PARTICIPANTS

Motorola Solutions, Inc. Executive Participants

Tim Yocum – Vice President, Investor Relations
Greg Brown – Chairman & Chief Executive Officer
Jason J. 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

Tim Long – Analyst, Barclays Capital (U.S.)
George C. Notter – Analyst, Jefferies LLC
Meta Marshall – Analyst, Morgan Stanley & Co. LLC
Sami Badri – Analyst, Credit Suisse Securities (USA) LLC

MOTOROLA SOLUTIONS, INC. MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Motorola Solutions First Quarter 2023 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 a listen-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 2023 first 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've 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 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 2022 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.

And with that, I'll turn it over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thanks, Tim. Good afternoon and thank you, everybody, for joining us today.

First, let me start by just saying that Q1 was an exceptional start to the year. We achieved revenue and earnings per share above our guidance, with revenue up 15% and earnings per share up 31% versus the prior year. We expanded operating margins by 470 basis points. And we had record Q1 orders, which led to record Q1 ending backlog of $14.1 billion, up 5% versus last year, inclusive of $372 million of unfavorable FX.

Second, our outstanding Q1 performance was broad-based with strong digit double-digit revenue growth in both segments, all three technologies and in both regions, North America and International. In addition, public safety and enterprise security remains more important than ever, which is driving demand for both our public safety and enterprise customers. And finally, based on our strong start to the year and continued robust demand, we're raising both our revenue and earnings guidance for the full year.

I'll turn the call over to Jason to take you through results and outlook and then be back and return for some final thoughts.

Jason J. Winkler, Executive Vice President & Chief Financial Officer

Thank you, Greg. Revenue for the quarter grew 15% and was above our guidance, with double-digit growth in both segments, both regions and in all three technologies. FX headwinds during the quarter were $45 million, while acquisitions added $42 million.

GAAP operating earnings were $399 million or 18.4% of sales, up from 12.6% in the year-ago quarter. Non-GAAP operating earnings were $532 million, up 42% from the year-ago quarter, and non-GAAP operating margin was 24.5%, up 470 basis points. This strong year-over-year increase in both GAAP and non-GAAP operating earnings was driven by higher sales, lower direct material costs, inclusive of lower broker spend in obtaining semiconductors and improved operating leverage.

GAAP earnings per share was $1.61, compared to $1.54 in the year-ago quarter. Non-GAAP earnings per share was $2.22, up 31% from $1.70 last year. This strong growth in earnings per share was driven by higher sales and margins, partially offset by a higher effective tax rate in the current year. OpEx in Q1 was $530 million, up $38 million versus last year, primarily due to acquisitions and higher incentives in the current year.

Turning to cash flow, Q1 operating cash flow was a usage of $8 million and free cash flow was a usage of $62 million. The cash flow in Q1 was in line with our expectations and included a onetime cash tax payment of approximately $70 million related to an IP reorganization we completed last year. It also reflects our strategic decision to carry higher inventories. For the full year, we continue to expect operating cash flow to be approximately $1.9 billion with greater contributions in the second half, consistent with the shape of last year's cash flow. Capital allocation for Q1 included $148 million in cash dividends, $140 million in share repurchases and $54 million of CapEx.
Moving to our segment results, in the Products and SI segment, sales were up 18% versus last year, driven by improved supply availability in the current year and the benefit from pricing actions flowing through. Currency headwinds were $19 million and revenue from acquisitions in the quarter was $12 million. Operating earnings were $246 million or 18.9% of sales, up from 8.7% in the prior year, driven by higher sales, lower material cost, inclusive of lower broker spend and improved operating leverage.

Some notable Q1 achievements in this segment include a $27 million countywide P25 system for Johnson County, Missouri; a $20 million P25 device order for a US state and local customer; a $17 million P25 system for Wakulla County, Florida; a $16 million Fixed Video contract for a large health care system; and a $15 million APX and APX NEXT devices order for the Kansas Highway Patrol.

In Software and Services, revenue was up 10%, including 19% growth in command center and 20% growth in video. Revenue from acquisitions was $30 million in the quarter and FX headwinds were $26 million. Operating earnings in the segment were $286 million, up 3% versus last year. And operating margins were 32.9%, down from 35.2% last year on mix, higher cost from acquisitions and FX. For the full year, we expect operating margins in this segment to be comparable to last year to slightly down, driven by higher costs from acquisitions, primarily Rave.

Some notable Q1 highlights in the segment include a $340 million federal IDIQ award to combine existing services and provide new LMR services to the US Air Force, which has long been an important customer of ours. Given the nature of this 10-year agreement, we recorded only $11 million of backlog in the first quarter and expect backlog to be recorded ratably over time for the remainder of the contract.

Additionally, we expect new services included to contribute an incremental $60 million of revenue over the 10-year period when compared to the previous service agreement. We also received a $21 million multiyear support services extension for Portugal’s nationwide TETRA system, a $10 million LMR services agreement with a federal agency and a $9 million Fixed Video services contract renewal with the City of Chicago.

Looking at regional results, North America Q1 revenue was $1.5 billion, up 14%, on strong growth in all three technologies. International Q1 revenue was $679 million, up 16% versus last year, with growth in all three technologies, partially offset by unfavorable FX.

Moving to backlog. Ending backlog was a Q1 record of $14.1 billion, up 5% or $623 million versus last year, inclusive of $372 million of unfavorable FX. These results were driven by strong demand across all three technologies. Sequentially, backlog was down $280 million, driven primarily by typical order seasonality in North America.

In the Products and SI, ending backlog was up $601 million or 15%, driven primarily by strong LMR demand. Sequentially, backlog was down $186 million due to North America order seasonality, following a record backlog in Q4.

In Software and Services, backlog was up $22 million compared to last year, driven by strong demand for multiyear software and services contracts in North America, partially offset by the revenue recognition for Airwave, along with $329 million of unfavorable FX and the adjustment related to the exit of the ESN contract that we announced last year. Sequentially, backlog was down $94 million, driven primarily by revenue recognition for Airwave.
Turning now to our outlook, we expect Q2 sales to be up 10% to 11% with non-GAAP earnings per share between $2.49 and $2.54 per share. This assumes a weighted average diluted share count of approximately 173 million shares and an effective tax rate of approximately 24%.

For the full year, we are increasing both our revenue and EPS guidance. We now expect revenue in the range of $9.725 billion to $9.775 billion, up from our prior range of $9.65 billion to $9.7 billion. And we expect non-GAAP earnings per share between $11.21 and $11.29, up from our prior guidance of $11.10 and $11.22 per share. This full-year outlook assumes $25 million of FX headwind, a weighted average diluted share count of approximately 172 million shares and an effective tax rate of 23% to 24%.

As I mentioned on the last call, the increase from our 20.1% tax rate last year is due to lower tax benefits on share comp and a higher UK tax rate in the current year, both of which combined represent an approximately $0.50 headwind in our full-year earnings per share guide.

The increased outlook for the full year is a reflection of the continued strength of our business and demand for our solutions. The revenue guidance reflects expectations for strong double-digit growth in the first half as well as continued growth in the second half of the year, which comes on top of the 15% growth we saw in the second half of last year.

I'll now turn the call back to Greg.

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

Thanks, Jason. Let me just end with a few thoughts. First and foremost, our business remains very strong. We had record Q1 orders and achieved revenue above our expectations. We expanded operating margins by 470 basis points. We ended the quarter with our highest Q1 ending backlog ever. And our public safety and enterprise customers are continuing to prioritize our solutions that help keep communities safe, which is driving our increased top and bottom line guidance for the full year.

Second, I want to highlight two recent announcements in our video security and access control business. First, we made the decision to integrate our end-to-end fixed video portfolio, consolidating the majority of our fixed video solutions under two platforms: Avigilon Alta and Avigilon Unity. Alta is our cloud-native security suite, consolidating Openpath and Ava Security, while Unity is our on-prem security suite, consolidating Avigilon and IndigoVision. This helps streamline our go-to-market channels and further reinforces our vertical focus, particularly in government, but also education and healthcare, which combined those three now represents approximately half of our video security revenues.

Additionally, in our mobile video business, we launched our new V700 body-worn camera. The V700 is our first body-worn camera to provide broadband connectivity that facilitates integration with our market-leading in-car video solution, our APX radios and our command center software, including live video streaming and location tracking through our Aware product.

And finally, our strong start to the year underlines the strength and resiliency of our business. The demand for our products and solutions that help keep communities safe remains exceptionally strong. Our continued focus on cost management and inventory optimization, coupled with our previous modest pricing actions that we took earlier,
continues to drive margin expansion. And our strong balance sheet and durable cash flows allow us to be opportunistic with the deployment of capital going forward to create long-term shareholder value.

And with that, I'll now turn it over to Tim and open it up for 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:** The floor is now open for questions. [Operator Instructions] Thank you. The first question is from Tim Long with Barclays. Your line is open.

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**Tim Long**

Analyst, Barclays Capital, Inc.

Thank you. Yeah. Two, if I could here. First, just looking at the second half, I know, Jason, you mentioned tough comps, but hoping you could just give a little commentary around moving parts, given those pricing benefits and pretty healthy backlog still. So what are the moving parts in that second half?

And then second, more specifically on video, Greg or Jack, if you could talk a little bit about – it was good to see above the full year growth rate in Q1. Could you talk a little bit about where we are with cross-sell opportunities and also opportunities in video from NDAA and ARPA, Safe Schools and things like that? Thank you.

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**Jason J. Winkler**

Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.

Sure, Tim. So on the second half, you'll recall that last year in the second half is when the pricing actions that we implemented really began to show up in the P&L, and those really helped last year's growth and profitability expansion in the second half.

So our position today, as we look at those 15% comps, is that we're still in a supply-constrained environment. We have lead times from our suppliers. We have expectations to grow and have opportunities ahead of us for the second half with the continued demand that we have.

Where the pricing actions benefited us particularly in Q1, and expect similar for Q2, is last year's comps in the first half did not include those same pricing actions. So as we start to enter July, we're anniversarizing those pricing actions and still expect growth on top of those.
Jack Molloy  
Executive Vice President & Chief Operating Officer, Motorola Solutions, Inc.

And Tim, specific to cross-sell, what I would do is highlight four specific verticals, starting with government. As we have attested to before, government was a nascent business when we acquired Avigilon and we made subsequent acquisitions.

But just to put it in context, we've kind of put the marker out there this year for a video security business that we would grow approximately 15%. We expect government to grow in the high-teens. And we think we've got opportunities to move that.

Specifically, I'd also call out healthcare, we're really, really pleased. We secured a $16 million deal with a large-scale hospital system. This was an add-on. And the beauty of that is they're not only a video user, but they're also a radio user.

Education has been – we've attested to the fact that numerous school systems are upgrading. Some are going with Avigilon Unity on-prem systems, large-scale urban schools. But what we're really seeing is acceleration in growth in the cloud there. And the ability to do Radio Alert and integrate access control, LMR, our command center software product called Compass into school systems is a game changer.

And then lastly is the industrial space, namely utilities. We've talked about the fact that we've secured a large-scale utility in the past. We've done in the area of $50 million of the utility. And I think as utilities start to fortify their power grids and their substations, we'll have incremental cross-sell opportunities there, Tim.

But I think the highlight is we tie it all into making sure that we incent our sales force to go and cross-sell, and that's just part of the DNA now.

Tim Long  
Analyst, Barclays Capital, Inc.

Okay. Thank you very much.

Operator: The next question is from the line of George Notter with Jefferies. Your line is now open.

George C. Notter  
Analyst, Jefferies LLC

Hi, guys. Thanks very much. I guess, I think you guys mentioned ARPA in the last question or maybe Tim did. But what are your expectations for the ARPA benefit this year? I know that you've got about $400 million in orders from ARPA-related projects last year. I would imagine some of that converted to revenue last year. But what do you think that might look like for 2023? Any sense? Thanks.
Jack Molloy
Executive Vice President & Chief Operating Officer, Motorola Solutions, Inc.

Yeah. So, George, I would say, ARPA, anytime there's federal stimulus dollars, are conducive and, I would say, beneficial to the business. But to kind of put it in context, it's approximately 5% of our orders in North America last year. And that's not to diminish it, but I would take it to a higher level. I've actually gone and looked in sales force. They've contributed to deals that were secured, but they weren't for sole purpose of deals that were secured.

I think at the end of the day, when you think about mission-critical communications or even a school, we think we're in an area of prioritization, an area – as we've said before, it's a need to have and not a nice to have. So I think it's generally conducive, but I wouldn't necessarily say it's the largest attributor to our success.

George C. Notter
Analyst, Jefferies LLC

Got it. Great. And then just as a quick follow-on, I think the question everyone's been asking is on supply chain. Many companies, I think, are going through inventory corrections now. I mean, any sense that your customers have been inventorying products? Or is there any risk of supply chain corrections or inventory corrections for you guys as you look forward? Thanks.

Jason J. Winkler
Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.

The demand from our customers remains very strong. Our backlog position is at a record level. And that includes backlog that customers are having to wait a bit longer than they'd like, and we're working through those delays in getting them products. With the results in Q1, we were able to attain a little bit better supply. We had a good quarter across LMR, public safety, had a good quarter with PCR.

So we're getting after this backlog position and fulfilling the customers' demands. Both – the demand they placed on us in backlog is also the demand they placed on us within the quarter. Our inventory position, if I shift to our balance sheet, has helped us mitigate a choppy supply environment. And we continue to be mindful of inventory and its utility in serving what remains a challenging supply environment. It's been a helpful tool. And we do have expectations for inventory to reduce in the second half. That's in our cash flow expectations. But it remains an important tool to navigate this environment.

George C. Notter
Analyst, Jefferies LLC

Great. Thank you.

Operator: [Operator Instructions] The next question comes from the line of Meta Marshall with Morgan Stanley. Your line is now open.
Meta A. Marshall  
Analyst, Morgan Stanley & Co. LLC

Great. Thanks. Maybe just a question on the APX NEXT. You had mentioned that being targeted towards the high-end and then introducing kind of the mid-tier product. I just wanted to get a sense of adoption trends of the various pieces of the portfolio and were they kind of following the customer adoption types that you expected? And then just maybe an update on Rave integration would be helpful. Thanks.

Jack Molloy  
Executive Vice President & Chief Operating Officer, Motorola Solutions, Inc.

Sure, Meta. Maybe I'll start with the APX NEXT, and Mahesh will speak to Rave. First of all, we're in the early innings, as we've said before. And I think it's most important to point out that it's a multiyear introduction for the APX NEXT. What typically happens is we run the APX original and the APX NEXT line in tandem for the foreseeable future. In fact, to point that out, 80% in Q1 of our device revenue was actually APX original. So we've got a co-existent strong pipeline for both of them.

We've got $410 million orders since we introduced the APX NEXT. But we've just recently, last fall, introduced the N-Series radio, which starts to fill in the portfolio and now we're bringing out international P25 units to bear that will be targeted in Australia, New Zealand and Israel. All-in, with the new product, what we're seeing is kind of high single-digit ASP increases as well.

Jason J. Winkler  
Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.

And I'd also mention the other parts of the portfolio. TETRA, PCR are areas where we've focused and have exciting products coming to market and receptive customers to those as well. So we're at an important point, and the targeted investments we made in and through COVID that are now producing those exciting products are also an important part of our growth drivers.

Mahesh Saptharishi  
Executive Vice President & Chief Technology Officer, Motorola Solutions, Inc.

And on Rave, Rave has exceeded our initial expectations for performance. We see strong traction in education, especially higher ed, but also K-12. And as we previously talked about, Rave bridges enterprise security with public safety. And with some of the initiatives that we have undertaken recently, we're making the bridge wider, effectively allowing for more data and at a faster rate to go from enterprise security to public safety.

So, two specific examples worth mentioning there. First, with every one of our new VESTA 9-1-1 orders, we're actually bundling Rave 9-1-1 suite. And what that includes is two-way texting; caller profiles, this is information about individuals who perhaps need special assistance; facility info, which is blueprints of facilities so that responders can respond with greater information as to what they will see when they get to the facility; and very importantly, caller location. And that is going to be part of our VESTA 9-1-1 offer going forward.

The second is we're integrating more closely with our enterprise security solution. So Orchestrate is a key enabler for that. And as part of our full Safety Reimagined program, we're bringing Rave much closer in terms of the ability to detect and the ability to alert using Rave Alert and the ability to bridge into 9-1-1 as appropriate. So those two together is really
augmenting our path forward in terms of taking advantage of our strength in education, along with our presence with PSAPs.

Meta A. Marshall
Analyst, Morgan Stanley & Co. LLC

Great. Thanks

Operator: The next question comes from the line of Sami Badri with Credit Suisse. Your line is now open.

Sami Badri
Analyst, Credit Suisse Securities (USA) LLC

All right. Thank you. I had a couple of questions, some of them modeling, some of them business dynamics. I'll start with business dynamics first. So, one on the backlog. So there obviously are a lot of big deals. And maybe you could give us a characterization of how many of these bigger deals are expected?

And then maybe taking that question a step further is, if we excluded FX impact and excluded big episodic activity, are you still seeing the backlog step up, right, with more of these – your standard business motion? And then I have a follow-up.

Jason J. Winkler
Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.

Sami, I think I'd address your inquiry. We've seen strong demand in not only big deals but also the usual type and profile of our business. And I'd point to duration. While our backlog is up and at record levels, the duration of our backlog is similar to slightly better than it was last year and than it was last quarter. So not only are we growing backlog, the opportunities we have to convert that backlog within the year are slightly better. So that's one of the reasons that, again, with our expectations going up for the year, it's driven by that backlog position.

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

And backlog is up in the face of unfavorable FX, to your other point, of $372 million. By the way, the other thing, Sami, is even when we have a large project, much like the Air Force order we talked about earlier on the call. It's a $340 million 10-year order. Only $11 million of that is logged in backlog. So I like the composition and the duration of the backlog in addition to it being absolute and at record levels as we exit Q1.

Sami Badri
Analyst, Credit Suisse Securities (USA) LLC

Got it. Thank you for that. Also, Greg, Jason, if you guys could give us any kind of idea on all video revenue growth targets for 2023. And also, we appreciate the new breakout of the Avigilon segment.
So our expectations for total video remain approximately 15%. That's consistent with our last call. And as Jack mentioned, that growth will be even better in some of our power verticals, which represent approximately half of the composition of the revenue. So video is performing to our expectations.

And then Sami, to your observation of Greg's comments around our portfolio around Alta and Unity, that's a market-facing change that we will represent the brands. And Jack's sales team is positioned to sell video – we're in a great position to sell it either in an on-prem version, which is the way most customers buy today, but also in a cloud version. And as markets move, we're positioned extremely well.

Yeah. I think a great example – I got a phone call yesterday, Sami, on that specific to a large-scale metropolitan school district. They had three finalists. Two of the finalists were Avigilon Alta and Avigilon Unity. And I think that's the power that we can meet a customer for their specific needs that no one else in the marketplace has today.

Great. Thank you very much.

Jack Molloy
Executive Vice President & Chief Operating Officer, Motorola Solutions, Inc.

Thank you.

Operator: 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

Sure. Thank you. Look, I would just say in closing, it was a great Q1 and I think it highlights the fact that what we do has never been more important. Both the demand environment and execution is strong. I'm really proud of the people. I'm really proud of our channel partners that achieved record Q1 orders, record Q1 backlog.

Look, at the end of the day, as we exit Q1, I like our position. More importantly, I like our momentum. And then, again, this is despite the ongoing supply chain challenges that still have to sort itself through for the next several quarters.

The fact is the intersection, as Mahesh talked about, of public safety and enterprise security, it's critical. And we're building a safety and security technology ecosystem that connects public safety with private institutions, as you heard
Jack reference in those key verticals. I couldn't be more proud of this team and I'm optimistic and enthusiastic about the opportunity in front of us.

I appreciate you joining, and I look forward to connecting with you a quarter from now.

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 lines at this time.