

DOLBY LABORATORIES

Investor Relations Data Sheet

Unaudited

All dollar amounts are in thousands

	FY 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	FY 2018	Q1 2019
Revenue Data							
Licensing	\$ 965,864	\$ 270,172	\$ 272,135	\$ 183,771	\$ 214,699	\$ 940,777	\$ 260,279
Products and services	114,311	29,355	27,587	31,009	25,871	113,822	42,097
Total Revenue	\$ 1,080,175	\$ 299,527	\$ 299,722	\$ 214,780	\$ 240,570	\$ 1,054,599	\$ 302,376
Total Revenue growth % (year-over-year)	5 %	3 %	1 %	(6)%	(9)%	(2)%	1 %
Total Revenue growth % (quarterly sequential)	n/a	13 %	0 %	(28)%	12 %	n/a	26 %
Broadcast Licensing	44 %	41 %	33 %	46 %	48 %	41 %	38 %
PC Licensing	13 %	8 %	16 %	9 %	12 %	11 %	9 %
Consumer Electronics Licensing	13 %	14 %	14 %	15 %	19 %	15 %	17 %
Mobile Licensing	15 %	22 %	25 %	11 %	1 %	16 %	13 %
Other Licensing	15 %	15 %	12 %	19 %	20 %	17 %	23 %
Total Licensing	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Licensing Revenue growth % (year-over-year)	5 %	6 %	(0)%	(9)%	(9)%	(3)%	(4)%
Licensing Revenue growth % (quarterly sequential)	n/a	14 %	1 %	(32)%	17 %	n/a	21 %
Selected Operating Expenses as % of Revenue							
GAAP Research and Development	22 %	19 %	20 %	28 %	25 %	22 %	19 %
Non-GAAP Research and Development	20 %	17 %	18 %	26 %	23 %	21 %	17 %
GAAP Sales and Marketing	27 %	23 %	25 %	37 %	36 %	29 %	28 %
Non-GAAP Sales and Marketing	25 %	21 %	23 %	34 %	33 %	27 %	25 %
GAAP General and Administrative	16 %	16 %	17 %	22 %	21 %	19 %	17 %
Non-GAAP General and Administrative	14 %	14 %	15 %	20 %	19 %	16 %	15 %
Margins							
GAAP gross margin: Licensing	95.9 %	96.6 %	96.1 %	93.4 %	95.1 %	95.5 %	95.6 %
Non-GAAP gross margin: Licensing	96.3 %	96.8 %	96.3 %	93.8 %	95.3 %	95.7 %	95.8 %
GAAP gross margin: Products and services	30.7 %	26.3 %	26.0 %	28.2 %	20.2 %	25.3 %	35.3 %
Non-GAAP gross margin: Products and services	36.1 %	29.6 %	29.4 %	31.2 %	23.8 %	28.7 %	37.8 %
GAAP gross margin: Overall	89.0 %	89.7 %	89.6 %	84.0 %	87.0 %	87.9 %	87.2 %
Non-GAAP gross margin: Overall	89.9 %	90.2 %	90.2 %	84.7 %	87.6 %	88.5 %	87.8 %
GAAP operating margin (see footnote 1)	23 %	31 %	28 %	(4)%	5 %	17 %	23 %
Non-GAAP operating margin (see footnote 1)	31 %	38 %	35 %	5 %	13 %	25 %	30 %
Other Data							
GAAP effective tax rate	18.8 %					78.4 %	(32.5)%
Non-GAAP effective tax rate	20.5 %					21.3 %	19.2 %
Capital Expenditures	\$ 99,617	\$ 19,275	\$ 20,459	\$ 15,135	\$ 17,945	\$ 72,814	\$ 18,539
Cash, cash equivalents, and investments	\$ 1,189,138	\$ 1,152,499	\$ 1,208,078	\$ 1,268,085	\$ 1,283,984	\$ 1,283,984	\$ 1,167,773
Total employees	2,122	2,053	2,061	2,090	2,151	2,151	2,163

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-filings> Group: Quarterly Filings and our Forms 10-K may be viewed on our website at <http://investor.dolby.com/sec-filings> Group: Annual Filings.

- 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 unvested 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.

DOLBY LABORATORIES

Non-GAAP Percentage Reconciliation Unaudited

	FY 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	FY 2018	Q1 2019
Selected Operating Expenses as % of Revenue							
GAAP Research and Development	22 %	19 %	20 %	28 %	25 %	22 %	19 %
Stock-based compensation	(2)%	(2)%	(2)%	(2)%	(2)%	(1)%	(2)%
Amortization of acquired intangibles	—%	—%	—%	(0)%	(0)%	(0)%	0 %
RSU dividend equivalent	(0)%	—%	—%	—%	—%	—%	—%
Non-GAAP Research and Development	20 %	17 %	18 %	26 %	23 %	21 %	17 %
GAAP Sales and Marketing	27 %	23 %	25 %	37 %	36 %	29 %	28 %
Stock-based compensation	(2)%	(2)%	(2)%	(3)%	(3)%	(2)%	(3)%
Amortization of acquired intangibles	(0)%	(0)%	(0)%	(0)%	(0)%	(0)%	(0)%
RSU dividend equivalent	(0)%	—%	—%	—%	—%	—%	—%
Non-GAAP Sales and Marketing	25 %	21 %	23 %	34 %	33 %	27 %	25 %
GAAP General and Administrative	16 %	16 %	17 %	22 %	21 %	19 %	17 %
Stock-based compensation	(2)%	(2)%	(2)%	(2)%	(2)%	(3)%	(2)%
Amortization of acquired intangibles	—%	—%	—%	—%	—%	—%	—%
RSU dividend equivalent	(0)%	—%	—%	—%	—%	—%	—%
Non-GAAP General and Administrative	14 %	14 %	15 %	20 %	19 %	16 %	15 %
Margins							
GAAP gross margin: Licensing	95.9 %	96.6 %	96.1 %	93.4 %	95.1 %	95.5 %	95.6 %
Amortization of acquired intangibles	0.4 %	0.2 %	0.2 %	0.4 %	0.2 %	0.2 %	0.2 %
Non-GAAP gross margin: Licensing	96.3 %	96.8 %	96.3 %	93.8 %	95.3 %	95.7 %	95.8 %
GAAP gross margin: Products and services	30.7 %	26.3 %	26.0 %	28.2 %	20.2 %	25.3 %	35.3 %
Stock-based compensation	1.3 %	1.3 %	1.4 %	1.3 %	1.5 %	1.4 %	1.2 %
Amortization of acquired intangibles	4.1 %	2.0 %	2.0 %	1.7 %	2.1 %	2.0 %	1.3 %
RSU dividend equivalent	0.0 %	—%	—%	—%	—%	—%	—%
Non-GAAP gross margin: Products and services	36.1 %	29.6 %	29.4 %	31.2 %	23.8 %	28.7 %	37.8 %
GAAP gross margin: Overall	89.0 %	89.7 %	89.6 %	84.0 %	87.0 %	87.9 %	87.2 %
Stock-based compensation	0.1 %	0.1 %	0.2 %	0.2 %	0.1 %	0.2 %	0.2 %
Amortization of acquired intangibles	0.8 %	0.4 %	0.4 %	0.5 %	0.5 %	0.4 %	0.4 %
RSU dividend equivalent	0.0 %	—%	—%	—%	—%	—%	—%
Non-GAAP gross margin: Overall	89.9 %	90.2 %	90.2 %	84.7 %	87.6 %	88.5 %	87.8 %
GAAP operating margin (see footnote 1)	23 %	31%	28%	(4)%	5%	17 %	23%
Stock-based compensation	6 %	6%	6%	8%	7%	7 %	6%
Amortization of acquired intangibles	1 %	1%	1%	1%	1%	1 %	1%
RSU dividend equivalent	0 %	0%	0%	0%	0%	—%	0%
Restructuring charges, net	1 %	0%	0%	0%	0%	(0)%	0%
Non-GAAP operating margin (see footnote 1)	31 %	38%	35%	5%	13%	25 %	30%
Other Data							
GAAP effective tax rate	18.8 %					78.4 %	(32.5)%
Stock-based compensation	1.3 %					4.6 %	4.5 %
Amortization of acquired intangibles	0.2 %					(0.2)%	(0.1)%
RSU dividend equivalent	—%					—%	—%
Restructuring charges, net	0.2 %					—%	—%
Tax Reform	—%					(61.5)%	47.3 %
Non-GAAP effective tax rate	20.5 %					21.3 %	19.2 %

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DOLBY LABORATORIES

Reconciliation of GAAP to Non-GAAP Financial Measures: Current Quarter

Unaudited

In thousands, except per share amounts

Fiscal Quarter Ended
December 28, 2018

	GAAP	Amortization of intangibles from business combinations	Stock-based compensation	Restructuring	Tax Reform	Tax effect of Non-GAAP adjustments	Non-GAAP
Revenue:							
Licensing	\$ 260,279	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 260,279
Products and services	42,097	-	-	-	-	-	42,097
Total revenue	302,376	-	-	-	-	-	302,376
Cost of revenue:							
Cost of licensing	11,397	(593)	-	-	-	-	10,804
Cost of products and services	27,232	(576)	(488)	-	-	-	26,168
Total cost of revenue	38,629	(1,169)	(488)	-	-	-	36,972
Gross margin	263,747	1,169	488	-	-	-	265,404
Operating expenses:							
Research and development	58,647	166	(6,241)	-	-	-	52,572
Sales and marketing	85,602	(831)	(8,217)	-	-	-	76,554
General and administrative	50,813	-	(6,536)	-	-	-	44,277
Restructuring charges, net	14	-	-	(14)	-	-	-
Total operating expenses	195,076	(665)	(20,994)	(14)	-	-	173,403
Operating income	68,671	1,834	21,482	14	-	-	92,001
Interest income	5,185	-	-	-	-	-	5,185
Interest expense	(45)	-	-	-	-	-	(45)
Other income, net	443	-	-	-	-	-	443
Income before income taxes	74,254	1,834	21,482	14	-	-	97,584
Provision for income tax (expense)/benefit	24,104	-	-	-	(36,049)	(6,760)	(18,705)
Net income including controlling interest	98,358	1,834	21,482	14	(36,049)	(6,760)	78,879
Less: net (income) attributable to controlling interest	(139)	-	-	-	-	-	(139)
Net income attributable to Dolby Laboratories, Inc.	\$ 98,219	\$ 1,834	\$ 21,482	\$ 14	\$ (36,049)	\$ (6,760)	\$ 78,740
Net income per share:							
Diluted	\$ 0.93	0.02	0.20	-	(0.34)	(0.07)	\$ 0.74
Weighted-average shares outstanding:							
Diluted	106,130						106,130

DOLBY LABORATORIES

Reconciliation of GAAP to Non-GAAP Financial Measures: Prior Quarter

Unaudited

In thousands, except per share amounts

Fiscal Quarter Ended
December 29, 2017

	GAAP	Amortization of intangibles from business combinations	Stock-based compensation	Restructuring	Tax Reform	Tax effect of Non-GAAP adjustments	Other	Non-GAAP
Revenue:								
Licensing	\$ 270,172	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 270,172
Products and services	29,355	-	-	-	-	-	-	29,355
Total revenue	299,527	-	-	-	-	-	-	299,527
Cost of revenue:								
Cost of licensing	9,259	(639)	-	-	-	-	-	8,620
Cost of products and services	21,634	(599)	(379)	-	-	-	-	20,656
Total cost of revenue	30,893	(1,238)	(379)	-	-	-	-	29,276
Gross margin	268,634	1,238	379	-	-	-	-	270,251
Operating expenses:								
Research and development	56,444	-	(4,877)	-	-	-	-	51,567
Sales and marketing	70,149	(677)	(5,951)	-	-	-	-	63,521
General and administrative	48,285	-	(7,477)	-	-	-	-	40,808
Restructuring credits, net	(197)	-	-	197	-	-	-	-
Total operating expenses	174,681	(677)	(18,305)	197	-	-	-	155,896
Operating income	93,953	1,915	18,684	(197)	-	-	-	114,355
Interest income	3,781	-	-	-	-	-	-	3,781
Interest expense	(35)	-	-	-	-	-	-	(35)
Other income, net	(1,152)	-	-	-	-	-	-	(1,152)
Income before income taxes	96,547	1,915	18,684	(197)	-	-	-	116,949
Provision for income taxes	(149,705)	-	-	-	137,599	(9,287)	-	(21,393)
Net income/(loss) including controlling interest	(53,158)	1,915	18,684	(197)	137,599	(9,287)	-	95,556
Less: net (income)/loss attributable to controlling interest	(144)	-	-	-	-	-	-	(144)
Net income/(loss) attributable to Dolby Laboratories, Inc.	\$ (53,302)	\$ 1,915	\$ 18,684	\$ (197)	\$ 137,599	\$ (9,287)	\$ -	\$ 95,412
Net income per share:								
Diluted	\$ (0.52)							\$ 0.90
Weighted-average shares outstanding:								
Diluted	102,552						3,782 (a)	106,334

Notes:

(a) Dilutive equity awards