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## **PARTICIPANTS**

### **Motorola Solutions Executive Participant**

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

### **Other Participant**

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**Sami Badri** – Analyst, Credit Suisse Securities (USA), LLC (Research)

## **OPENING COMMENTS**

### **Sami Badri – Credit Suisse**

All right, thank you everyone for joining us. I'm Sami Badri with Credit Suisse Equity Research. We have the CFO of Motorola Solutions, Jason Winkler. Thank you, Jason, for joining us today.

### **Jason Winkler – Motorola Solutions**

Thank you, Sami, and good morning to you and everybody who is present.

## **QUESTION AND ANSWER SECTION**

**<Q – Sami Badri – Credit Suisse>**: All right. I want to kick off with one of the kind of key questions for Motorola that kind of characterizes what's been going on from 2020 through 2022, which is just the demand drivers that you guys are seeing. So when we think about the strongest demand environment, which has been referenced a couple of times on conference calls and in the Q&A sessions, at least in public forums, can you just kind of walk us through the composition of the drivers of these demand drivers that are really kind of giving you guys conviction in your end markets?

**<A – Jason Winkler – Motorola Solutions>**: Sure. So demand for us is strong and we look at demand as new orders that are coming in in any given period, those are strong. Additionally, our backlog, which our orders yet to be delivered, is also strong and at record levels, and our backlog and its composition, we have \$13.5 billion in backlog for the company. Over 90% of that is from our government customers and government's orders to us are fixed, firm, funded from them and we are doing everything we can to deliver on that backlog in a challenging supply environment. But the demand remains very robust across the business. In part, government budgets, state, local cities, if I think about North America, are in pretty good shape. And of course they're complemented by this available ARPA funds, which \$350 billion for state and local entities, another \$170 billion for education. That backdrop is supportive of their needs and our gear, our equipment, our solutions helps them solve problems and promote public safety and is generally prioritized in any given budget cycle.

**<Q – Sami Badri – Credit Suisse>**: Got it. When you think about just an inning or like a cycle we're in, right, we started seeing state and local budgets really start to pick up in 2020, 2021, and the allocation towards public safety investments really start to pick up around that timeframe, too. But is there almost a little bit of a lag between when these budgets start to tick up at least in public records and even through ARPA funds being announced, and then when Motorola recognizes those revenues or even sees them in the backlog?

**<A – Jason Winkler – Motorola Solutions>**: We believe there is a lag in specifically this ARPA, this large amount of funds from the stimulus and it's flowing and will flow over time. The expiration date of ARPA is around 2024. Oftentimes those expiration dates aren't met and government grants, programs, et cetera. We've seen those dates sort of move to the right. So the expectation will be this ARPA available funds for our customers as a backdrop and then among many of the other things of their budget opportunities will remain for a number of years.

**<Q – Sami Badri – Credit Suisse>**: Got it. Got it. One thing I kind of wanted to also discuss is, the company has always historically kind of grown at a very consistent average growth rate, right. And with these new state and local budget funds and ARPA funds, that growth rate is now looking like it's going to step up a little bit higher. Now when we think about that \$9.5 billion that's penciled in for 2023, at least from a revenue trajectory perspective, is that considered conservative, preliminary, directional, how would you kind of characterize the \$9.5 billion?

**<A – Jason Winkler – Motorola Solutions>**: Sure. So you're referencing on the November call, Greg made mention of how we're planning for approximately \$9.5 billion next year. As we think about 2023 demand, again remaining strong, we expect and supply chain challenges to remain a part of the needs that we have to navigate around like we've been doing this year. So that's certainly part of the equation. Additionally, FX rates which this year have had a negative effect on top line of around \$220 million from the translative effect of the strong US dollar. Next year again at current expectations would be that FX would present a headwind of another \$150 million. So there's some moving parts. Directionally, the color that Greg gave was that we're planning for \$9.5 billion and we'll remain in a strong demand constrained supply on semiconductor environment, that's how we're thinking about next year.

**<Q – Sami Badri – Credit Suisse>**: Got it, got it. I wanted to kind of go back to the ARPA funds. I know you guys called about \$200 million worth of year-to-date 2022 orders that were directly or maybe indexed penciled from ARPA sources, right. Could we just talk about that \$200 million? Is that sound big, small relative to the ARPA funds generally available for states and municipalities?

**<A – Jason Winkler – Motorola Solutions>**: Sure. So our COO, Jack Molloy, did talk about how there's a direct known set of orders that have – we won in this year that cumulate a lot of orders to a \$200 million number. That's the direct impact of what we know customers have used ARPA dollars for those, also an indirect effect with budgets in governments being a bit fungible where the indirect effects of having this stimulus supplement in other parts of budgets which might have freed up their ability to spend on our communications equipment as well. So again, the flow of those dollars is slow into and down to the local level. We're seeing it get started. The \$200 million number is what we've captured so far. The funnel of activity among Jack and his sales team is robust, and we'll continue to try and capture as much direct and indirect effect of those stimulus dollars being available to our customers. Sami, I should also note that another set of stimulus over a two-year period was the CARES Act, and the direct impact of us capturing orders from – assigned by that funding source was about \$150 million. So our teams are getting after it. Our sales teams are very good at helping customers think through funding strategies, and this is just one more possibility for customers to fund important projects.

**<Q – Sami Badri – Credit Suisse>**: Got it. Got it. I wanted to shift gears a little bit on pricing, and this is probably a little bit tied to some of the supply chain and cost dynamics that you were seeing that are a little bit more elevated than what you were expecting maybe two years ago. So could we talk about the cost dynamics that you're seeing because there have been some increases in cost that you've been seeing? And then we can shift into how you guys have kind of proactively or reacted to increasing price in some of the products?

**<A – Jason Winkler – Motorola Solutions>**: Sure. So as we began this year, 2022, we had anticipated about \$120 million of higher input costs, largely for semiconductors, largely driven by the need to pay a premium for when we found available semiconductors that we couldn't get directly from our manufacturer contracts. That number has now grown to \$150 million, of course, to support higher volumes this year. So in planning for that \$120 million, now \$150 million of cost pressure, we had designed a series of pricing across our own portfolio, which we've implemented to offset that. And we've seen the effects of that according to our plans really in the Q3 results. In Q3, we had significant margin expansion over last year. Our guide anticipates the same for Q4. So our plan around

pricing is working to mitigate those unique semiconductor costs that we knew were there and that we're having to plan around.

**<Q – Sami Badri – Credit Suisse>**: Got it. Then one good clarification is, has Motorola been able to reprice the entire backlog to reflect higher prices, given that you had seen increased costs and then would you say that Motorola's financials today do reflect price increases or have we yet to see real contribution from price increases at the P&L?

**<A – Jason Winkler – Motorola Solutions>**: Well, I think in thinking about this year, 2022, the price actions of – to counter the \$150 million that I talked about of higher costs are largely going to be there in the second half. We saw it in Q3, anticipated in Q4. And I should note that our pricing strategies, we spend over \$800 million a year in R&D. We make amazing products, we differentiate our products. And as a result, we are taking a closer look at pricing those products for the value that we're investing in R&D. So we've countered the \$150 million of higher costs this year in the second half, largely through the price increases. And we anticipate that those price increases will be stickier than the higher cost profile of semiconductor costs, which at some point should return to a more normal state.

**<Q – Sami Badri – Credit Suisse>**: And then I think what would be also helpful for people to understand is that the kind of semiconductor shortages that you are seeing are probably a little bit different than the rest of tech because the types of chips that you're going after, the components you're going after a little bit different than what goes into server switches or storage devices. So could just kind of give us a little bit of a update on just which parts are missing, how long it's taking, how are those negotiations going?

**<A – Jason Winkler – Motorola Solutions>**: Sure. I could probably give you a few part numbers if you want to.

**<Q – Sami Badri – Credit Suisse>**: Sure. Yeah

**<A – Jason Winkler – Motorola Solutions>**: The semiconductors that we use in our LMR products are primarily of a size of wafer 40 nanometers or above. So it's – we're competing, therefore, with automotive, heavy industrial, power grid, some appliances, things like that. It's not the 5 nanometers and smaller consumer in your phone, in your Dell server type thing. So we have a series of manufacturer partners. They're doing their best to help us navigate their constraints around supply. Our products and they recognize what we do generally get prioritized in allocations. So we're working directly with many of our partners. And what I'm proud of is the engineering culture we have at Motorola where we're asking engineers to help if a part is unavailable semiconductor, can they find a substitute that is equivalent from a different manufacturer. And we've done a really terrific work on that front. It's increasing the probability and the yield of us finding parts in what remains a challenging semiconductor environment for us.

**<Q – Sami Badri – Credit Suisse>**: Got it. I want to shift gears a little bit and talk about LMR versus PCR. I know that Motorola has been in a position to prioritize a lot of LMR shipments, and the PCR backlog did come up quite a bit around mid-year 2022. Could we talk about how Motorola is navigating that and what the expectations for PCR into Q4 and maybe even 2023?

**<A – Jason Winkler – Motorola Solutions>**: Sure. So Land Mobile Radio has really three technologies in it. It has P25 sort of a North America standard. It has Tetra, more of a Europe and other parts of the world standard. And then as you mentioned, it has a commercial or PCR part of the portfolio. Tetra and P25 supply public safety. That's the technology. And we've been prioritizing that type of the portfolio because we need to. It's mission critical. Customers expect it and we in the first half had prioritized it over PCR. In the second half of this year, we're more balanced in, of course, fulfilling the mission critical part of the portfolio, but also finding available components so that we can fulfill the PCR demand, which is at record levels of backlog. We're doing that. We saw a better Q3 in PCR this year. We anticipate PCR will grow 20% on the year off of last year and we'll still have opportunity into next year and a need to fulfill PCR, which is generally a little bit lower tier, both price and margin. So that's something that we'll have to continue to work through even in the next year.

**<Q – Sami Badri – Credit Suisse>**: And then it is a lower margin segment, but it's also a lower mix of revenue. But would greater shipments of PCR really begin to weigh on the overall corporate margins or is it not significant enough really to be noticeable perhaps in Q4 and early 2023?

**<A – Jason Winkler – Motorola Solutions>**: I mean the mission critical portfolio was a more margin rich part of the portfolio. PCR, particularly the lower tier, is a little bit less. It's a mix variable that we need to plan for and we'll do that.

**<Q – Sami Badri – Credit Suisse>**: And then one thing I wanted to go back to the supply chain related questions. Are we -second half 2022 probably the worse it's going to – it's looking like it's going to be from a supply chain and component availability perspective. And when do you think supply chains will actually be alleviated from a Motorola supply chain perspective?

**<A – Jason Winkler – Motorola Solutions>**: These are important questions that I'm asking our manufacturing partners, and the clarity they're giving me isn't quite what I'd like in terms of things returning to normal. What's clear to us right now is that we're going to plan for another challenging year next year. We are getting better at the mechanisms that we use to navigate this environment. The engineering redesigns I mentioned, navigating, paying a premium for brokers, carrying a higher inventory position, which is something we're also doing. So the tools that we're using and are working and we'll need to, I believe, continue to use those into 2023 to navigate what looks to be right now, yet again another supply semiconductor constrained period for us.

**<Q – Sami Badri – Credit Suisse>**: And then maybe going to this, so we kind of know 2023 or at least you alluded to 2023 also being a bit challenging just like 2022. But from an incremental cost or expedite fee perspective, are things expected to worsen before they get better or is second half 2022 probably as bad as it's going to get?

**<A – Jason Winkler – Motorola Solutions>**: Well, the – on the year, I take us back to the \$150 million of premiums we've had to pay to fulfill the 9.25% to 9.5% growth that we're anticipating this year. That's a large number. And so as we think about when that normal returns, that's an opportunity for us. Right now, 2023 looks to be again challenging. Is 2022 the worst, perhaps but we've seen challenges from time to time and we're going to plan accordingly.

**<Q – Sami Badri – Credit Suisse>**: Got it. Got it. I want to shift gears over to product orders and cancellation rates. So one big topic, at least in the second half of 2022, especially looking into potentially a recessionary environment in 2023, is all the backlogs a lot of tech companies have been discussing may potentially be rediscussed with the customer bases. But for Motorola, you're in a little bit of a different boat. Could we talk about the cancellation rates that you guys generally see on orders or how do those orders usually evolve in the middle of a recessionary environment?

**<A – Jason Winkler – Motorola Solutions>**: Sure. So our cancellation rate historically is near zero and it remains that even in the period that some are, as you discussed, talking about the strength of backlog. Our backlog being anchored in governments, which ordered to their needs, which ordered to their budget cycles, which ordered to encumbrance accounting, where they've actually allocated dollars and they're spent, when they issue the PO. That's our business. And as a result, that 90% of our backlog that is from that government origins is one reason why our backlog is very firm. And if anything, our customers on the public safety side are waiting a bit too long for their products. And we're working through, given the supply chain constraints, getting them the products for the dates that they need them. So, that's been our biggest challenge. Our backlog is firm even on the parts of our business where we do route to market through channels and channel partners, think professional commercial radio and as well fixed video. We haven't seen order cancellations and we know that inventory levels in the channel are pretty thin. So, that's a perspective on our backlog and our demand indicators.

**<Q – Sami Badri – Credit Suisse>**: Got it. Got it. When we look into Europe and we look at kind of the dynamics that are going there that are a little bit more turbulent than what's going on in the US, at least from a stability perspective, have you seen any kind of shift or change in demand profile in the European region, or has it generally been in line or consistent with expectations and just normal demand trends from the European region?

**<A – Jason Winkler – Motorola Solutions>**: We haven't seen any change in demand. The biggest challenge we have is in translating the revenues that we do get in Europe into US dollars, which has been a big driver of the FX impact that I mentioned earlier. But on the demand side, I should share that over half of our revenues in EMEA, principally Europe, come to us through managing support arrangements where we're recognizing revenue and delivering services on an annual basis for a network in Norway, a network in Denmark. So, it's very predictable, very sticky. That's how the customers prefer to buy in that region. I would add Australia is on that list as well as a place where they consume it on a managed services arrangement. So except for FX and the translative effects, demand patterns in the UK and the rest of the EMEA appear strong.

**<Q – Sami Badri – Credit Suisse>**: And then since we're just discussing European region, let's just spend maybe one minute on Airwave and what the kind of latest is with from a Motorola perspective. I know it's come up in a lot of conversations, but it's something that people do want to hear your take and how you guys expect this is going to play out or at least what are the current expectations how this is going to play out?

**<A – Jason Winkler – Motorola Solutions>**: Sure. So the timeline, which was recently updated by the CMA, which is leading the inquiry, is that they anticipate a final decision. They've issued a provisional 600-page report. The final is expected per their timeline now in February of 2023. We continue to work with the CMA. Also important, we continue to work with the home office in making sure that that network is serving the 300,000 users that provide public safety in the UK. And our position is strong in that we have a solid contract. We've been performing against that. There's a variety of legal remedies or options that we have in the event that the final decision is not acceptable for us. So we'll continue to work on that. But I think importantly, it's serving the customer first and then we'll work with the CMA around their final report and thereafter.

**<Q – Sami Badri – Credit Suisse>**: Got it. I wanted to thank you for covering that, by the way. I want to shift gears to command center. So command center started off the year with a little bit of a higher growth rate and then you guys had to manage it down a little bit just because of what's going on with your customer base. Could we talk about the dynamics you guys are dealing with in the command center side of the business or the software side of the business and acceptance, deployment, the cadence, what slows command center deployments down, what accelerates them, could we kind of discuss the shift?

**<A – Jason Winkler – Motorola Solutions>**: Sure. So command center software, which is serving 911 or public safety emergency points. There's over 6,500 of them in the US. Think of these as the ingestion point for a 911 call. That business for us, we guided the technology this year to grow low-double digits. It's at about 12% growth through Q3. I think it was 9% in Q1, 21% in Q2 and 7% in Q3. So it's performing as we expected. Why does it vary from time to time? We have a deployment, for example, in Q2 where we had a significant amount of installation, configuration one-time revenues to get the 911 operation up and running, and then it'll turn into a more continuity of revenue. So there is a little bit of configuration and installation revenues within command center software, but it's performing as we expected. We anticipate it'll grow low-double digits this year, which is how we started the year and the work that Mahesh and the team are doing to make that portfolio not only excellent as a point solution, but integrating it so that customers can navigate a complex environment and not have to have the interfaces and the complexities that today dominate 911 centers. We feel well positioned in the work that's taking place in the portfolio.

**<Q – Sami Badri – Credit Suisse>**: Got it. And then another thing about your revenue growth rate is there are some customers that opt in to a subscription versus the historical kind of perpetual or just overall solution sale being almost like a one-time transaction. How much of that dynamic has weighed on the 2022 command center software growth?

**<A – Jason Winkler – Motorola Solutions>**: The transition hasn't been significant, so customers remain currently biased towards an on-premise upgrade. That's how they typically bought, although we're showing them a path to the cloud, which is also important. So the next upgrade or an RFP that may be on the street likely calls for an upgrade of their current infrastructure, but showing them a path to the cloud and the benefits and at their pace is important, we think, for not only them, but also positioning us. So the portfolio will continue to invest in it so that it works in the way customers want it today and the way they might use it into the future.

**<Q – Sami Badri – Credit Suisse>**: Got it. I'm going to ask one more question. I'm going to open up to the audience. If anyone in the audience has a question, you'll be able to ask Jason. One of the question I want to hit is when we look at employee wage inflation in terms of what's been going on, at least in the US and even abroad in terms of costs or CPI impact actual just wages, how has that been impacting Motorola so far?

**<A – Jason Winkler – Motorola Solutions>**: We've been managing through it. We are a tech company. We have an engineering culture. We have 19,000 employees. Over 40% of them are engineers. Many of them are software engineers working in very competitive environment. So we've had to manage through it. Some of the things we've done include a more targeted equity focus for engineers, which has helped. I've been having dialogues with the engineering leaders about the value of our equity and a low beta being significant in the environment we're in. And they get it. And I think engineers and the ones that are attracted to work for us, they don't want to just work on cool things, they want to work on cool things that serve a purpose, whether it's public safety, whether it's securing schools. And so, we have a stickiness of the engineering culture that wants to work a part of that mission-driven culture that also helps us navigate the challenging labor environment, but we're working through it and we're proud of our engineering teams.

**<Q – Sami Badri – Credit Suisse>**: Got it. Anyone in the audience have a question for Jason? All right. Okay. So with that last kind of response you gave, how should we be thinking about operating margin trajectory into 2023?

**<A – Jason Winkler – Motorola Solutions>**: Well, I think as we plan for 2023, I think it's instructive to think about the 2022 and the year that we're anticipating finishing really a year of two halves, right? First half of this year was encumbered by a significant portion, over \$100 million of that \$150 million of year-over-year costs. As a result, margins in the first half of this year versus last year didn't expand. The second half, however, which brought to us the prices that we've talked about, our own pricing actions, lower year-over-year incremental purchase price variance has driven a result that we anticipate like in Q3, strong margin expansion in the second half. So as I think about rolling that over into next year, I think that's instructive for how we think about the business as well as some of the puts and takes that we've discussed, FX, PCR mix and some other things. We would anticipate next year being another good year.

**<Q – Sami Badri – Credit Suisse>**: Got it. Got it. One thing I want to also hit now that we have you is Motorola has shifted as a company from historically really innovating and designing in-house and not necessarily being too active on the M&A front. And now you've shifted to being very active on the M&A front. Can we talk about Motorola's kind of new go-to-market and why the shift in M&A strategy has changed?

**<A – Jason Winkler – Motorola Solutions>**: Sure. So in the last few years, we have become much better and I would argue pretty good at acquiring companies. And part of what we're on an 11-year journey is MSI, right. We launched in 2011. The work that Greg and the teams did to ready the company for a strong position included a lot of divestitures. So one of the reasons I think we're better at buying companies is because we went through the exercise of divesting companies. You learn from that. We have an outstanding team with Raj and Michael Annes and others who really work on discipline, around deal structure and the commitments that we get from the business to buy a given acquisition like Avigilon, include commitments on synergies and we have a say do culture around are we driving what we said we do as we put together the business case.

So our M&A has been helpful in us building what this year will be now \$1.5 billion video business. We'll continue to look at areas that strengthen our portfolio. We not only have strong cash flow, but we have a strong balance sheet. \$6 billion in debt. Investment grade. The weighted maturity on our debt structure is over eight years and the interest rates fixed at below 4%, blended. So that plus the operating cash flow where over half of it is allocated for M&A. We'll continue to look for opportunities that complement our portfolio and take us deeper into the customer value proposition that we're strong in.

**<Q – Sami Badri – Credit Suisse>**: Got it. And something a bit more recent that I wanted to cover is the FCC recently announced a ban on some Chinese manufacturers and vendors. What is the effect of that announcement or that motion on Motorola, like Motorola's revenues or end market opportunity?

**<A – Jason Winkler – Motorola Solutions>**: Sure. So I think to answer that, I take us back to the first sort of ban, if you will, which was from the NDAA, which was a US three years ago directive that federal customers agencies could no longer buy some of the same Chinese vendors, Hikvision, Dahua, et cetera. And so, as a result, the last three years we've been well positioned to take advantage of that, along with Axis, along with Hanwha, which is Korean, along with Bosh. So we have been well positioned. We have been taking advantage of that one.

Now there's a new directive from the FCC which not only precludes it on the federal level, but takes it down to all levels of government and including some parts of enterprise. So it's another opportunity for us to grow and capture that business from Hikvision and Dahua, which has been declining generally in the US anyway. But it's one more opportunity and reminder about how important fixed security is.

**<Q – Sami Badri – Credit Suisse>**: Got it. One last question before we kind of wrap up is, how do you think about Motorola's body-worn camera and even in-car kind of video camera systems. Where is Motorola aspiring to be in those two segments over time?

**<A – Jason Winkler – Motorola Solutions>**: Sure, so, just to size it, I mentioned this year we anticipate \$1.5 billion video business, that's all parts of video. The mobile portion is a little less than 30% of that. And mobile video for us is in-car cameras where we're a leader, by the way, and body-worn cameras where we're emerging as a strong number two, to the incumbent. Both parts of that portfolio have been refreshed under Motorola's engineering leadership, led by Mahesh. And so the M-500 in the car and the V-300 on the body which are complemented by evidence back end which is really critical in managing, storing, extracting video are all investments we have made and positioning ourselves well. We see strength internationally in particular with that portfolio and we continue to invest in it. It's an area of focus. It complements our routes to market. In the US for example, our LMR sales team is now selling body-worn camera, same customer, same value proposition, and so we think we are well positioned and we believe the market wants a second alternative.

**Sami Badri, Analyst, Credit Suisse Securities (USA), LLC (Research)**

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Got it. Right, well, we're right out of time. So, Jason, thank you very much for spending time with us and thanks everyone else for attending.

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

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Thanks, Sami. Appreciate it.