PARTICIPANTS

Motorola Solutions Executive Participants

- **Tim Yocum** – Vice President, Investor Relations
- **Greg Brown** – Chairman & Chief Executive Officer
- **Jason Winkler** – Executive Vice President & Chief Financial Officer
- **Jack Molloy** – Executive Vice President and Chief Operating Officer
- **Mahesh Saptharishi** – Executive Vice President and Chief Technology Officer

Other Participants

- **George C. Notter** – Analyst, Jefferies LLC
- **Erik Lapinski** – Analyst, Morgan Stanley & Co. LLC
- **Adam Tindle** – Analyst, Raymond James & Associates, Inc.
- **Keith Housum** – Analyst, Northcoast Research Partners LLC
- **Fahad Najam** – Analyst, Loop Capital Markets LLC
- **Sami Badri** – Analyst, Credit Suisse Securities (USA) LLC
- **Paul Silverstein** – Analyst, Cowen and Company
- **Louie DiPalma** – Analyst, William Blair & Co. LLC
- **Paul J. Chung** – Analyst, JPMorgan Securities LLC
- **Jim Suva** – Analyst, Citigroup Global Markets, Inc.

MANAGEMENT DISCUSSION SECTION

**Operator:** Good afternoon and thank you for holding. Welcome to the Motorola Solutions Second Quarter 2022 Earnings Conference Call. Today’s call is being recorded. If you have any objections, please disconnect at this time.

The presentation material and additional financial tables are posted on the Motorola Solutions Investor Relations website. In addition, a webcast replay of this call will be available on our website within two hours after the conclusion of this call. The website address is www.motorolasolutions.com/investor.

All participants have been placed in listening only mode. You will have an opportunity to ask questions after today’s presentation. [Operator Instructions]

I would now like to introduce Mr. Tim Yocum, Vice President of Investor Relations. Mr. Yocum, you may begin your conference.

**Tim Yocum, Vice President, Investor Relations**

Good afternoon. Welcome to our 2022 Second Quarter Earnings Call. With me today are Greg Brown, Chairman and CEO; Jason Winkler, Executive Vice President and CFO; Jack Molloy, Executive Vice President and COO; and Mahesh Saptharishi, Executive Vice President and CTO. Greg and Jason will review our results along with commentary, and Jack and Mahesh will join for Q&A.

We posted an earnings presentation and news release at motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliations for your reference. And during the call, we’ll reference non-GAAP financial results including those in our outlook, unless otherwise noted.

A number of forward-looking statements will be made during this presentation and during the Q&A portion of the call. These statements are based on current expectations and assumptions that are subject to a variety of risks and uncertainties. Actual results could differ materially from these forward-looking statements.
Information about factors that could cause such differences can be found in today’s earnings news release, in the comments made during this conference call, in the Risk Factors section of our 2021 Annual Report on Form 10-K or any quarterly report on Form 10-Q and in our other reports and filings with the SEC. We do not undertake any duty to update any forward-looking statements.

Now, I’ll turn the call over to Greg.

**Greg Brown, Chairman & Chief Executive Officer**

Thank you, Tim. Good afternoon and thanks for joining us today. I’m going start off by sharing a few thoughts about the overall business, before Jason takes us through the results and our outlook.

First, Q2 was exceptional across the board, with revenue and earnings per share both coming in above our expectations. In Software and Services, revenue was up 11%, highlighted by strong software growth. And in Products and SI, continued record demand across both land mobile radio and video led to 7% revenue growth and 17% orders growth, driving increased backlog. Additionally, we ended the quarter with record Q2 backlog of $13.4 billion, up 19% versus last year, inclusive of approximately $500 million of unfavorable currency impact.

Second, our portfolio and go-to-market investments are continuing to drive meaningful growth across all three technologies. During the quarter, revenue was up 21% in both video and command center software and we saw record Q2 orders in both of those technologies as well. And in LMR, demand is growing for our high-tier P25 APX NEXT device, with customers embracing its unique ability to offer the must-have reliability of LMR, while seamlessly leveraging broadband features such as remote programming, network extension and location services.

And finally, based on our Q2 record-ending backlog and continued strong operational execution, we’re raising our full-year guidance for both sales and earnings per share.

At this point, I’ll turn it over to Jason who will take you through our results and outlook and then return for some final thoughts.

**Jason Winkler, Executive Vice President & Chief Financial Officer**

Thank you, Greg. Revenue for the quarter was up 9% and above our guidance, with record second quarter revenue in both segments. We saw a strong growth across all three technologies, led by over 20% growth in both video and command center software. In LMR, which grew 5%, we were able to secure more critical parts, particularly later in the quarter, which enabled us to ship more product. Acquisitions during the quarter added $34 million and FX headwinds were $44 million.

GAAP operating earnings were $358 million and operating margins were 16.7%. Non-GAAP operating earnings were $497 million, up $15 million or 3% from the year-ago quarter, and non-GAAP operating margins were 23.2%, down from 24.4%. The decline in operating margins was due to the higher semiconductor costs we outlined on our prior calls related to acquiring critical supply in the secondary market, together with higher freight costs and higher operating expenses related to acquisitions, partially offset by higher sales.

GAAP earnings per share was $1.33 compared to $1.69 per share in the year-ago quarter. The decrease was primarily due to a discrete tax benefit recognized in the prior year and higher direct material cost in the current year. Non-GAAP EPS was $2.07, flat versus last year. The higher sales and operating earnings generated in the current quarter were offset by the higher direct material cost I mentioned previously, along with higher operating expenses related to acquisitions. OpEx in Q2 was $502 million, up $25 million, primarily due to acquisitions.
Turning to cash flow, Q2 operating cash flow was $10 million compared with $388 million in the prior year and free cash flow was a usage of $49 million compared to $326 million generated in the prior year. In Q2 and the first half of the year, our cash flow has been primarily impacted by two items: first, our planned investments in inventory to navigate the dynamic supply chain environment and position us to fulfill the record demand we’re seeing in video and LMR; second, higher employee incentive payments that were tied to 2021’s performance and paid out this year.

We expect our cash flow conversion to accelerate in the second half, driven by higher profitability and a reduction in our current inventory levels, in addition to the normal seasonality of our cash conversion.

Capital allocation for Q2 included $162 million in share repurchases, $132 million in cash dividends and $59 million of CapEx. Additionally, during the quarter, we closed the video acquisitions of Calipsa for $40 million and Videotec for $22 million. We also issued $600 million of long-term debt, used a portion of the proceeds to retire $275 million, resulting in approximately $320 million of incremental debt net of fees on our balance sheet.

In the Products and SI segment, we continue to see strong demand across both LMR and video. Sales during the quarter were up 7% versus last year and orders were up 17%, including record Q2 orders for both LMR and video. Revenue from acquisitions for this segment in the quarter was $14 million and currency headwinds were $19 million.

Operating earnings for Products and SI were $188 million or 14.6%, down from 16.2% of sales in the prior year, driven primarily by the higher material costs and higher freight costs previously mentioned, partially offset by higher sales. We continue to expect full-year operating margins for this segment to be slightly higher than 2021 as the impact from pricing actions accelerates in the second half.

Some notable Q2 wins and achievements in the segment include several large P25 orders in the US, including $32 million for a state of California agency; $27 million for Dutches County, New York; and $22 million order for the Georgia Department of Corrections. We also had a $26 million order for a P25 solution with LTE integration for an international customer, a $15 million TETRA order for a customer in Argentina. And, finally, we received two large fixed video orders: a $9 million order for a customer in the healthcare vertical and an $8 million order for a large retail customer.

In the Software and Services segment, revenue was up 11%, with revenue from acquisitions of $20 million and currency headwinds of $25 million during the quarter. Total software revenue was up 25%, driven by strong demand in video and a large deployment in command center software, while in LMR services, revenue was up 5%. Operating earnings in the segment were $309 million or 36.1% of sales, down 110 basis points from last year, driven by a change in year-over-year mix and higher M&A expenses, partially offset by higher sales.

We continue to expect segment operating margins for Software and Services for the full year to be comparable to last year, inclusive of the additional OpEx spend from our recent acquisitions. Some notable Q2 highlights in this segment include two large multiyear LMR service renewals, $43 million with the state of South Australia and $35 million with the state of Mississippi. We also had three large command center software orders in the US: $35 million from a large metropolitan city, $14 million from the Los Angeles Police Department and $11 million from Frederick County, Maryland. We were also awarded an $8 million body-worn camera order from the Detroit Police Department.

Moving next to our regional results, North America Q2 revenue was $1.5 billion, up 13% on growth in all three technologies. International Q2 revenue was $656 million, flat versus last year, with growth in all three technologies offset by unfavorable FX.

Moving to our backlog, ending backlog was a Q2 record of $13.4 billion, up 19% or $2.2 billion compared to last year, inclusive of approximately $500 million of unfavorable FX. The growth was driven by the Airwave extension recorded in the fourth quarter of 2021 and increased demand across all three technologies. Sequentially backlog was down $21 million driven primarily by a $397 million movement in unfavorable FX and the quarterly revenue burn related to the Airwave and ESN contracts, partially offset by record Q2 orders in LMR products, video, and command center software.

In the Products and SI segment, continued robust order demand in both LMR and video is driving record backlog, which was up $986 million or 30% compared to last year. Sequentially backlog was up $206 million, which was our eighth
consecutive quarter of sequential backlog growth in the Products segment. Additionally, our product backlog increasingly reflects new pricing, which we expect to contribute to the profitability ramp for the second half.

In Software and Services, backlog was $1.2 billion compared to last year, driven also by the Airwave extension and a $380 million increase in multiyear services and software backlog in North America. Sequentially backlog was down $227 million or 2%, driven primarily by unfavorable FX and revenue recognition for the Airwave and ESN contracts, partially offset by record second quarter orders in command center software.

Turning next to our outlook, we expect Q3 sales to be up approximately 10% with non-GAAP earnings per share between $2.85 and $2.90 per share. This assumes approximately $60 million of FX headwinds, a weighted average share count of approximately 172 million shares and an effective tax rate of approximately 20%.

And for the full year, we are increasing both our revenue and EPS guidance. We now expect revenue growth of approximately 8%, up from our prior guidance of 7%, and we expect non-GAAP earnings per share to be between $10.03 and $10.13 per share, up from our prior guide of $9.80 to $9.95 per share. This updated guidance includes FX headwinds of approximately $170 million, a diluted share count of approximately 172 million shares and an effective tax rate of approximately 21% to 21.5%.

Before I turn the call back to Greg, I would like to highlight some of the priorities we are driving for the remainder of the year. First, we remain focused on supply chain execution, both tactically and strategically, including rapid redesigns by our engineering teams to substitute to available semiconductors, alternatives, strategic inventory investments that we are making, securing high-demand discrete semiconductors from brokers when necessary and entering into long-term supply agreements where possible.

Second, our pricing actions across the portfolio have been effective to date. And we'll continue to look at pricing opportunities and maintain cost discipline as we manage through a higher cost environment. And finally, we are balancing the benefits of higher inventory with cash conversion, and we'll continue to optimize our working capital and balance sheet to drive increased cash flow in the second half.

I'll now turn the call back over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Jason, thanks. I'd like to end with a few thoughts as we conclude this call.

First, I'm really pleased with what we accomplished during the quarter. We achieved Q2 record sales including 21% growth in both video and command center software. We strengthened our video portfolio with the acquisitions of Calipsa, which brings us advanced cloud native video analytics, and Videotec, which broadens our ruggedized camera portfolio to serve the critical infrastructure market.

We had record Q2 product orders at higher prices, including our single largest quarter ever for PCR orders, and we ended the quarter with record Q2 ending backlog. The pricing actions we've taken to offset higher input costs position us well for margin expansion for the back half of this year.

Second, our investments in AI and cloud continue to drive robust software growth for the company. Customers like Greenville County schools in South Carolina depend on our video security and access control solution to help keep students safe. And the city of Houston is deploying more than 3,000 body-worn cameras with cloud-based evidence management to help provide greater accountability and transparency. And with the acquisitions such as Ava Security and Calipsa, we're well positioned to accelerate the deployment of cloud video software solutions with customers around the world.

And finally, as we enter the second half of this year, I am very encouraged by our momentum. The multiyear funding environment for our customers continues to be as strong as it's ever been. Our solutions for both public safety and
enterprise security have never been more important. Our strong execution has allowed us to effectively navigate this
dynamic environment. And finally, the resilience of our business, our durable cash flows and our strong balance sheet
provide us with the flexibility to be opportunistic in our future deployment of capital.

And now I’ll turn the call back over to Tim and welcome your questions.

Tim Yocum, Vice President, Investor Relations

Thank you, Greg. Before we begin taking questions, I’d like to remind callers to limit themselves to one question and one
follow-up to accommodate as many participants as possible.

Operator, would you please remind our callers on the line how to ask a question?

QUESTION AND ANSWER SECTION

Operator: Certainly. The floor is now open for questions. [Operator Instructions] Thank you. The first question comes
from George Notter of Jefferies. Please proceed.

guess, I wanted to ask about a comment you made about the funding environment. What’s your perspective now on state
and local government budgets? Obviously, many of those budgets began on July 1. Many of those budgets were reset
looking forward. I’d just be curious on what your perspective is on the funding environment and how you’re seeing those
budgets.

And then also related to that is the question of ARPA. I’m wondering if you’re seeing ARPA money right now. I think last
quarter you told us you were seeing a 3x improvement in the sales funnel. What does that look like right now? Any more
detail you can provide would be great. Thanks a lot.

<A – Jack Molloy – Motorola Solutions, Inc.>: Sure, George. So, when you think about state and local budgets, I mean,
I think first of all, what you hear us say time and time again, what we provide is a need to have, not a nice to have. But as
it relates to the inflationary environment we’re dealing in, self-funding alone for states, they’re in a very beneficial period of
time because if you look at it, they derive their budgets from personal income tax, from sales tax and from corporate
income tax, all of which stand to benefit to drive more money into their coffers and thereby improve their general fund
situation. So it’s that piece of it.

We also look at the second rail of this and that’s the monies that are being made available through ARPA. And I would
just simply say that we’ve talked about it, it’s generally beneficial and we think it’s a general tailwind, but the most
important thing is it’s not a 2022 phenomenon. It’s one that’s multiyear. And in fact, these won’t expire until 2024 and in all
likelihood we know is those will likely be extended.

So you’ve heard Greg said it and I think he said in the script, but we’re in a really unique situation because we are in a
good funding environment. But I think it also is timely because we’re going through product refresh investments. We’re
seeing that here in the United States with the APX NEXT platform. And later this year, we’re going to be announcing the
mid-tier APX NEXT devices, which we’re really excited about.

<Q – George Notter – Jefferies LLC>: Great. Thank you.

Operator: Thank you. The next question comes from Erik Lapinski of Morgan Stanley. Please proceed.

<Q – Erik Lapinski – Morgan Stanley & Co. LLC>: Hi, team. Thanks for taking my questions, and congrats on the
quarter. Maybe just following up on the comment you just made on kind of LMR and the APX NEXT, can you give us any
update on just with some of the P25 deals you’re seeing? What the uptake is of APX NEXT and some of those upgrades?
Is it skewing towards being most? Or I guess just legs on that cycle and how we should think about that?
Yeah. So, as I’ve said before, we’re in the early innings of the P25 upgrade cycle. I used the baseball metaphor in our – I believe it was our February call and said second inning. I think we’re largely still in that period of time. But just a couple updates: $190 million of orders.

Interestingly, we’re seeing a lot of interest from non-Motorola customers. And it’s not only the better basics, the ergonomics and the audio performance of the APX NEXT, but it’s really the Smart Connect. And so, what our customers saw during COVID, particularly people like health departments, was the capability to expand their coverage outside of the P25 networks.

It’s also things like SmartMapping. We think about accountability. We think about officer and firefighter safety. Location is paramount to that. And then, we’re also looking at messaging. As we have more and more young officers in the field, they need ways, different modalities like text and video and the capability to share that type of data and they’re using the LTE collaborative aspect of the APX NEXT.

So, again, really excited. But I would note that the $190 million has all been targeted at the highest tier, which is the original APX NEXT, with subsequent releases in the second half of this year with the mid-tier portfolio, which we’re starting to engage in customer discussions on.

And, Erik, the $190 million of orders is since the APX NEXT product was introduced. But I’d also add that just in general, Q2 was a record for P25 public safety devices, which is more broad than APX NEXT as well. So, APX NEXT continues to fire away. And just to – I think the team did a superb job in product introduction. Molloy’s team has sold it. But also more broadly, beyond APX NEXT, Q2 was a record for P25 public safety orders, which I’m quite happy about as well.

Awesome. Thank you. If I could sneak in another one just on command center software, you had a few larger deals there, too, this quarter. Just in terms of progress and maybe uptake of some of the cloud-based offerings you have there, were any of those upgrades more on cloud-based? And then, did any maybe expand beyond the PSAP presence you have into other capabilities?

Yeah. So, maybe just a quick overview. Jason mentioned two specific deals, LAPD and Frederick County. If you look at both of those, LAPD was a on-premises records deal, but really with a hybrid element to it and that was the CommandCentral Responder piece, which is really driven by mobile access to records information. We’re seeing more and more of that and that hybrid element was key to that particular deal.

With Frederick, we added CommandCentral Aware in addition to PremierOne CAD. And Aware is a cloud-hosted, a SaaS solution for us. And Aware gives the county a single pane of glass to understand where unit locations are, both from radios and also from incident information. It is, as Jack said previously, location information being paramount – accurate location information being paramount in that case.

We continue to invest in our hybrid strategy. We’re executing on our hybrid strategy. And a key point there is that our SaaS growth rate is actually faster than the overall command center software growth rate, which itself was quite strong in this quarter.

And the last thing that I’ll say is we’re continuing to innovate and invest in innovations. And we had two significant firsts this quarter: one is we introduced the world’s first public safety CarPlay application, one that we developed with Western Australia Police and with Apple; and the second is along with Prince George’s County in Maryland, we won the Thomas O’Reilly Innovation Award for being the first in the country to introduce location-based routing. NENA i3 compliant location-based routing. So, together I think we are executing well on our hybrid strategy.

Awesome. Thank you.

Thanks, Erik.
Operator: Thank you. The next question comes from Adam Tindle of Raymond James. Please proceed.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Thanks. Good afternoon. I just wanted to ask, I’m bouncing between calls, so hopefully hasn’t been asked. But, Greg, could you maybe give us any updates on ESN and Airwave and in particular, if you could review any financial implications? I think there’s significant differences in the different outcomes and probabilities based on what happens and just might make sense to level set with investors. Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. I think things remain engaged and in progress, Adam, really. We are in close contact with the customer, in this case the UK Home Office. We’ve maintained very close contact with the CMA and have regularly provided them with information over the last several weeks and months, as we educate them on our role in both Airwave and ESN.

As you’ve seen, the timeline has been updated by the CMA panel and they now expect the provisional decision in September with a final decision in December. And there’s really not much more I can add at this point, because I just don’t know. I think it’ll play out in the back half of the year, but I think the engagement has been quite strong. And in the meantime, we continue to invest both in Airwave actively in providing that mission-critical service as well as ESN.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Got it. And maybe just as a follow-up, it looked like at a glance backlog trends remain very, very healthy. What does this say about elasticity in core products? I know you’ve been implementing some price increases understandably as your costs have increased. If you could maybe recap some of the price increases and talk about the elasticity that you’re seeing given backlog trends, that would be helpful. Thank you.

<A – Jason Winkler – Motorola Solutions, Inc.>: Sure. So, when I think about the first half growth for the company, which is about 8%, the price contributions on the actions that Jack’s sales team have implemented was less than half of the contributor to growth. And with the actions that Jack can describe, we will continue to do, we think it’ll be even more of an opportunity in the second half as most of the orders that come to us in the second half are from a more recent backlog as opposed to aged pricing.

<A – Jack Molloy – Motorola Solutions, Inc.>: No, I think you’re right. And the other piece of that is just it’s one thing to raise the price. And I think one of the things that our team has done a really nice job at is actually discount management. And so, an example, we’ve raised prices in all three sleeves, all three technology groups. But also, we’ve ushered in price increases in our services business as well. And we’re seeing that retention increases there as well. So, we’re really proud and pleased with the services team on that aspect as well.

<A – Tim Yocum – Motorola Solutions, Inc.>: Daniel, you can go to the next question, please.

Operator: Thank you. The next question comes from Keith Housum of Northcoast Research. Please proceed.

<Q – Keith Housum – Northcoast Research Partners LLC>: Good morning, guys, and congratulations on a great quarter. I guess, I just wanted to follow up on the supply chain. Much has been talked about the semiconductors and the $120 million you’ll spend through the end of the year. But can you talk about are there any other issues that have kind of popped up? Or are you guys looking to enter into 2023 with like a clean slate as you sit now?

<A – Jason Winkler – Motorola Solutions, Inc.>: Keith, the $120 million you mentioned, which was our year-over-year expected increase largely for finding the semiconductor supply, we remain on target for that. It was a little higher than $100 million in the first half and might be a little higher than $20 million in the second half. But as you know, with our increased guide, that’s supporting a higher volume. So we’re pleased with the allocation of that budget, if you will, to find semiconductors, which sometimes come at a premium.

I should note that that’s not our primary method. Our primary method is the rapid redesigns that our engineering teams are doing. And they’re finding available alternatives if the part is constrained and they’re doing an amazing job there. We’ll continue to look at that, inventory investments and long-term supply agreements. So, generally, it remains semiconductors our largest gated item, particularly in LMR.
<Q – Keith Housum – Northcoast Research Partners LLC>: Great. Appreciate it. Just as a follow-up, in terms of the backlog, backlog’s been record numbers for a while now. This is impressive growth. But are we looking at an apples-to-apples comparison? Or is the backlog getting older in terms of the contracts that you’re entering into are getting longer? Is there an apples-to-apples comparison we need to go through?

<A – Jason Winkler – Motorola Solutions, Inc.>: The duration of the backlog, if that’s what you’re getting at, Keith, is largely consistent with where we’ve been over time. If anything, the products backlog, which we continue to print sequential increases in, tends to be, as you know, a more quicker turning than the associated Software and Services. So we’re pleased with the backlog growth in both segments, and it continues in products backlog increases, continues even with some price increases that customers are accepting and value our products.


<A – Greg Brown – Motorola Solutions, Inc.>: Thanks, Keith.

Operator: Thank you. The next question comes from Fahad Najam of Loop Capital. Please proceed.

<Q – Fahad Najam – Loop Capital Markets LLC>: Thank you for taking my question. Greg, in the eight years that I’ve been listening to you on earnings call, I think I feel like you’ve sounded the most confident and positive that I’ve ever heard you. So am I correct in my understanding? And if it is, can you just walk me through what is driving your confidence and your positive outlook in terms of your top drivers?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, Fahad. Thanks for the question. I’m smiling because – and we were talking about it, we have been talking about it. The fact of the matter is this is as good an environment as I’ve seen. And I don’t mean that just externally, as Jack and Jason have talked about, multiyear funding here, particularly in North America for state and local customers and at the federal level. But it’s the position of the firm overall. Demand is extremely high for public safety and enterprise security. We also see at the same time concerns, which I think are legitimate around deploying Chinese equipment in critical infrastructure or highly confidential or secure areas.

Backlog is at record levels, product backlog as we talked about in Q2. Orders were 17% against the revenue print of 7%. So we’re building it. Jason just mentioned that the backlog comparison is largely apples-to-apples. We’re performing and raising the full year from approximately 7% to 8% against continued FX headwinds. We’re managing a difficult semiconductor supply chain environment. And while it’s very modestly better, I think the tip of the hat goes to the supply chain, financial and operational teams here at Motorola that are learning to do product redesign and manage inventory in a way that’s constructive and productive to meet demand.

I love the deployment of capital that we’ve done. Organically, where Jack and Mahesh continue to emphasize innovation, and move things to the cloud and do product refresh on devices, we’ve made I think pretty thoughtful and accretive and strategically important acquisitions. And our addressable market continues to grow as well. So, when I look at execution, when I look at demand, when I look at R&D, when I look at innovation, when I look at multiyear funding, when I look at the overall factors that I think contribute, enable and facilitate demand for our product, it’s quite strong.

And as a final note, the ability for us to demonstrate multiple price increases and still grow backlog and still drive robust revenue growth speaks to the criticality of what we do and the ability for our customers to absorb that and our ability to pass on higher input costs. So it is a very good environment. It’s why we beat both top and bottom in Q2, why we’re raising the full year and why I feel very good about the momentum in the back half.

<Q – Fahad Najam – Loop Capital Markets LLC>: Thanks. That’s really insightful. So how does that translate into your model? Because last time when you gave us your long-term model, it was 9%, 10%. Clearly, you’re exceeding that now. So what are you thinking about your new model?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, I – no, I – we were joking about that. I gave 9% and 10% in 2021 obviously because I believed in it. We had COVID. COVID delayed things for a year, but here we are. We’re not going to talk about any long-term model, Fahad, at this point but we still believe that the Product segment will grow mid-single
digits, although our increase for the year from 7% to 8% is largely LMR and video. So, actually that increase from a segment standpoint is primarily in the Product. So it’s maybe mid-single digits nudging slightly higher.

We still believe Software and Services will be approximately 10%. We agree with the – we still are maintaining the guidance on the three technologies; LMR, mid-single digits; video security, approximately 20%; command center software, low-double digits. As we continue to contribute to backlog and we like the momentum in the back half, I think it positions us well as we head into 2023. As we print more of the year and get more execution behind us, we'll update you accordingly on future thoughts for 2023 and beyond.

**Q – Fahad Najam – Loop Capital Markets LLC:** Thanks, Greg. I'll pass it on.

**A – Greg Brown – Motorola Solutions, Inc.:** Thank you, Fahad.

**Operator:** Thank you. The next question comes from Sami Badri from Credit Suisse. Please proceed.

**Q – Sami Badri – Credit Suisse Securities (USA) LLC:** Thank you. First, congrats on the quarter. I'm not sure many people were actually expecting an increase on the top line. But for some of the questions that I had for you guys is I wanted to know, within Products and Systems Integration, if we were just to look at radios and radio handsets, have you been prioritizing LMR, public safety over PCR? Have you managed to ship and prioritize essentially at the same level, right? Trying to get an idea on just mix. And then maybe just a clarification, did you say that PCR is growing mid-single digits to slightly better in 2022? Or if you didn’t actually clarify that, maybe you could just clarify it now.

**A – Greg Brown – Motorola Solutions, Inc.:** Yeah. Sami, I'll take the second one first. The Product segment color is to continue to grow Product and SI at mid-single digit, maybe a little bit higher than that because the flow-through is in that segment. For PCR, last quarter we said it would grow mid-single digit. We now expect it to grow at 10% or even slightly higher for the full year, given the strong performance in Q2 that will flow through in the back half.

**A – Jason Winkler – Motorola Solutions, Inc.:** And, Sami, to answer your question on prioritization and balance, we continue to be focused on public safety. Q1, we prioritized public safety. In Q2, with some of the breakthroughs the team was able to make around supply, we were able to fulfill more demand for PCR in Q2 and grew it double digits. So, in Q2, given the supply environment, we were able to fulfill both public safety and PCR.

**Q – Sami Badri – Credit Suisse Securities (USA) LLC:** Got it. Thank you for that. And then I was hoping we could hear from Jack a little bit on body-worn camera and dash cam, regarding license plate reading and some of the other kind of features that you guys have released. Can you give us an update on market share, momentum, what’s really going on from that side?

**A – Jack Molloy – Motorola Solutions, Inc.:** Sure, Sami. So, as it relates to Q2, our orders were up 13%. I think when you contextualize that over the fact that 13% over the previous quarter, that was up 80% the previous year, we think we had a relatively strong order. You heard Jason reference the Detroit PD win and I think that’s a test point to what we’ve been saying is that the market wants an alternative.

I think the other piece of it is we’re starting to see – late last year, we came out with an as-a-service offer and we’re seeing an acceleration in our customers wanting to choose cloud. We’ve said before and I said at the end of 2021, we doubled our orders. We knew the market didn’t grow that fast. We knew we took share in 2021. I’d simply say for the first half of this year, given our performance kind of in the mid-teens growth, over 68% and 80% orders growth comps, we think we’re performing relatively well. And as I said, we think we’re a very viable alternative in the marketplace right now.

**A – Mahesh Saptharishi – Motorola Solutions, Inc.:** Maybe just to add on...

**Q – Sami Badri – Credit Suisse Securities (USA) LLC:** Got it. And I have one quick one for Jason. Oh, sorry, go ahead.
Just on the technology investment side that you also asked about, we continue to invest in a closer integration between our body-worn cameras and our radios as well, specifically with APX and APX NEXT devices. So, for example, if you press the emergency button on an APX or an APX NEXT radio, turns on recording as an option as well. And there are more features there to come as well.

This quarter, we also released live streaming capability going from the V300s and our in-car video solution to Aware. And Aware also integrates real-time location information from our APX and APX NEXT radios. So, location information coming from both body-worn cameras and our radios together gives accurate information, again, location being a key necessity for our customers.

And lastly, we also introduced a new advanced AI-driven redaction capability to CommandCentral Evidence, which is a key capability that our customers have been asking for. And I think we’re very proud of what we were able to put in.

Q2 also was our first shipping quarter for our M500 solution. The M500 started shipping in February of this year. We have seen great growth in the M500. And just as a reminder, we released the M500 with two key AI capabilities, ALPR being one of them and backseat passenger analytics being the second. This is a true AI platform, the M500 is, and we’re going to be introducing more capabilities via firmware upgrade into that platform as well. We think there’s great potential there.

Got it. Thank you, Mahesh. Jason, one quick one on your FX guidance – your FX headwind guidance for the year. Is that including international currencies improve relative to US dollar? Or does that assume everything equal from this point forward on FX rates?

Current spot rates going forward relative to last year. So, the $170 million of headwinds on the year is about consistent with where it was the last quarter we were together. It’s certainly been volatile, but today, it’s at approximately $170 million of top line degradation related to FX this year.

Perfect. Thank you.

Sami.

Thank you. Next question comes from Paul Silverstein of Cowen. Please proceed.

Thanks. One clarification, what was the level of PCR in the quarter? And can you remind us – I think it peaked out at $1 billion before the pandemic hit. But can you remind us of where you’re at in the recovery of that business?

For Q2, Paul, PCR revenue growth was 15%.

And its base last year, Paul, was 800-and-something million. And so, it’s on, as we told you earlier, 10%, maybe slightly higher this year, which will put us still short of the 2019 reference point you just made.

All right. So the real question is...

And so...

I’m sorry. Go ahead.

Yeah. Paul, I was just going to add one other point is that Q2 was a record orders quarter for PCR as well.

Exactly.
<Q – Paul Silverstein – Cowen and Company>: Okay. And notwithstanding the macro, obviously, it sounds like the business is in good shape. Given all the different variables that seem to be so positive, where is the greatest opportunity for greatest improvement from here going forward over the next 12 to 36 months?

And in connection with that, I saw Hytera was not able to pay you cash in respect of the litigation. Where does that – are they being effectively shut out of the market? Where does that go from here? And finally, where’s video penetration at in the public sector?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, let's start with Hytera. I’m kind of not surprised that they missed the deadline. The court ordered deadline to pay cash into escrow by July 31. They’ve had a pattern of deny, deflect, distract and no action. They owe us about $680 million all-in. By the way, the guidance and color we give you on the full year of 2022 and cash and cash flow assume nothing from Hytera. We filed a motion this morning that they are in contempt of court. And we’ll see what the judge rules and further remedies that they apply. But I can’t say I’m particularly surprised.

<A – Jack Molloy – Motorola Solutions, Inc.>: Paul, I think you had a question as well on video and I would just simply say that our video and access control business is growing approximately 20% this year in 2022. We continue to invest in the portfolio extensively both by way of our edge devices or camera, but also on our software and analytics side of the things. Cloud and mobile become increasingly important when you think about our three big acquisitions; Openpath who has fundamentally changed the game for us in the access control market; Ava and Calipsa as well. The AI that the Calipsa brings and its ability to proliferate into our Pelco camera line is also a game changer.

And I think you asked a question about verticals. But when we think about our top verticals, it’s really government, education, healthcare and commercial. If you remember, when we acquired Avigilon in February of 2018, their government business was nascent and now it’s one of our top ones. And we think that’s the benefit of the scale and the revenue synergies that our sales force around the globe has been able to bring.

<Q – Paul Silverstein – Cowen and Company>: Okay. The real question was – I assume it’s still preciously early in the government public sector in terms of video penetration.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah. So I think we talked about, first of all, just the baseline in government. It’s early days, but to eventualize that business, it’s approximately $430 million is our expectation this year. Think of that as two-thirds mobile video, a third fixed video.

<Q – Paul Silverstein – Cowen and Company>: I appreciate that.

<A – Greg Brown – Motorola Solutions, Inc.>: Thanks, Paul.


<A – Greg Brown – Motorola Solutions, Inc.>: Hey, Louie, how you doing?

<Q – Louie DiPalma – William Blair & Co. LLC>: Great. Greg, on previous calls, you referenced how you are seeing robust demand from the education vertical. Is demand from education customers for your artificial intelligence solutions getting even stronger with this exceptionally strong guidance for this upcoming school year, following, like, several different security incidents nationwide?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, Louie, education has been a very key vertical, along with government. For fixed video and access control, it has been and continues to be because of what you referenced, the need for video security, perimeter detection, anomaly detection, access control, automation alerts. And I think that the demand for that broad portfolio continues to be strong and maybe perhaps is even getting stronger.

And I don’t know if Jack or Mahesh want to complement on that as well.
<A – Jack Molloy – Motorola Solutions, Inc.>: Greg, I think you hit it. The other one is we made a significant investment into Evolv Technologies. And I would say stadiums and schools are the big driver for Concealed Weapons Detection. We know the horrific things that happened at Uvalde just earlier in the summer and I think that’s driving a converged experience to make sure that they’ve got the video and access control, but they also have a way to temper and test for weapons as they approach campus as well.


<A – Jason Winkler – Motorola Solutions, Inc.>: The other point I’d make is that our Q2 results and our increased guide for the year were driven largely by our expectations for LMR, which is about two-thirds of the increase and video being the other third, both of which are serving education and many other verticals.

<Q – Louie DiPalma – William Blair & Co. LLC>: Thanks. And for Jack, these past two quarters, it appears that you won your two largest command center software orders in company history. And I think you mentioned in a prior answer that you are seeing traction with hybrid deployments on-premise and in the cloud. Were any of your recent orders for your Next Gen 9-1-1 solution and your 9-1-1 call taking and CAD solution in the cloud? Or are these more for your traditional modules that you’re seeing the success?

<A – Mahesh Saptharishi – Motorola Solutions, Inc.>: So, Louie, this is Mahesh. I would say that there is still stronger demand for the on-premises solution for 9-1-1 and CAD, availability and reliability being some factors that are involved there. That said, our call handling solutions combined with our heavy investment in smart transcription, which is a cloud-hosted AI solution; Citizen Input, which is also a cloud-hosted way of allowing citizens to have over-the-top video input and text input into PSAPs as well for call handling, we’re seeing significant traction in that space.

On CAD, hybrid capabilities become very important. We are seeing Aware, CommandCentral Aware, frequently attached with our CAD sales. And the other thing is emphasis on mobile. For LAPD, I mentioned CommandCentral Responder. The need for smartphone access to information in the field is becoming more and more important, and CommandCentral Responder, along with its many capabilities, really complements both our on-premises CAD and record solutions as well.

So we see that hybrid really driving adoption for the key features that are best delivered in the cloud, along with the high availability solutions that our 9-1-1 and CAD customers want.


Operator: Thank you. The next question comes from Paul Chung of JPMorgan. Please proceed.

<Q – Paul Chung – JPMorgan Securities LLC>: Hi. Thanks for taking my questions. So, just on the guide, how do we think about kind of the gross margin ramp in the second half? Do you still expect to be kind of flat for the year? And then same kind of question on OpEx. I may have missed it, but still up kind of $100 million for the year.

And then as we think about 2023, how much of kind of the gross margin pressure this year do you see as somewhat temporary in your expectations of how those margins rebound, and particularly in the first half? You also have some benefits from price increases as well, and how that kind of factors in? Just your early thoughts on 2023.

<A – Jason Winkler – Motorola Solutions, Inc.>: Well, I’ll start with the biggest driver of our gross margin trend this year is the higher semiconductor costs year-over-year. We had planned for about $100 million of year-over-year increase, which you’re seeing in the P&L through the first half. It was actually a little higher than that. And we had planned for $20 million of incremental year-over-year costs for semiconductors in the second half. It’ll probably be slightly higher than that given the higher volumes that we just guided to.
So those items, again, are related to us paying a premium for semiconductors that aren’t available from primary sources. So, as the semiconductor market stabilizes, normalizes, there’s opportunity on that as we continue to get more and more supply into the future directly from the manufacturers, which is something we’re working on.

In terms of gross margin trend for the year, yes, the second half will be certainly better and we’ll get to approximately similar. And that OE is slightly up for the year, which will cover the $100 million of OpEx, you’re right, of increase that we’re expecting for the year-over-year, $75 million of which from the OpEx side is related to M&A. So, that’s how to think about it from a P&L perspective.

<Q – Paul Chung – JPMorgan Securities LLC>: Okay. Great. And then just a follow-up on video. You’re seeing some relative strength in the Software and Services for quite some time, so talk about the demand trends and specific solutions you’re kind of most excited about. And how do we think about that relative pace as we look further out? Thank you.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah. Hey, Paul. I think so we’ve talked about, we expect 20% for fixed video and really for the video segment as well approximately 20% for the full year. We’ve dimensionalized some of the verticals. We’re having some success. I think it’s a story about cloud, mobile analytics.

The other piece of it that we probably didn’t talk are some of the vertical-specific things that we’re doing. We acquired a company called Envsion that gives us space into quick-service retail. Investments like that as well as cloud put us on a path where we’re starting to build a recurring revenue business within our video security segment as well, which is exciting.

<Q – Paul Chung – JPMorgan Securities LLC>: Great. Thank you so much.

<A – Greg Brown – Motorola Solutions, Inc.>: Thanks, Paul.

Operator: Thank you. The next question comes from Jim Suva of Citigroup. You may proceed.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Thank you, and congratulations to you and your team. Greg, when we think about strategy, and you mentioned you had your biggest LMR contract ever, which is great. Are you now at a point where the majority of your new wins are including multiple cross-sell Motorola solutions, product solutions, services, command center and things like that? Or are we still at the very early part of not much is being connected? That was kind of my strategy question.

Then for finance, Chief Finance Officer question, did you say how much impact to gross margins decommits or going to broker market was for components? And I assume when you get these big contracts, you’re securing the parts right away, so you don’t have future price escalation as chip companies have increased pricing. Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Well, on the first part, Jim, I think we’re in the early innings overall. I mean, you take a step back and think about this firm and our addressable market now, given the industries we play in and the acquisitions we’ve made, it’s just under $50 billion. And the guidance this year for full year informs approximately $9 billion. So there’s a lot of room to run here.

While we are growing fixed video and access control at 20%, we are not the leader yet either globally or in North America. And I think there is every opportunity for us to continue to take share and make up ground, given the width and breadth of the portfolio, which I believe from an industry standpoint is unmatched, our ability to play in fixed video and mobile video, layer on analytics, license plate recognition, and all the things that Mahesh and the technical team are doing in artificial intelligence.

On LMR, the installed base gets larger. You think about roughly 13,000 different LMR networks by which we fill the footprint of infrastructure, cell devices, monetized services, upsell, refresh the device portfolio, integrate LTE into LMR for network extension and software over-the-air reprogramming and location services. And then all the things Mahesh is doing in command center software, which is premises-based, cloud-based, hybrid, and the overall backdrop of more and
more criticality around public safety, enterprise security and not having key China vendors in any of that critical infrastructure, I think there’s a lot of opportunity in front of us.

[A – Jack Molloy – Motorola Solutions, Inc.]: The only thing I’d add, Greg, is I think, Jim, I think I heard you ask a question around cross-sell. It’s very important. We’ve attacked that by way of sales-specific incentives around command center software, around fixed and mobile video as well. Our North America sales leader, Jim Mears, has come up with – first of all, we have a tool, a three-dimensional tool by account that gives us kind of the lay of the land, where we’re doing well, where we’re not, and where we should focus our time. And we’ve inserted sales around specific technology escalators. And that’s, I think, served us fairly well.

[A – Jason Winkler – Motorola Solutions, Inc.]: And Jim, to answer your question on securing semiconductor components, we’re doing so in many different ways. Directly from the manufacturer, through us and purchase orders all the way through long-term supply agreements, and then finally brokers when necessary, and therefore have a constant flow of parts.

I think it’s important to note that Motorola and our engineering abilities, over 40% of our company are engineers. And we continually give them challenges, including if a part we know to be in constraint, they are helping find alternatives. And that alternative then the supply chain organization can go out and procure. So it’s a constant battle, and we’re proud of the way the teams are collaborating and working through the environment.


[A – Greg Brown – Motorola Solutions, Inc.]: Thank you, Jim.

Operator: Thank you. This concludes our question-and-answer session. I will now turn the floor over to Mr. Greg Brown, Chairman and Chief Executive Officer, for any additional comments or closing remarks.

Greg Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yeah. Thank you, everybody. Most especially, thank you for all the Motorolans on the call and listening. Exceptional performance. Couldn’t be more proud of you. I’m proud of this company, proud of you and proud of the purpose that we serve. Look, I think these results amplify and reinforce the criticality of public safety and enterprise security and the fact that, in this environment, quite frankly, it’s never been more important.

I want to add to something Jason just said and tip my hat to everybody involved on supply chain execution and navigating this very dynamic environment. I do think part of the overperformance in Q2 and what we’re passing on for the full year is strong execution in supply chain. I think it’s largely done by the engineers that Jason referenced and others on product redesign, surgical acquisition of inventory, appropriate purchases in the open market for broker parts, and a modestly slightly better environment in Q2. But the supply chain, specifically semiconductor environment, remains challenging. Having said all that, there’s more work to be done. But I do like our position and I like our momentum for the second half. We have to continue to execute.

I appreciate you listening and I look forward to talking to you and joining you in a few months. Thanks, everybody.

Operator: Ladies and gentlemen, this does conclude today’s teleconference. A replay of this call will be available over the Internet within two hours. The website address is www.motorolasolutions.com/investor. We thank you for your participation and ask that you please disconnect your line at this time.