

DOLBY LABORATORIES

Investor Relations Data Sheet

Unaudited

All dollar amounts are in thousands

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018	Q2 2018	Q3 2018	FY 2018
Revenue Data									
Licensing	\$ 232,699	\$ 241,617	\$ 278,106	\$ 213,370	\$ 965,792	\$ 258,016	\$ 273,143	\$ 286,325	\$ 817,484
Products	28,211	20,713	22,569	23,797	95,290	24,933	22,665	26,265	73,863
Services	5,357	5,144	4,990	4,881	20,372	4,848	5,547	4,857	15,252
Total Revenue	\$ 266,267	\$ 267,474	\$ 305,665	\$ 242,048	\$ 1,081,454	\$ 287,797	\$ 301,355	\$ 317,447	\$ 906,599
Total Revenue growth % (year-over-year)	11 %	(3)%	10 %	4 %	5 %	8 %	13 %	4 %	8 %
Total Revenue growth % (quarterly sequential)	14 %	0 %	14 %	(21)%	n/a	19 %	5 %	5 %	n/a
Broadcast Licensing	46 %	44 %	37 %	48 %	44 %	40 %	39 %	33 %	37 %
PC Licensing	15 %	15 %	17 %	14 %	15 %	10 %	12 %	17 %	13 %
Consumer Electronics Licensing	12 %	15 %	14 %	12 %	13 %	11 %	13 %	14 %	13 %
Mobile Licensing	10 %	11 %	20 %	9 %	13 %	23 %	21 %	23 %	22 %
Other Licensing	17 %	15 %	12 %	17 %	15 %	16 %	15 %	13 %	15 %
Total Licensing	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Licensing Revenue growth % (year-over-year)	10 %	(3)%	10 %	5 %	5 %	11 %	13 %	3 %	9 %
Licensing Revenue growth % (quarterly sequential)	14 %	4 %	15 %	(23)%	n/a	21 %	6 %	5 %	n/a
Selected Operating Expenses as % of Revenue									
GAAP Research and Development	22 %	22 %	20 %	24 %	22 %	20 %	20 %	19 %	19 %
Non-GAAP Research and Development	20 %	20 %	18 %	22 %	20 %	18 %	18 %	17 %	18 %
GAAP Sales and Marketing	27 %	28 %	24 %	32 %	27 %	24 %	25 %	25 %	25 %
Non-GAAP Sales and Marketing	24 %	25 %	22 %	29 %	25 %	22 %	22 %	23 %	22 %
GAAP General and Administrative	16 %	16 %	15 %	18 %	16 %	17 %	17 %	15 %	16 %
Non-GAAP General and Administrative	14 %	14 %	13 %	16 %	14 %	14 %	15 %	13 %	14 %
Margins									
GAAP gross margin: Licensing	96.5 %	96.4 %	95.4 %	95.5 %	95.9 %	96.4 %	96.1 %	95.8 %	96.1 %
Non-GAAP gross margin: Licensing	97.0 %	96.8 %	95.7 %	95.8 %	96.3 %	96.7 %	96.3 %	96.0 %	96.3 %
GAAP gross margin: Products	37.2 %	32.5 %	33.9 %	38.5 %	35.7 %	31.7 %	31.2 %	34.5 %	32.5 %
Non-GAAP gross margin: Products	42.6 %	39.6 %	40.6 %	43.3 %	41.7 %	35.1 %	34.6 %	37.5 %	35.8 %
GAAP gross margin: Services	23.0 %	18.5 %	9.8 %	(2.7)%	12.5 %	5.5 %	14.4 %	(5.8)%	5.1 %
Non-GAAP gross margin: Services	25.5 %	20.9 %	12.3 %	(0.1)%	15.0 %	7.9 %	17.0 %	(2.7)%	7.8 %
GAAP gross margin: Overall	88.7 %	89.9 %	89.5 %	87.9 %	89.1 %	89.3 %	89.7 %	89.1 %	89.4 %
Non-GAAP gross margin: Overall	89.8 %	90.9 %	90.2 %	88.7 %	89.9 %	89.8 %	90.2 %	89.6 %	89.9 %
GAAP operating margin (see footnote 1)	25 %	24 %	31 %	10 %	23 %	29 %	29 %	30 %	29 %
Non-GAAP operating margin (see footnote 1)	33 %	31 %	37 %	23 %	31 %	36 %	35 %	36 %	36 %
Other Data									
GAAP effective tax rate	20.8 %	23.4 %	20.9 %	17.2 %	21.1 %	196.0 %	20.9 %	13.8 %	73.2 %
Non-GAAP effective tax rate	22.4 %	24.1 %	22.0 %	19.4 %	22.2 %	20.0 %	23.2 %	14.4 %	19.1 %
Capital Expenditures	\$ 22,576	\$ 28,654	\$ 30,438	\$ 17,949	\$ 99,617	\$ 19,275	\$ 20,459	\$ 15,135	\$ 54,869
Cash, cash equivalents, and investments	\$ 1,028,016	\$ 1,054,305	\$ 1,143,601	\$ 1,189,138	\$ 1,189,138	\$ 1,152,498	\$ 1,208,078	\$ 1,268,085	\$ 1,268,085
Total employees	2,074	2,079	2,101	2,122	2,122	2,054	2,061	2,090	2,090
DSO	27	29	25	29	25	31	39	41	34

Footnotes:

1) Operating Margins above are calculated as Operating Income divided by Revenue.

Other Information:

* Minor rounding differences may exist as a result of the effect of rounding to the nearest dollar amount or percentage.

* These schedules have been derived from, and should be read in conjunction with, our financial statements in our reports on Forms 10-Q and 10-K which are filed with the SEC. Our Forms 10-Q may be viewed on our website at <http://investor.dolby.com/sec.cfm?DocType=Quarterly&Year=> and our Forms 10-K may be viewed on our website at <http://investor.dolby.com/sec.cfm?DocType=Annual&Year=>.

* 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 and complex 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.

Expense associated with dividend equivalents paid on restricted stock units - In connection with a special dividend declared in the first quarter of fiscal 2013, we modified restricted stock units (RSUs) that were invested at that time to preserve their pre-cash dividend economic value. The special dividend was a discrete and infrequent event that is not representative of our normal operating activities, therefore we exclude the compensation cost related to the dividend equivalents to provide a more accurate view of our underlying operating results.

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 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 a formal restructuring plan and primarily relate to 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 Tax Reform requires estimates based on Dolby's current understanding of the new tax laws. These charges are the result of a discrete and infrequent event that are not representative of current operating results and therefore, excluding these preliminary 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 in order 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 on the following page(s).

DOLBY LABORATORIES

Non-GAAP Percentage Reconciliation

Unaudited

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018	Q2 2018	Q3 2018	FY 2018
Selected Operating Expenses as % of Revenue									
GAAP Research and Development	22 %	22 %	20 %	24 %	22 %	20 %	20 %	19 %	19 %
Stock-based compensation	(2)%	(2)%	(2)%	(2)%	(2)%	(2)%	(2)%	(2)%	(1)%
Amortization of acquired intangibles	—%	—%	—%	—%	—%	—%	—%	—%	—%
RSU dividend equivalent	—%	—%	—%	—%	—%	—%	—%	—%	—%
Non-GAAP Research and Development	20 %	20 %	18 %	22 %	20 %	18 %	18 %	17 %	18 %
GAAP Sales and Marketing	27 %	28 %	24 %	32 %	27 %	24 %	25 %	25 %	25 %
Stock-based compensation	(2)%	(2)%	(2)%	(3)%	(2)%	(2)%	(2)%	(2)%	(2)%
Amortization of acquired intangibles	(1)%	(1)%	—%	—%	—%	(0)%	(1)%	(0)%	(1)%
RSU dividend equivalent	—%	—%	—%	—%	—%	—%	—%	—%	—%
Non-GAAP Sales and Marketing	24 %	25 %	22 %	29 %	25 %	22 %	22 %	23 %	22 %
GAAP General and Administrative	16 %	16 %	15 %	18 %	16 %	17 %	17 %	15 %	16 %
Stock-based compensation	(2)%	(2)%	(2)%	(2)%	(2)%	(3)%	(2)%	(2)%	(2)%
Amortization of acquired intangibles	—%	—%	—%	—%	—%	—%	—%	—%	—%
RSU dividend equivalent	—%	—%	—%	—%	—%	—%	—%	—%	—%
Non-GAAP General and Administrative	14 %	14 %	13 %	16 %	14 %	14 %	15 %	13 %	14 %
Margins									
GAAP gross margin: Licensing	96.5%	96.4%	95.4%	95.5%	95.9 %	96.4%	96.1%	95.8%	96.1 %
Amortization of acquired intangibles	0.5%	0.4%	0.3%	0.3%	0.4 %	0.3%	0.2%	0.2%	0.2 %
Non-GAAP gross margin: Licensing	97.0%	96.8%	95.7%	95.8%	96.3 %	96.7%	96.3%	96.0%	96.3 %
GAAP gross margin: Products	37.2%	32.5%	33.9%	38.5%	35.7 %	31.7%	31.2%	34.5%	32.5 %
Stock-based compensation	0.9%	1.1%	1.0%	1.0%	1.0 %	1.0%	1.0%	0.9%	1.0 %
Amortization of acquired intangibles	4.5%	6.0%	5.7%	3.8%	5.0 %	2.4%	2.4%	2.1%	2.3 %
RSU dividend equivalent	—%	—%	—%	—%	—%	—%	—%	—%	—%
Non-GAAP gross margin: Products	42.6%	39.6%	40.6%	43.3%	41.7 %	35.1%	34.6%	37.5%	35.8 %
GAAP gross margin: Services	23.0%	18.5%	9.8%	(2.7)%	12.5 %	5.5%	14.4%	(5.8)%	5.1 %
Stock-based compensation	2.5%	2.4%	2.5%	2.6%	2.5 %	2.4%	2.6%	3.1%	2.7 %
RSU dividend equivalent	—%	—%	—%	—%	—%	—%	—%	—%	—%
Non-GAAP gross margin: Services	25.5%	20.9%	12.3%	(0.1)%	15.0 %	7.9%	17.0%	(2.7)%	7.8 %
GAAP gross margin: Overall	88.7%	89.9%	89.5%	87.9%	89.1 %	89.3%	89.7%	89.1%	89.4 %
Stock-based compensation	0.2%	0.1%	0.1%	0.2%	0.1 %	0.1%	0.1%	0.1%	0.1 %
Amortization of acquired intangibles	0.9%	0.9%	0.6%	0.6%	0.7 %	0.4%	0.4%	0.4%	0.4 %
RSU dividend equivalent	—%	—%	—%	—%	—%	—%	—%	—%	—%
Non-GAAP gross margin: Overall	89.8%	90.9%	90.2%	88.7%	89.9 %	89.8%	90.2%	89.6%	89.9 %
GAAP operating margin (see footnote 1)	25%	24%	31%	10%	23 %	29%	29%	30%	29 %
Stock-based compensation	7%	6%	5%	7%	6 %	7%	6%	5%	6 %
Amortization of acquired intangibles	1%	1%	1%	1%	1 %	0%	0%	1%	1 %
RSU dividend equivalent	—%	—%	—%	—%	—%	—%	—%	—%	—%
Restructuring charges, net	—%	—%	—%	5 %	1 %	(0)%	(0)%	(0)%	(0)%
Non-GAAP operating margin (see footnote 1)	33%	31%	37%	23%	31 %	36%	35%	36%	36 %
Other Data									
GAAP effective tax rate	20.8 %	23.4 %	20.9 %	17.2 %	21.1 %	196.0 %	20.9 %	13.8 %	73.2 %
Stock-based compensation	1.4 %	0.6 %	1.0 %	1.2 %	0.9 %	7.1 %	2.5 %	0.6 %	3.8 %
Amortization of acquired intangibles	0.2 %	0.1 %	0.1 %	0.1 %	0.1 %	—%	(0.2)%	—%	—%
RSU dividend equivalent	—%	—%	—%	—%	—%	—%	—%	—%	—%
Restructuring charges, net	—%	—%	—%	0.9 %	0.1 %	—%	—%	—%	—%
Tax Reform	—%	—%	—%	—%	—%	(183.1)%	—%	—%	(57.9)%
Non-GAAP effective tax rate	22.4 %	24.1 %	22.0 %	19.4 %	22.2 %	20.0 %	23.2 %	14.4 %	19.1 %

Footnotes:

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DOLBY LABORATORIES

Reconciliation of GAAP to Non-GAAP Financial Measures: Current Quarter and Current Year-to-Date

Unaudited

In thousands, except per share amounts

Fiscal Quarter Ended
June 29, 2018

Fiscal Year-to-Date Ended
June 29, 2018

	Fiscal Quarter Ended June 29, 2018							Fiscal Year-to-Date Ended June 29, 2018						
	GAAP	Amortization of intangibles from business combinations	Stock-based compensation	Restructuring	Tax Reform	Tax effect of Non-GAAP adjustments	Non-GAAP	GAAP	Amortization of intangibles from business combinations	Stock-based compensation	Restructuring	Tax Reform	Tax effect of Non-GAAP adjustments	Non-GAAP
Revenue:														
Licensing	\$ 286,325	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 286,325	\$ 817,484	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 817,484
Products	26,265	-	-	-	-	-	26,265	73,863	-	-	-	-	-	73,863
Services	4,857	-	-	-	-	-	4,857	15,252	-	-	-	-	-	15,252
Total revenue	317,447	-	-	-	-	-	317,447	906,599	-	-	-	-	-	906,599
Cost of revenue:														
Cost of licensing	12,111	(633)	-	-	-	-	11,478	31,980	(1,905)	-	-	-	-	30,075
Cost of products	17,213	(541)	(249)	-	-	-	16,423	49,851	(1,681)	(756)	-	-	-	47,414
Cost of services	5,141	-	(151)	-	-	-	4,990	14,469	-	(410)	-	-	-	14,059
Total cost of revenue	34,465	(1,174)	(400)	-	-	-	32,891	96,300	(3,586)	(1,166)	-	-	-	91,548
Gross margin	282,982	1,174	400	-	-	-	284,556	810,299	3,586	1,166	-	-	-	815,051
Operating expenses:														
Research and development	60,357	(130)	(4,859)	-	-	-	55,368	176,294	(130)	(14,486)	-	-	-	161,678
Sales and marketing	79,834	(677)	(6,469)	-	-	-	72,688	224,002	(2,031)	(18,266)	-	-	-	203,705
General and administrative	48,081	-	(5,373)	-	-	-	42,708	147,113	-	(19,558)	-	-	-	127,555
Restructuring charges/(credits)	(82)	-	-	82	-	-	-	(446)	-	-	446	-	-	-
Total operating expenses	188,190	(807)	(16,701)	82	-	-	170,764	546,963	(2,161)	(52,310)	446	-	-	492,938
Operating income	94,792	1,981	17,101	(82)	-	-	113,792	263,336	5,747	53,476	(446)	-	-	322,113
Interest income	5,488	-	-	-	-	-	5,488	13,161	-	-	-	-	-	13,161
Interest expense	(87)	-	-	-	-	-	(87)	(151)	-	-	-	-	-	(151)
Other income, net	(3,603)	-	-	-	-	-	(3,603)	(5,439)	-	-	-	-	-	(5,439)
Income before income taxes	96,590	1,981	17,101	(82)	-	-	115,590	270,907	5,747	53,476	(446)	-	-	329,684
Provision for income taxes	(13,302)	-	-	-	-	(3,294)	(16,596)	(198,332)	-	-	-	154,606	(19,107)	(62,833)
Net income (loss) including controlling interest	83,288	1,981	17,101	(82)	-	(3,294)	98,994	72,575	5,747	53,476	(446)	154,606	(19,107)	266,851
Less: net (income)/loss attributable to controlling interest	(143)	-	-	-	-	-	(143)	(421)	-	-	-	-	-	(421)
Net income attributable to Dolby Laboratories, Inc.	\$ 83,145	\$ 1,981	\$ 17,101	\$ (82)	\$ -	\$ (3,294)	\$ 98,851	\$ 72,154	\$ 5,747	\$ 53,476	\$ (446)	\$ 154,606	\$ (19,107)	\$ 266,430
Net income per share:														
Diluted	\$ 0.78	0.02	0.15	-	-	(0.03)	\$ 0.92	\$ 0.67	\$ 0.05	\$ 0.50	\$ -	\$ 1.45	\$ (0.18)	\$ 2.49
Weighted-average shares outstanding:														
Diluted	106,950						106,950	106,943						106,943

DOLBY LABORATORIES

Reconciliation of GAAP to Non-GAAP Financial Measures: Prior Quarter and Prior Year-to-Date

Unaudited

In thousands, except per share amounts

	Fiscal Quarter Ended June 30, 2017					Fiscal Year-to-Date Ended June 30, 2017						
	GAAP	Amortization of intangibles from business combinations	RSU dividend equivalent	Stock-based compensation	Tax effect of Non-GAAP adjustments	Non-GAAP	GAAP	Amortization of intangibles from business combinations	RSU dividend equivalent	Stock-based compensation	Tax effect of Non-GAAP adjustments	Non-GAAP
Revenue:												
Licensing	\$ 278,106	\$ -	\$ -	\$ -	\$ -	\$ 278,106	\$ 752,422	\$ -	\$ -	\$ -	\$ -	\$ 752,422
Products	22,569	-	-	-	-	22,569	71,493	-	-	-	-	71,493
Services	4,990	-	-	-	-	4,990	15,491	-	-	-	-	15,491
Total revenue	305,665	-	-	-	-	305,665	839,406	-	-	-	-	839,406
Cost of revenue:												
Cost of licensing	12,711	(653)	-	-	-	12,058	29,628	(2,754)	-	-	-	26,874
Cost of products	14,910	(1,279)	-	(229)	-	13,402	46,618	(3,811)	(3)	(713)	-	42,091
Cost of services	4,504	-	-	(126)	-	4,378	12,823	-	(2)	(385)	-	12,436
Total cost of revenue	32,125	(1,932)	-	(355)	-	29,838	89,069	(6,565)	(5)	(1,098)	-	81,401
Gross margin	273,540	1,932	-	355	-	275,827	750,337	6,565	5	1,098	-	758,005
Operating expenses:												
Research and development	59,631	-	-	(4,551)	-	55,080	175,490	-	(49)	(14,036)	-	161,405
Sales and marketing	73,480	(677)	-	(6,188)	-	66,615	220,275	(3,619)	(58)	(19,621)	-	196,977
General and administrative	44,497	-	-	(4,649)	-	39,848	129,290	-	(40)	(14,337)	-	114,913
Restructuring charges/(credits)	-	-	-	-	-	-	-	-	-	-	-	-
Total operating expenses	177,608	(677)	-	(15,388)	-	161,543	525,055	(3,619)	(147)	(47,994)	-	473,295
Operating income	95,932	2,609	-	15,743	-	114,284	225,282	10,184	152	49,092	-	284,710
Interest income	2,511	-	-	-	-	2,511	6,511	-	-	-	-	6,511
Interest expense	(31)	-	-	-	-	(31)	(94)	-	-	-	-	(94)
Other income, net	(2,109)	-	-	-	-	(2,109)	(1,546)	-	-	-	-	(1,546)
Income before income taxes	96,303	2,609	-	15,743	-	114,655	230,153	10,184	152	49,092	-	289,581
Provision for income taxes	(20,117)	-	-	-	(5,153)	(25,270)	(49,666)	-	-	-	(16,233)	(65,899)
Net income including controlling interest	76,186	2,609	-	15,743	(5,153)	89,385	180,487	10,184	152	49,092	(16,233)	223,682
Less: net (income)/loss attributable to controlling interest	(143)	-	-	-	-	(143)	(480)	-	-	-	-	(480)
Net income attributable to Dolby Laboratories, Inc.	\$ 76,043	\$ 2,609	\$ -	\$ 15,743	\$ (5,153)	\$ 89,242	\$ 180,007	\$ 10,184	\$ 152	\$ 49,092	\$ (16,233)	\$ 223,202
Net income per share:												
Diluted	\$ 0.73	0.02	-	0.16	(0.05)	\$ 0.86	\$ 1.73	0.09	-	0.49	(0.16)	\$ 2.15
Weighted-average shares outstanding:												
Diluted	104,222					104,222	103,986					103,986