
<tr>
<td>Impact of Tax Reform</td>
<td>—</td>
<td>0.18</td>
</tr>
<tr>
<td>Income tax adjustments</td>
<td>(0.05)</td>
<td>(0.04)</td>
</tr>
<tr>
<td>Non-GAAP diluted earnings per share</td>
<td>$1.04</td>
<td>$1.04</td>
</tr>
</tbody>
</table>

Shares used in computing diluted earnings per share 103 105

The following tables present a reconciliation between GAAP and non-GAAP versions of the estimated financial amounts for the third quarter of fiscal 2020 included in this release:

Gross margin:

<table>
<thead>
<tr>
<th>GAAP gross margin (low - high end of range)</th>
<th>86% - 87%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock-based compensation</td>
<td>0.2%</td>
</tr>
<tr>
<td>Amortization of acquisition-related intangibles</td>
<td>0.8%</td>
</tr>
<tr>
<td>Non-GAAP gross margin (low - high end of range)</td>
<td>87% - 88%</td>
</tr>
</tbody>
</table>

Operating expenses:

<table>
<thead>
<tr>
<th>GAAP operating expenses (low - high end of range)</th>
<th>$191 - $201</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock-based compensation</td>
<td>(20)</td>
</tr>
<tr>
<td>Amortization of acquisition-related intangibles</td>
<td>(1)</td>
</tr>
<tr>
<td>Non-GAAP operating expenses (low - high end of range)</td>
<td>$170 - $180</td>
</tr>
</tbody>
</table>

Diluted earnings per share:

<table>
<thead>
<tr>
<th>GAAP diluted earnings per share</th>
<th>$0.01</th>
<th>$0.18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock-based compensation</td>
<td>0.20</td>
<td>0.20</td>
</tr>
<tr>
<td>Amortization of acquisition-related intangibles</td>
<td>0.02</td>
<td>0.02</td>
</tr>
<tr>
<td>Income tax adjustments</td>
<td>(0.05)</td>
<td>(0.05)</td>
</tr>
<tr>
<td>Non-GAAP diluted earnings per share</td>
<td>$0.18</td>
<td>$0.35</td>
</tr>
</tbody>
</table>

Shares used in computing diluted earnings per share 103 103

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Source: Dolby Laboratories