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 & Chief Operating Officer
Mahesh Saptharishi – Executive Vice President & Chief Technology Officer

Other Participants

Tim Long – Analyst, Barclays Capital, Inc.
George C. Notter – Analyst, Jefferies LLC
Adam Tindle, Analyst, Raymond James & Associates, Inc.
Ben Bollin – Analyst, Cleveland Research Co. LLC
Joseph Cardoso – Analyst, J.P. Morgan Securities, LLC
Keith Housum – Analyst, Northcoast Research Partners LLC
Meta A. Marshall – Analyst, Morgan Stanley & Co. LLC
Louie DiPalma – Analyst, William Blair & Co. LLC

MOTOROLA SOLUTIONS, INC. MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for holding. Welcome to the Motorola Solutions second 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 three hours after the conclusion of this call. The website address is www.motorolasolutions.com/investor. All participants have been placed in a listen-only. 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 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'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’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 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, and good afternoon, and thanks, everybody, for joining us today.

First, Q2 was another outstanding quarter with revenue and earnings per share both exceeding our guidance. In Software and Services, revenue was up 13% and operating earnings were up 15%, driven by strong growth across all three technologies. And in Products and Systems Integration, continued robust demand and improved supply chain availability led to a 12% growth in revenue and a 52% growth in operating earnings in the segment.

Additionally, we ended the quarter with record Q2 ending backlog of $14.3 billion, up approximately $850 million versus last year and also up approximately $200 million sequentially. Second, our exceptional performance during the quarter was broad-based, with double-digit revenue growth in both segments, both regions and in all three technologies, including 20% growth in Command Center and 17% growth in Video Security.

We also saw record Q2 orders in both segments during the quarter, driven by customers prioritizing technology investments to strengthen public safety and enterprise security. And finally, based on our Q2 results and the continued strong demand we're seeing across the business, we're again raising our full year guidance for both sales and earnings per share.

I'll now turn the call over to Jason.

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

Thank you, Greg. Revenue for the quarter grew 12% 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 $23 million, while acquisitions added $20 million.

GAAP operating earnings were $518 million or 21.6% of sales, up from 16.7% in the year ago quarter. Non-GAAP operating earnings were $641 million, up 29% from the year ago quarter and non-GAAP operating margin was 26.7%, up 350 basis points. The strong year-over-year increase in both GAAP and non-GAAP operating earnings was driven by higher sales, inclusive of our higher pricing, lower direct material costs and improved operating leverage.

GAAP earnings per share was $2.15 compared to $1.33 in the year ago quarter. Non-GAAP EPS was $2.65, up 28% from $2.07 last year. This strong growth in EPS was driven by higher sales and margins, partially offset by a higher effective tax rate in the current year. OpEx in Q2 was $555 million, up $53 million versus last year, primarily due to increased expenses from acquisitions, investments in video and higher employee related incentives in the current year.

Turning to cash flow. Q2 operating cash flow was $93 million, up $83 million versus last year, and free cash flow was $40 million, up $89 million. The increase in year-over-year cash flow was primarily driven by higher earnings and improved working capital, partially offset by higher cash taxes.

For the full year, we continue to expect approximately $1.9 billion of operating cash flow. The linearity of our cash flow is expected to be consistent with last year with higher earnings and improved working capital driving increased cash flow in the second half.
Also, as we previously highlighted, this year's cash flow includes approximately $300 million of additional cash taxes compared to last year, inclusive of a one-time $70 million tax payment that relates to an IP reorganization that we did in 2022.

Capital allocation in Q2 included $224 million in share repurchases, $148 million in cash dividends and $53 million of CapEx.

Moving to segment results. In the Products and SI segment, sales were up 12% versus last year, driven by improved supply availability in the current year and the benefit from pricing actions continuing to flow through. Currency headwinds were $10 million and revenue from acquisitions in the quarter was $2 million. Operating earnings were $285 million or 19.8% of sales, up from 14.6% in the prior year, driven by higher sales, lower material costs, inclusive of lower broker spend for semiconductors and improved operating leverage.

Some notable Q2 wins and achievements in this segment include $145 million P25 system upgrade for Kern County, California; a $41 million P25 system and device order for a US federal customer; a $31 million P25 system expansion for Ventura County, California; a $19 million P25 device order for a US federal customer; and a $6 million fixed video order for a large US healthcare customer.

In Software and Services, revenue was up 13%, including 20% growth in Command Center and 19% growth in Video. Revenue from acquisitions was $18 million in the quarter and FX headwinds were $13 million. Operating earnings in the segment were $356 million, up 15% versus last year and operating margins were 36.9%, up from 36.1% last year on higher sales and improved operating leverage, partially offset by higher costs from acquisitions.

Some notable Q2 highlights in this segment include a $34 million video order for the Virginia State Police, which included our largest in-car video order ever; a $15 million LMR services agreement with City of Baltimore, Maryland; a $13 million LMR managed services agreement renewal in Latin America; a $12 million Command Center order for a US federal customer; and an $8 million LMR service agreement with another US federal customer.

Looking at regional results for the company, North America Q2 revenue was $1.6 billion, up 11% on strong growth in all three technologies. International Q2 revenue was $762 million, up 16% versus last year, driven by growth in LMR and Video, partially offset by unfavorable FX.

Moving to our backlog. Ending backlog was a Q2 record of $14.3 billion, up 6% or $856 million versus last year, driven by strong demand in all three technologies. Sequentially, backlog was up $211 million, driven by record Q2 orders in both segments. In the Products and SI segment, ending backlog was up $496 million or 11% year over year and up $100 million sequentially, driven primarily by strong LMR demand. In Software and Services, backlog was up $360 million compared to last year, driven by strong demand for multiyear software and services contracts in North America, partially offset by revenue recognition for Airwave and the adjustment related to the ESN contract exit. Sequentially, backlog was up $111 million, driven by record Q2 orders in the segment.

Turning next to our outlook. We expect Q3 sales to be up approximately 6%, with non-GAAP earnings per share between $2.99 and $3.04. This assumes a weighted average diluted share count of approximately 172 million shares and an effective tax rate between 23% and 24%.

For the full year, we are again increasing both our revenue and EPS guidance. We now expect revenue in the range of $9.875 billion to $9.9 billion, up from our prior range of $9.725 billion to $9.775 billion. And we expect non-GAAP earnings per share of between $11.40 and $11.48, up from our prior guidance of $11.21 to $11.29 per share. This full-year outlook assumes $25 million of FX headwinds, a weighted average dilutive share count of approximately 172 million shares, and an effective tax rate of 23% to 24%.

Before turning it back to Greg, I wanted to provide some color on a few financial topics. First, an update on the CMA and Airwave. As we stated previously, we strongly disagree with the CMA's final decision. Earlier this week, the CMA issued
its remedies order regarding implementation of their final decision effective on August 1. This procedural next step does not change our position regarding the ongoing appeal process and our strong belief in our case.

However, from an accounting perspective, beginning August 1, we will now defer revenue for the amount above the remedies order’s price control until the appeals process has been completed. This deferral and resulting lower revenue from Airwave for the remainder of the year is fully incorporated into our increased revenue and earnings per share guidance for the year.

Second, earlier this week, Moody’s upgraded our credit rating to Baa2 from Baa3. This higher credit rating underscores the strength of our balance sheet, including the strong liquidity position, our balanced debt maturity profile, significantly improved pension status, along with a track record of consistently growing earnings and cash flow.

And finally, our increased guidance for the year highlights the strength of our business as we enter the second half. Our backlog is exceptionally strong, driven by robust customer demand. And based on our current pipeline and supply chain environment, we expect backlog to remain strong going forward.

Additionally, the expected lower semiconductor costs we articulated in February, coupled with the pricing adjustments in our own portfolio that were implemented in the second half of last year, are driving the significant full-year margin expansion of approximately 175 basis points that is implied in our increased guidance.

I’ll now turn the call back to Greg. Thanks.

Greg Brown, Chairman & Chief Executive Officer

Jason, thank you very much.

First, our exceptional Q2 results highlight the continued strong momentum we’re seeing across the business. We grew revenue double digits in both segments, both regions, and in all three technologies. We expanded operating margins by 350 basis points, and we achieved record Q2 orders, which has led to our highest ending backlog ever for a second quarter and is driving our increased guidance for the full year.

Second, we continue to leverage our global installed base to sell more value-add software and services to our customers. During the quarter, Software and Services revenue was up 13%, with strong growth in all three technologies. We also achieved record Q2 orders in this segment, highlighted by our largest in-car video order ever from the Virginia State Police that included automated license plate recognition and digital evidence management. And with our recent Rave acquisition, we’ve made significant advances in integration across our ecosystem, which is driving strong pipeline demand for Rave together with our Command Center products.

And finally, I just wanted to spend a little time and provide some color on artificial intelligence. We recognized AI and the potential impact it could have on our customers back a few years ago when we acquired Avigilon and its AI capabilities, and we’ve seen and continue to see this technology driving opportunity for both our business and our customers.

AI, along with generative AI, plays an important role in our solutions to help keep communities safe, from actively analyzing live video and alerting humans when something important happens to assisting a 9-1-1 call with our live translation solution to automatically redacting evidence. These advancements improve response times, which can help save lives, while also enhancing privacy for those involved.
AI will continue to enhance how our solutions help protect people, property, and places. With our ongoing investments and deep expertise, we're very well positioned in this space, and we expect to see increased adoption of these technologies from public safety, enterprises, and private organizations alike for a more proactive approach to safety and security.

I'll now turn the call back to Tim and we'll open it up for your questions.

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

Thanks, 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 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 now open.

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**Tim Long**

Analyst, Barclays Capital, Inc.

Thank you. I'll start with a clarification, Jason, and then one for you, Greg. Jason, pretty impressive you're raising numbers despite the change in accounting for Airwave. Just wanted to clarify there, we got the new revenue level that was mandated and that you guys are accounting to. Can you just talk a little bit about expenses? I think you guys have run that network pretty efficiently. So should we assume a comparable expense level to how things have been running or does something change on that side, on the EPS impact?

And then for Greg, Greg, if you can just talk a little bit about macro? It sounds like everything is going pretty well. But if you could just hit on kind of what you're seeing from the government customers and to what extent you're starting to see federal and ARPA type of dollars flowing into the business that would be great? Thank you.

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**Jason J. Winkler**

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

Thanks, Tim. So our expectations for Airwave revenues this year, with the now deferred revenue effective August 1, are for about $480 million of revenue from Airwave. That'll be down from about $560 million last year.

To answer your question on cost, so we run that network and provide a service level. I wouldn't anticipate significant cost changes. Our cost to run that network and deliver the services are what they are. So we are deferring about $80 million of revenue this year and still raising our guidance from the last time we were together by about $140 million.
And to Jason's point, the $80 million reduction due to accounting and the required treatment of that from $560 million to $480 million is obviously all in the back half of the year starting August 1, running through the remainder of the year.

In terms of expenses and investment, we continue to invest in Airwave. By the way, Tim, just a few months ago, the end users gave us feedback and network performance and reliability, which was as high as we've ever achieved on Airwave. So we're proud of that and we continue to maintain and invest on behalf of our end users.

In terms of macro, high, high, high level, the business is as good as I've ever seen it. The demand drivers are strong, Jack has talked about and we'll talk a little bit about today if you want about device refresh. And interestingly, Tim, Molloy mentioned last year, we try to track demand against the orders achieved last year. And we believe, as best we could tell, less than 5% of our orders last year were tagged due to ARPA. Through the first half of this year, we also believe it's less than 5% as well.

So the nice thing about this is we're seeing demand drivers around public safety, video security, access control, command center, software and services that's really underpinning environmental and overall demand. Sure, ARPA helps, but as best we could tell, it's fairly minimal.

I'd agree with that, Greg. The only thing I'd add to that, and I think you highlighted the benefits from a product standpoint, but from an S&S standpoint, year-over-year, we had a $360 million increase in backlog. In addition to that, we're in receipt of a contract from the State of Illinois for a $300 million frame agreement for a 10-year period for services that's incremental and it's not reflected in our backlog, Tim.

So I think that's just another proof point to the conversations we're having with customers really resonate for their needs right now.

Okay. Thank you very much. Appreciate it.
George C. Notter  
Analyst, Jefferies LLC

Hi, guys. Thanks very much. I guess I wanted to ask about margins and profitability. I think at one point, you guys were looking for about a $50 million benefit this year on lower brokers fees and expedite fees. I guess I'm wondering if that's still the expectation for this year?

And then also, I'm curious about what the overall level of broker fees and expedite fees you're carrying for this year would look like? And when do those step back down? Would that be a 2024 event or when do you see relief there? Thanks.

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

Hi, George. Thanks for the question. So we began the year with an expectation for $50 million of lower costs related to premiums through brokers. We're trending a bit better than that. We're on path to about a $60 million year-over-year benefit, largely in the first half. We're still spending some investments on brokers.

As we look into next year, we would expect a comparable benefit level of about $60 million into 2024 for brokers. Again, the supply chain environment remains fluid. It's incrementally better, but we're still using the same tools we've been using for over a year to make sure that we get the supplies that we need. The level of commitment from our suppliers is strong, but their lead times remain elevated still. And so from time to time, we will use brokers to secure the parts to match the record demand that we're seeing.

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

And I do have to say thanks too for all the engineers in Motorola because as we manage broker spend, and to Jason's point, we'll achieve now $60 million – a little higher than $50 million target and that would be our goal for next year as well, another $60 million.

A lot of the engineers in Motorola have done real time under Molloy's leadership and Scott Mottonen and others. They've done product redesign in a way that's allowed us to substitute parts in a matter of months that also have allowed the company to be a depth and firm and responsive to our customers. And I just want everybody to know on the engineering community how grateful we are for that because they've been superstars.

George C. Notter  
Analyst, Jefferies LLC

Got it. And then just as a follow-up, if I do the math, I think you're still carrying about $150 million in annualized expedite fees or brokers fees. Is that right for this year?

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

This year's envelope is going to be a little less than that. It's more important that as we look at next year's envelope, reducing by $60 million, that's our current thinking as we go through supply planning. There's other offsets that are
always in the mix around direct materials costs, some positive, some unfavorable. So as we look to next year, we see a
$60 million benefit, particularly related to this opportunity from broker fees.

**George C. Notter**
Analyst, Jefferies LLC

Great. Okay, thanks very much. Appreciate it.

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

Thanks George.

**Operator:** We'll take our next question from Adam Tindle with Raymond James. Your line is open.

**Adam Tindle**
Analyst, Raymond James & Associates, Inc.

Okay, thanks. Good afternoon. I just wanted to start on Airwave. Just a clarification. Admittedly, I think we're all
outside of our core competency and trying to read through these legal documents here. But as we go through them a
lot of the numbers that were incorporated are higher than that $80 million that you identified. I think the price control,
for example, was just north of $200 million in U.S. dollars. So I guess the first question would be just to understand
how you came up with that $80 million headwind. And then secondly, what – absent the appeal, what that number
would go to in 2024 as we try to think about shaping our models for the worst-case scenario?

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

Yeah. So first of all, the beginning date of the deferral for revenue is consistent with the remedies order, which is
August 1 to the end of the year, that's the approximately $80 million. If you do the math on that for next year, it would
be approximately another $100 million step down. There are a variety of inputs that go into us servicing Airwave: the
usage of the network, the one-time events that go with the network, the number of user communities that subscribe as
well as inflation and other variables that go into how much revenue we recognize from the contract. All those things
together, last year, $560 million. This year, on path to $480 million. And then you can do the math on the price control
into next year for approximately another $100 million decline...

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

For the full year.
Jason J. Winkler  
Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.  

….for the full year. Correct.

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

And Adam, what I'd say is I think this process is proceeding as expected. So we knew that the CMA issued a final decision. In Q2, we knew it would be followed by a remedies order. Statutorily, they could have gone till October to do that, as late as October. They did it now. In light of the remedies implementation order, that requires the accounting treatment Jason just described. It doesn't change at all our belief and our confidence in this case. By the way, the hearing, the appeal to the Competition Appeal Tribunal was yesterday and today. So that part is done as well. Now we will wait to see what they rule on the appeal.  

You know, we have said and I've said we've been very consistent. We think this action is unprecedented, overreaching. It effectively is opening up an already agreed on binding legal contract, but we'll see how it plays out. In the meantime, we've deferred the revenue through the end of this year, as required and to articulate and quantify what it could be. If nothing else changed, it would be another approximately $100 million deferral or reduction of Airwave on a full-year basis next year.

Adam Tindle  
Analyst, Raymond James & Associates, Inc.  

Okay. And that $100 million is on revenue. Would that also be about approximately that on the EBIT line or any way for us to think about EBIT on that $100 million?

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

So as I mentioned to Tim, the cost structure and our needs to run this network haven't changed. So the lower revenue largely tracks to a lower margin amount as well.

Adam Tindle  
Analyst, Raymond James & Associates, Inc.  

Got it. Okay, makes sense. And then absent that, obviously, Greg, as you mentioned, the rest of the business is running incredibly well. Notably, the PSI segment, over 50% operating income growth on 12% revenue growth. And I'm looking at first half margin near 20%, which is I think maybe even unprecedented for that segment in total for the first half.  

So I guess the question on that would be how do you see the margin trajectory of that piece of the business? I know it's been through a lot, whether it was COVID and pandemic and all that. I wonder if you're coming out the other side with maybe a structurally improved margin profile, and how you're thinking about the trajectory of that piece of the business?  

Thanks
First of all, I'd say that — and again, I compliment the team, Jason, Jack, on the improved gross margins, both on cost of goods as well as, as you know, we've taken a series of pricing actions starting last year and coming into this year. We view those pricing actions as sticky, not transient. So the margin profile is better.

In terms of growth of LMR and the technology, we've guided for the full year mid-single digits. We still expect that to be appropriate full-year guidance. We're coming off some monster comps in the first half of this year. And by the way, the Airwave accounting treatment of the $80 million reduction or deferral in revenue is in the back half of this year. That would be reflected in the LMR technology.

Having said that, I'm super proud of the gross margin expansion and operating margin expansion. And while, obviously, we're sitting in August, so it's too early to talk about 2024. But it would be my and our expectations to grow operating margins in 2024 as well.

So it's important to note also, in terms of the first half performance, and you're right, we had significant margin expansion in products. That's off of last year's first half, which included our highest broker costs as well as last year's first half didn't include our own pricing increases. So effective July 1 of last year, in our second half, you saw significant — on good growth, significant margin step-up in the second half. That's continued through the first half of this year.

And as we look to growth in our second half this year, we'll still have margin increases over those records from last year. And really that's a function of when we implemented the price increases and when the PPV or higher broker costs have come out of our product set.

Got it. Thank you.

Thanks, Adam

Operator: And we'll move next to Ben Bollin from Cleveland Research. Your line is open.
Ben Bollin  
Analyst, Cleveland Research Co. LLC

Thanks. I appreciate you guys taking the question. Greg, I was hoping you could – you made the comment about the overall funding environment being so healthy. And I'm not trying to get you to guide into 2024, but I'm interested in how you think about just public sector funding overall, the sources of income to public sector. How do you think that's evolving as you look out over into 2024 and beyond?

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

I like, number one, to your point, Ben, thanks for the question, the underlying demand drivers of the business are strong, absent funding. Then you get the funding. And I talked about the – as best we can tell, the percentage orders in terms of order volume attributed to ARPA is 5% or less. The other thing I like is the multiyear nature of state and local funding, which is, you know, $350 billion in the Inflation Reduction Act and $170 billion of education, which is an absolutely prioritized vertical for us and what Jack Molloy and his team are doing.

So we're not going to guide on 2024, but the fact that we had the print we had and record Q2 orders and record Q2 ending backlog and improved 12-month duration of backlog, and the other thing Malloy and I track is pipeline, right? So what's the pipeline and funnel? What's the stuff coming in at the top? How are we doing on order conversion and velocity? And when Jack and I look at that, that's favorable as well. And in terms of the health of the overall state and local budgets, they remain strong too.

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

Thank you, Greg. And I think what I would say there is when we think about top of the pipeline being quoting, bottom of the pipeline being orders, and then the most important metric is the velocity between those two, our velocity remains consistent. In fact, it's improved. And we've seen a growing number of quoting. So I think that portends well to 2024.

The other thing that I think is lost on a lot of people, when we think about government funding, we talked about ARPA. But when you think about personal income tax, corporate income tax, and sales tax, those three funding streams have all been the beneficiary for government from inflation. So inflation for them means they get more tax receipts in, and their costs haven't necessarily gone in parallel. And I think a lot of people don't necessarily understand that, but I just wanted to mention that. So, all things in, I think the funding environment in government remains very strong.

Ben Bollin  
Analyst, Cleveland Research Co. LLC

That's helpful. I appreciate that. And then, Jack, I was hoping you could take us through how you see K-through12 developing. If you could, speak to significance of the deal sizes themselves, the nature of the projects that you're seeing. Just any thoughts there would be helpful. And that's it for me. Thank you.
Jack Molloy  
Executive Vice President & Chief Operating Officer, Motorola Solutions, Inc.

So K-through-12 is a – there are really two technologies. It's Video Security and Access Control. And depending on the type of school district, we've seen an acceleration into our Alta, Avigilon Alta, which is cloud, but we've also got larger school districts that continue to buy Unity. But the K-through-12 education, in general, we put the marker in that our Video business is growing 15%. K-through-12 and the EDU market is surpassing that growth level. It did last year and it continues to grow through the first half of this year very robustly. And I think some of that's the beneficiary of ARPA funding. But I think a lot of it is really much more – it's much more secular around school security and that it's getting prioritized over above everything else.

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

One more thing maybe to add to that is, just from a Safety Reimagined standpoint, we're also integrating Rave along with Orchestrate. And Rave, we now have integrations going into Aware with a panic button. We also have the capacity to integrate weapons detection. We also launched weapons detection for the schools' market. So all in all, we have other tailwinds coming with us there to push the whole story from a school security standpoint.

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

Good point, Mahesh.

Ben Bollin  
Analyst, Cleveland Research Co. LLC

Thanks, guys.

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

Thanks, Ben.

Operator: We'll take our next question from Joseph Cardoso with JPMorgan. Your line is open.

Joseph Cardoso  
Analyst, J.P. Morgan Securities LLC

Hey. Good afternoon and thanks for the question. Just one for me and maybe this is just kind of a broader picture question. The guide embeds sort of a normal seasonality in the back half, at least relative to pre-COVID era. However, at the same time, you guys are staring at a much larger backlog now. Can you just walk us through the puts and takes around that? Why you're not seeing better seasonal trends as we kind of go through the back half? And I guess,
particularly just given that you’re seeing better supply headwind – or sorry, you’re seeing supply headwinds ease more broadly. Just curious whatever thoughts you have on that. Thank you.

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

Yeah, Joseph, just – I’m sure Jason will jump in as well. But I remind you that, you’re right, normally, this business is typically Q3 and Q4 weighted and seasonally dense. I think that’s unchanged. But remember, we’re guiding an increase in top and bottom, even with the $80 million of Airwave deferral in the back half and another $50 million of the low-end PCR business model change. Jason can elaborate on that. So that’s $130 million of revenue growth that needs to be incorporated into the second half guide, but still informs and allows us to raise. And on the bottom EPS line, we have an incremental $0.30 tax headwind, $0.50 for the year. We had a $0.20 headwind first half, $0.30 of EPS structural tax headwind back half. So as you incorporate those ingredients into the blender, it shouldn’t take away or distract at all that the demand is strong, the raise is strong, and the momentum is strong.

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

For business model change in low-end PCR, we mentioned in February, we’ve gone to a model where we only recognize the margin and the revenue in the product, no longer the COGS. So it’s OE neutral, but did change the revenue line. That was a way to focus our business on higher value efforts. So that’s something.

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

And the choice was made.

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

...the choice we did in February, and it’s working out quite well. The other thing I’d point to is the lead times from our key semiconductor manufacturers and the commitments they give us for getting us the products and the semiconductors we need, support the increased guide and continue to represent opportunity for us as we go forward. But we get commitments from them and we plan the business and how much revenue we can unlock out of backlog based on that.

Joseph Cardoso  
Analyst, J.P. Morgan Securities LLC

Got it, thanks. Appreciate all the color there.

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

Thank you Joseph.
Operator: The next question comes from Keith Housum with Northcoast Research. Your line is open.

Keith Housum  
Analyst, Northcoast Research Partners LLC  
Good afternoon, guys. And great results and impressive guide. Greg, as we look at your Software and Services margins hitting almost 37% this quarter, I guess the question is where can those margins go to and maybe some color on the incremental margins for every buck of business brought in can help us kind of clear the picture.

Greg Brown  
Chairman & Chief Executive Officer, Motorola Solutions, Inc.  
Well, we had previously said, Keith, thanks for the question, that on the full year, we thought we could achieve comparable margins. We had great S&S performance in Q2 and we thought we could have, for the full year, as we told you a quarter ago, comparable, maybe slightly down, but I thought we were shooting for comparable operating margins. In light of the required accounting treatment on Airwave and the decrement of $80 million starting August 1, that falls obviously to S&S and the requisite profitability that Jason articulated. So I now and we now expect S&S operating margins, accounting for that deferral, to be down on an operating margin year-over-year basis.

In terms of next year, it's too early to guide for that. And we have to see, ultimately, what's decided with the Competition Appeal Tribunal appeal and what the disposition of Airwave is from a financial perspective.

That said, we continue to make improvements on synergies and platforming S&S. Maybe Mahesh could talk a little bit about that. We're doing some successful orchestration and integration to get the software sleeves more integrated and working a little bit more seamlessly and a little bit more efficiently. So there's opportunity, Keith, but it would be premature to quantify at this time.

Keith Housum  
Analyst, Northcoast Research Partners LLC  
All right. I appreciate that.

Mahesh Saptharishi  
Executive Vice President & Chief Technology Officer, Motorola Solutions, Inc.  
So across our platforms, whether that's cloud or on-prem, we're exercising greater synergies in terms of core technology stack. We are optimizing some of our cloud delivery capabilities and really focusing a lot on ease of install as well. So all of that translates to hopefully a good gain for us.

Keith Housum  
Analyst, Northcoast Research Partners LLC
Got you. Thank you. And then coming back to the CMA ruling and the appeals process, I guess, Greg, what's the next step? Assuming that you guys lose on appeal, can you provide perhaps a rough timeline about how this plays out here over the next year or two?

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

Well, in terms of the appeal, it would be our expectation that the CAT rules on the appeal by the end of Q3. I don't really want to get into hypotheticals on if this than that. But we have been consistent, Keith, that said we will exercise all legal avenues available to us. So the next step after the CAT, if the CAT rules against us would be us taking this to the UK Court of Appeals. And that would be after the CAT ruling. I don't know the timeline of what they would do. What happens there is they have to decide, up or down, whether they would actually hear the case. I don't know the timeline that they have available to them in terms of the window to decide. So this will go on a few more months, and hopefully, we can give you more clarity on the next earnings call.

Keith Housum  
Analyst, Northcoast Research Partners LLC

Great, thank you.

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

Thanks, Keith


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

Great, thanks. Just a couple questions for me. First, obviously, the backlog continues to grow. I guess, I just wanted to make sure, is there anything that we should be mindful of a peak quarter for a product just in terms of as the supply chain clears and less forward orders or is this just really a result of kind of strength in multiyear orders, maybe as a first question? And then as a second question, just traction on kind of bringing APX NEXT into the mid-market or just kind of adoption trends that you’re seeing there? Thanks.

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

Our expectation for backlog, and specifically product backlog, is for it to remain strong through the duration of the year. That’s a function of our expectations for continued strong inbound orders as well as the amount of backlog that we can unlock with the available componentry that we need.
Jack Molloy
Executive Vice President & Chief Operating Officer, Motorola Solutions, Inc.

And related to APX NEXT, Meta, we are now – we had a very strong quarter of new orders in terms of Q2. We received another $80 million, now bringing it close to $500 million in APX NEXT. And when I look at the complexion of those orders, it’s not just big cities, but it’s starting to hit into the Tier 2 cities as well. So we’re really pleased with the performance of that product line.

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

Great. Thanks

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

Thanks, Meta.

Operator: And our next question comes from the line of Louie DiPalma with William Blair. Your line is open.

Louie DiPalma
Analyst, William Blair & Co. LLC

Greg, Jason, Jack, Mahesh and Tim, good afternoon.

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

Louie, how are you?

Louie DiPalma
Analyst, William Blair & Co. LLC

Doing excellent. Thank you. As it relates to the LMR device refresh, last quarter you discussed how 80% of LMR radio orders were for your older APX radio, despite how APX NEXT has had the strongest demand of any new radio that you have ever introduced and how it was introduced way back in October 2019. Why are so many customers still adopting the older APX platform? And does this instill confidence that the upgrade cycle for APX NEXT will still potentially be in full effect even a decade from now?
Jack Molloy  
Executive Vice President & Chief Operating Officer, Motorola Solutions, Inc.

So just a couple points. The first of which is think about the government's procurement cycle, which is one to say it's a long cycle, it's long years. We did not announce the mid-tier APX NEXT until Q3, late Q3 of 2022. So, Louie, that's really a function of a byproduct of when it was announced, what was actually able to be quoted at that point in time. But without question, we're seeing acceleration to the numbers I just – $80 million in a quarter on the new orders, the type and this striation of customers that are buying those devices.

So the other piece of it, just historically speaking, having worked here long enough to see probably three pretty large-scale device refreshes, it typically takes three to five years post-launch to start to alleviate and move those legacy versions down and through the cycle.

Louie DiPalma  
Analyst, William Blair & Co. LLC

Great. And it seems that the House Committee has approved a $15 billion next-generation 9-1-1 funding bill. And on this topic, what is the status of the integration of Rave wireless with your VESTA solution? And has the adoption of Rave accelerated as a result of the combination with Motorola? Have you juiced up Rave's ability to generate orders from the education vertical and enterprise vertical?

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

Absolutely. So as of last quarter, we are now selling the Rave 9-1-1 suite along with our VESTA – new VESTA sales. So it becomes part of that as a whole. In addition to that, we have been actively working on just – Rave, remember, is an important bridge for us from enterprise security to public safety. And we're adding more and more lanes to that bridge with every integration that we do here. The VESTA integration is definitely one of those. I mentioned the panic button integration with Aware being another one.

We're integrating Rave into Orchestrate, which now ties that in with the Video and Access Control pieces as well. So together, Rave now plugs into public safety more effectively. And then Rave and Aware together actually allows us to connect different instances of CAD as well. So dispatchers instances can communicate with each other as well.

So as you look at the installed base that we have in VESTA, as you look at the installed base that we have in schools, K-through-12 schools with Video and Access Control, we're leveraging all of that by bringing that together as this bridge between public safety and enterprise security gets wider.

Louie DiPalma  
Analyst, William Blair & Co. LLC

Great. Thanks, Mahesh. And lastly for me, do you have any thoughts on the reported TETRA cyber security vulnerabilities?

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

Sure. So I think the first thing is ETSI is the primary spokesman and custodian for the TETRA standard in conjunction with the Critical Communications Authority in Europe. What was reported, I think first thing I'd like to point out is what we
reported, is there was no weaknesses found in the public safety algorithms. There's three algorithms TEA1, T-E-A-1, is actually for general use. It's a little bit more open due to export control issues. But there's been no exploitation of operational networks that we know of. And essentially, subsequent to those findings, which we knew about even into late last year, there's been software patches and then upgrades to the algorithms that have been done subsequent to that.

So this was actually paid. This was a research tank done out of the Netherlands, who actually did the testing. So, yeah, it's something we knew about. We had a – primary weakness was in general use and I think it's been remediated since then.

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**Louie DiPalma**  
Analyst, William Blair & Co. LLC

Great, so it's been resolved. All righty. Thanks.

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

Yes. In our view, yes.

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

Thanks, Louie.

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**Louie DiPalma**  
Analyst, William Blair & Co. LLC

Thanks.

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**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.

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

Thanks, everybody. Thanks for joining us. But just in closing, I want to make sure I thank all the employees and the people in Motorola Solutions worldwide and all of our channel partners worldwide. I'm proud of you and we're proud of you, most especially what you do, how you do it, and the execution.

I said in the call, you heard from Jason and Mahesh and Jack, this business is performing as well as I've ever seen it. Demand is strong. It's strong for what we do, public safety, enterprise security. And I like what we're doing to meet that demand and exceed that demand with the execution of what we do and what we're doing on the portfolio reinvention and
device refresh. We talk a lot about APX NEXT and all the great work done there, but there's also great work being done on Video Security and Access Control that Mahesh is doing around 9-1-1 Command Center.

And while we're doing that and running the business and lowering broker costs and incrementally improving supply chain and engineering in real-time, doing product redesign, we're expanding gross margins. We're expanding operating margins. We have a record Q2 for orders. We end Q2 with record backlog. We talked about the duration of backlog being stronger. And Jack talked about the pipeline activity and the order velocity and conversion, it's excellent. And Jason talked about that we expect backlog to be strong for the remainder of the year.

The last two things I'd say is we referenced it a little bit. We just talked about Rave. I'm really proud of the acquisitions we've made, the integration work that's been done organizationally and strategically, but also technically. And those acquisitions are performing at or above what we expected. I love the upgrade we just got. We have a strong balance sheet. We continue to be disciplined in capital allocation, and I think we have an excellent opportunity in front of us.

I appreciate you joining us and we'll talk to you again in a few months. Thank you.

Operator: Ladies and gentlemen, this does conclude today's teleconference. A replay of this call will be available over the Internet within three 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.