MOTOROLA SOLUTIONS

Q1 2021 Earnings Conference Call
Thursday, May 6, 2021

PARTICIPANTS

Motorola Solutions Executive Participants

Tim Yocum – Vice President, Investor Relations
Greg Brown – Chairman & Chief Executive Officer
Jason Winkler – Executive Vice President & Chief Financial Officer
Jack Molloy – Executive Vice President, Products & Sales
Kelly Mark – Executive Vice President, Software & Services

Other Participants

Tim Long – Analyst, Barclays Capital, Inc.
Adam Tindle – Analyst, Raymond James & Associates, Inc.
Meta A. Marshall – Analyst, Morgan Stanley & Co. LLC
Louie DiPalma – Analyst, William Blair & Co. LLC
Paul Silverstein – Analyst, Cowen & Co. LLC
Kyle McNealy – Associate Analyst, Jefferies LLC
Trevor Bowers – Associate Analyst, Northcoast Research
Fahad Najam – Analyst, MKM Partners
Ben Bollin – Analyst, Cleveland Research Co. LLC
Sami Badri – Analyst, Credit Suisse Securities (USA) LLC
Jim Suva – Analyst, Citigroup Global Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for holding. Welcome to the Motorola Solutions First Quarter 2021 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 currently posted on the Motorola Solutions Investor Relations website. In addition, a replay of this call will be available approximately three hours after the conclusion of this call over the internet. The website address is www.motorolasolutions.com/investor.

At this time, all participants have been placed in a listen-only mode. [Operator Instructions] You will have an opportunity to ask questions after today's presentation. 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 2021 first quarter earnings call. With me today are Greg Brown, Chairman and CEO; Jason Winkler, Executive Vice President and CFO; Jack Molloy, Executive Vice President, Products and Sales; and Kelly Mark, Executive Vice President, Software and Services. Greg and Jason will review our results along with commentary and Jack and Kelly 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 2020 Annual Report on Form 10-K and in our other reports and filings with the SEC. We do not undertake any duty to update any forward-looking statement.

With that, I'll turn it over to Greg.

Greg Brown, Chairman & Chief Executive Officer

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

First, Q1 was an excellent quarter. We achieved Q1 records for sales, operating earnings and cash flow. We expanded operating margins by 220 basis points and ended the quarter with backlog of $11.3 billion, up 8% versus last year. Additionally, demand remained strong resulting in orders that were higher than any other first quarter in our history.

Second, our Software and Services segment had another outstanding quarter and continues to drive revenue growth and operating margin expansion. Sales for the quarter were up 15% driven by growth across our LMR, video security and command center software technologies. And the segment also finished with operating margins up 310 basis points versus last year.

And finally, based on the increased demand we're seeing across our business and our strong backlog position, we're raising our full year guidance for both sales and earnings per share for the full year. I'll now turn the call over to Jason to take you through our results and outlook before returning for some final thoughts.

Jason Winkler, Executive Vice President & Chief Financial Officer

Thank you, Greg. Our Q1 results included revenue of $1.8 billion, up 7% including $48 million from acquisitions and $32 million from favorable currency. GAAP operating earnings of $298 million and operating margins of 16.8% of sales compared to 15.6% in the year-ago quarter. Non-GAAP operating earnings of $411 million, up $64 million or 18%, and non-GAAP operating margins of 23.2% of sales, up from 21% driven by higher sales and improved operating leverage in both segments.

GAAP earnings per share of $1.41 compared to $1.12 in the year-ago quarter. The increase was primarily due to higher sales volume, improved operating leverage and lower legal fees partially offset by the gain from the sale of a manufacturing facility recognized in the prior year.

Non-GAAP EPS of $1.87 compared to $1.49 last year primarily due to higher sales and improved operating leverage in both segments, higher pension income and a lower diluted sharecount partially offset by a higher effective tax rate. OpEx in Q1 was $455 million, up $4 million versus last year primarily due to costs related to acquisitions, partially offset by lower discretionary spend.

Turning to cash flow. Our Q1 operating cash flow was $370 million compared with $308 million in the prior year. And free cash flow was $318 million compared with $260 million in the prior year. The increase in cash flow was primarily due to higher sales and improved working capital partially offset by higher cash taxes.

Capital allocation for Q1 included $170 million of share repurchases at an average price of $175.53, $121 million in cash dividends and $52 million of CapEx. During the quarter, we entered into a new five-year $2.25 billion revolving credit facility replacing our prior $2.2 billion facility. And subsequent to quarter-end, the board of directors approved a $2 billion increase to the share repurchase program.

Moving to our segment results. Q1 Products and Systems Integration sales were $1 billion, up 2% primarily driven by growth in video security and professional and commercial radio, partially offset by lower sales of public safety LMR which were impacted by supply constraints. Revenue from acquisitions in the quarter was $35 million. Operating earnings were $131 million or 12.9% of sales, up from 12.4% in the year prior on higher sales and improved leverage.

Some notable Q1 wins and achievements in this segment include a $300 million frame agreement with the German MOD to meet their TETRA LMR requirements with an initial order of $154 million recorded in Q1. $72 million of video sales with government customers, up 32% from last year. A $37 million P25 upgrade for a government agency in Canada. A $33 million TETRA upgrade for a large customer in Europe. And a $12 million P25 order with a large US federal customer.

Moving to the Software and Services segment. Q1 revenue was $758 million, up 15% from last year driven by growth in LMR services, video security, and command center software. Revenue from acquisitions in the quarter was $13 million. Operating earnings were $280 million or 36.9% of sales, up 310 basis points from last year driven by higher sales, higher gross margins and improved leverage.

Some notable Q1 wins in the segment include $40 million of orders for P25 services, upgrades and body-worn cameras with Nashville, Tennessee. A $35 million push-to-talk over broadband multi-year contract with a large US customer. A $22 million P25 and push-to-talk over broadband contract from a large Middle Eastern customer. $13 million of body-worn cameras with multiple UK customers. And our largest cloud-based command center software win to date, a $5 million contract with St. Lucie, Florida. Additionally, we announced a new product integration between our V300 body-worn camera and our APX P25 radio platform.

Looking at our regional results. North America Q1 revenue was $1.2 billion, up 6% on growth in LMR, video security, and command center software. International Q1 revenue of $588 million was up 9% with growth in EMEA, Asia Pac and Latin America. The growth was driven by video security and LMR.

Moving to backlog. Ending backlog was a Q1 record of $11.3 billion, up $866 million compared to last year, driven by $639 million of growth in North America and $227 million of growth internationally. Sequentially, backlog was down $130 million driven by revenue recognition on the Airwave and ESN contracts partially offset with international growth in LMR products.

Software and Services backlog was up $548 million compared to last year driven by $491 million of growth in multi-year LMR services and command center software contracts in North America and $58 million of international software growth. The favorable impact of FX to backlog was offset by revenue recognition for Airwave and ESN. Sequentially, backlog was down $269 million also driven by revenue recognition for Airwave and ESN. Products and SI backlog was up $318 million compared to last year primarily driven by LMR growth in both regions. Sequentially, backlog was up $139 million driven by international LMR growth.

Turning to our outlook. We expect Q2 sales to be up between 19% and 20% with non-GAAP earnings per share between $1.90 and $1.95 per share. This assumes FX at current spot rates, weighted average diluted sharecount of approximately 173 million shares and an effective tax rate of 23% to 24%.

And for the full year, we now expect sales to be up between 8% and 9%, an increase from our prior guide of 7.25% to 8%. And we expect full year non-GAAP EPS between $8.70 and $8.80 per share, up from our prior guidance of $8.50 to $8.62 per share. This increased outlook includes the ongoing supply chain constraints primarily in LMR products and assumes FX at current spot rates, a weighted average diluted sharecount of 173 million shares and an effective tax rate of 22.5% to 23%.

I would now like to turn the call back over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Jason, thanks. And now I'd like to end with a few thoughts on the business. First, our results for the quarter were outstanding. We achieved Q1 record sales, orders, operating earnings and cash flow; expanded both gross and operating margins; achieved double-digit growth in video security, command center software and LMR services; and our PCR business returned to growth.

Additionally, we exited the quarter with a record Q1 backlog and continued strong demand that we expect will drive growth for the remainder of the year, inclusive of the supply challenges that we have. We also announced today that the board approved a $2 billion increase to our share repurchase program.

The second thing I would say is demand in our video security business is really strong. And we now expect full year growth to be 20%-plus, up from the high teens we referenced on our last call.

In fixed video, which makes up approximately 70% of the total video security revenue, our investments in AI analytics, cloud services, access control and NDAA-compliant manufacturing is differentiating us from our competitors and driving growth faster than the overall market.

And in mobile video, the call for more transparency is driving growth for our purpose-built, body-worn and in-car camera solutions. And we're gaining share in a market that has predominantly been served by one vendor.

During the quarter, we had several large body-worn camera wins, both in the US and internationally. Just this morning, we announced a $17.5 million contract to provide about 30,000 body-worn cameras to the French Ministry of Interior.

Additionally, during the quarter, we announced two new offerings. The integration of our V300 body-worn camera with our APX P25 radios, which allow us to leverage our market-leading LMR installed base and our $49 per month body-worn camera as a service offering, which offers every police agency in the US with affordable access to a video solution that's fully integrated with our CommandCentral software suite.

And finally, I'm very pleased with our progress in leveraging our leading installed base in LMR to expand into CommandCenter software, video security and LMR services. Today, almost half our revenue is generated from these higher growth areas, up from 20% five years ago. And our addressable market has tripled over that same period of time.

And while we've made significant progress, I absolutely believe we still have a long runway ahead, as we continue to deploy capital both organically and inorganically in these areas to drive revenue, margin and cash flow for the company.

And with that, I'll now turn the call back over to Tim and look forward to your questions.

Tim Yocum, Vice President of Investor Relations, Motorola Solutions, Inc.

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 the line how to ask a question?

QUESTION AND ANSWER SECTION

Operator: The floor is now open for questions. [Operator Instructions] Your first question comes from the line of Tim Long from Barclays. Your line is now open.

<Q – Tim Long – Barclays Capital, Inc.>: Thank you. Two questions if I could, both around the video business. Greg, could you talk a little bit, give us an update on how the move into more of the public safety verticals with all of the video offerings is going? Where are we in that process? And how much traction are you seeing there?

And then second, maybe for Greg or Jack, talk a little bit about the body-worn area. It does seem like you guys are seeing more traction there and making it a little bit more of a focus. Can you talk a little bit about kind of go-to-market sales force push there? And if you could just remind us also for that business, how important and how meaningful is kind of the software and on the backend of the actual body-worn camera sale? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Thanks, Tim. I'm pleased with the video security business in total, both fixed video and mobile. I think Molloy and Kedzierski and the entire team has done a great job on investing in additional go-to-market, refreshing the product portfolio both in fixed video, body-worn camera and mobile video.

As I mentioned also, I think the secret sauce for us is to not just have great products in video but also the integration and orchestration of that with the installed base that we have with the thousands of LMR and PCR networks around the world.

I'm thrilled with the progress in body-worn camera, both domestically and internationally. We had the big announcement this morning with the French Minister of Interior. But we're taking share. We're clearly – I think we've been doing that since late last year, the second half of 2020. And it's pretty clear as well that we're taking share, and we took share in Q1.

And Jack may want to talk about the progress in public safety as well, which I'm pleased with.

<A – Jack Molloy – Motorola Solutions, Inc.>: Sure. Yeah, just maybe one point to follow on top of Greg's, first of all, as it relates to body-worn. If you look at the data that was just released by our competitor, Axon, their-selves; they grew their shipment 16% in Q1. That's 7,000 units in an absolute perspective. Whereby we grew body-worn shipments 104% which is 11,500 units. So I think that's indicative of the share we've taken.

The second thing, Tim, I think you talked about in general our video business into government. And if you remember, that was a largely nascent business for us just a few years ago. We'll eclipse $300 million to start there. And I think that really plays on, as Greg said, both strength in fixed and mobile. And I think we stand at the intersection of two really important things, transparency and government efficiency.

The last thing I close with is the American Rescue Plan puts us in play for multi-year tailwinds as it relates to incremental public safety spend, spend around education. We're fixing schools with both video security and access control as well. So I feel good, as Greg said, just to reiterate a few of those points and add a little deeper. But feels good all in on government.

<A – Kelly Mark – Motorola Solutions, Inc.>: And Tim, just on software which is your last part of your question on what and how that plays into it. This past quarter, you may have seen, we announced our CC CommandCentral Evidence platform, which is our new Azure-based cloud platform which works seamlessly with all of our body-worn video to help manage the body-worn video and in-car video that comes in. And that's important because it doesn't just work with our body-worn video.

It also works seamlessly with the whole CommandCentral software suite that we have. Evidence managing the body-worn video, but it integrates seamlessly with the entirety of our records platform as well. So they all play together and work well together. And we're making investments across the board, as Jack referenced, on body-worn and of course also on the software that handles it in the backend.

<Q – Tim Long – Barclays Capital, Inc.>: Okay. Thank you.

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

<u>Operator</u>: Your next question comes from the line of Adam Tindle from Raymond James. Your line is now open.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Okay, thanks. Good afternoon. I just want to start – obviously, a very strong Q1, Greg, record backlog. As I think on a forward basis, it would seem to be good conditions for the PCR business to continue to recover. Anything from stimulus might be incremental. And then looking at the full year guidance, the back half growth is around 5% year-over-year and it's more muted seasonality. Just seems like the environment might be healthier than normal from the macro standpoint. So maybe you could touch on the offsets that would cause more muted growth for the full year. And I recognize I'm getting greedy, but I have to ask.

<A – Greg Brown – Motorola Solutions, Inc.>: No, Adam, look, I think the environment is very healthy and the demand is very strong. I think that's indicated by the record Q1 that I outlined in a number of categories and the robustness and the strength of the backlog that we're exiting Q1 as well. Now having said that, if you look at first half, second half growth; obviously, first half growth for us this year is very high. It's a bit distorted for us and other companies given the Q2 pronounced COVID effect. But nonetheless, I'm very happy with what we did in Q1. I'm pleased with how we're guiding Q2.

And I remind you, Adam, also $90 million of FX favorability is in the first half. It's more like $30 million to $40 million in the second half. But also as it relates to supply, we're still operating under the current environment, which is generally comparable to what it was when we talked to you a quarter ago. Although I would point out while it remains challenging, the team did a nice job working with some key suppliers pulling forward key components to execute and print Q1. They're also doing it again, which is informing and driving a very healthy guide in Q2. So while the supply environment remains challenging, we look to continue on those improvements in the back half. But at this point in time and given the fact that the pandemic is still there, we just thought it was a prudent guide.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Understood. Makes sense. Just as a follow-up, I did want to ask – you touched on video which is very healthy. I did want to ask on command center software. If I looked in the slides correctly, I think that grew around 13% year-over-year. Previously, you had talked about a goal of 20%. So maybe just color on delta in the quarter. Is this just lumpiness? And wondering how to think about growth rate of that moving forward. Do you think you'll catch up to that 20% or should we be thinking about attenuating that for now?

<A – Kelly Mark – Motorola Solutions, Inc.>: Adam, it's Kelly. The answer is yes. We're still tracking to the 20%. We're pleased with the growth we got, the 13%, in Q1. But as we come into the back half of the year, the growth rates associated with Q2 through Q4 will benefit from the softer comps of what we saw in 2020 on COVID impact. And not to mention, the other thing is we have some very large NGCS deals which we won last year that will start contributing revenue in the back half of the year. So going to the approximately 20% is something that we're still targeting.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Got it. That's helpful. Thank you.

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

<Q – Meta Marshall – Morgan Stanley & Co. LLC>: Great, thanks. Appreciate it. Sorry, I'm having problems with my phone. Maybe if we could just spend a second on just any – you mentioned you're mitigating supply chain issues. But just was there any overhang on margins? And just as some of these stimulus plans are being rolled out, what do you think will be the cadence of – are you seeing kind of front-loaded investment as these stimulus funds like back-loaded investment? Or do you think it will be more mitigated throughout the year?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, Meta. So as we look kind of at the full year and from a margin perspective for the company, from a gross margin standpoint; I think they'll be comparable, maybe slightly up. And that includes probably the gross margin profile for the segments as well, Products as well as Software and Services. If you take operating margins, we're now anticipating operating margin expansion in Software and Services to be up about 140 basis points. That's an increase from what we talked about a quarter ago by 40 basis points. And we expect Products segment operating margins to grow as well more commensurate with volume.

In terms of the demand environment, I think it's partially pent-up demand. I think things are reopening as the pandemic, depending upon the geography, relieves itself and the economy starts to get back into a strong rhythm of expansion. From a stimulus standpoint, there's a lot of money available to our customers, particularly on the public safety side, both around the CARES Act, which was already in place for 2020 and continues on through 2021, as well as the American Rescue Plan, which is new available money in the Biden $1.9 trillion plan. There's $350 billion for state and local funding. There's $170 billion for school funding. There's $38 billion for airports and transit. There's a lot of money.

The other important thing is that these funds are available for about the next 3 to 3.5 years. So our customers will have available grant money. The environment's remaining strong and gets stronger in public safety. The PCR business on the enterprise side grew at 8% in Q1. And we are reaffirming its growth all in for this year. So I like the position we're in and I like the signals we're seeing.

<A – Jason Winkler – Motorola Solutions, Inc.>: One thing I'd add on the input costs. We're not seeing measurable increases on inputs. The one area where we've had to navigate is higher freight costs in moving things to the ocean off of what had been freight, airfreight which are very high. So that's leading to a slightly higher inventory for the time being. But we'll navigate through those. But as Greg said, more opportunities there.

<Q – Meta Marshall – Morgan Stanley & Co. LLC>: Great, thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Thank you.

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

<Q – Louie DiPalma – William Blair & Co. LLC>: Good afternoon. Can you talk about your strategy for the education vertical and what you are seeing there in terms of demand?

<A – Jack Molloy – Motorola Solutions, Inc.>: Sure. Louie, hi. It's Jack. The education vertical, it's interesting because Greg just talked about the American Rescue Plan. There's $170 billion directed to school funding that runs through September of 2023. So we've really got a duality of opportunities with education. The biggest opportunity we have with education is in our fixed video security and access control business. Simply put, it's been one of our highest growing verticals in that business. We not only have a regional sales team, but we have a group of business development vertical specialists that focus and work with schools on directing funding and those kind of things. So we're really pleased there.

But we also work – and we have a Safety Reimagined campaign going on that actually pulls together fixed video security and PCR. And that message resonates very well. So think about – you get an intrusion on a door. Access control sends a signal to a PCR radio, whereby every teacher might have one. And the level of security it enhances at schools has been impressive and I think resonates with our customers. So we're really excited actually. In my career here, this is probably the best opportunity set we've had in education.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. And Louie...

<Q – Louie DiPalma – William Blair & Co. LLC>: Great.

<A – Greg Brown – Motorola Solutions, Inc.>: ...the other key around that is in addition to what Jack said, think automation, think analytics, think integration. So as the Motorola Solutions critical infrastructure on fixed video, mobile video, land mobile radio, perimeter detection, backpack, delinquent student, inappropriate truck in a parking lot, all of that would be automated. As Jack said, not only sends an alert to the radio but also can automatically alert in CommandCentral Aware a 911 dispatch operator as well. So we're leveraging the installed base, capitalizing on the new fixed video architecture, targeting safe schools and integrating and automating all of the technology we have to differentiate in an offering that we don't think anyone else can provide.

<Q – Louie DiPalma – William Blair & Co. LLC>: Great. So it's not just Avigilon. It's the broad suite of products and that...

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

<Q – Louie DiPalma – William Blair & Co. LLC>: ...you're bundling with the analytics. And I think you mentioned the PCR radios as well. Got you.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. And our CTO, Mahesh, who came with us – from us to the – from the acquisition of Avigilon to Motorola, has been critical in the orchestration software work and integration work to make all these technologies seamlessly work together.

<Q – Louie DiPalma – William Blair & Co. LLC>: Great. Yes, I saw him give a presentation for your investment in Evolve technologies.

<A – Greg Brown – Motorola Solutions, Inc.>: Right. And with Evolve, that gives us another investment around access control. We were an investor earlier, probably a year or two ago. With Evolve, we're committed to make a future investment that's a little bit more consequential.

And so when you think about critical infrastructure locations like schools or stadiums or airports or hospitals, Evolve and that partnership around weapons detection is another interesting component to integrate into this suite, as we develop our product portfolio and think about a differentiated offering going forward.

<Q – Louie DiPalma – William Blair & Co. LLC>: Sounds good. Thanks.

Operator: Your next question comes from the line of Paul Silverstein from Cowen. Your line is now open.

<Q – Paul Silverstein – Cowen & Co. LLC>: Thanks. I appreciate you taking the questions. And first, just a clarification. I apologize if you stated and I misheard. But, Greg, I think I heard you say that you're confirming growth for PCR for the full year. But I didn't hear what that growth was.

<A – Greg Brown – Motorola Solutions, Inc.>: We are confirming it for the full year, Paul. I mentioned that it grew 8% in Q1. We didn't give a specific number. But it wouldn't surprise me if the full year growth is generally commensurate with that kind of number. But I like the signals that are coming back from that business.

<Q – Paul Silverstein – Cowen & Co. LLC>: All right. I'm glad to hear that I'm actually paying attention. So you didn't give a number. That's always encouraging.

But on a serious note, any incremental insight you can give in terms of recovery? We can read the paper and see in the news that oil and gas and transportation and hospitality are all reopening. There's talk about cruise ships eventually sailing, although that hasn't happened yet. I trust you're seeing ongoing improvement.

And if I may, a question for you on your video security in the public sector. So now that it's on a $300 million – or over $300 million annualized run rate, in a normal Geoffrey Moore Crossing the Chasm adoption cycle, one would expect or I would expect that to accelerate as that number becomes meaningful. And I don't know if that's at $300 million. I know you just said 20%, up from 15% previously. But should we expect as time goes on yet further acceleration with the benefit of critical mass?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, critical mass, Paul, is certainly a benefit as we get greater density. And it's kind of the nucleus for a flywheel of growth. We did raise our outlook today on the video security technologies, all in, to 20%-plus growth for fiscal 2021, up from high teens. I wouldn't necessarily extrapolate into 2022 necessarily. It's a little too early for that.

But the markers are good. The momentum is good. The product portfolio is getting refreshed. And the investments that are being made – and we're taking share. We're taking share both in the fixed video component. We're taking share in the body-worn camera component. And I also believe that the access control and the integration of access control with video security is also a nice opportunity for us.

As it relates to the individual enterprise verticals that are recovering from the PCR perspective, maybe Jack can provide a little bit on that front.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah, so internationally, those markets have still been slow to rebound. We have seen, I would say, very measured and slight improvements in oil and gas earlier this year. Really even into Q4 last year, we started to see some recovery.

Hospitality in general is still slow. I would say in the Southeast and through the Southwest, it's a little better. But it's still been slow. We think those things will improve Q2 into Q3.

<A – Jason Winkler – Motorola Solutions, Inc.>: And just to...

<Q – Paul Silverstein – Cowen & Co. LLC>: Got it.

<A – Jason Winkler – Motorola Solutions, Inc.>: ...kind of thread the two points on growth, last year's video business for us in total was $926 million. That's the business that we're talking about growing at 20%-plus in this year of 2021.

Jack's comments earlier were about the $300 million of that that's anticipated this year to be from specifically government. And that's a part of the business that was very nascent just three or four years ago and was part of our thesis in penetrating the Avigilon portfolio into our legacy accounts. And we're doing that.

<Q – Paul Silverstein – Cowen & Co. LLC>: Understood. Appreciate the responses.

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

<u>Operator</u>: Your next question comes from the line of Kyle McNealy from Jefferies. Your line is now open.

<Q – Kyle McNealy – Jefferies LLC>: Hi. This is Kyle on for George Notter. Thanks a lot for the question. This is somewhat similar to the video question you just answered. And you talked about some of the recovering verticals.

But can you talk a little bit about the verticals that are driving that growth for you to take it up from high teens to 20%? Is a lot of it government, I would assume? But is there other enterprises, retail, schools? I believe you mentioned there's casinos, hotels. And then is international a play here too or just the US? Could you kind of give us some clarity on how you're playing internationally and how that's doing versus domestic? Thanks.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah. So for fixed video, the growth drivers really have fundamentally been through the first part of this year. North America, we talked about North America's go-to-market coverage. That's paid big dividends. I would also tell you internationally, every theater grew. We've done a really nice job in growing international key accounts. That's also a growth driver.

And when we start to think about from the technology standpoint, it's really been driven by a strength in analytics refresh, camera refreshes. And I'd have to hit it again, but the government vertical as well as education continue to be a benefit, not only Avigilon but also the Pelco acquisition which has helped us in the federal government sleeve as well.

<Q – Kyle McNealy – Jefferies LLC>: Okay, great. And it's also nice to hear some recovery in the PCR business. Wondering if you could comment about the trajectory past this year and whether you have line of sight to when it might recover to the $1 billion run rate it was pre-COVID. Is that a little too far off to predict or can you give us kind of a timeframe on when you might get back to that previous run rate?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, I would just say this. It is probably too early to predict on that front. But through Q1 and actually quarter-to-date from an orders and bookings standpoint, the trend is very good. Now I'm not going to declare an endpoint of when we return to that level. But I would simply say it's certainly ahead of the expectations that we had a quarter ago when we had the full year view.

And I'd also say even though we're operating in a supply-constrained environment, our channel partners have done a good job managing this and handling and balancing the inventory levels that they hold to satisfy their customers. But the signals are strong, certainly stronger. I thought they would be good for PCR as you heard me say. I thought PCR would return to growth in 2021. We're off to a very good start. Orders are strong. And they're probably ahead of my expectations of where we are as we sit here in May. But we'll update you again in August. But it's very good.

<A – Jason Winkler – Motorola Solutions, Inc.>: The other encouraging sign is that we saw a good product launch in Ion and the good reception from that very important part of the portfolio that was released recently and seeing good take rates.

<A – Jack Molloy – Motorola Solutions, Inc.>: And the only other thing, Jason, I'd piggyback on that is also we talked about our distance learning. We talked about moneys that have been available for broadband investments. And schools are investing in distance learning. We talked about four big school districts last year. We've replicated that in Q1 and there continues to be a drumbeat of interest. And a lot of those upgrades happened during the summer months. So we're actually very excited about our private LTE Nitro solution as well.

<Q – Kyle McNealy – Jefferies LLC>: Okay, great. Thanks very much.

<A – Greg Brown – Motorola Solutions, Inc.>: Thank you.

<u>Operator</u>: Your next question comes from the line of Keith Housum from Northcoast Research. Your line is now open.

<Q – Trevor Bowers – Northcoast Research>: Hi. Good afternoon. This is Trevor filling in for Keith. With the American Rescue Plan, you mentioned earlier that customers will have access to that money for the next few years. Have you seen any impact yet on the sales pipeline or is it too early?

<A – Jack Molloy – Motorola Solutions, Inc.>: Yes, we have. It's a really good question. We've seen the team – kind of in a joking way, but you give salespeople a path to money, good salespeople, and they go find it. We've had discussions already. Public safety engaged us right away for the state and local funding. We've been engaged with schools. But also airports and transits when they've had a little bit of downtime. They're doing some planning as well now that they know they've got funding available.

<Q – Trevor Bowers – Northcoast Research>: Okay, great. And maybe a quick follow-up. How would you characterize the sales cycle? Has that returned to normal yet or not so much?

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah. I would say the sales cycle here as we sit in 2021, I would caveat it. In North America, it's largely returned to normal both in terms of government and in terms of our PCR business which is focused in the enterprise. Europe has been very slow. Borders are still slowed down. A lot of it's virtual. Parts of Asia have returned back to normal. And COVID is running through Latin America and engagement's very slow there. But in North America, things have returned very much close to normal.

<Q – Trevor Bowers – Northcoast Research>: Okay, great. Thanks and congrats on the quarter.

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

<u>Operator</u>: Your next question comes from the line of Fahad Najam from MKM Partners. Your line is now open.

<Q – Fahad Najam – MKM Partners>: Thank you for taking my questions. You mentioned supply chain a couple of times. Was there any impact to your current quarter from component shortages? And how much of your outlook is impacted by component shortages? Can you provide some quantification? And I have a follow-up.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, Fahad. Yes, there was an impact and a constraint on Q1's results from a supply chain standpoint. It's a very small number of suppliers currently. It's primarily LMR as I mentioned earlier. And while the environment is for the most part unchanged, it has incrementally improved. In working with these suppliers to get some additional units for Q1, although we had demand that was stronger than what we could supply in Q1. And the supply chain team here has also made some good improvements for Q2 as well.

<Q – Fahad Najam – MKM Partners>: How about the outlook? Is the outlook – how much of your guide is baking in some headwinds from component shortages?

<A – Greg Brown – Motorola Solutions, Inc.>: Definitely, our full year 8% to 9% guide absolutely incorporates the current supply constraints. Without them, it would be higher. But again, I think we'd have a stronger second half in an unconstrained environment. But we're working through it. We made improvements in Q1. We are making improvements in Q2, which in part informs the 19% to 20% strength of guide. And there's work for us to do in Q3 and Q4 and we'll update you again in August.

<Q – Fahad Najam – MKM Partners>: Okay. For my other question, I wanted to dive into the fixed video opportunity outside of the United States. Your two largest Chinese-based competitors, Hikvision and Dahua, have been pretty much implicated in running concentration camps in China. To what extent are you beginning to now see meaningful wins in Hikvision and Dahua's footprints? And can you provide some quantification? I appreciate that video is growing overall. But how much of it is coming from share wins against these two large suppliers?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, you're right. And I know you asked an international question. But in the National Defense Authorization Act, both those companies are named by name about not having any fixed video deployments in government agencies and certainly also not being eligible for any federal grant money.

It's also, Fahad, important to remind everybody we're clear-eyed about the opportunity in the addressable market here, which we characterize as about $15 billion or $16 billion. And that's zeroing out China, zero. We expect zero fixed video sales in China. I know that Hikvision and Dahua will continue to be the indigenous providers in-country. But I think with the NDAA compliance and the concern around those two vendors in critical security implementations, that clearly has a favorable impact as well in other parts of Europe and Western democracies. So I think it's a tailwind.

<A – Jack Molloy – Motorola Solutions, Inc.>: It is. Greg, I think you said it well. And I would just say within Europe, I think there's a great deal of skepticism around Hikvision and Dahua right now. I'd say that also travels into the Middle East and into Australia. We've got significant opportunities.

And to answer your question directly, we've displaced Dahua and Hikvision on gaming opportunities in the Middle East. IndigoVision, we acquired IndigoVision if you remember last year. They were the inverse of what we did in Pelco as well where they had better international footprint. We brought that footprint into our fixed video business. And we've been really, really pleased with work they've done to get us in the Middle East, certain parts of Europe where we had some softness with Avigilon. So again, I think international is a market that's going to ramp well for us.

<A – Greg Brown – Motorola Solutions, Inc.>: I do too.

<Q – Fahad Najam – MKM Partners>: Appreciate the answers. Thank you.

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

<u>Operator</u>: Your next question comes from the line of Ben Bollin from Cleveland Research. Your line is now open.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Thanks for taking the questions. Good afternoon, everyone. I wanted to...

<A – Greg Brown – Motorola Solutions, Inc.>: Hey, Ben.

<Q – Ben Bollin – Cleveland Research Co. LLC>: ...I wanted to peek back to an earlier question. Specifically when you look at ARPA, could you talk a little bit about how that stimulus money – how you think it might influence customers' willingness to adopt newer technologies such as surveillance or command center? And then how does stimulus money specifically influence the sales cycle, which I think historically are a bit longer in public sector? Does it shrink that sales cycle? Any impact there? And then a follow-up.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah, Ben, so let's start with this. We have a selling process that looks at every technology we make, every government agency or every enterprise decision maker that we have. And we do really a three-dimensional view on any account. We're continually talking about not only our core technologies but our emerging technologies with those customers.

So in the mind of a customer, you first of all have to identify a need. The second thing is really how do you fund it. So you asked the question what has the ARP plan done. It's alleviated a lot of concerns around visibility to money. And so in that sense – in some ways, it's never easy to make a sale. But in a lot of ways, it clears up one of the biggest obstacles to sale. The great news is, albeit that some of the deadlines on this funding go all the way out to 2024, the reality is that there is no reason or no prohibition to spend that money earlier. So our sales team, obviously, has had many, many years at this with funding. And we can provide different incentives, et cetera, to get customers to move faster if that may be the case. But just knowing they have visibility to that money, I think, provides a very good environment for us.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Awesome. Thanks, Jack. Greg, one for you.

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

<Q – Ben Bollin – Cleveland Research Co. LLC>: Lots of encouraging things, backlog, stimulus, the recovery as a whole. I guess I'm reaching a little bit, but any perspective on the former $9 billion in revenue and $10 in EPS framework that you talked in the past?

<A – Greg Brown – Motorola Solutions, Inc.>: No. No perspective on that yet, Ben. But again, you know how we printed Q1. And I referenced a whole litany of different records we've had, and that's fine, right? But I don't really care about that in terms of what needs to be done today and tomorrow.

It's important in that it's foundational and it's momentum. And this is some of the strongest momentum I've seen in a long time. We have to deliver. We got to execute. We have to navigate supply challenges. There's always a lot to do.

But I'm really proud of everybody here on the team. Everybody knows their role. There's no confusion about what we're trying to do. And between the deployment of capital organically and inorganically, and there remains some interesting inorganic opportunities, it's all about driving sustained shareholder value creation.

And I don't mean to sound corny, but I think generally we've been good stewards of capital. We have the expansion to the share repurchase program, although that doesn't – we did that because the previous program was running out. But the capital allocation framework that we think about, 50% for acquisitions and share repurchase and 30% for dividend and 20% for CapEx, in a normalized balance sheet, continues. So stay tuned for the opportunities in front.

But we're looking to – and by the way, it's not just about 2021. I want to make sure that we continue this momentum in 2022 and beyond. So lots more work to do, but I like the cards we have.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Thanks for the perspective.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. Thank you, Ben.

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

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Hi, thank you. Unfortunately, I'm going to go back to the supply shortage and component shortage conversation.

And maybe I was hoping – could you give us an idea on the number of suppliers you're working with that are actually supply constrained? And have they given you guys essentially a count in weeks in terms of what lead times they're looking at? Are they 30, 40, are they 50 weeks across some of the most important components for radios and some of the other products you guys have?

<A – Greg Brown – Motorola Solutions, Inc.>: So it's a handful of – first of all, the category is semiconductor as a general category. I'm sure that's not a surprise to you, Sami. It's about three or four vendors really that we're working with. We are doing detailed planning with them by week and by month. We regularly weekly go through the allocation necessary for us to meet demand as we balance what to fulfill and what not to. Again, it's primarily LMR.

And I'm engaged with all of those vendors. And I have to say they're responding pretty well. I don't want to get over our skis. But they were pretty good in Q1, helping us pull forward some incremental units. And they've been helpful.

Particularly one supplier that comes to mind, I won't name. But they've been great. And the CEO has been an excellent partner, and he's been accessible. And I call him on his cell phone, and he calls me. And we talk regularly. He's been excellent, and his team is really good. And they're helping us through Q2 as well.

And we know what work needs to be done on the back half. But at the end of the day, we just want to be prudent about the full year guide. And while there's so many strong signals, we'll go a quarter as we go. And we'll update you again in August.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Got it. Thank you. And then one question for Kelly. And this is a little bit tied to America's Rescue Plan (sic) [American Rescue Plan] (49:15). Now when you're working with the first responders now that are looking to deploy or finally integrate sophisticated command center offerings with the modules, and it's more of an end-to-end solution, does the America's Rescue Plan (sic) [American Rescue Plan] (49:30) allow these customers to go bigger and wider and more expansive on the number of modules and solutions they're deploying in their own organizations?

<A – Kelly Mark – Motorola Solutions, Inc.>: The general answer on that is yes. It is allocated there. They'll have to apply for it. The one area in particular that will get touched on that is the NGCS component, which is the fundamental 911 database backbone, which as you know is a new and growing area of our business that we are participating in now.

So you're going see a lot of applications for the NGCS component to start building on enhanced 911 call centers, which we think then will also drive additional churn of the 911 software base around that to have enhanced software to really harvest the multimedia that will come through the NGCS stuff.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Got it. Thank you.

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

Operator: Your next question comes from the line of Jim Suva from Citigroup Investments. Your line is now open.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Thank you. And first I want to say, you and your team for having a great strategy and executing on the operations during such a very difficult time the past year, year and a half.

As we look forward with the government stimulus on the cusp of about to come in and enter into the market – and as you mentioned, it's multi-year – it seems like it's going to impact many parts of your business. Which parts are kind of going be the most material in kind of timing of those? Is it more like stationary cameras first and then software second? But it seems like the software – or the cameras won't really work without all the software. And it seems like it kind of all touches each other. So I'm just kind of wondering about where you see the biggest opportunity from these government programs as they start to come out in the next few years.

<A – Jack Molloy – Motorola Solutions, Inc.>: So if you think about the three technology groups that we report as a subline item, I'd first of all say given that it's not only state and local funding but there's educational funding and airports and transits, I would dimensionalize fixed video as likely the biggest beneficiary of the American Rescue Plan followed quickly by command center software and then LMR upgrades as well as services that'll be addressed and attached to mainly the state and local budget line. So Jim, those will be the primary beneficiaries. And I would say they're 1A with the secondary groups as being 1B command center software and LMR and services.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Great. Thanks so much. And again, congratulations to you and everyone at your company.

<A – Greg Brown – Motorola Solutions, Inc.>: Thank you, Jim.

Operator: There are no further questions at this time. This concludes our question-and-answer session. I will turn the floor back over to Mr. Tim Yocum, Vice President of Investor Relations, for any additional or closing remarks.

Tim Yocum, Vice President of Investor Relations, Motorola Solutions, Inc.

Thanks, everyone, for joining us today. And we look forward to talking to you soon.

Operator: Ladies and gentlemen, this does conclude today's teleconference. A replay of this call will be available over the internet in approximately 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.