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OPENING COMMENTS

Paul Chung – J.P. Morgan: Morning. Thanks for being here. My name is Paul Chung. I'm the applied emerging tech analyst here at J.P. Morgan. I'm pleased to have with me Motorola Solutions Chairman and CEO Greg Brown. Welcome.

Greg Brown - Motorola Solutions: Thank you, Paul. Good to be here.

QUESTION AND ANSWER SECTION

<Q - Paul Chung – J.P. Morgan>: To get us started, can you give us a brief overview of the firm -- how it's evolved over time?

<A - Greg Brown - Motorola Solutions>: Sure. I'm in my 16th year running the firm. We've transformed from a legacy conglomerate into what I would characterize or might be characterized as more of a pure-play safety and security firm.

We went through three phases, survival of the company, vis-à-vis breaking it up, exiting the cell phone business, navigating Carl Icahn as an activist shareholder who came into the firm with my predecessor. Then, we optimized the firm in terms of assets and rationalization.

Now, we're growing the firm. We've done 30 acquisitions or so over the last seven or eight years. We are all things around public safety and think about enterprise security. By enterprise security, I mean doing things and deploying technologies and a safety and security ecosystem that protects people, property, and places, and connects automatically and virtually those people, property, and places automatically with emergency networks of public safety.

We, Paul, think of our firm as three major technologies. There's land mobile radio, where we sell those private networks. The emergency networks for police, fire, ambulance, as well as those same private networks in two-way radio and critical infrastructure to oil, gas, utilities, and education. We have about 13,000 LMR networks around the world. We then sell devices into those networks. We refresh those devices much like you would refresh a smartphone on whoever your carrier is. We monetize those networks with managed services and service user agreements. It's a durable, relatively predictable, solid business.

If anything, we know that land mobile radio is as critical now as it's ever been. We also play in 911 command centers, primarily North America-centric. There's 6,000 of those in the country. In over half the cases, about 60 percent of those 6,000, we have a critical piece of software installed from an incumbency standpoint. Lastly, we're all things video security and access control. We play in fixed video, cloud and on-prem, body-worn camera video, in-car dash cam video, license plate recognition, and the analytics that goes with that. The total addressable market for our company now is $60 billion, which is triple or quadruple what it was several years ago. The trends are strong, the firm is performing well, and I like where we sit.

<Q - Paul Chung – J.P. Morgan>: Thanks for that. That was great. Let's level-set, quick update on state of supply chain, component costs, and expectations for the year.

<A - Greg Brown - Motorola Solutions>: Supply chain is still constrained. It's a little bit better, but we go and forecast and guide based on lead times. Many of the lead times from critical supply chain, particularly semiconductor providers, remains elevated. We have been successful in navigating supply chain quarter by quarter. We do it by prioritizing mix. We do it by working very closely with key semi-providers. We do it through product redesign. Our engineering folks have been great, substituting and redesigning parts B and C to substitute for part A and we have been in the market to meet our record demand, buying broker parts, paying elevated premiums, these PPV premiums. Jason and I have said, as we came into the year, that we think we will be able to lower what we pay for PPV premium for the fiscal year this year by about $50 million. In other words, $50 million of savings that will accrue to gross margin. We're on track to do that, but lead times are still, Paul, elevated. That informs our guidance through the remainder of the year. We're hoping that maybe by the end of the year or early next year, it's more normalized. On the margins, it's better, but there's a lot more work to do.

<Q - Paul Chung – J.P. Morgan>: Let's jump right into LMR. Give us a recap on 2022 and some of the drivers of strength throughout the year. It's a great year.

<A - Greg Brown - Motorola Solutions>: It was a great year, and we're off to a great year this year, because even though we had the print in Q1, which was pretty much of a monster Q1, and we increased Q2 over consensus, and we increased the full year; we did that by achieving record Q1 orders and record Q1 backlog.

Revenue growth was not at the expense of burning backlog, which was really, really important. As I mentioned, these networks are durable, they're critical. What drives them is we are in the early stages of a product refresh or a device refresh. Jack, Jason, and I have all talked about "the early innings."
Think of a public safety radio, a two-way radio being replaced every seven or eight years. We have come out with APX NEXT, which is a best in class, high-tier, superior product quality radio that provides over-the-air programming, more precise and enhanced GPS. It's a dual-band radio, so it's LMR with LTE. The benefit to that is a first responder can get situational awareness to his or her device with an LTE video stream that it wouldn't be able to do in the past. It's more efficient doing software reprogramming.
In the past, you'd bring radios into a site and reprogram. Now, you do an over-the-air push and you get the benefit of an LTE network in the event that a first responder roams outside the coverage area, he or she can still maintain constant connection and seamlessly traverse over to LTE. If you look at what we're doing in North America, we have ASTRO or P25. Internationally, we have TETRA. Then, the non-public safety, think enterprise radio. We call that professional and commercial radio. In all three of those categories, we are at early stages of device refresh, which is a friendly fact towards sustainable growth for us going forward. Good spot.

<Q - Paul Chung – J.P. Morgan>: That's great. We'll get more into APX NEXT. Over the past year and into this year, can you talk about the price versus volume dynamic and the price increases benefit you've seen over the course of the year?

<A - Greg Brown - Motorola Solutions>: We've taken surgical pricing actions, a number of them in 2022. We view those pricing actions as sticky. If I look at the growth, both in Q1 and our expected growth that informs the guidance for the full year, it is important to note that that growth, we believe, will be derived more from volume than pricing.

We are seeing in certain products ASP lift. We have volume driving growth, some price increases driving growth, but also, we're seeing a little bit of a movement toward customers moving toward the higher tier and a more fully functional feature-rich radio, which obviously is driving growth as well.

<Q - Paul Chung – J.P. Morgan>: Let's talk about the record backlog, which is a nice thing to have. You have very nice visibility. Can you expand on the makeup of the backlog, help us quantify, would it have been even better if not for some of the FX and component inflation?

<A - Greg Brown - Motorola Solutions>: Backlog is $14 billion-plus. It's two-thirds software services, one-third product. It increased 5% year-over-year in the face of, to your point; it was $372 million of an FX headwind. Very, very pleased with the backlog performance. Obviously, that's providing some foundational lift that gives us optimism for the guide we've done in Q2 in the full year.

<Q - Paul Chung – J.P. Morgan>: Speaking of your guidance, so revenue guidance for the second half implies the more normalized growth than what you were expecting in the first half. Is there something driving that?

<A - Greg Brown - Motorola Solutions>: I got a lot of questions on this, too, and for those of you that know us well, look, the last thing we want to do is get over our skis. All the indications of the business are strong, as strong as I've seen them, quite frankly. The guide is informed by, number one, as I mentioned, supply chain lead times, particularly around semiconductors, remain largely unchanged. We're not going to guide hoping. We're going to guide reflecting the lead times that we see. What we see sometimes is we're able to achieve supply better than the lead times, but until that becomes the norm rather than the exception, we're going to provide deference to lead times. Second is it's prudent to do that. By the way, the second half of last year grew at 15 percent, so it's a higher comp, but I don't want to make that a dog-ate-my-homework excuse. The business is strong. Our full-year guide and second-half guide being a little bit more conservative is a reflection of elevated supply chain lead times and just being prudent at this point in time.

<Q - Paul Chung – J.P. Morgan>: APX NEXT, we'll get more, deep into that. What are the key features around capabilities, why people would not upgrade at this point, and where do we sit in the upgrade cycle? How many years can this last?

<A - Greg Brown - Motorola Solutions>: Think about the average life cycle of a device being seven or eight years. We are metaphorically in the early innings. If you had me pick an inning, I'd pick maybe the second inning. There's a long way to run here on this upgrade cycle. We have thousands and thousands of contracts and customers at varying stages of device refresh. As I mentioned, the over-the-air programming, so the labor savings to an end-user is real. The LTE dual band and the ability to take advantage of that other network combined with LMR for situational awareness is real. It's a superior product that we believe is unmatched in the market.

We have consistently high demand and customers that will take time to gradually refresh their whole base at the high end. It's a high-end radio to APX NEXT. Our goal is to drive APX NEXT down to the mid-tier, and then have similar functioning products around TETRA as well. It's a meaningful refresh for us.

<Q - Paul Chung – J.P. Morgan>: Lots of news on the CMA. Can you give an update on the process, and then commitment to that market as well?

<A - Greg Brown - Motorola Solutions>: CMA, the market investigation, we believe it's, you've heard me use these words, unprecedented, overreaching, wildly disproportional. I'm very selective in those words because it's exactly how I and we feel about it. We will fight it as long and hard as we need to fight it. There are two things going on in parallel since the CMA reached a final decision. There's something called a "remedies implementation order," which is to say they, the CMA, say, "We've made this final decision. How do we implement it on this pricing charge control?" We believe that process takes to the end of the year. More like about Q4 is our guess. In the meantime, we're appealing the decision. The deadline for the appeal for the CAT, the Competition Appeals Tribunal, is June 5. We will file an appeal before that deadline with a strong set of arguments that have been out in the public domain but further substantiated, and we'll see where it goes. After the CAT, there's a Court of Appeals escalation process. After the Court of Appeals, you could potentially take it to the Supreme Court of the UK. We're seeing the CMA do some very interesting things writ large more broadly, but I'm focused on Motorola Solutions. Paul, we're going to fight it as long and hard as we have to, but we expect both the remedies implementation and the Competition Appeals Tribunal to be several more months in duration.

Paul Chung – J.P. Morgan: Thanks for that update.

Greg Brown - Motorola Solutions: Sure.

<Q - Paul Chung – J.P. Morgan>: Let's jump into video analytics. Very strong demand, scoring at 20 percent. Expand on the key verticals, and which features are driving demand.

<A - Greg Brown - Motorola Solutions>: I talked about our addressable market being $60 billion. The largest piece of that is $22 billion for video security and access control. First of all, it's still a very fragmented market, both video and access control. We have done a roll-up of a number of acquisitions to make sure we have a fulsome camera portfolio, to make sure we play in a muscular way in North America and internationally, primarily EMEA. We have a very broad portfolio, fixed video, both cloud and on-prem, mobile video, both body-worn and dash cam, license plate recognition, and then building analytics across the portfolio to capitalize on all of that. By the way, we also have a bit of a tailwind, because with the National Defense Authorization Act, the NDAA, in the US, they have banned Hikvision and Dahua to be used for federal use. They've also banned federal grant money to be used for Hikvision and Dahua. By the way, they've also mentioned Huawei, ZTE, and Hytera, an LMR competitor of ours in North America. The FCC has also promulgated rules around the Secure Equipment Act, which, in essence, and that is still in progress, looks to potentially restrict Hikvision and Dahua with a broadband connection for video to be deployed in enterprise use. To your point, number one, there is more of a need for video security than ever before, from what we have seen. We have a uniquely wide portfolio. We have convenient tailwinds around a high level of concern around Chinese content in critical infrastructure, emergency networks, or video surveillance.

We've guided that category of video security and access control to grow 15% for us. We believe the market is growing at high single digits, mid to high. We'll get the report in August that looks back. The important thing, Paul, is we're taking share in that category. I think it's really important. What I like is, if you think about it, we have a unique public safety and security ecosystem. I know everybody uses these words, CEO speak. What I'm saying is we are solving for safer. We're solving for safer schools, we're solving for safer stadiums, we're solving for safer hospitals, we're solving for safer critical infrastructure. If you take, and you asked about the verticals, education, healthcare, critical infrastructure, you take an active shooter...By the way, the majority of active shooters have been a long weapon or a rifle. Why wouldn't or why couldn't you have a solution for Motorola deployed? First of all, it sees any unauthorized vehicle, vis-à-vis license plate recognition. You've got perimeter detection, you've got anomaly detection, you've got brandish weapons detection. You could see a perpetrator with a long rifle, it can take immediate action, trigger access control, do an automatic lockdown, trigger a communications with Rave Mobile for mass notification, let security operations people know in a school, and call 911. You could potentially do that all without human intervention. It's real, it's significant, and unfortunately, it's a big need in schools. We're seeing, again, back to protecting people, property, and places, we're focused on not just having a significant portfolio, but a best-of-breed product that then you can integrate and orchestrate and work together to protect and connect public safety with private institutions. That's the path we're on.

<Q - Paul Chung – J.P. Morgan>: That's helpful. Thank you. We forgot to touch on ARPA and where we stand there, and how it's evolving.

<A - Greg Brown - Motorola Solutions>: Jack mentioned on the earnings call, Jack Molloy, who runs worldwide sales, yes, funding is great, but we've never seen funding like this in our careers. It's been a small amount. I think it was less than five percent of orders last year was ARPA funding-derived. Funding, number one, it's $350 billion for state and local. It's about $170 billion for schools and education. It is multiyear in duration. If you look at funding like this in the past, it's never been done with numbers this high, but the government has typically extended the years. Some of it runs through 2026. We wouldn't be surprised if it gets extended even longer. I think that a lot of the drivers for the demand, funding is helpful, creates a great environment, but it's more around the need of what we have and the criticality and durability of LMR and the device refresh cycle that we're in, which is early stages. That's what has been the primary areas of our growth.

<Q - Paul Chung – J.P. Morgan>: Let's touch on command center software, some of the new features, and what you're seeing there.

<A - Greg Brown - Motorola Solutions>: Command center, again, I talked about 6,000 911 centers. Since our strategy is more around North America, it's a North America-centric strategy, we do call handling, CAD dispatch, and records and evidentiary management. The reason that's important, going back to the ecosystem, too, connecting video security embedded in mobile workflow in a 911-command center and interconnected with public safety LMR networks, we have found, this is an FCC statistic, if first responders could respond one minute faster to a 911 call, it results in about 10,000 lives saved. What we're doing is building on-prem and cloud solutions in command center that are embedded in a customer's emergency workflow that make it distinct, unique, and as efficient as possible to save as many lives as possible.

<Q - Paul Chung – J.P. Morgan>: Let's jump into free cash flow. It was a little light to start the year, but pretty consistent over time. Talk about the inventory harvest you're expecting and where you see normalized free cash flow heading.

<A - Greg Brown - Motorola Solutions>: We've guided an increase of operating cash flow to 1.9 billion. We still believe we will achieve that. If you look at the linearity of last year, we generated over $1.3 billion of our $1.8 billion in Q4. I'm not concerned about the performance of operating cash flow in Q1 or what we expect in Q2. In fact, it's entirely within the envelope of how we see cash flow and linearity accruing into the firm. We are carrying elevated levels of inventory. We did that, by the way, purposely, and we did it last year. We're continuing to do it because we're meeting record demand. We made the decision if we carry a little bit higher inventory, continue to do successful product redesign, do PPV parts, broker parts, purchases in the firm, but to get more effective and efficient this year, we believe, Paul, inventory will come down full-year 2023 over 2022. We'll see how successful and about how much we bring it down. We feel confident and remain unchanged in our ability to generate $1.9 billion and grow operating cash flow.

<Q - Paul Chung – J.P. Morgan>: Can you touch on your M&A strategy and how you've consolidated a lot of tech over time for a more holistic product offering?

<A - Greg Brown - Motorola Solutions>: Jason and I talk about this all the time, and, by the way, Raj, Mahesh, and Jack Molloy. One of the things we're most proud of is we've been very good stewards of capital. Some of you have heard me quote this number, but we've done about $15 billion of share repurchase since Motorola Solutions, MSI, on 1/1/11 launched as a ticker. That $15 billion of share repo is at a price of below $67 a share. We've also done, as I referenced earlier, about 30 acquisitions for roughly $6 billion dollars that have grown revenue, that have grown margin, that have clearly exponentially increased the total addressable market. The framework by which we think about capital allocation is 50/30/20 of OCF, of operating cash flow; 50% share repo or acquisition, 30% dividend, 20% CapEx. We're pretty CapEx-light. Our CapEx is like 15% to 20% of OCF, so we're efficient. We have a good balance sheet, a very strong balance sheet, which leverages net debt-to-EBITDA below two. We have dry powder on the balance sheet. We've got a pretty significant...I think it's a $2.25 billion revolver. We're generating cash.

We didn't buy anything in Q1. It's not for lack of engagement. We talked to a number of private companies. My view would be some didn't want to sell and some were clinging to last year's valuation. As interest rates continue to rise, or even if Powell keeps it flat, the cost of capital and the cost of debt for these firms over time will become a little bit more strenuous and we'll see what is available for us to buy. We are always doing, Jason and Uygar, our treasurer, we're always doing an updated DCF. We look at our average cost of capital, and we always make decisions on, "Do we buy back, and do we acquire?" It depends on what's actionable and opportunistic. I like the fact and we're proud of the fact that since the creation of MSI, we've had double-digit dividend increases every year. Capital allocation, that's what I spend my time on, people and capital allocation. This is a good environment for capital allocation and opportunities and alternatives for us to deploy capital.

<Q - Paul Chung – J.P. Morgan>: I have a question. I'll open the floor for questions if anybody has any questions, but I have one here on the iPad here. On the refreshment cycle, how competitive is it, displacement risk? What are some of the main reasons you don't get a deal? How would you describe the competitive landscape?

<A - Greg Brown - Motorola Solutions>: The competitive landscape, primary competitor in North America is L3Harris. The product refresh in North America is strong. People strongly prefer Motorola devices. Why? It's a better device. It's got superior feature functionality. By the way, we also have an APX NEXT fire radio. One of the best examples I can point you to, you know what I'm going to say here maybe is the City of Miami, where they did a tender, they did a procurement, an out-procurement for MSI, and bypassed the competitive process. You can Google it. By their own admission, they said, "Look, we can go through this, but we know the facts about Motorola. There is not a better product than this, and we're going to go forward and procure it." City Council and other people raised the fact that they were going in an accelerated direct way, and they voted unanimously to do that. On the TETRA side and the PCR side, obviously, it's competitive, but we're building feature and software functionality into it that rivals our competitors in a good way, so I like our chances there.

Paul Chung – J.P. Morgan: Great. Any questions from the audience?

<Q - Audience Member>: What is your cost of capital today, and where was it a year ago, and how do you think about it considering short-term rates have gone up by 500 basis points?

<A - Greg Brown - Motorola Solutions>: Cost of capital right now is about 8.5 to 9% for us today. A year ago, it was probably 150 basis points better than that. As I mentioned, we're always doing the DCF analysis about where it makes sense to buy the stock. We bought $140 million of stock buyback in Q1. My expectation in Q2 would be that would be comparable levels, generally speaking. That's guiding. By the way, when we look at that higher cost of capital and overlay that against target companies as well, that informs what we'll pay and what we won't pay for a potential asset.

<Q - Audience Member>: Thank you. Thank you for taking my question. You said you have dry powder at the current leverage that you have. What is the maximum leverage that you can be comfortable with for a right acquisition?

<A - Greg Brown - Motorola Solutions>: We like investment grade, so there's advantages to stay investment-grade. My expectation is we would stay that way. We were as high as 2.5, 2.7, 2.8 net debt-to-EBITDA levels, but when we were at that level, our intention was to improve it over time, and we did. High-level, I'm generally comfortable with the levels we're at. Could that flex a bit? Sure, it could flex, but at the moment, our goal would be to do what we need to do on the investment and acquisition side with an eye toward retaining investment-grade levels.

<Q - Audience Member>: A question on M&A. How dependent are you on M&A, in terms of growth? Say, if opportunities are not coming up, can you still grow? Maybe a comment, what is the role of Silver Lake in advising you on those bolt-on technology acquisitions?

<A - Greg Brown - Motorola Solutions>: First, on the first question, I feel good about our growth without M&A. If you look at our Q1 print, and as you see us perform this year, our organic growth rate is virtually, at least in Q1, almost all of our growth rate, or virtually all of it in Q1. I'm confident in our ability to grow the company organically. I don't think there's a gap or a pressing need to do an acquisition.

I describe my approach to acquisitions, and our approach, as enthusiastic indifference. We'll get enthusiastic about a target or a company and see what we can do. Can we do something within our brand, within our sales motion that we can do something a competitor can't, and that gets us excited. If we don't get it, we don't get it. In every major acquisition we've done in the last several years, at one point or another, we took a pause or walked away. That's not being cute or negotiating. It was just a fact. We reached a point and said, "You know what? Not comfortable. We're going to take a break. If it works, it works. If it doesn't, it doesn't."

Silver Lake has been a great partner. Egon Durban and Greg Mondre, we're the only company in their portfolio where both of them sit on our board. We are 7.5 years into that relationship. Where have they been helpful? Number one, they're really smart. They know deal structure. They have an eye and visibility, given their private portfolio, into tech. I wouldn't say they've ever directed us to an acquisition. In fact, I don't think they have. They've never said, "Take a look at this company, or buy." They haven't said, "Buy this company, or buy that company." I use them as outsourced biz dev, where if we have a target, or when we have a target, and Jason and I decide what the right price is, we'll run it by their deal team to see if they believe that we're doing things the right way. They've been very good in the boardroom from a governance standpoint, and they're smart people. I believe that when you have smart people in the boardroom that push management, that make us better, then everybody's better. They did a billion-dollar pipe the first time they monetized. We did a second five-year pipe. I think they're three-and-a-half years into that pipe. That pipe expires September of next year. They've been a good partner. Solid guys. I like them a lot.

<Q - Paul Chung – J.P. Morgan>: We have a couple more minutes left. Any last thoughts you want to leave us with here?

<A - Greg Brown - Motorola Solutions>: I like the position we're in. I know the stock has done very well, and this has been a great story, but I want you to know that our team doesn't care about that. We're looking through the windshield, not the rearview mirror. The fact that we deployed capital and acquired X and grew in Q1, that's wonderful, but we are focused on future performance. We're focused on performing above the market and above the peer group. We're focused on not just growing, but taking share. We're focused on not just growing, but growing margins and growing cash flow. If you're growing margins, growing top line, growing share, then you can have opportunities to deploy capital to further differentiate. We are all about looking forward and building a most durable, successful ecosystem that, in turn, will provide us to be substantially and more successfully competitive going forward. That's our focus.

CLOSING

Paul Chung – J.P. Morgan: Great. Nice. Very nice compounder. Thank you, guys, for coming. Appreciate your time.

Greg Brown - Motorola Solutions: Thanks for having me.