MOTOROLA SOLUTIONS

Q2 2024 Earnings Conference Call
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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

Alyssa Shreves – Research Associate, Barclays Capital, Inc.
Matthew Niknam – Analyst, Deutsche Bank Securities, Inc.
George C. Notter – Analyst, Jefferies LLC
Joseph Cardoso – Analyst, JP Morgan Securities LLC
Adam Tindle, Analyst, Raymond James & Associates, Inc.
Ben Bollin – Analyst, Cleveland Research Co. LLC
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MOTOROLA SOLUTIONS, INC. MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for holding. Welcome to the Motorola Solutions Second Quarter 2024 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 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 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 now begin your conference.

Tim Yocum, Vice President, Investor Relations

Good afternoon. Welcome to our 2024 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 have 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 and the comments made during this conference call in the Risk Factors section of our 2023 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.Greg Brown, Chairman & Chief Executive Officer

Thanks, Tim, and good afternoon, and thanks for joining us today. I'll start off by sharing a few thoughts about the overall business before Jason goes through our results and outlook.

First, Q2 was another outstanding quarter with record Q2 revenue and operating earnings. Products and SI revenue was up 15% and operating earnings were up 56%, driven by continued strong demand and favorable mix within LMR products. In Software and Services, revenue was flat. Excluding the U.K. Home Office, revenue was up 11%, driven by strength in all three technologies. And we also increased earnings per share by 22%, generated $180 million of operating cash flow, and ended the quarter with $14 billion of backlog, positioning us well for our continued growth.

Second, I'm encouraged by the continued momentum we're seeing across the business. In Video Security, revenue was up 10%, driven by growth in both our fixed and mobile video solutions and increasing in Software and Services. In Command Center, revenue increased 9%, as customers continued to adopt our solutions that help them effectively accelerate response and resolution of incidents. And in LMR, revenue increased 9%, inclusive of the U.K. Home Office headwinds driven by LMR products, as well as managed and support services.

And finally, based on our Q2 results, robust demand, and continued prioritization for safety and security by our customers, we're again raising both our revenue and earnings guidance for the full year.

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 9% and was above our guidance with strong growth in all three technologies. Acquisitions added $13 million, while FX headwinds were $5 million during the quarter. GAAP operating earnings were $644 million or 24.5% of sales, up from 21.6% in the year-ago quarter. Non-GAAP operating earnings were $758 million, up 18% from the year-ago quarter, and non-GAAP operating margin was 28.8%, up 210 basis points, driven by higher sales, favorable mix, and improved operating leverage partially offset by the Airwave Charge Control.

GAAP earnings per share was $2.60, up from $2.15 in the year-ago quarter. Non-GAAP earnings per share was

$3.24, up 22% from $2.65 last year. The growth in EPS was driven by higher sales and margins and a lower diluted share count, partially offset by a higher effective tax rate in the current quarter. OpEx in Q2 was $593 million, up $38 million versus last year, primarily due to higher employee incentives and acquisitions.

Turning to cash flow. Q2 operating cash flow was $180 million, up $87 million versus last year, and free cash flow was $112 million, up $72 million. These increases were primarily driven by higher earnings, partially offset by higher employee incentives and higher cash taxes.

Our year-to-date operating cash flow was $562 million, up from $85 million in the previous year on higher earnings and significantly improved working capital. And we now expect operating cash flow for the full year to be $2.25 billion, an increase of $50 million versus our prior expectations and double-digit growth expectations over last year. Capital allocation for Q2 included $163 million in cash dividends, $71 million in share repurchases, and $68 million of CapEx.

Subsequent to the quarter-end, we also closed two acquisitions for a total of $223 million. The first is a global provider of critical event management software that expands our Command Center presence internationally and also complements our Rave acquisition. The second is a provider of vehicle location and management solutions that further builds on our leadership in providing mobile video solutions for the financial services sector. We expect these acquisitions to generate approximately $15 million to $20 million of revenue per quarter, primarily in video, and to be slightly dilutive to the second half of this year.

Moving to segment results. In Products and SI, sales were up 15% versus last year, driven by continued demand along with improvements in supply in LMR. Currency headwinds were $2 million, and revenue from acquisitions contributed $12 million. Operating earnings were $445 million or 26.8% of sales, up from 19.8% in the prior year, driven by higher sales, favorable mix and improved operating leverage.

Some notable Q2 wins and achievements in this segment include a $32 million P25 system and device order for the City of Naperville, Illinois; a $19 million P25 system upgrade for Washington County, Virginia; an $18 million P25 system order for a US federal customer; a $17 million P25 device order for a US customer; an $8 million fixed video order for a large state and local customer; and a $6 million video order for Newark Public Schools in New Jersey.

In Software and Services, revenue was flat compared to last year. Excluding the U.K. Home Office, revenue was up 11%, driven by strength in all three technologies. Revenue from acquisitions was $1 million in the quarter, and FX headwinds were $3 million. Operating earnings in the segment were $313 million or 32.3% of sales, down from 36.9% last year due to the revenue reduction related to the Airwave Charge Control, which was partially offset by improved operating leverage elsewhere in the segment. Excluding the U.K. Home Office, Software and Services operating margins increased during the quarter on higher sales and improved operating leverage.

Some notable Q2 highlights in this segment include a $19 million LMR order for the Victorian State Government in Australia; an $18 million LMR order for a US federal customer; a $12 million Command Center order for the Las Vegas Metro Police Department; an $11 million LMR order for American Airlines; and finally, we received a $16 million mobile video award with Police Scotland. This award was part of a $30 million investment made by Police Scotland to procure body-worn cameras, LMR radios and mobile application software, demonstrating their recognition of the strength of our integrated ecosystem.

Looking at regional results, North America Q2 revenue was $1.9 billion, up 17% on growth in all three technologies. International Q2 revenue was $711 million, down 7% versus last year due to the impact of the Airwave Charge

Control. Excluding the U.K. Home Office, international revenue was up mid-single digits with growth in all three technologies.

Moving to backlog. Ending total backlog for Q2 was $14 billion, a decrease of approximately $300 million or 2% versus last year. Excluding the U.K. Home Office, total backlog was $12.5 billion, up from $12.4 billion last year. In the Products and SI segment, ending backlog decreased $482 million versus last year and $308 million sequentially, driven by strong LMR shipments as supplier lead time improvements enabled us to ship additional products earlier in the year and improve our sales linearity.

In Software and Services, backlog increased $164 million compared to last year, driven by multiyear software and services contracts across all three technologies, partially offset by 12 months of revenue recognition from the U.K. Home Office. Sequentially, backlog was down $129 million, primarily driven by the quarterly revenue recognition for the U.K. Home Office.

Turning next to our outlook. We expect Q3 sales growth between 7% and 8%, with non-GAAP earnings per share between $3.32 and $3.37 per share. This assumes a weighted average diluted share count of approximately 170 million shares and an effective tax rate of approximately 24%.

For the full year, we are again increasing both our revenue and earnings per share guidance. We now expect revenue growth of approximately 8%, up from our prior guidance of approximately 7%, and we expect non-GAAP earnings per share between $13.22 and $13.30 per share, up from our prior guide of $12.98 to $13.08 per share.

The full-year outlook assumes a weighted average diluted share count of approximately 171 million shares and an effective tax rate of approximately 23.5%. It also assumes operating margin expansion of approximately 100 basis points, up from our prior expectation of 75 basis points, driven by higher sales.

And finally, before turning the call back to Greg, I wanted to share some insights regarding our increased expectations for the year. In Video, we now expect approximately 12% of growth for the full year, inclusive of the recent M&A. Video continues to be an exciting opportunity for us, with new products like ACC 8 video management system, H6 cameras, our latest AI-enabled video recorder, and both cloud and on-premises offers.

And for LMR, we're increasing our expectations to mid to high single-digit growth for the full year, which includes the headwinds related to the U.K. Home Office that we communicated at the beginning of the year.

On the continued strength of LMR, I point to a couple important drivers. First, in LMR services, we have a significant install base, and our customers are increasingly relying on our expanded services offerings such as cyber and software upgrade agreements as they continue to invest in their networks for the long-term.

And second, in LMR products, strong demand for feature-rich devices continues to drive growth and margin expansion. For example, we have thousands of public safety customers who are on multi-year technology refresh cycles. These customers are increasingly adopting advanced devices like our APX NEXT family.

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

Greg Brown, Chairman & Chief Executive Officer

Thanks, Jason. And let me just close with a few thoughts. First, our Q2 results highlight the continued momentum we're seeing across the business. We achieved strong revenue growth in all three technologies, we significantly increased operating margins, we grew earnings per share by 22%, and we generated $180 million of operating cash flow.

Second, we're continuing to use our strong cash flow and healthy balance sheet to create shareholder value and invest for continued growth. Year-to-date, we've spent a little over $700 million to reduce our diluted share count, inclusive of the Silver Lake convertible note and share repurchases, and we've invested more than $250 million on acquisitions, adding solutions like long-range cameras, vehicle location, and critical event management software.

We also expect to spend approximately $850 million of R&D this year, focused on expanding our powerful safety and security offerings across the business. And we recently announced the opening of the R&D center in Cork, Ireland, which will focus on designing software for the company's comprehensive Land Mobile Radio portfolio.

These investments enhance our powerful ecosystem where video, radio and software work together to improve situational awareness, automate response, and more efficiently manage evidence across the various devices and platforms used by security personnel.

And finally, as we enter the second half of the year, I really like how we're positioned. Our solutions have never been more important for customers as they continue to prioritize safety and security. We're seeing increased adoption of our cloud offerings in Video and Command Center, which drove record Q2 backlog in those respective technologies. And we've launched several new products including VESTA NXT, our new cloud-based 9-1-1 call-handling solution, and our MXP660 TETRA radio, which is the APX NEXT equivalent for the TETRA market, providing both LMR and LTE capabilities in the same device. All of this is driving continued demand and an orders pipeline that's now about $1 billion higher than it was at this point last year, positioning us very well for growth going forward.

And with that, I'll turn the call back over to Tim.

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, could 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] The first question is from Tim Long from Barclays. Your line is now open.

Alyssa Shreves
Research Associate, Barclays Capital, Inc.

Hi. This is actually Alyssa Shreves on for Tim Long. I just wanted to check in, given the outperformance we've been seeing in LMR, what inning are we in in the LMR refresh cycle? We've had two strong quarters on the back of strong quarters from the year prior. Just how should we kind of think about the business moving into 2H? And then I had a quick follow-up.

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

Yeah. I think, look, we're really pleased with the device refresh and the newer portfolio that we continue to release globally. I think when I think of the APX NEXT family of devices, it accounts – we think it will account for less than a quarter of the public safety device shipments this year. So, that dimensionalizes kind of the opportunity for that.

And by the way, we also, as I mentioned in the remarks, also just announced its equivalent, the MXP660 for TETRA, which opens up Europe and the international market, and that's a brand-new product which takes the combination of LMR and LTE capabilities to one device. So, I think that is a contributing factor, but the demand for LMR, both product, services, devices, and writ large, the whole technology portfolio remains quite strong.

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

And, Alyssa, we mentioned during the call that our outlook for LMR as a whole of the technology this year has gone from mid to mid to high. That will include growth in both Products for the year, as well as Software and Services ex Home Office. So, strong growth drivers across. And within the quarter and within the first half, with the supply chain improvements that we saw, Products, and LMR products specifically, we were able to attain more supply and lead times improved, which in part drove the performance for the first half in LMR products.

Alyssa Shreves
Research Associate, Barclays Capital, Inc.

Thanks. And then just a quick follow-up on the Video business. Has there been any change in terms of what you've been seeing with customer cadence, with customers moving from on-prem to cloud? Thank you.

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

So, we talked about a $40 million headwind, Alyssa, this year kind of incorporating the prem to cloud momentum that you just referenced. In Q2, our Video software business grew 24%. Cloud and cloud adoption was exponentially higher than that. So, quite frankly, it's performing as expected and cloud adoption remains very strong.

Alyssa Shreves
Research Associate, Barclays Capital, Inc.

Great. Thank you so much.

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

Thank you.

Operator: The next call comes from the line of Matt Niknam at Deutsche Bank. Your line is now open.

Matthew Niknam
Analyst, Deutsche Bank Securities, Inc.

Hey, guys. Thanks for taking the question. My first question is on M&A. Greg, I think you've been vocal around, I guess, perhaps an increasing number of opportunities, perhaps more willingness on the part of prospective sellers in the marketplace. We saw – you talked about the two deals you've recently done. I'm just curious if you can maybe give us a little bit more of an overview in terms of what you're seeing, the latest out there in the M&A front, and potential opportunities.

And then secondarily, maybe a follow-up on cash flow. So, the guide this year is for about $2.25 billion. You've done, I believe, $562 million year-to-date. So, can you just talk a little bit about the visibility and confidence in that second-half ramp, and I guess in particular, how we should think about working capital in that context? Thank you.

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

But just on the second one first, we increased our operating cash flow expectations from $2.2 billion to $2.25 billion. I think that's a reflection of the confidence you're asking about in our ability to generate cash flow. Remember also the linearity of the way cash flow is generated by this business. Overwhelmingly, it's typically back half – actually even more heavily weighted in Q4. And we expect the linearity of the cash flow generated and the yield associated to be reflective of that as well.

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

Actually, Greg, it's even better linearity this year with our first half. We're strongly ahead of where we were last year as inventory working capital have come down. But you're right, the back half is usually significant cash flow contributors, and we're well on path to the $2.25 billion.

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

On the M&A front, Matt, we like the two acquisitions we made. We like the fact and you know, I think we're pretty good stewards of capital. And we always think about the deployment of capital along a framework of 55%, 30%, 15%. 55% fungible between share repo and opportunistic M&A, 30% dividend, 15% CapEx. That's kind of a reference framework.

I do think the M&A funnel, even at this point for us, is quite active and there's some interesting opportunities. Like anything, we'll see if they materialize, but I like the way the business is performing and the underlying demand drivers organically reflective of the portfolio we have. Equally, I am energized by the opportunity as it presents itself from an M&A funnel standpoint, but we'll see. We certainly have the balance sheet capacity, with net debt to net EBITDA of about 1.5 times and a recent upgrade to BBB a quarter ago. So, I like the firepower we have, but we'll remain very disciplined and focused on how and where we deploy it.

Operator: The next question comes from George Notter from Jefferies. Your line is now open.

George C. Notter
Analyst, Jefferies LLC

Hi. Thanks very much. I wanted to ask about backlog. I guess I'm trying to better understand how we should think about backlog, Greg. There are puts and takes here. I think you said it was down sequentially, but up year-on- year when we exclude the UK Airwave situation. I think in the year-ago quarter, you had some big chunky orders also. There may be some other puts and takes I'm missing as well. But can you kind of walk me through how we should look at your backlog performance this quarter? Thanks.

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

Sure. So, first of all, it's a good question, George. Total backlog is up, as Jason referenced, year-over-year when you exclude the Home Office. That's kind of one reference point. Product backlog, while it deteriorated in Q2, it deteriorated because supply lead times improved really a lot faster than we thought, which informed the 19% print on LMR product growth in Q2.

Having said that, product backlog remains pretty healthy at like $4 billion – actually $4.3 billion off of a record comp the previous year. And as I referenced pipeline, the orders pipeline at this point is about $1 billion higher than a year ago, which I think is quite informative as well.

Having said all that, you put ingredients all into the blender, we expect total backlog comparable to slightly up off of a record last year. So, all in all, I feel pretty good about it. The linearity is a little lumpy and bumpy given the accelerated supply lead times that improved dramatically in Q2. But overall, I feel pretty good.

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

And, George, you're right, last Q2, we did have two significant product-related orders. The combination of Kern County, California as well as a Ukraine order, we're almost $200 million in that quarter, two sizable significant deals in last year's comp.

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

Good point.

George C. Notter
Analyst, Jefferies LLC

Got it. And then I assume really no impact from M&A or FX on backlog?

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

FX was fairly de minimis.

George C. Notter
Analyst, Jefferies LLC

Got it. And then M&A, I assume, also de minimis?

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

Yes. Yeah, exactly.

George C. Notter
Analyst, Jefferies LLC

Okay. Thank you.

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

Thanks, George.

Operator: The next question is from the line of Joseph Cardoso with JPMorgan. Your line is now open.

Joseph Caroso
Analyst, JP Morgan Securities LLC

Hey, thanks for the question. I guess just first one from me. Gross margins in the quarter tracked a lot better than what was anticipated. And if I look historically, you've been able to expand margins from 2Q levels through the year. But I guess if my math is right on the guide, it would imply a bit more of a muted cadence than what we've typically seen. Can you maybe just help understand what is driving that and whether there's anything under the hood in 2Q that we should be appreciating as an outlier? And then I have a follow-up. Thanks.

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

Sure. So, within the first half, at operating margin, I'll start there. We're pleased with our margin performance. We saw good growth on supplier lead times improving pretty significantly during the quarter and really in the first half as well. And we talked about on the call that, at operating margin, we'll see 100 bps of expansion on the year, that's up from 75 bps.

Within the mix, gross margins in the second half will remain comparable to first half and we'll continue to invest in OpEx, whereby now for the year, with the acquisitions that we've announced, our OpEx envelope is expected to be about $130 million more than last year. So, good progress on operating margin expansion and healthy gross margins to help drive that.

Joseph Caroso
Analyst, JP Morgan Securities LLC

Got it. Appreciate the color there, Jason. And then maybe for my follow-up, and this is a bit of a big picture one, but you talked about the LMR installed base and specifically the opportunity to address more services opportunity there. Curious if you could parcel that out a bit more, and how big of an opportunity that could be for Motorola to better monetize that installed base that you have, and how do you see that materializing over time. And maybe just lastly, and maybe this is a silly question, but like is this an area where you could potentially acquire? Or is that just far-fetched given your position and/or other variables? Thanks for the question, guys.

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

Yeah. So, big picture from a services standpoint, I think we've got growth opportunities in a number of different facets. Number one, cyber. Our networks, particularly the public safety P25 networks in the United States, Canada and certain countries abroad, we've got opportunities and our customers have asked us to step up in that capacity.

The second piece of it is just a scope, just general scope increases across the board globally. The third piece of it is that we managed various networks. We're in discussions right now with two different European countries and a network in South America that we manage for extensions. And to every one of those, it's not apples for apples. It's usually apples plus something. So, we're encouraged by the opportunities in front of us from a services standpoint.

Joseph Caroso
Analyst, JP Morgan Securities LLC

And then just on potential M&A in the services areas of LMR. Is that an opportunity as well, or is that kind of far-fetched?

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

I think it's relatively rare. The last one we did on the services side was TETRA Ireland. We always look for opportunities there. Obviously, that's of interest. That's our power alley and what we do well in provisioning and delivering and own and operating LMR networks. There could be an opportunity or two, but we'll see. But I – they're more – they're not typically run rate or every year. They're every few years an opportunity.

Joseph Caroso
Analyst, JP Morgan Securities LLC

No, understood.

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

The only other thing I'd add is just on these managed service networks, we don't typically just look at those through the lens of LMR. Those actually provide us a platform to go and do things like body-worn-as-a-service within national police agencies as well. Fixed video contracts that we're looking to start to provide as a service as well. So, there's a little bit of a flywheel effect when we get those service opportunities.

Operator: The next question is from the line of Adam Tindle with Raymond James. Your line is now open.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Okay. Thanks. Good afternoon. Greg, I just wanted to maybe touch on the product revenue growth trajectory from here. If I look at the guidance, obviously, this has been a very, very strong segment for multiple years now. We're going to start getting into the mid to high-single digits in Q4, if my math is right, trying to back into this.

And I know that you'll give a greater look into 2025 on the next call typically. But as I kind of try to map out the trajectory of product revenue growth, do you see a scenario where we're potentially going to have more of a soft landing? Or do you think there could be a greater digestion where growth could end up turning negative beyond Q4?

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

Yeah. Look, I would say this, kind of stepping back, the demand, the orders pipeline, the backlog, state and local funding, which is good and looks to be good again in 2025, the continued funding environment at the federal level, I mean, Adam, there's a lot of variables here, device refresh, systems and services scope. Love the growth. As Jason referenced, we raised it for LMR from mid to mid to high. That's informing the full-year raise to approximately 8%, and I see continued runway here.

Now, you're right, we're obviously not going to talk about 2025. Q2 was particularly strong again because component supply drove improved lead times faster than we thought. We still, Adam, expect continued products growth in the second half of the year. So, look, I like the way the business is running, and I – but not just for the quarter, I like the momentum we have for the balance of this year, and we'll see what happens next year. But I really like the position we're in. And we'll probably give you some color, high level, on the next quarter, as you referenced, to inform 2025.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Got it. That's helpful and fair.

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

Yeah, thanks.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Maybe just as a follow-up on the increased adoption of cloud in Video and Command Center, and I think we might have Mahesh on the call in case he wants to weigh in. But I'd be curious what is driving the tipping point to really inflect that adoption now? Also, how you would evaluate the competitive environment and Motorola's differentiation in the cloud portion versus the non-cloud portion?

And then lastly, I'm sorry, this is a multi-parter, how the financials are impacted in a cloud sale versus a non-cloud sale? Are we in a situation where we might have some cannibalization or change to financials if this happens? Thanks.

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

Sure, Adam. To begin with, I think one of the reasons why Avigilon has historically been strong is because of we offer an end-to-end solution, which is video plus access control tightly integrated. And that end-to-end solution, in many ways, gets amplified with a cloud story. It's one where the installation, the configuration, and the ability to deploy with the least amount of hardware bits on sites become that much more attractive. So, we see that as one of the reasons why, starting with our smaller customers but now very quickly going into much larger installations as well, we see a preference and a drift towards the cloud.

And then on top of that, there are also capabilities, AI services, and additional capabilities that we're able to deliver via the cloud to augment what we already do at the edge, and that's also a motivator here as well. So, that's – I'd say that that's in many ways, one of the things that's driving the cloud growth, which, as Greg already said, while software, video software itself is growing at 24%, cloud software, very specifically, is actually growing even faster.

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

Yeah. And I think that the growth rate, strong cloud adoption of what we call Avigilon Alta, which is the cloud version, Avigilon Unity being prem, is the reflection of the of the success Openpath acquisition and of Ava, and the successful integration for combined video and access control under the cloud with Mahesh's leadership and Alex Kazerani. So, part of the other, to quote you, "inflection point" point of our continued growth is the successful, not only acquisitions, but the integration and the yield and the benefits associated with our cloud platform. I think the team's doing quite well.

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

The only other thing I'd add, Adam, is our Cloud Connector is the differentiator with our customers. It enables our customers to keep their cameras and move to cloud VMS. It's not a closed system, and I think that's a big value proposition differentiator between us and our cloud competition.

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

You're right Jack.

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

It's exactly right. It's unlike many of our competitors in this space. Our direct-to-cloud cameras are actually standards compliant. And they don't get locked out if that access is not present.

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

Both on-prem and cloud for us are solid business models. They're value propositions to customers. Of course, we've planned for the $40-million impact of the cloud acceleration that's on track. And both have a good margin structure. And as you know, cloud comes with the stickiness with the term license, that upon renewal, leads to even greater renewal. So, we're pleased with both models.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Greg, you know I always get my money's worth. Appreciate it.

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

Absolutely, Adam. Fire away. No problem.

Operator: The next question is from the line of Ben Bollin with Cleveland Research. Your line is now open.

Ben Bollin
Analyst, Cleveland Research Co. LLC

Good evening, everyone. Thanks for taking the question. Jason, I wanted to go back to the product gross margin. If you exclude mix from the discussion, where would you say you are on the progress with respect to reducing the BOM, supply chain efforts, any logistics optimization? What have you seen? What your thoughts on where you're at and what might be left there?

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

Yeah. So, we mentioned that supply continues to improve and did so in Q2. If I think about the financial benefits that we're planning for and are showing up, we talked about the year's guide included when we opened in February about having about a $60-million improvement in costs relative to semiconductors and PPV.

We're actually on a year basis, probably trending closer to $70 million. And by the way, that benefit is in both first half and second half. So, we're seeing the benefit of prices, as well as premiums, coming down. In terms of product or mix, we continue to see favorable mix. We see volume growth complemented by mix. Both are helpful in terms of the growth drivers you've seen.

Ben Bollin
Analyst, Cleveland Research Co. LLC

That's great. And then last one from me. Greg or Jack, could you remind us on the overall mix of within backlog, what you see from commercial and public safety, and how you would just remind us on the integrity of those orders versus maybe a more traditionally enterprise-focused orders? Thanks.

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

Yeah. The backlog composition is almost 95% government direct. Why that's important is our direct sales force, it's clean line of sight to that backlog, and it's not the channel.

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

And given the funding vehicles and procurements within government, governments order according to their prioritization and they issue a PO to a company like us directly. They don't subsequently order from someone else. So – and we are fulfilling that backlog. And our backlog, as Jack mentioned, 95%-plus comes from our public safety direct customers.

Ben Bollin
Analyst, Cleveland Research Co. LLC

Thanks, everyone.

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

Thanks, Ben.

Operator: The next question is from the line of Amit Daryanani from Evercore. Your line is now open.

Irvin Liu
Research Associate, Evercore ISI

Hi. This is actually Irvin Liu on for Amit, and thank you for the question. I wanted to double-click on the international business. I think overall growth in Q2 was mid-single-digits, and that was a deceleration versus quarter ago. And this is all excluding any sort of U.K. Home Office impact. Any sense on how the overall macro and/or demand backdrop for international compares versus North America? And longer-term, should we expect international mix to expand as a percentage of total?

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

Yeah. I think we think international is a great opportunity. I mean if you think about it, it's up mid-single-digits in Q2 outside of the Home Office. There's really three things. We've got within Europe very large managed and support service business there. We've just announced a new device, as Greg alluded to earlier, being the MXP660, which not only elongates our customers' investment in that managed support service but brings another opportunity from a device standpoint. Australia continues to be a market that we perform quite well.

But the other piece, there's two other elements, within our Video business, we've talked about it before, but mobile video, we compete exceedingly well. Mahesh's team has brought – recently brought out a new device to market, another VB device. We talked about Scotland. We've got great opportunities both within the government space, but also in the enterprise space outside of the United States. So, international continues to be a great market. We've got great leadership there. And I feel – I think we all collectively feel really good about opportunities for growth.

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

And I know, Amit, you and the team know this, but just to remind everybody, our international revenues, over – almost 75% of them come from EMEA, Australia, and New Zealand. That's our strength. That's where we build networks. That's where we have flywheels of growth, and those are great markets for us for Jack and his team.

Irvin Liu
Research Associate, Evercore ISI

Got it. And maybe as a follow-up, I also wanted to just get an update on the U.K. Home Office. I'm not sure if there's anything new to report versus a quarter ago. But can you just walk us through a range of potential outcomes?

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

There's actually one new point from a quarter ago, and that is, just to – it's a good question, to level set, you know the dispute, it's been ongoing. It's been several years. We believe the CMA ruling was unfounded. We think it's disproportionate. We think it's unprecedented. You've heard us talk about that. We appealed that. We lost. So we appealed to the Competition Appeal Tribunal and we lost.

So, the only last option as it relates to this dispute, on the imposition of the Charge Control was the UK Court of Appeal, which is their highest court in the UK. And noteworthy item is they decided to hear the case. So, that's a new development. That hearing is November 11 and 12. Impossible to predict what that is, but that is something that's new from when we talked about this a quarter ago.

I just want to remind you that as it relates for Q2, the rest of this year, the full year of this year, we are operating under kind of the draconian disproportionately excessive discount. So, that's – we're raising the full year, inclusive of kind of that worst-case Charge Control for this year. What happens in the future? Don't know. I am pleased that the UK Court of Appeal will give this the appropriate audience and review, and we'll see where it goes from there.

Operator: The next question is from the line of Rodney McFall with Northcoast Research. Your line is now open.

Rodney McFall
Research Associate, Northcoast Research Partners LLC

Hey, everyone. And thanks for taking my question. So, I was wondering if you could provide some color on the customer transition to more premium versions of APX NEXT radios. Have they been receptive? And then, just any color in terms of the premium on price compared to legacy versions of the product? Thanks.

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

I guess from an experience standpoint, we've gotten very positive reviews. We've had multiple large-scale police departments that have made the transition to APX NEXT and the APX NEXT family. The first thing is we contemplate one of the things we always think about when we develop product as ease of use.

I think we nailed that. The LTE capabilities enable them to get radios programmed and re-fleeted, I don't want to say instantaneously, but was something that took them weeks and months can now be done in a day, which is a positive thing. It also gives them the capability to extend the network coverage. And what we've seen is a phenomenon is we've got a lot of customers that have mixed fleets and it enables those transitions to happen as well.

Last but not least, we talked about our Command Center business, but the APX NEXT and its ability to put through higher bandwidth workflows is also very complementary to our Command Center suite. So, we've heard really positive things. As Greg and Jason articulated, about 25% of those devices that'll ship this year are APX NEXT. So, we are in a multiyear phenomenon as it relates to the upgrade.

Rodney McFall
Research Associate, Northcoast Research Partners LLC

Got it. Thank you.

Operator: Our next question is from the line of Louie DiPalma from William Blair. Your line is now open.

Louie DiPalma
Analyst, William Blair & Co. LLC

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

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

How you doing, Louie?

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

Hi, Louie.

Louie DiPalma
Analyst, William Blair & Co. LLC

Great. I'm following up on the several questions regarding the LMR product strength. Should we expect the year- over-year growth rate for the LMR product line to be volatile or is this mid-teens level durable? And going deeper, are customers upgrading their radios on the normal six to seven-year upgrade cycle? Or are the features for APX and APX NEXT so compelling that many customers are upgrading early to get the LTE and the programmable devices, which may be driving an acceleration?

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

So, a couple of things. Just, Louie, to ground you, the 15% kind of pop-the-clutch LMR product growth in Q2 was a reflection of lead times, components supply lead times that improved quicker than we thought. So, that's why the exceptionally strong 15% print in Q2.

Secondly, for the annual year-over-year growth rate, we're saying it's mid to high-single digits for LMR. Up from mid. I think that that improvement is in part because of continued strong traction with devices. I do think – you're right, I think on average, it's about an eight-year plus or minus device renewal or refresh. I think that's still in the ZIP code as it relates to a North America refresh. But I'll give you an anecdote.

I was at a large city last week with a senior commander and spent some time with him, and he had his APX NEXT, I had no idea he would have that. He had his APX NEXT device on his desk when we were talking. I said, what do you think of that? And I know this sounds anecdotal and a self-promotion. It's really not.

He talked about what Jack referenced, the over-the-air reprogramming, having a control channel that you can hear everything about it, the video display capability, the LTE, along with LMR. The adoption rate and the acceptance and the feature functionality that that device brings, which allows us to price for value, has been really, really good. And we're just getting started in the European and international market with the brand-new MXP660, which think of that as the APX NEXT equivalent for Europe and beyond.

So, I think, look, I love the position we're in. We have thousands of installed networks. We're monetizing the services, as Jack talked about, with expanding scope. We're upselling things like cybersecurity. And it's a really good situation and I think that I like the hand we have.

Louie DiPalma
Analyst, William Blair & Co. LLC

Great. And in the past, Greg and Jason, you've provided cumulative APX NEXT orders. Have you guys passed the $1 billion mark, in terms of your cumulative APX NEXT orders?

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

Talking about orders, we used to reference cumulative orders.

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

I think the more important metric that we've shared is that this year, our APX devices' total revenues, less than a quarter of those will come from the APX NEXT family. So, Jack and team are still selling a very good APX radio. Our customers expect it. They don't like forced migrations. They want graceful migrations. And Jack's point about mixed fleets evidences that. So, we have a long way ahead of us. And in the almost $2 billion of devices that we'll do for public safety, less than 25% of them are going to come this year from APX NEXT.

Operator: The next question is from the line of Meta Marshall with Morgan Stanley. Your line is now open.

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

Great. Maybe as a first question, just in terms of a lot of the acquisitions you've done over the past year. Where are you in terms of integration of those acquisitions or your kind of integration of those teams in order to kind of get better leverage across the platform or across the customer base? Maybe as the first question. Thanks.

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

Yeah, I'll let Mahesh, since the acquisitions are primarily in Video and Command Center, maybe you could speak to the integration progress.

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

Sure. And maybe just to start out where, Greg, you left off with Alta. So, Alta was our brand for Openpath and Ava, which is effectively our cloud-based access control solution and our cloud-based video management solution, both being critical to our portfolio. Both under Alex Kazerani were brought together as Alta. And now, we are able to integrate the capabilities of both access control and video, I think, in fairly unique and powerful ways, ones that our customers are really appreciating and evidenced by the uptake in the market.

Beyond that, Rave would be the other big piece here and Rave is one of those critical elements that's the glue between public safety and enterprise security. And Rave integrated not just with 9-1-1 and CAD solutions, but also integrated with our enterprise security solutions, effectively video, both Alta and Unity. I think that plays a fairly significant role. And we're seeing that impact of that ecosystem going forward as well.

Pelco, we rationalized our video management platforms into one, with the on-prem solution being the Unity video management solution. And our camera platforms across all our brands really operate on basically a shared infrastructure, with the best of many things that each brand brought into the table integrated and offered across the board.

So, I think that speaks to some of the key integration examples. Silent Sentinel is well on its way right now. And as Noggin comes into play here, which adds incident management, which is a key piece of the puzzle for us, Noggin will complement both our fixed video portfolio, but it will also complement Rave quite nicely as well.

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

I think just the only thing I'd add to that, Meta, the only thing I'd add is when I think about this company and look back over the last several years, I do think that M&A and successful acquisition, financially from an accretion standpoint, and a strategic impact standpoint, and our ability to integrate and retain talent, Mahesh is Exhibit A; Alex Kazerani, the CEO of Openpath; Todd Piett, the CEO of Rave; not just retaining them, but having them in contributory senior executive roles that can facilitate and drive integration in addition to the competencies within core Motorola, I'm really pleased. I think it's going quite well.

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

Great. And maybe piggybacking on that answer. Just how are you guys thinking about capital allocation, just given that M&A has been such a successful part of the strategy?

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

Well, we got off to a fast start in the first half of this year with effectively a little over $700 million in share repurchase and the convert on the Silver Lake settlement, which is great. I think the Silver Lake settlement, memory tells me, was like $318, $314 a share. We did $71 million of share repurchases in Q2 at $348 and change. So, I always liked the way we deploy capital. I think pretty thoughtfully and opportunistically against the discounted share, the discounted cash flow and the value of the company going forward. And we've now done 40 acquisitions, plus or minus, over the last 9 or 10 years. We just completed two that we referenced in Q2. And to your point, Meta, the M&A funnel is attractive.

So we will be opportunistic along deploying that $2.25 billion of operating cash flow, 55% share repo or acquisitions fungible between the two, with 30% dividend, 15% CapEx. So, we're well on our way. And I like – and by the way, I like deploying the capital internally in R&D, too. So, $850 million of R&D is giving us the widest and broadest product portfolio through three technologies with Land Mobile Radio, Video, and Command Center, which is in turn powering a unique competitive differentiating safety and security ecosystem.

So, when I think about the deployment of capital organically, I like the returns. When I think about returning it to the shareholder and the value we've created and the float that we've contracted, I like that. And when I look at the opportunities ahead potentially for acquisition, I'm optimistic about some opportunities that may present themselves.

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

Great. Thank you so much.

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

Thanks, Meta.

Operator: The next question is from the line of Tomer Zilberman of Bank of America. Your line is now open.

Tomer Zilberman
Analyst, BofA Securities, Inc.

Hey, guys. I wanted to touch on some questions that were asked earlier, but maybe ask them a little bit differently. In the Video Security portfolio, specifically the product portion, you've been growing that roughly mid-single-digits over the last few quarters. Are you comfortable with that growth going forward? Or do you expect that to reaccelerate to hit your overall 12% growth for that segment?

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

Well, when I look back at the, to your point, the previous few quarters, we're in the ZIP code of product video performance. So, I like that consistency. The most important is really just talking about market share. And we gained market share last year in Video Security and Access Control as a category. We expect to gain market share again this year. The fact that the growth rate is much higher in cloud, as we signaled earlier, I think is great. And the product video performance quarter-to-quarter, I think is fine in the ZIP code and against the backdrop of the overall market growth. So, I like where we are, and I like the continued execution.

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

Also, keep in mind, this is an end-to-end systems or solutions business and customers buy the entirety of the portfolio from us, products, software, services. And some of the areas we've made investments are in software. So, whether it's cloud, whether it's analytics, services, and/or mobile video, those are some of the investments we've made. And so, to see software growing faster than products is commensurate with that.

Tomer Zilberman
Analyst, BofA Securities, Inc.

Got it. And maybe as a follow-up, moving to your implied 4Q guidance. So, the implied EPS came in a few cents short of Street expectations. Just curious as to your thoughts on the margin setup as we go into the second half of the year, especially 4Q. Thank you.

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

Yeah. So, with the raise on the year and the higher volumes offset by a few dilutive cents from the acquisitions we've made, the raise is the performance of Q2, as well as the acquisitions reflecting the 8% total growth.

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

Yeah. I mean we passed through the beat in Q2. And obviously, that informs the full-year raise pretty nicely. But also there's – M&A is slightly dilutive of a couple of cents as well, but we like the position we're in.

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.

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

Yeah. I just want to say thank you for everybody listening on the call. Obviously, thank you for everybody joining the call. But also thanks for all the Motorola Solutions people and our channel partners and our distributors worldwide, appreciate everything you've done for an exceptional quarter. And probably more important than the quarter is the momentum that this quarter informs for the back half of the year and how we'd like to finish the year strong.

I think our solving-for-safer narrative continues to resonate and gain traction. I think that's representative in the results. The customer prioritization for putting an emphasis and a priority on safety and security, I think is self- evident. And as I mentioned, the orders pipeline is up pretty significantly from a period ago. At this point last year, referenced about $1 billion.

And finally, I think as I've been asked about capital allocation, I like the strength of our balance sheet. I like the fact that our operating cash flow is expected to grow double-digits again for the second year in a row. And look, I think the performance of the business, the organic investment, the acquisitions, and the firepower of the balance sheet, look, I think it provides us good flexibility to continue to execute and drive shareholder value going forward. And I appreciate everybody on what you're doing and how you're helping onward and upward, and appreciate everything you've done.

Operator: 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 participation and ask that you please disconnect your lines at this time.