

# Dolby Laboratories Inc

**S&P Recommendation** BUY ★★☆☆★

**Price**  
\$69.23 (as of Nov 8, 2010)

**12-Mo. Target Price**  
\$78.00

**Investment Style**  
Mid-Cap Growth

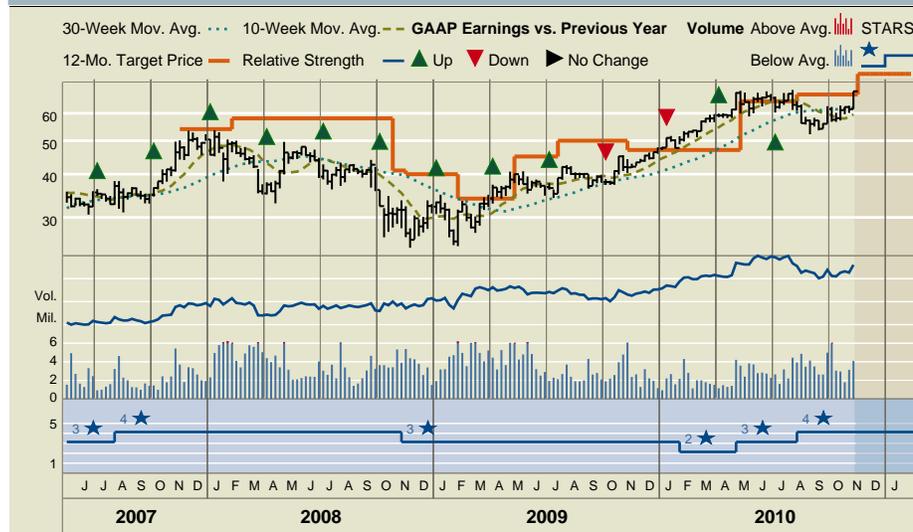
**GICS Sector** Information Technology  
**Sub-Industry** Electronic Components

**Summary** Founded in 1965 by Ray Dolby, this company develops technologies to promote enhanced entertainment experiences. Mr. Dolby still largely controls DLB.

**Key Stock Statistics** (Source S&P, Vickers, company reports)

52-Wk Range	<b>\$70.14– 41.67</b>	S&P Oper. EPS 2010E	<b>2.51</b>	Market Capitalization(B)	<b>\$4.125</b>	Beta	<b>0.97</b>
Trailing 12-Month EPS	<b>\$2.27</b>	S&P Oper. EPS 2011E	<b>3.06</b>	Yield (%)	<b>Nil</b>	S&P 3-Yr. Proj. EPS CAGR(%)	<b>26</b>
Trailing 12-Month P/E	<b>30.5</b>	P/E on S&P Oper. EPS 2010E	<b>27.6</b>	Dividend Rate/Share	<b>Nil</b>	S&P Credit Rating	<b>NA</b>
\$10K Invested 5 Yrs Ago	<b>\$43,147</b>	Common Shares Outstg. (M)	<b>112.7</b>	Institutional Ownership (%)	<b>85</b>		

**Price Performance**



**Qualitative Risk Assessment**

LOW MEDIUM HIGH

Our risk assessment reflects our view of the company's dependence on consumer electronics volumes to drive revenue growth, offset by a brand, intellectual property, and business model that we view as attractive.

**Quantitative Evaluations**

**S&P Quality Ranking** **NR**

D C B- B B+ A- A A+

**Relative Strength Rank** **STRONG**

84  
LOWEST = 1 HIGHEST = 99

**Revenue/Earnings Data**

Revenue (Million \$)	1Q	2Q	3Q	4Q	Year
2010	221.2	243.4	230.3	--	--
2009	180.3	204.1	171.2	163.9	719.5
2008	150.2	172.6	154.3	163.1	640.2
2007	104.4	129.0	119.6	129.0	482.0
2006	91.03	104.7	93.65	102.1	391.5
2005	84.26	85.10	79.68	78.92	328.0

Earnings Per Share (\$)	1Q	2Q	3Q	4Q	Year
2010	0.59	0.74	0.55	E0.62	E2.51
2009	0.68	0.60	0.44	0.38	2.11
2008	0.42	0.49	0.40	0.42	1.74
2007	0.27	0.34	0.26	0.39	1.26
2006	0.16	0.25	0.17	0.22	0.80
2005	0.11	0.10	0.13	0.15	0.50

Fiscal year ended Sep. 30. Next earnings report expected: NA. EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

**Dividend Data**

No cash dividends have been paid.

Analysis prepared by **Clyde Montevirgen** on November 08, 2010, when the stock traded at **\$ 69.51**.

**Highlights**

- We project revenues will grow 12% in FY 11 (Sep.), after a 28% advance in FY 10. We see revenue growth supported by DLB's licensing revenues from its broadcast business due to strong sales of digital TVs internationally, and from its PC business as laptop unit shipments are expected to be strong over the next couple of years. Although we think annual comparisons for its core businesses will be tough to beat, we believe that its cinema offerings and other consumer electronics products, such as gaming, handsets, and Blu-Ray, will increasingly add to top-line advances.
- We foresee gross margins widening to 88% in FY 11 from 86% in FY 10, reflecting a favorable mix of licensing revenues and improving product margins. Although we anticipate rising headcount and compensation expenses as DLB invests in growth initiatives, we expect operating margins to expand to 48% in FY 11 from 47% in FY 10.
- Our FY 11 estimates include an effective tax rate of 33% and a modest decline in the diluted share count.

**Investment Rationale/Risk**

- Our buy opinion reflects our view of solid fundamentals and attractive valuation. We believe top-line advances will be strong due to the proliferation of digital products in various products and geographies. Although we see rising expenses limiting margins, we still anticipate above-market earnings growth (on a calendar year basis) and healthy return on equity. Consequently, we think shares should trade at multiples above the market yet below faster growing competitors, which is reflected in our valuation.
- Risks to our recommendation and target price include slower-than-anticipated growth in licensing revenues, a less favorable sales mix, and higher-than-expected expense growth.
- Our 12-month target price of \$78 is based on a weighted blend of our discounted cash flow (DCF) and P/E analyses. Our DCF metric, which assumes a WACC of 10% and a terminal growth rate of 4%, implies an intrinsic value of \$80. We apply a P/E multiple of about 24X, below its competitors' multiple to account for our view of DLB's slower earnings growth, to our calendar 2011 EPS estimate to derive a value of \$77.

**Dolby Laboratories Inc****Business Summary** November 08, 2010

**CORPORATE OVERVIEW.** Dolby Laboratories was founded over 40 years ago, but its strategy remains virtually the same -- to focus on technologies in sound that enhance the audio experience. Almost all major movie soundtracks around the world use its encoding technology, and all DVD players use DLB's technologies. DLB's technologies are also used to help maintain sound quality, and work with storage capacity and distribution limitations of the particular recording medium. For example, filmmakers use DLB's encoding products and services during post-production so that movie soundtracks are properly recorded and can play back in specific theaters.

The company derives its revenues from licensing technologies to media software vendors and consumer electronic manufacturers, selling video and audio products primarily to the motion picture and broadcast industries, and offering services to support production of motion pictures, broadcast, music and video game content. Revenues can be divided into three segments: licensing (which made up 83% of total revenues in FY 09 - Sep.), product (13%) and services (4%).

Licensing revenues are generated when customers sell products that include Dolby technology. Licensing revenues can be further categorized by end-markets, including: PCs, broadcast (including products such as televisions and set-top boxes), consumer electronics (DVD players and recorders, camcorders, Blu-Ray disc players, audio/video receivers, and home theater-in-a-box), mobile, gaming (video game consoles), and automotive (in-car entertainment systems).

Product revenues involve the sales of digital media servers, which load, store, decrypt, and decode digital film files for presentation on digital projectors in theaters, as well as sales of digital 3D products. Other sales in this segment include, cinema processors and related items. The primary revenue drivers in this segment are sales of cinema products for theaters and audio broadcast products.

Services revenues include engineering services to support production of motion picture, broadcast, music, and video game content. Sales in this segment are a function of the number of films made by studios and filmmakers.

**CORPORATE STRATEGY.** The company' looks to take advantage of the global transition from analog to digital broadcast, the upgrade to high definition content, and the advancement in online and mobile content delivery. We believe that these trends will help to expand the total addressable market for the company's core audio formats and provide opportunities for sales of other related commentary products and services.

**CORPORATE GOVERNANCE.** Founder Ray Dolby and his affiliates control approximately 91% of the voting power of the company, primarily through significant ownership of Class B shares that have 10 times the voting power of Class A shares. We do not think a dual class share structure that allows a single shareholder to control virtually all matters requiring shareholder approval represents good corporate governance.

**FINANCIAL TRENDS.** The company's revenue growth, based on a three-year compound annual growth rate, has slowed from the mid-to-high twenty percent range to the mid-to-high teens area over the last few years. Although most of the total revenues consist of licensing revenues, product revenues have grown at a brisk pace, making up over 16% of sales in calendar 2009. As products become a larger proportion of total revenues, we see an adverse impact on the company's gross margins, which we believe will decline to the low-80% level from 90% a couple of years ago. DLB is investing heavily in growth opportunities, and has increased R&D spending as a percentage of sales in recent years. This rise in expenses is partially offset by slower growth of SG&A expenses, which have decreased as a percentage of revenues. Overall, the operating margin has bounced around the low-to-high 40% level over the last couple of years.

We favorably view the company's balance sheet, including over \$6 in cash per share and relatively low debt. Since the company has a profitable business model and does not need to make large capital expenditures, cash flow generation has been steady and strong, in our view.

**Corporate Information****Investor Contact**

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94103-4886.**Telephone**

415-558-0200.

**Website**<http://www.dolby.com>**Officers****Chrmn**

P. Gotcher

**Pres & CEO**

K.J. Yeaman

**EVP, CFO & Chief****Acctg Officer**

M.J. Demo

**EVP, Secy & General****Counsel**

M.S. Anderson

**SVP & CTO**

C. Todd

**Board Members**

R. Dolby

N. Donatiello, Jr.

P. Gotcher

T. W. Hall

N. W. Jasper, Jr.

S. R. Robertson

R. Siboni

A. Tevanian, Jr.

K. J. Yeaman

**Domicile**

Delaware

**Founded**

1965

**Employees**

1,135

**Stockholders**

25

# Dolby Laboratories Inc

## Quantitative Evaluations

<b>S&amp;P Fair Value Rank</b>	3	1	2	3	4	5
		LOWEST				

Based on S&P's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

<b>Fair Value Calculation</b>	\$66.90	Analysis of the stock's current worth, based on S&P's proprietary quantitative model suggests that DLB is slightly overvalued by \$2.33 or 3.4%.
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<b>Investability Quotient Percentile</b>	76	LOWEST = 1 HIGHEST = 100
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DLB scored higher than 76% of all companies for which an S&P Report is available.

<b>Volatility</b>	LOW	AVERAGE	HIGH
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<b>Technical Evaluation</b>	<b>BULLISH</b>	Since October, 2010, the technical indicators for DLB have been BULLISH.
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<b>Insider Activity</b>	UNFAVORABLE	NEUTRAL	FAVORABLE
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## Expanded Ratio Analysis

	2009	2008	2007	2006
Price/Sales	7.65	5.87	11.71	8.85
Price/EBITDA	14.83	12.09	28.33	24.95
Price/Pretax Income	14.83	12.46	26.96	23.62
P/E Ratio	22.66	18.85	39.54	38.68
Avg. Diluted Shares Outstg (M)	115.4	114.8	113.6	111.7

Figures based on calendar year-end price

## Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Sales	12.38	23.48	21.36	NA
Net Income	21.82	39.50	37.75	NA

## Ratio Analysis (Annual Avg.)

	2009	2008	2007	2006
Net Margin (%)	33.77	31.52	26.67	21.18
% LT Debt to Capitalization	0.42	0.77	1.30	NA
Return on Equity (%)	20.33	20.82	19.35	NA

## Company Financials Fiscal Year Ended Sep. 30

Per Share Data (\$)	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Tangible Book Value	8.77	6.36	6.55	5.19	4.04	2.97	NA	NA	NA	NA
Cash Flow	2.36	1.95	1.39	0.92	0.61	NA	0.45	0.08	NA	NA
Earnings	2.11	1.74	1.26	0.80	0.50	0.68	0.36	Nil	NA	NA
S&P Core Earnings	1.96	1.74	1.25	0.78	0.47	0.39	0.34	NA	NA	NA
Dividends	Nil	Nil	Nil	Nil	Nil	NA	NA	NA	NA	NA
Payout Ratio	Nil	Nil	Nil	Nil	Nil	NA	NA	NA	NA	NA
Prices:High	47.98	53.63	53.44	32.27	25.45	NA	NA	NA	NA	NA
Prices:Low	24.77	24.50	29.68	16.92	14.50	NA	NA	NA	NA	NA
P/E Ratio:High	23	31	42	40	51	NA	NA	NA	NA	NA
P/E Ratio:Low	12	14	24	21	29	NA	NA	NA	NA	NA

## Income Statement Analysis (Million \$)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Revenue	720	640	482	392	328	289	217	162	NA	NA
Operating Income	371	311	199	139	93.4	NA	56.5	31.8	NA	NA
Depreciation	28.7	24.8	14.8	12.9	11.3	NA	7.50	7.05	NA	NA
Interest Expense	0.94	2.13	3.11	1.77	1.85	NA	2.29	1.56	NA	NA
Pretax Income	371	302	209	147	91.2	105	47.6	-0.20	NA	NA
Effective Tax Rate	34.2%	33.4%	31.1%	38.1%	40.9%	38.8%	33.8%	NM	NA	NA
Net Income	243	199	143	89.5	52.3	63.3	31.0	-0.10	NA	NA
S&P Core Earnings	225	199	141	87.2	48.8	35.7	28.8	NA	NA	NA

## Balance Sheet & Other Financial Data (Million \$)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Cash	735	514	368	412	372	266	61.9	NA	NA	NA
Current Assets	901	692	733	573	454	NA	106	NA	NA	NA
Total Assets	1,581	1,336	992	739	586	459	203	NA	NA	NA
Current Liabilities	157	201	143	92.9	72.8	NA	51.4	NA	NA	NA
Long Term Debt	5.82	7.78	9.69	10.9	12.1	14.8	14.6	NA	NA	NA
Common Equity	1,341	1,049	797	594	461	330	93.8	NA	NA	NA
Total Capital	1,371	1,096	829	625	492	345	126	NA	NA	NA
Capital Expenditures	14.0	13.6	10.6	8.04	14.7	NA	6.75	3.91	NA	NA
Cash Flow	272	224	158	102	63.6	NA	38.5	6.94	NA	NA
Current Ratio	5.8	3.5	5.1	6.2	6.2	NA	2.1	NA	NA	NA
% Long Term Debt of Capitalization	0.4	0.7	1.2	1.7	2.5	4.3	11.6	Nil	NA	NA
% Net Income of Revenue	33.8	31.2	29.6	22.9	15.9	21.9	14.2	NM	NA	NA
% Return on Assets	16.7	17.1	16.5	13.5	12.3	NA	NA	NA	NA	NA
% Return on Equity	20.3	21.6	20.5	17.0	17.3	NA	NA	NA	NA	NA

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

# Dolby Laboratories Inc

## Sub-Industry Outlook

We have a neutral outlook for the electronic components sub-industry. We believe the revenue growth outlook at component companies remains challenging in 2010. Our outlook reflects our view that distributors, electronic manufacturing service (EMS) companies, and original equipment manufacturers (OEM) are restocking inventory levels during the current economic recovery. In addition, we think the Chinese stimulus plan is continuing to drive demand in Asia. We still foresee weak consumer spending, high levels of unemployment, and a restrained housing environment in the important U.S. and European markets. Still, the U.S. is showing signs of strength, though we remain concerned about Europe.

We foresee average price declines in line with historical levels despite higher capacity utilization rates, reflecting what we see as improving end-market demand. Many companies are now extending or completing restructuring initiatives, which we think signals better control of operating expenses. In our opinion, companies are striving for better supply-demand balance, and we see them cutting capacity or eliminating low margin product lines. However, we believe commodities and raw material costs have increased due to the economic recovery. As a result, we think this has introduced some cost uncertainty.

We see favorable longer-term growth for the industry. Segments that show promise over the next three years, in our view, include mobile handsets, devices and computing, and medical devices. Geographically, we expect Asia to outpace the rest of the world in growth, followed by the Middle East, Africa, and Latin America. We expect weakness in North America and Europe. Product mix, volumes and operating expense structures play a large part in determining profitable growth among companies

in this industry.

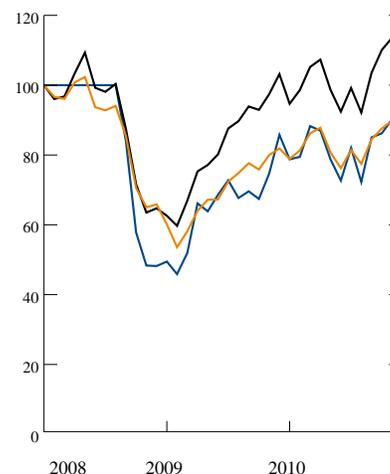
Year to date through October 15, the S&P Electronic Components Index increased 1.8%, while the S&P 1500 rose 6.3%. In 2009, the S&P Electronic Components Index gained 78.0%, versus a 24.3% rise in the S&P 1500 Index.

--Dylan Cathers

## Stock Performance

**GICS Sector: Information Technology**  
**Sub-Industry: Electronic Components**

Based on S&P 1500 Indexes  
Month-end Price Performance as of 10/29/10



Sub-Industry      Sector      S&P 1500

**NOTE:** All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

The Sub-Industry was created recently; therefore no historical index data exists yet to display a performance line.

## Sub-Industry : Electronic Components Peer Group\*: Based on market capitalizations within GICS Sub-Industry

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price(\$)	52 Week High/Low(\$)	Beta	Yield (%)	P/E Ratio	Fair Value Calc.(\$)	Quality Ranking	S&P IQ %ile	Return on Revenue (%)	LTD to Cap (%)
<b>Dolby Laboratories'A'</b>	<b>DLB</b>	<b>4,142</b>	<b>69.51</b>	<b>70.14/41.67</b>	<b>0.97</b>	<b>Nil</b>	<b>31</b>	<b>66.90</b>	<b>NR</b>	<b>76</b>	<b>33.8</b>	<b>0.4</b>
AVX Corp	AVX	2,551	15.00	15.72/11.66	0.94	1.2	15	NA	B-	82	11.0	NA
CPI International	CPII	245	14.56	16.20/9.27	1.14	Nil	12	16.50	NR	21	7.0	53.0
CalAmp Corp	CAMP	73	2.59	3.77/1.96	1.85	Nil	NM	NA	B-	17	NA	17.8
DALSA Corp	DSA.C	225	12.20	12.33/6.75	NA	2.3	24	NA	B-	NA	0.3	9.9
DTS Inc	DTSI	710	41.43	41.57/25.95	1.30	Nil	56	32.10	NR	80	13.8	NA
LittelFUSE Inc	LFUS	956	43.28	45.00/25.74	1.76	Nil	17	41.50	B	86	2.2	11.1
Power-One	PWER	1,000	9.41	13.04/2.90	2.30	Nil	13	9.30	C	72	NA	35.4
Rogers Corp	ROG	522	32.98	36.17/23.57	1.56	Nil	18	33.80	B-	81	NA	NA
Spectrum Control	SPEC	203	15.64	16.23/8.19	1.45	Nil	17	NA	B	77	6.5	0.4
Superconductor Technologies	SCON	38	1.69	3.85/1.50	2.51	Nil	NM	NA	C	5	NM	NA
TDK Corp ADR	TTDKY	7,869	61.00	70.00/49.85	1.27	1.0	18	57.20	NR	81	1.7	24.3
Technitrol Inc	TNL	213	5.16	6.78/2.70	NM	1.9	NM	NA	B-	78	NA	66.1
Univl Display	PANL	912	23.87	26.98/10.30	1.56	Nil	NM	NA	C	67	NM	NA
Vishay Intertechnology	VSH	2,385	13.84	13.99/6.85	2.14	Nil	17	NA	C	36	NA	17.2

NA-Not Available NM-Not Meaningful NR-Not Rated. \*For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

**Dolby Laboratories Inc****S&P Analyst Research Notes and other Company News****November 5, 2010**

12:17 pm ET ... S&P REITERATES BUY OPINION ON SHARES OF DOLBY LABORATORIES 'A' (DLB 67.94\*\*\*\*): Sep-Q operating EPS of \$0.62, vs. \$0.39, is ahead of our \$0.48 estimate. Revenues rose 39%, notably above our forecast, on higher than anticipated licensing growth, contributing to a wider operating margin. Considering FY 11 (Sep.) guidance, which included sales growth that we think is conservative and gross margin above our model, we are increasing our FY 11 EPS estimate by \$0.59 to \$3.06, on anticipated licensing growth, improving mix, and operating leverage. Consequently, we are raising our 12-month target price by \$10 to \$78. /C.Montevirgen

**October 6, 2010**

On October 4, 2010, Dolby Laboratories Inc. entered into a separation agreement and release with Mark S. Anderson. Pursuant to the terms of the anderson agreement, Mr. Anderson will resign, effective January 14, 2011, as the executive vice president, general counsel and secretary of the company. Mr. Anderson has agreed to provide transitional services as an employee of the company from January 15, 2011 through June 30, 2011.

**September 28, 2010**

DOWN 3.79 to 58.13... Goldman downgrades to sell from neutral. Co. unavailable...

**September 28, 2010**

12:23 pm ET ... DOLBY LABORATORIES, INC. (DLB 58.8) DOWN 3.12, GOLDMAN DOWNGRADES DOLBY LABS (DLB) TO SELL FROM NEUTRAL... Analyst Ingrid Chung tells salesforce downgrades because: 1) Q4 is an inflection point for online video consumption, tablets; 2) an increasing proportion of PC unit growth is emerging mkts-driven, where attach rates are lower due to piracy and to lower-end PCs; 3) expects lower TV and PC unit sales. Cuts 2011 TV/PC ests to 12%/10% from 16%/18%. Historically, DLB has been a "beat and raise" stock. Although expects DLB to beat Q4 ests, could see a "beat and lower." Cuts FY 11/FY 12 (Sep) EPS ests to \$2.78/\$3.13. Cuts \$72 target to \$50./Trombino

**August 11, 2010**

02:55 pm ET ... S&P RAISES OPINION ON SHARES OF DOLBY LABORATORIES 'A' SHARES TO BUY FROM HOLD (DLB 58.13\*\*\*\*): Our upgrade is largely based on valuation, following a 13% drop in the share price over the last few weeks. We continue to expect long-term growth to be supported by TV shipments, Window 7 upgrade cycle, and increasing penetration in various consumer electronic devices. We believe management's conservative guidance and consensus projections are attainable, and think that the company's valuations are attractive based on expected growth over the next couple of years. We maintain our 12-month target price of \$68. /C.Montevirgen

**July 30, 2010**

09:29 am ET ... S&P KEEPS HOLD OPINION ON SHARES OF DOLBY LABORATORIES 'A' (DLB 65.84\*\*\*\*): Jun-Q operating EPS of \$0.55, vs. \$0.45, is a penny below our estimate, largely due to a non-cash impairment charge. Sales rose 34%, above our forecast, on strong growth in licensing and products revenues. The operating margin narrowed due to the impairment charge and higher expenses for compliance settlements and headcount. Following company guidance, which includes higher than expected sales, we increase our FY 10 (Sep.) and FY 11 EPS estimates by \$0.04 and \$0.05 to \$2.37 and \$2.47, respectively. Consequently, we up our 12-month target price by \$3 to \$68. /C.Montevirgen

**April 30, 2010**

UP 3.49 to 66.01... DLB posts \$0.80 vs. \$0.66 Q2 non-GAAP EPS on 19% higher revenue. Sees \$2.47-\$2.57 FY 10 non-GAAP EPS on revenue of \$865M-\$895M. S&P upgrades to hold from sell...

**April 30, 2010**

10:57 am ET ... DOLBY LABORATORIES, INC. (DLB 67.77) UP 5.25, DOLBY LABORATORIES (DLB) POSTS HIGHER Q2 RESULTS. CANACCORD UPS TO BUY FROM HOLD... Analyst Jeff Rath tells salesforce \$243.M Q2 rev./\$0.80 non-GAAP EPS topped his \$217.7M/\$0.61 ests; also, co. upped '10 guidance for a 3rd straight Q, to \$865M-\$895M rev., \$2.47-\$2.57 non-GAAP EPS. Says Q2 was first meaningful Q co. began recognizing Win7 rev., driven primarily by consumer uptake. Notes Win7 enterprise ramp not expected to begin accelerating until H2 '10. Meanwhile, digital broadcast, CE and PC unit growth acceleration remain key drivers for new

product cycle, as part of broader positive macro backdrop. Ups \$54 tgt to \$75./B.Egli

**April 30, 2010**

09:29 am ET ... S&P RAISES OPINION ON 'A' SHARES OF DOLBY LABORATORIES TO HOLD FROM SELL (DLB 62.52\*\*\*\*): Mar-Q operating EPS of \$0.74, vs. \$0.58, beats our \$0.65 estimate. Sales, above our forecast, rose 19% on strong licensing revenues from the PC, broadcast, and consumer electronics markets. Gross margin rose on mix and better product margin, leading to a wider operating margin. Following company guidance, which includes higher than expected sales, we increase our FY 10 (Sep) EPS estimate by \$0.22 to \$2.33. We also raise our 12-month target price by \$18 to \$65, reflecting our view of strong growth of PCs, Blu-Ray, and DTVs for the next several quarters. /C.Montevirgen

**February 4, 2010**

DLB posts \$0.64 vs. \$0.61 Q1 non-GAAP EPS on 23% revenue rise. Street was looking for \$0.49. Sees FY 10 revenue of \$780M-\$810M, total gross margin of about 88% on a non-GAAP basis. Expects non-GAAP EPS of \$2.21-\$2.32. Street was looking for EPS of \$1.99.

**February 4, 2010**

10:22 am ET ... S&P CUTS OPINION ON DOLBY LABORATORIES SHARES TO SELL FROM HOLD, ON VALUATION (DLB 52.47\*\*): Dec-Q operating EPS of \$0.60 vs. \$0.55 beats our \$0.53 estimate. Sales, above our forecast, rose 23%, reflecting strong licensing revenues from the broadcast and mobile businesses. The gross margin fell on less favorable mix. Consequently, the operating margin narrowed. Following company guidance, which includes higher than expected sales, we raise our FY 10 (Sep) EPS estimate by \$0.21 to \$2.11. But given our view of slowing growth largely from more moderate margins, we see multiple compression. We keep our 12-month target price of \$47 based on our P/E and DCF analysis. /C.Montevirgen

**November 4, 2009**

DOWN 2.54 to 41.64... DLB posts \$0.38 vs. \$0.42 Q4 EPS on essentially flat revenue. For FY 10, sees revenue of \$720M-\$750M, total gross margin of about 88% (GAAP), 89% (non-GAAP). Sees FY 10 GAAP EPS of \$1.85-\$1.96, non-GAAP EPS of \$2.07-\$2.20. S&P says Q4 results below its estimates, as was FY 10 sales guidance; cuts ests, tgt; keeps hold. Maxim Group downgrades to hold from buy.... 5.

**November 4, 2009**

10:55 am ET ... DOLBY LABORATORIES, INC. (DLB 41.66) DOWN 2.51, DOLBY LABS (DLB) POSTS LOWER Q4 EARNINGS. MAXIM GROUP CUTS TO HOLD FROM BUY... Analyst Mark Harding says DLB posted solid Q4 results (\$0.38 EPS vs. his \$0.34 est.), especially considering weak consumer spending environment. Notes co. also provided a robust, if not slightly conservative, FY 10 (Sep) outlook. Nevertheless, based on mgmt's comments about plans to increase operating expenses, finds it difficult to drive FY 10 EPS materially above his \$2.00 estimate. Also notes DLB shares (pre-opening) were trading at 21.7x his CY 10 EPS est., already a slight premium to its peer group's roughly 19x. As such, downgrades./B.Egli

# Dolby Laboratories Inc



Of the total 16 companies following DLB, 16 analysts currently publish recommendations.

	No. of Ratings	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	6	37	6	5
Buy/Hold	4	25	4	4
Hold	5	31	5	7
Weak Hold	1	6	1	0
Sell	0	0	0	0
No Opinion	0	0	0	0
<b>Total</b>	<b>16</b>	<b>100</b>	<b>16</b>	<b>16</b>



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2011	2.76	3.06	2.54	16	25.1
2010	2.51	2.51	2.51	1	27.6
<b>2011 vs. 2010</b>	<b>▲ 10%</b>	<b>▲ 22%</b>	<b>▲ 1%</b>	<b>▲ 1500%</b>	<b>▼ -9%</b>
Q4'11	0.63	0.75	0.59	11	NM
Q4'10	0.49	0.54	0.45	16	NM
<b>Q4'11 vs. Q4'10</b>	<b>▲ 29%</b>	<b>▲ 39%</b>	<b>▲ 31%</b>	<b>▼ -31%</b>	<b>NM</b>

A company's earnings outlook plays a major part in any investment decision. Standard & Poor's organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

### Wall Street Consensus Opinion

**BUY/HOLD**

### Companies Offering Coverage

- Avian Securities LLC
- Avondale Partners LLC
- Barrington Research
- Canaccord Genuity
- Collins Stewart LLC
- Deutsche Bank North America
- Dougherty & Company LLC
- Goldman Sachs & Co.
- Hudson Square Research
- Jpmorgan
- Maxim Group
- Miller Tabak & Co., LLC
- Pacific Crest Securities
- Piper Jaffray
- Wedbush Securities Inc.
- William Blair & Company, L.L.C.

### Wall Street Consensus vs. Performance

For fiscal year 2010, analysts estimate that DLB will earn \$2.51. For the 3rd quarter of fiscal year 2010, DLB announced earnings per share of \$0.55, representing 22% of the total annual estimate. For fiscal year 2011, analysts estimate that DLB's earnings per share will grow by 10% to \$2.76.

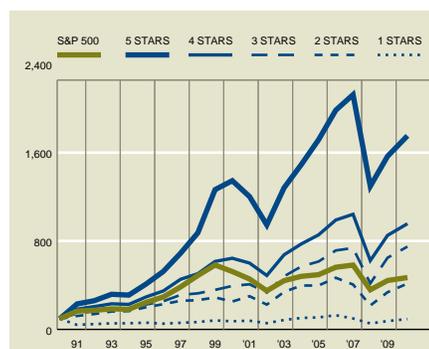
# Dolby Laboratories Inc

## Glossary

### S&P STARS

Since January 1, 1987, Standard and Poor's Equity Research Services has ranked a universe of common stocks based on a given stock's potential for future performance. Under proprietary STARS (Stock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350 Index or S&P 500 Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective.

### STARS Average Annual Performance



### S&P 12-Month Target Price

The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

### Investment Style Classification

Characterizes the stock as Growth or Value, and indicates its capitalization level. Growth is evaluated along three dimensions (earnings, sales and internal growth), while Value is evaluated along four dimensions (book-to-price, cash flow-to-price, dividend yield and sale-to-price). Growth stocks score higher than the market average on growth dimensions and lower on value dimensions. The reverse is true for Value stocks. Certain stocks are classified as Blend, indicating a mixture of growth and value characteristics and cannot be classified as purely growth or value.

### Qualitative Risk Assessment

The S&P equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the S&P U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices.

### Quantitative Evaluations

In contrast to our qualitative STARS recommendations, which are assigned by S&P analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

### S&P Quality Ranking

Growth and stability of earnings and dividends are deemed key elements in establishing S&P's Quality Rankings for common stocks, which are designed to capsize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+ Highest	B Below Average
A High	B- Lower
A- Above Average	C Lowest
B+ Average	D In Reorganization
NR Not Ranked	

### S&P Fair Value Rank

Using S&P's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

### S&P Fair Value Calculation

The price at which a stock should trade at, according to S&P's proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Quality Ranking). Relying heavily on a company's actual return on equity, the S&P Fair Value model places a value on a security based on placing a formula-derived price-to-book multiple on a company's consensus earnings per share estimate.

### Insider Activity

Gives an insight as to insider sentiment by showing whether directors, officers and key employees who have proprietary information not available to the general public, are buying or selling the company's stock during the most recent six months.

### Funds From Operations FFO

FFO is Funds from Operations and equal to a REIT's net income, excluding gains or losses from sales of property, plus real estate depreciation.

### Investability Quotient (IQ)

The IQ is a measure of investment desirability. It serves as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P proprietary measures.

### S&P's IQ Rationale: Dolby Laboratories' A'

	Raw Score	Max Value
Proprietary S&P Measures	0	115
Technical Indicators	25	40
Liquidity/Volatility Measures	17	20
Quantitative Measures	66	75
<b>IQ Total</b>	<b>108</b>	<b>250</b>

### Volatility

Rates the volatility of the stock's price over the past year.

### Technical Evaluation

In researching the past market history of prices and trading volume for each company, S&P's computer models apply special technical methods and formulas to identify and project price trends for the stock.

### Relative Strength Rank

Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P's universe on a rolling 13-week basis.

### Global Industry Classification Standard (GICS)

An industry classification standard, developed by Standard & Poor's in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 68 Industries, and 154 Sub-Industries.

### S&P Issuer Credit Rating

A Standard & Poor's Issuer Credit Rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. In addition, it does not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation. The Issuer Credit Rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor, as it does not comment on market price or suitability for a particular investor. Issuer Credit Ratings are based on current information furnished by obligors or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any Issuer Credit Rating and may, on occasion, rely on unaudited financial information. Issuer Credit Ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

### Exchange Type

ASE - American Stock Exchange; NNM - Nasdaq National Market; NSC - Nasdaq SmallCap; NYSE - New York Stock Exchange; BB - OTC Bulletin Board; OT - Over-the-Counter; TO - Toronto Stock Exchange.

### S&P Equity Research Services

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC-London; Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong, Singapore and Tokyo, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

### Abbreviations Used in S&P Equity Research Reports

**CAGR**- Compound Annual Growth Rate; **CAPEX**- Capital Expenditures; **CY**- Calendar Year; **DCF**- Discounted Cash Flow; **EBIT**- Earnings Before Interest and Taxes; **EBITDA**- Earnings Before Interest, Taxes, Depreciation and Amortization; **EPS**- Earnings Per Share; **EV**- Enterprise Value; **FCF**- Free Cash Flow; **FFO**- Funds From Operations; **FY**- Fiscal Year; **P/E**- Price/Earnings; **PEG Ratio**- P/E-to-Growth Ratio; **PV**- Present Value; **R&D**- Research & Development; **ROE**- Return on Equity; **ROI**- Return on Investment; **ROIC**- Return on Invested Capital; **ROA**- Return on Assets; **SG&A**- Selling, General & Administrative Expenses; **WACC**- Weighted Average Cost of Capital

**Dividends on American Depository Receipts (ADRs) and American Depository Shares (ADSs) are net of taxes (paid in the country of origin).**

# Dolby Laboratories Inc

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**In Europe:** As of September 30, 2010, research analysts at Standard & Poor's Equity Research Services Europe have recommended 36.6% of issuers with buy recommendations, 43.2% with hold recommendations and 20.2% with sell recommendations.

**In Asia:** As of September 30, 2010, research analysts at Standard & Poor's Equity Research Services Asia have recommended 46.8% of issuers with buy recommendations, 44.4% with hold recommendations and 8.8% with sell recommendations.

**Globally:** As of September 30, 2010, research analysts at Standard & Poor's Equity Research Services globally have recommended 39.5% of issuers with buy recommendations, 50.2% with hold recommendations and 10.3% with sell recommendations.

★★★★★ **5-STARS (Strong Buy):** Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ **4-STARS (Buy):** Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ **3-STARS (Hold):** Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ **2-STARS (Sell):** Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★☆☆☆☆ **1-STARS (Strong Sell):** Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

**Relevant benchmarks:** In North America the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are generally the S&P Europe 350 Index and the S&P Asia 50 Index.

**For All Regions:** All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

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