



Q4 2021 Earnings Conference Call Wednesday, February 9, 2022

PARTICIPANTS

Motorola Solutions Executive Participants

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

Other Participants

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

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for holding. Welcome to the Motorola Solutions Fourth 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 the 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 fourth quarter earnings call. With me today are Greg Brown, Chairman and CEO; Jason Winkler, Executive Vice President and CFO; Jack Molloy, Executive Vice President and COO; and Mahesh Saptharishi, Executive Vice President and CTO. Greg and Jason will review our results along with commentary and Jack and Mahesh will join for Q&A. We posted an earnings presentation and news release at motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliations for your reference. And during the call, we reference non-GAAP financial results including those on 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 statements.

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

Greg Brown, Chairman & Chief Executive Officer

Thank you, 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 takes us through our results and our outlook. First, I'm very pleased with our performance during the quarter and in particular our ability to navigate the current supply chain environment to deliver the critical solutions that our customers rely on every day. We achieved revenue at the higher end of our guidance and earnings per share above our guidance, ended the year with record backlog of \$13.6 billion, up 19% versus last year; and generated \$703 million of operating cash flow during the quarter and a record \$1.8 billion for the full year.

Second, our full-year results exemplify the strength and durability of our business and highlight our ability to leverage our large installed base to sell more value-add Software and Services. For the year, the Software and Services segment grew 13%, expanded operating margins by 210 basis points and accounted for 38% of total sales and 54% of total operating earnings for the company. Additionally, revenue was up double digits in all three technologies in the segment, led by 39% growth in video security and access control software, which resulted in approximately \$400 million for that category of revenue for the year.

And finally, looking ahead to this year, our record backlog and continued demand are informing our expectations for another year of strong revenue, earnings, and cash flow growth with growth in both segments despite the ongoing and fluid supply chain challenges.

At this point, 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 Q4 results included revenue of \$2.3 billion, up 2% including \$10 million from acquisitions and \$6 million from favorable currency. GAAP operating earnings of \$549 million and operating margins of 23.7% compared to 24.4% in the year-ago quarter. Non-GAAP operating earnings of \$670 million, up \$3 million, and non-GAAP operating margins of 28.9% down 40 basis points due to higher operating expenses for employee incentive compensation and acquisitions.

Operating margin in Products and Systems Integration was down 170 basis points due to lower sales and higher operating expenses, partially offset by higher sales and improved operating leverage in the Software and Services segment. GAAP earnings per share of \$2.30 compared to \$2.37 in the year-ago quarter, non-GAAP earnings per share of \$2.85 versus \$2.86 last year, with higher sales and improved operating leverage in Software and Services, offset by within the Products and Systems Integration segment higher OpEx related to incentives and acquisitions along with lower sales.

OpEx in Q4 was \$518 million, up \$26 million versus last year primarily due to higher employee incentive compensation and acquisitions. The Q4 effective tax rate was 22.3% compared to 21% in the prior year. For the full year of 2021, revenue was \$8.2 billion, up 10% with growth in both segments and across all three technologies. Revenue from acquisitions was \$120 million and the FX impact was \$130 million favorable during the year. GAAP operating earnings were \$1.7 billion or 20.4% of sales versus 18.7% in the prior year. The increase was primarily driven by higher sales and improved operating leverage.

Non-GAAP operating earnings were \$2.1 billion, up \$282 million and non-GAAP operating margins were 25.9% of sales, up from 24.8% of sales in the prior year, driven by higher sales and improved operating leverage. This increase in profitability also includes \$100 million of higher employee incentive compensations earned in 2021. GAAP earnings per share was \$7.17 compared to \$5.45 in the prior year, driven by higher sales, improved leverage, higher other income and lower reorganization charges in the current year.

Non-GAAP earnings per share was \$9.15, up 19% from \$7.69 in 2020 on higher sales, higher operating earnings, higher other income, which was partially offset by a higher tax rate. For the full year, OpEx was \$1.9 billion, up \$123

million versus last year, primarily driven by higher employee incentive compensation and acquisitions. And the effective tax rate for 2021 was 21% compared to 20% in the prior year on higher benefits from discrete items, including the benefits of stock comp expense booked in the prior year.

Turning to cash flow, Q4 operating cash flow was \$703 million, flat versus the prior year, and free cash flow was \$635 million versus \$637 million in the prior year. And for the full year, OCF was a record \$1.8 billion compared to \$1.6 billion in the prior year, and free cash flow was a record \$1.6 billion versus \$1.4 billion in the prior year. The increase in cash flow was driven by higher sales, higher earnings and partially offset by higher cash taxes.

Capital allocation for 2021 included \$528 million of share repurchases at an average price of \$208.41, \$482 million in cash dividends and \$457 million for acquisitions. Additionally, during the year, we issued \$850 million of new long-term debt, redeemed \$324 million of outstanding debt, entered into a new upsized \$2.25 billion revolving credit facility and ended the year with \$1.9 billion of cash and a net debt to adjusted EBITDA ratio of only 1.6. We also increased our dividend 11%, our 11th consecutive year of a double-digit increase. And we announced a \$2 billion increase to our share repurchase program in the second quarter.

Moving to our segment results. Q4 Products and Systems Integration sales were \$1.5 billion, down 1% which was impacted by the supply constraints we discussed on the last call. Growth in video security and public safety LMR was offset by a decline in PCR, and revenue from acquisitions in the quarter was \$4 million. Operating earnings were \$378 million or 25.3% of sales, down from 27% in the prior year, driven by higher employee incentive compensation and lower sales.

Some notable Q4 wins and achievements in this segment include a \$98 million P25 upgrade for the Commonwealth of Massachusetts, \$94 million of APX NEXT device orders in North America, a \$68 million P25 device upgrade for the District of Columbia, a \$28 million P25 upgrade for a large US customer, a \$21 million fixed video security order for a large North America utility customer, a \$19 million additional TETRA order from the German MOD, and a \$17 million TETRA device upgrade for a customer in Asia Pacific.

And for the full year, revenue was \$5 billion, up 9% from the prior year, driven by higher sales of LMR and higher sales of video security. Revenue from acquisitions was \$89 million. Operating earnings were \$976 million or 19.4% of sales, up from 19% in the prior year on higher sales, partially offset by higher OpEx.

Moving next to our Software and Services segment. Q4 revenue was \$825 million, up 8% from last year, driven by growth in LMR services, video security software and command center software. Revenue from acquisitions in the quarter was \$6 million. Operating earnings were \$292 million or 35.4% of sales, up 150 basis points from last year, driven by higher sales and improved leverage.

Some notable Q4 wins in this segment include: a \$25 million P25 multiyear services contract with Cook County, Illinois, a \$17 million P25 multiyear software upgrade agreement for ICI Systems Authority in California, a \$17 million body-worn camera as-a-service order for the City of Houston, Texas, police department, a \$15 million P25 multiyear software upgrade for Orange County, California, and a \$14 million additional body-worn camera order for the French MOI, a \$11 million command center software hybrid cloud order for North Carolina Department of Public Safety and we saw a 27% growth in software for video security and access control.

For the full year, revenue was \$3.1 billion, up 13% on growth in LMR services, video security and command center software. Revenue from acquisitions was \$31 million. Operating earnings were \$1.1 billion or 36.4% of sales, up 210 basis points versus the prior year driven by higher sales and improved leverage.

Looking at regional results, North America Q4 revenue was \$1.6 billion, up 4% on growth in video security and LMR products and services. For the full year, North America revenue was \$5.6 billion, up 11% with growth in both segments and across all three technologies. International Q4 was \$705 million, down 3% due to a decline in LMR partially offset with growth in video security and command center software. We saw growth in Latin America during the quarter, while EMEA was flat, and Asia Pac declined. For the full year, international revenue was \$2.6 billion, up 9% with growth in

both segments and across all three technologies. Revenue was up in EMEA, and Latin America offset by a slight decline in Asia Pac.

Moving to our backlog. Ending backlog was a record \$13.6 billion, up \$2.2 billion compared to last year, driven by the UK Home Office's exercise of their contractual right to extend the Airwave network four years through 2026, along with record LMR product orders and growth in Software and Services contracts in North America. Sequentially, backlog was up \$2.2 billion driven by the Airwave extension and record LMR product orders in North America during the fourth quarter.

Software and Services backlog was up \$1.3 billion compared to last year and up \$1.8 billion sequentially driven by the Airwave extension and growth in Software and Services agreements in North America. Products and SI backlog was up \$886 million compared to last year driven by record LMR orders. Sequentially, backlog was up \$417 million driven by record LMR orders in North America during the fourth quarter.

Turning next to our outlook for 2022. For the full year, we expect sales to be up approximately 7% with mid-single-digit growth in Products and Systems Integration and approximately 10% growth in Software and Services. And we expect full-year non-GAAP earnings per share between \$9.80 and \$9.95. This outlook assumes FX at current rates, the weighted average diluted share count of approximately 174 million shares and an effective tax rate of 21% to 22%. It also assumes \$120 million of higher material costs, largely driven by the current semiconductor market dynamics of limited supply and us procuring available parts at a premium from other secondary markets.

Additionally, we expect pricing adjustments to our portfolio, which we've recently made to take effect as we progress in fulfilling existing backlog. For Q1, we expect sales to be up approximately 3% with non-GAAP EPS between \$1.53 and \$1.59 per share inclusive of \$50 million of the incremental material costs I referenced for the year. It also assumes FX at current rates, a weighted average diluted share count between 173 million and 174 million shares, and an effective tax rate of approximately 17%.

We expect full-year operating cash flow of approximately \$1.9 billion. This OCF outlook includes \$75 million of higher employee incentive payments earned in 2021 and \$150 million of higher cash taxes, half of which is driven by the US federal tax requirement to capitalize R&D beginning in 2022. And for the full year, we will continue to be diligent in our cost management. We expect OpEx to be up approximately \$100 million from last year driven by investments in video security and command center software, inclusive of \$40 million related to recent acquisitions.

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

Greg Brown, Chairman & Chief Executive Officer

Thanks, Jason. Let me just end this piece with a few additional thoughts. First, 2021 was an outstanding year for our company. We achieved record orders, sales, earnings and cash flow. We increased backlog \$2.2 billion, and we returned approximately \$1 billion to our shareholders in the form of share repurchases and dividends. Additionally, we continue to invest in our video security and command center software offerings with the acquisitions of Openpath, Envysion and 911 Datamaster.

Second, I'd like to provide you with a little bit more color on what we're currently seeing with supply and demand, and how that impacts our current 2022 expectations. Demand across all three technologies was incredibly strong in 2021. In fact, it even accelerated in Q4. Like many companies procuring semiconductor supply to meet our increasing demand has been challenging and the environment in Q4 was even further impacted with supplier delays and the impact of the Omicron variant.

In particular, delays from some semiconductor suppliers required us, as Jason just referenced, to substitute parts from alternative sources at higher costs, and this will impact margins for Q1 and Q2. For the full year, we still expect solid revenue growth in the Products segment driven by both video security and LMR products inclusive of PCR. We've taken a careful look at our portfolio and made further price adjustments that we anticipate will take effect in the second

half of the year and lead to 2022 full-year gross margins that will be comparable and operating margins that will be slightly higher year-over-year.

Third, I'm really pleased with our position for growth. The funding environment for our customers continues to remain exceptionally strong. Our APX NEXT refresh cycle is gaining traction with our public safety customers, with almost \$100 million in Q4 orders alone. We continue to capture market share in our video security and command center software businesses, and our recurring revenues continue to grow. And our balance sheet is stronger than ever which allows us to be opportunistic in our deployment of capital in this current environment.

And finally, I'd like to just recognize all of the Motorola employees around the world who despite the pandemic have never wavered in their commitment to our customers and also in giving back. Last year, our Foundation donated more than \$12 million to charitable organizations and our employees volunteered a record 65,000 hours in more than 40 countries. I'm incredibly proud of their efforts and of the recognition we continue to receive.

We were recently named again to Fortune's Most Admired Companies and as one of the 100 Best ESG Companies by Investor's Business Daily. I'm also really pleased with our recent announcement that Dr. Ayanna Howard will be joining our board. Her perspective and experience in AI and robotics will be invaluable as we continue advancing these technologies that deliver public safety and enterprise security.

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

Tim Yocum, Vice President, Investor Relations

Thank you, Greg. Before we begin taking questions, I'd like to remind callers to limit themselves to one question and one follow up to accommodate as many participants as possible. Operator, would you please remind our callers on the line how to ask a question.

QUESTION AND ANSWER SECTION

Operator: The floor is now open for questions. [Operator Instructions] Thank you. Our first question will come from Tim Long with Barclays. Please go ahead.

<Q – Tim Long – Barclays Capital, Inc.>: I've got one question and then afterwards I'll come back with a follow up. Greg, can you talk a little bit about Airwave? Nice to see that sign for the four-year extension. Could you talk a little bit at a high level about how we should think about economics of that deal, pricing, or anything relevant and were there any other incremental opportunities potentially that are a part of that and any impact on the government kind of investigating your position in those networks? And then I've got a follow up after that.

<A – Greg Brown – Motorola Solutions, Inc.>: Sure. Thanks, Tim. We were pleased about the extension of Airwave. The UK Home Office exercised their contractual right in December to extend it by four years to the end of 2026. Obviously, we welcome that. We think that's good news. We also think that's a continuing reflection of the criticality and the importance of what that network does for British-first responders. It was extended at contractual existing pricing.

And having said that, we also in parallel continue to work with the Competition and Markets Authority as they continue to progress with their investigation. We're actively engaged with them, and I think by their own timeline, the CMA expects to conclude their work by I think sometime in the summer or the mid or end of summer, and we would update you accordingly. But we obviously feel good about this development and we're very proud of the resilience and the investment we continue to make in Airwave.

<Q – Tim Long – Barclays Capital, Inc.>: Okay, great. Thank you. And then just follow up on the video end market, numbers were good for the year, very good for the year. Could you talk a little bit about kind of outlook there? You did 30%-plus growth this year and also if you can weave into that kind of what you're seeing from some of these other – whether it's NDAA and the potential for FCC involvement with Chinese players and how that could impact the growth profile for that business. Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, Tim. I'm really pleased with the execution by Jack Molloy and John Kedzierski and Mahesh in our full video security and access control business. For the year, the technology category grew 32%, 21% organic, which I think is great. And for 2022, our outlook is – an expectation is for video security and access control to grow approximately 20%. When we look at the category in total, we think that market in the main is probably growing 7% or 8%.

So, the good news is we continue to take share. We've taken share in 2021. I believe we'll take share again in 2022. We're getting really good traction in the government vertical, which Avigilon had a very nascent presence in. We're updating and refreshing the product portfolio both on fixed video and, of course, we acquired Pelco and IndigoVision.

We've refreshed the camera portfolio. We're doing more investment in software and analytics. Mahesh is leading the refresh around in-car and body-worn camera. And I'm also very pleased with the Openpath acquisition we did earlier. I like our execution. The addressable market in 2022 is now, we believe, \$18 billion, \$3 billion larger than last year. We're taking share, we're growing, and I like our outlook.

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

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

Operator: Our next question will come from Meta Marshall with Morgan Stanley. Please go ahead.

<Q – Erik Lapinski – Morgan Stanley & Co. LLC>: Hi, team, this is Erik on for Meta. Thanks for taking our question. Maybe to follow up on some of the comments on the video side and specific to the deal you announced of the Houston Police Department on body cameras, I guess I know they had paused their deployment a couple years ago and cited concerns around technology as the reason. I'm wondering if you could give us some color on maybe some of the development or improvements you made there in light of the refreshes you mentioned and like just what the lift was from a tech perspective and if that's mostly done.

<A – Jack Molloy – Motorola Solutions, Inc.>: Erik, it's Jack. So, you're correct. When we originally acquired WatchGuard a few years back, they had had some quality issues with Houston. We put the full team's focus on improving the quality both from a back-end standpoint as well as from a device standpoint. We've also pivoting our offer in the body-worn space to an as-a-service offer and we think that was compelling for the City of Houston.

At the end of the day, we've got long-standing and broad relationships with the City of Houston, and I think they trusted us as MSI, as Motorola Solutions to come and fix the appropriate quality issues as we have throughout our history. And I think we're going to have a real happy customer there. As it relates to body-worn in general, it's probably also important to highlight that for the full year, our orders more than doubled.

Q4 2021 was a record orders quarter for us. And I'd also highlight that moving forward, we're really well positioned for growth internationally. We think that, in general, the market has wanted an alternative and, as Greg said, we believe we're taking share both domestically and internationally in the body-worn space.

<Q – Erik Lapinski – Morgan Stanley & Co. LLC>: Awesome. Thanks for that color. And then maybe just on the supply chain side, it seems like you're mostly seeing headwinds in PCR just based on growth rates. But are you also seeing them kind of across the board in Video as well, just less severe? If anything kind of from product wise, you could give color on would be helpful. Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, Erik – the incremental material semiconductor costs of \$120 million for all of 2022 is primarily LMR, which is inclusive of PCR. There's also some video in there as well. But we expect the incremental material semiconductor cost to be about \$50 million in Q1, \$50 million in Q2, and \$20 million in the back half as we make progress fulfilling backlog and we've taken additional pricing increases. As the year progresses, our leverage will improve from a P&L and operating earnings standpoint.

<A – Jason Winkler – Motorola Solutions, Inc.>: And on PCR, even with the supply constraints, on the year that it had, it grew in 2021 9% to just over \$800 million. So, despite the supply chain and backlog in that PCR space that we're yet to deliver, it grew 9%.

<Q – Erik Lapinski – Morgan Stanley & Co. LLC>: Awesome. Well, congrats, and thank you.

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

Operator: Our next question will come from Adam Tindle with Raymond James. Please go ahead.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Okay. Thanks. Good afternoon. Greg, I wanted to start on the record backlog. Just to be clear, is that something that you can reprice or is that locked in? Because the concern would be that margin compression might last a little bit longer if prices are locked in and costs remain elevated. So maybe you could touch on the dynamics there.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. I think pricing and backlog is largely fixed and cannot be repriced. I think that's informing the guide we're giving you both for the full year and the linearity of the impact of margins of Q1 and Q2 primarily. But the backlog is as strong as I've ever seen it. And even if you take the extension of Airwave out, it also is still really strong in LMR and PCR as well.

<A – Jason Winkler – Motorola Solutions, Inc.>: I'd also point to the services and software backlog is the largest part of our backlog. And within it our multiyear services contracts, many of them do have a pricing mechanism around price escalation. So, services and software has a little bit of a hedge there on the parts of the business.

<A – Greg Brown – Motorola Solutions, Inc.>: Good point, Jason.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Got it. And maybe just a quick clarification on that. Some investors might be concerned that we have price increases coming in the back half of the year and maybe some of this record backlog that we're seeing is some pull-forward of demand ahead of those price increases. What would you say to those investors? I'm sure you thought about that.

<A – Jason Winkler – Motorola Solutions, Inc.>: So, the bulk of our backlog again is direct customers, they're public safety in nature, they order when they need things and we're prioritizing them. We do have a channels business as well. Record low inventory levels among the channel, and we're prioritizing the demand signal from them which we believe to be very clean. So, in terms of pull-forward and pricing strategies, we've been adjusting price for a number of quarters. And our backlog has been largely unaffected.

<A – Jack Molloy – Motorola Solutions, Inc.>: And, Jason, we obviously track canceled orders and canceled orders have been de minimis throughout 2021.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Got it. If I could just get a quick clarification for Jason. It's so unusual for us to deal with a \$50 million hit in Q1 and the implied margin. Is there any way for you to help us with margin by segment? Because I'm trying to understand if there's also a step-down in services and software margin implied in this guidance.

<A – Jason Winkler – Motorola Solutions, Inc.>: Well, the bulk of the \$50 million is related to our supply lines around semiconductor which are embedded in the products, primarily LMR. So, the bulk of that \$50 million or that \$50 million is within the product segment.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Okay. Thank you.

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

Operator: Our next question will come from Keith Housum with Northcoast Research. Please go ahead.

<Q – Keith Housum – Northcoast Research Partners LLC>: Good afternoon, gentlemen. Just a follow-up on the supply chain questions here. Obviously, you're getting a lot of attention. We're hearing from other people as well that it's just not semiconductors that we're seeing the supply chain issues on. Are you guys seeing issues on any other components or building material or is that perhaps propping up with some frequency over the past few months and do you have any idea about how it looks for the next few months?

<A – Jason Winkler – Motorola Solutions, Inc.>: The supply chain environment is challenging on the front, Keith, of freight being elevated, which we talked about, and most companies are going to having to navigate those higher prices. The material cost drivers that we've highlighted as incremental this year are entirely around obtaining supply for semiconductors. There are other general price pressures within supply chain, but we are mitigating those. They are not the key challenge that we have.

We navigated those. It's really freight and it's semiconductors. We have a higher inventory position too, Keith. I'll point you to on the balance sheet. We're nearing \$800 million of inventory, so we're creating a buffer for the other categories of parts beyond semiconductors so that when the available semiconductors are delivered that we have the right matching of componentry. So, I'd say our key challenges continuing are around a supply chain of semis.

<Q – Keith Housum – Northcoast Research Partners LLC>: And just following up on that, is the issue here just the fact that you guys are – the demand is greater than you perhaps originally forecasted for, or is this that your original suppliers are unable to meet your demand and others?

<A – Jason Winkler – Motorola Solutions, Inc.>: It's both. Our demand has increased, but our original demand signal has not been delivered. We've had delivery delays from a handful of semiconductor suppliers. That's in part what we pointed to and what's driving the incremental costs of \$120 million this year.

<Q – Keith Housum – Northcoast Research Partners LLC>: Great. Thank you, guys. Appreciate it.

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

Operator: Our next question will come from George Notter with Jefferies. Please go ahead.

<Q – George Notter – Jefferies LLC>: Hi, guys. Thanks very much. I guess I wanted to ask about stimulus. If I go back to 2020, if memory serves, I think you said you got \$150 million in incremental benefit from the CARES Act on revenue. And I was wondering if you have a comparable number for 2021. Obviously, ARPA might be more the benefit there. But – and then also as you look at your guidance for 2022, what kind of stimulus benefit do you think you have baked into that guidance? Thanks a lot.

<A – Jack Molloy – Motorola Solutions, Inc.>: Sure, George. So maybe to start from a Cares perspective in 2021, we had about \$50 million last year in Cares. And really the conversations have pivoted to the American rescue plan. As we highlighted, \$350 billion available to state and local and then \$170 billion available to schools, which is interestingly enough one of our biggest vertical solutions for Video Security and Access Control. So, the funding environment not only from a stimulus perspective, but actually from a state and local budgets and receipts perspective has been as good as we've ever seen.

And really in the history of my business, but probably more importantly Jason highlighted it, Greg highlighted it, it's making sure that we've got the attractive portfolio to meet – to do that. And so, things like APX NEXT and device refresh from an LMR perspective, things like driving new camera portfolio, investing in analytics and AI in the Video

Security, I think, have positioned and married well with the stimulus opportunities, which is what you're seeing in backlog and I think future demand.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, the other thing to note is as you know this ARPA money is multiyear in duration. So, the \$350 billion that Jack talked about, the \$170 billion, and there's more, some of this multiyear funding goes all the way out to the end of 2024. When you take that visibility of funding in addition to state and local tax receipts being robust, and then you combine some of the other regulatory things around NDAA, but also more recently the Secure Equipment Act, where the FCC has been directed to direct certain Chinese companies and prevent them from competing like Hytera in LMR, or Hikvision and Dahua for fixed video for state and local opportunities in the US, that's an incremental benefit as well. So, the environment is strong.

<Q – George Notter – Jefferies LLC>: Got it. And then any sense for what you've got embedded in your revenue guidance for this year from stimulus?

<A – Jason Winkler – Motorola Solutions, Inc.>: Jack, maybe you can talk about the funnel development. But in terms of it's implied in the – both Products growth and S&S growth for the year.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah. And I think, we look at – we track our ARP funding as well and pipeline to start 2022, just dimensionalize it over 2021 is up. But again, I think, it's more important – I think equally as important as the stimulus funding is just the condition of state and local budgets in general.

<A – Jason Winkler – Motorola Solutions, Inc.>: Yeah.

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

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

Operator: Our next question will come from Louie DiPalma with William Blair. Please go ahead.

<Q – Louie DiPalma – William Blair & Co. LLC>: Greg, Jack and Jason. Good evening.

<A – Jack Molloy – Motorola Solutions, Inc.>: How are you, Louie?

<Q – Louie DiPalma – William Blair & Co. LLC>: Great. Greg, I believe you mentioned in your scripted remarks how government demand has been elevated particularly for the Avigilon video solutions. Is that primarily driven by the Secure Equipment Act from the Federal Government that you just mentioned? And like how big of an opportunity do you have to take share from some of the Chinese vendors such as Hikvision that are deployed across the Federal Government and for local government accounts? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, Louis, thank you. I think, our growth is coming for a variety of reasons. I think, it's the portfolio we have, the investment Molloy has made in go to market, the refresh that Mahesh is doing on mobile video. Yes, I do think NDAA, the National Defense Authorization Act for the Federal Government is a beneficial tailwind. Jack talked about on the last call we were targeting \$330 million of the overall fixed video and access control category to be yielded from government customers. We actually exceeded that. It was closer to slightly above \$350 million. So, yes, I think we will continue to take share and grow our business in the government vertical. But I also think we'll continue to take share in commercial enterprise as well.

<A – Jack Molloy – Motorola Solutions, Inc.>: One other thing I'd feather in, Greg, it's just as, we talked about our Pelco acquisition and what that meant in terms of bringing Federal Government contracts, and we actually have invested in the refresh of that portfolio which I think will be critically important for our Federal Government business. It dovetails with all things NDAA Secure Communications Act in 2022 and beyond.

<A – Jason Winkler – Motorola Solutions, Inc.>: And, Greg, just to clarify the \$350 million number you mentioned is both mobile and fixed ...

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

<A – Jason Winkler – Motorola Solutions, Inc.>: The into government...

<A – Greg Brown – Motorola Solutions, Inc.>: That's right.

<A – Jason Winkler – Motorola Solutions, Inc.>:- including all of the great portfolio Mahesh has around mobile and in-car complemented by fixed video, a market that was nascent for Avigilon just three years ago. So, it's a good market for us and continues to be.

<Q – Louie DiPalma – William Blair & Co. LLC>: Great. And, Greg, you also mentioned accelerating demand like during the fourth quarter. Was there any particular end customer for which the demand was the most pronounced such as – like are you seeing the most demand from like local and state, like law enforcement customers, or is it from the Federal Government or commercial? I was just wondering if you could parse out where you're seeing the strongest demand.

<A – Greg Brown – Motorola Solutions, Inc.>: I think, we entered Q4 with strong demand, and then it got – it did accelerate in Q4. The end user that I would highlight is probably the public safety customers for APX NEXT. We had high expectations. We've spent a lot of time improving, refreshing the APX NEXT that Jack has referenced.

Orders and demand increased. It was outstanding in Q4. And we also introduced the APX XN Fire Radio. We have plans to introduce a mid-tier APX NEXT, and if I were to highlight, Louie, one area, although demand was fairly broad, I would highlight the APX NEXT public safety users in North America and as Jack has already referenced, I think we're in the early innings of that APX NEXT refresh cycle.

<Q – Louie DiPalma – William Blair & Co. LLC>: Sounds great. Thanks, everybody.

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

Operator: Our next question will come from Paul Silverstein with Cowen. Please go ahead.

<Q – Paul Silverstein – Cowen and Company, LLC>: Thanks. I don't think I heard you all say it, I apologize if you did, but Greg, can you tell us what growth – how much of growth has been taken away by supply chain, what growth looked like in 2022 but for supply chain?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, I would say this. So we talked about overall demand being strong. It accelerated in Q4, Paul. You know we ended the year with record backlog. We're providing full-year revenue guidance of 7%. That is in the context of semiconductor constraints that we think will be throughout most of 2022. It also is guidance that incorporates \$60 million headwind for FX. So we certainly don't have any demand problem in this environment. It's a supply constraint environment. And when I think about – look, how much better could it be?

Look, I think it's – if supply was more free flowing, I think we could have growth in 2022 that wouldn't be too much dissimilar from the year we just completed. So demand is strong. And we're navigating it and we're – I'm pleased with the execution that the team is doing. As we look at supply, yes, we're buying broker parts at higher costs. We're looking for substitute alternatives. Molloy and Scott Mottonen on the engineering side are doing real-time product design, re-design work that takes a little bit of time. We're carrying longer higher inventory. We are entering into longer term supply agreements where we can with certain semiconductor providers. So I think we're doing a lot in parallel, but demand is strong.

<Q – Paul Silverstein – Cowen and Company, LLC>: Greg, to be clear I'm not questioning that demand is strong. I was just hoping to get quantification. But I hear you saying that growth this year could look like 10% but for supply constraints. I don't want to put words in your mouth, but I think that's what I just heard you say.

<A – Greg Brown – Motorola Solutions, Inc.>: I would say not too dissimilar from last year. So you could take that within the contours of that. But clearly, it's stronger than 7% and the \$60 million of headwind with FX. But, yeah, Paul, I think you're absolutely directionally on it.

<Q – Paul Silverstein – Cowen and Company, LLC>: I appreciate that. Just as a follow-up, I apologize if you replied to Tim previously, but on the Hytera question specifically and I know I'm asking you to speculate here, but given that it's now a criminal action and the thought arises that I suspect that could shut them down or effectively shut them down throughout the US and perhaps in other regions outside of China as well. Any thoughts on how good – and I recognize it's going to take time. It's not going to happen overnight. But if that criminal action proceeds and it ends up in the same place as civil action did, what could be the impact to your business from a revenue growth and profitability standpoint?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, first of all, I was happy to see the DoJ earlier this week announce a 21-count criminal indictment of Hytera for conspiracy. It is separate than our civil actions. It doesn't change our strategy on the pending civil litigation, Paul. And now as a result of a series of judgments, they owe us in excess of \$670 million separate from the criminal actions that the DoJ just announced. They are effectively shut down in the US and Australia and Germany. I think this will put incrementally more pressure on them.

Look, we're in a multiyear campaign. There's nothing more important, nothing, Paul, than our intellectual property and the innovation that we invest in. We will continue to defend it. We will fiercely continue to pursue collection. I don't mind spending the money.

And we'll do what we need to do to get appropriate remuneration back from Hytera. It was a very concerted multiyear campaign where they stole, and we're going to get them to pay for it. I like the fact that the DoJ announced their criminal indictment, but I look at that as kind of two different parallel streams, and doesn't interfere with our focus and perseverance and determination around our civil litigation.

<Q – Paul Silverstein – Cowen and Company, LLC>: Greg, just to be clear to your comment, you're saying independent of the criminal action, based on the outcome of the civil litigation, if I recall I think the damages were reduced to \$545 million, but you got a very hefty royalty stream in perpetuity. You're telling us that that royalty stream and the damages will effectively shut Hytera down, including in the PCR market whether or not that criminal investigation yields a verdict against Hytera.

<A – Greg Brown – Motorola Solutions, Inc.>: I think that our actual judgments are over \$670 million when you add in attorney's fees and pre-judgment interest and trial costs and so on. I think – I'm just saying in the main, Paul, I think the pressure on this company is so great. In the US, I'd be surprised if they're able to continue to operate going forward. We'll see. But we're going to pursue all of our collections and if it includes asset seizure, we'll do that, too. But we're not going to let people, anybody, steal our product or trade secrets or intellectual property.

<Q – Paul Silverstein – Cowen and Company, LLC>: As it should be. Good for you. Thanks for the responses.

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

Operator: Our next question will come from Sami Badri with Credit Suisse. Please go ahead.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Awesome. Thank you by the way for all the color on the various elements and the questions that were asked earlier. A couple of questions I have is when you think about pricing for your products and I'm referring mainly to LMR, what is the average price increase that you guys are thinking about to put into the actual list pricing of LMR products? So maybe we'll start off there.

<A – Jason Winkler – Motorola Solutions, Inc.>: Sure. So we've been looking at the portfolio and implementing surgical adjustments through Q3 and Q4. It really depends on the portfolio and how we stack up competitively. We've been adjusting not only list prices, but also discount management and programs, which can also yield a higher sales and lower discount.

But it's tough to put a number on it. In aggregate, it's going to be an improvement and a real help to offset the cost that we talked about in the second half. So the series of actions in aggregate that we put together will offset a large part of the pricing – of the cost increases that we mentioned incrementally. That's why the bulk of the \$120 million of increased semiconductor costs is in the first half, \$100 million of it. \$20 million of it is in the second half. And that's in part because of the actions we put in place.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: So just safe to assume that the minimum price increases will offset the increases in cost, the surgical cost? That's the standard base case, right, the floor? And then this doesn't take into account if customers are opting in to order an APX NEXT which is technically a much higher ASP radio compared to the rest of the portfolio. Is that the right way to think about what's going on?

<A – Jason Winkler – Motorola Solutions, Inc.>: So, mix changes in the portfolio enhancements we make like APX NEXT are contemplated as we plan any given year, right? And in the mid tier, APX NEXT that Greg mentioned that's coming to the portfolio that may come at a price premium to its successor is factored into our base case.

The price increases that we're referring to are in the incremental to that around prices of products that perhaps are more aged and not new products, but rather products that have been in the market for a bit. We've looked at that across the portfolio with Jack's team around the elasticity of our entire portfolio.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Got it. Got it. So one last question. When I think about the 7% number you're guiding to for 2022, how much of that is price increases and how much of that is units and volume being shipped?

<A – Jason Winkler – Motorola Solutions, Inc.>: The majority of that, of the 7% growth is volume increases.

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

Operator: Our next question will come from Ben Bollin with Cleveland Research. Please go ahead.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Good evening, everyone. Thanks for taking the question. Greg, I wanted to start with a question around the American Rescue Plan Act. And specifically, I'm curious your thoughts about how you look at the incrementality of that funding versus maybe what was already a strong steady state budget.

And then a second part maybe for Jack, also America Rescue Plan Act related, just any behavior you're seeing from customers where you think they are in figuring out where they're going to spend this money, how much they've got, relative size of projects, any color around that would be helpful. Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Hey, Ben, I would actually say, and I think Jack referenced this earlier, I think there is a strong steady state to begin with around these budgets before you get to recovery act money. I think that the narrative a year ago was defund the police. I think we've seen a reversal of that hyperbole politically but we're also seeing more and more investment.

People know that they need investment and more modern and secure infrastructure to protect these communities. And we're seeing that across the board. So I think steady state is stronger. I think the sentiment around police investment is different than it was several quarters ago, and then you layer on ARPA.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah. And so, Ben, as we talked about, ARPA is a multiyear – it's multiyear in terms of how we'll draw down that money. I want to point out there was important clarification that was directed by the United States Treasury Department in early January. They issued a final guidance which was actually a few hundred pages long. That guidance and this is really important they made several references to how that money was to be used, namely law enforcement, equipment technology, and various different caveats but that was very important.

Pointed to things like P25 infrastructure, P25 devices that those funding were able to be pointed towards obviously the products that we make. So I think that was very beneficial. But again, as I said, I think it's one thing to have the funding. But it's more important to have the portfolio that resonates with them, and I think as we've said across the three technology segments, we're the market leader and we believe we're taking share.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Thank you.

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

Operator: Our next question will come from Paul Chung with JPMorgan. Please go ahead.

<Q – Paul Chung – JPMorgan Securities LLC>: Hi. Thanks for taking my questions. So just a quick one from me on gross margin. So nice performance here to end the year. Kind of despite some freight cost. You mentioned kind of flattish 2022 margin performance maybe on some of these lingering freight. But as we look out to 2023, hopefully these costs come down, some product mix benefits kind of continue and then these price increases hold. So can we see that gross margin step up in 2023 based on those trends? Thanks.

<A – Jason Winkler – Motorola Solutions, Inc.>: So the \$120 million that is incremental that we've been talking about on this call regarding supply lines for semiconductors is not structural, it's temporary. We're having to pay a premium because the available supply from the committed suppliers isn't necessarily there.

And so as a result, we're paying a premium, a markup if you will. Competing in the open market for other manufacturers who need the same part. So as we think about what happens to those costs over time as the market and semiconductor manufacturers all of whom are working to increase capacity, all of whom are working to fulfill our needs and we have excellent relationships with the suppliers that we're navigating through this journey with, as those things improve, those costs get mitigated.

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

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

Operator: [Operator Instructions] Our next question will come from Jim Suva with Citi. Please go ahead.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Thank you. Greg, you mentioned that kind of steady state or continual demand remains pretty strong. And then when we add in the additional government stimulus, like ARP, the American Rescue Plan and such, I'm wondering are we reaching a point now where first responders are looking at some major changes to their Command Centers? It seems like from a lot of the work that we do, that the Command Centers are pretty antiquated, out of date, and could be a lot more technologically advanced, informative and helpful.

And I'm just wondering those are big decisions to make, almost like new white board stuff and put in completely new systems. I'm wondering does this get us kind of over that hump or over that worry or concern to where now they can actually implement even more effective tools and Command Centers?

<A – Greg Brown – Motorola Solutions, Inc.>: I think, Jim, the high-level answer is, yes, because it fuels overall demand and funds for those changes. But you also know that Command Center is software and their existing tools is one that embeds existing inertia and work flows. And it's actually – yes, it's available funding that can fund those transitions, but it's also the reinvention on transformation of employee public safety habits and workflow that's more embedded. So I still think it'll take time.

Sales cycles are a little bit longer and as we do that, as Mahesh and Jack talked about last time, we're looking to move more sales along a hybrid strategy of meeting customers where they are, so it could be a prem solution, it could be a SaaS subscription solution, but as we sell more of those transitions we expect it to be more of an annual recurring revenue and less of a CapEx purchase which will elongate kind of the revenue recognition over time. Clearly, it's a positive, though.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Great. Thank you so much for your additional details.

<A – Greg Brown – Motorola Solutions, Inc.>: Thank you, Jim. Mahesh, did you want to add something? No. Okay. Jack? No. Okay.

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

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

Again, thank you for joining us this afternoon. For all of the Motorola people listening, I want to thank you for not just your perseverance during a challenging Q4 with Omicron and additional supply constraints but for the whole year. You've been unwavering, and you've allowed us and fueled our capability to achieve a lot of the record results that we talked about this afternoon.

Demand is strong as I mentioned. It got stronger in Q4, and we're very proud of the fact that we ended the year with record backlog. The funding environment which we just talked about again, it just remains exceptional. We're growing and taking share in all three technologies.

By the way, our total software business in 2021 is approaching \$1 billion. If you count all software and we expect it to exceed \$1 billion in 2022, and even with the \$120 million of incremental material semiconductor costs and \$60 million of FX headwinds, we still expect to grow approximately 7% and expand operating margins as well.

Conditions like this while challenging also present great opportunities, inorganic and organic. And with our balance sheet, our firepower, we have every intention of deploying capital strategically, surgically, but to continue to drive significant shareholder value creation. I appreciate everybody on the call and to all the Motorolans I'm really proud of you and grateful for everything you're doing.

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.