



Q2 2021 Earnings Conference Call Thursday, August 5, 2021

PARTICIPANTS

Motorola Solutions Executive Participants

Tim Yocum – Vice President, Investor Relations
Greg Brown – Chairman & Chief Executive Officer
Jason Winkler – Executive Vice President & Chief Financial Officer
Jack Molloy – Executive Vice President, Worldwide Products, Sales, & Services
Mahesh Saptharishi – Senior Vice President and Chief Technology Officer, Software Enterprise & Mobile Video

Other Participants

Tim Long – Analyst, Barclays Capital, Inc.
Sami Badri – Analyst, Credit Suisse Securities (USA) LLC
Erik Lapinski – Associate Analyst, Morgan Stanley & Co. LLC
George C. Notter – Analyst, Jefferies LLC
Paul Silverstein – Analyst, Cowen and Company
Louie DiPalma – Analyst, William Blair & Co. LLC
Trevor Bowers – Analyst, Northcoast Research
Ben Bollin – Analyst, Cleveland Research Co. LLC
Fahad Najam – Analyst, MKM Partners LLC
Jim Suva – Analyst, Citigroup, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for holding. Welcome to the Motorola Solutions Second 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 on 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 second quarter earnings call. With me today are Greg Brown, Chairman and CEO; Jason Winkler, Executive Vice President and CFO; Jack Molloy, Executive Vice President, Worldwide Products, Sales & Services; and Mahesh Saptharishi, Senior Vice President and CTO, Software Enterprise & Mobile Video. Greg and Jason will review our results along with commentary and Jack and Mahesh will join for Q&A.

We've posted an earnings presentation and news release at motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliations for your reference. And during the call, we'll reference non-GAAP financial results, including those in our outlook, unless otherwise noted.

A number of forward-looking statements will be made during this presentation and during the Q&A portion of the call. These statements are based on current expectations and assumptions that are subject to a variety of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Information about factors that could cause such differences can be found in today's earnings news release, in the comments made during this

conference call, in the risk factors section of our 2020 Annual Report on Form 10-K and in our other reports and filings with the SEC. We do not undertake any duty to update any forward-looking statement.

And with that, I'll turn it over to Greg.

Greg Brown, Chairman & Chief Executive Officer

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

First, Q2 was an outstanding quarter. We grew revenue 22%, earnings per share 49% and operating cash flow 86% versus the prior year. Additionally, we expanded operating margins by 220 basis points and ended the quarter with \$11.2 billion of backlog, up 7% versus last year and a record for Q2.

Second, we saw strong demand in both segments of our business during the quarter. In Products and Systems Integration, revenue was up 24% and operating margins expanded 270 basis points driven by growth in our LMR and video security technologies. And in Software and Services, revenue was up 19%, and operating margins expanded by 210 basis points on growth in LMR services, video security and command center software. This strong broad-based performance highlights the strength of our business and value of our mission-critical integrated ecosystem. And finally, based on the strong backlog and momentum that we're seeing across our business, we're raising again our full year guidance for both sales and earnings per share.

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 Q2 results included revenue of \$2 billion, up 22%, including \$47 million from acquisitions and \$66 million from favorable FX. GAAP operating earnings were \$370 million, and operating margins were 18.8% of sales compared to 13.5% in the year ago quarter. Non-GAAP operating earnings of \$482 million, up \$123 million or 34% from the year ago quarter and non-GAAP operating margins of 24.4% of sales, up from 22.2% driven by higher sales and improved operating leverage in both segments, inclusive also of higher costs related to employee incentive compensation this year.

GAAP earnings per share of \$1.69 compared to \$0.78 in the year ago quarter. This increase was primarily due to increased sales volume, improved operating leverage, a lower tax rate related to the release of valuation allowance and lower reorganization charges in the current quarter.

Non-GAAP earnings per share of \$2.07 compared to \$1.39 last year, primarily due to higher sales and improved operating leverage in both segments. OpEx in Q2 was \$477 million, up \$51 million versus last year, primarily due to higher compensation related incentives and higher expenses related to acquisitions.

Turning to cash flow. Q2 operating cash flow was \$388 million compared with \$209 million in the prior year, and free cash flow was \$326 million compared with \$155 million in the prior year. These increases in cash flows were primarily due to higher sales and working capital improvements, partially offset by higher cash taxes.

Capital allocation for Q2 included \$121 million in cash dividends, \$102 million in share repurchases at an average price of \$206.85 per share and \$62 million of CapEx. Additionally, during the quarter, we issued \$850 million of new long-term debt and redeemed \$324 million of outstanding senior notes due in 2023. Subsequent to quarter end, we acquired Openpath, a leader in cloud-based access control solutions for \$297 million, and we invested \$50 million in equity securities of Evolv, whose technology powers our concealed weapons detection solution.

Moving to our segment results. Q2 Products and Systems Integration sales were \$1.2 billion, up 24%, driven by strong growth in LMR and video security. Revenue from acquisitions in the quarter was \$38 million. Operating earnings were \$194 million or 16.2% of sales, up from 13.5% in the prior year on higher sales and improved operating leverage, inclusive of higher costs related to incentive compensation.

Some notable Q2 wins and achievements in this segment include a \$37 million P25 order for the Kentucky State Police, a \$36 million P25 upgrade for a state in the US, a \$30 million P25 order from MARTA in Atlanta, a \$29 million P25 devices order for a large US state and local customer, and a \$5 million video security order, our largest single fixed video order from a US federal customer to-date.

Moving to the Software and Services segment. Q2 revenue was \$773 million, up 19% from last year, driven by growth in LMR services, video security and command center software. Revenue from acquisitions in the quarter was \$9 million. Operating earnings were \$288 million or 37.2% of sales, up 210 basis points from last year, driven by higher sales, higher gross margins, improved operating leverage and also inclusive of higher compensation related incentives this year.

Some notable Q2 wins in this segment include, an \$18 million French MOI body-worn camera frame agreement, a \$15 million license plate recognition software extension with a US based customer, a \$10 million P25 multi-year services extension for Ohio's statewide network, and a \$10 million P25 maintenance renewal with a US federal customer. Additionally, we launched CommandCentral suite, Public Safety's first cloud-native 911 call to case closure solution.

Looking at our regional results, North America Q2 revenue was \$1.3 billion, up 20% on growth in LMR, video security and command center software. International Q2 revenue was \$659 million, up 25%, also driven by LMR, video security and command center software. We saw strong growth in EMEA during the quarter, while in Asia Pac growth was minimal as the region continues to navigate impacts from COVID-19.

Moving to backlog. Ending backlog was a Q2 record of \$11.2 billion, up \$741 million compared to last year, driven by \$660 million of growth in North America and \$81 million of growth internationally. Sequentially, backlog was down \$57 million, driven by revenue recognition on Airwave and ESN, partially offset with growth in LMR products. Software and Services backlog was up \$257 million compared to last year, primarily driven by North America multi-year service contracts. And sequentially, backlog was down \$130 million, driven again primarily by the revenue recognition for Airwave and ESN. Products and SI backlog was up \$484 million compared to last year and \$73 million sequentially, driven primarily by LMR growth in both regions.

Turning to our outlook. We expect Q3 sales to be approximately up 10% with non-GAAP EPS between \$2.09 and \$2.14 per share. This assumes FX at current rates, a weighted average diluted share count of approximately 174 million shares, and an effective tax rate of 23% to 24%. And for the full year, we now expect sales to be up between 9.5% and 10%, an increase from our prior guide of 8% to 9%, and we now expect full year non-GAAP EPS between \$8.88 and \$8.98 per share, up from our prior guidance of \$8.70 to \$8.80 per share. This increased outlook incorporates the ongoing supply chain constraints, primarily in LMR and assumes FX at current rates, a weighted average share count of approximately 173 million shares and an effective tax rate of approximately 22%.

I'd now like to turn the call back over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thanks, Jason. I thought I'd end with a few thoughts as we conclude the call. First, our results for the quarter were excellent. We achieved Q2 record sales, operating earnings and EPS, expanded operating margins, grew our video security technologies by 66% and achieved strong growth in LMR and command center software technologies as well. Additionally, we finished the quarter with record Q2 ending backlog and a robust pipeline that we expect to drive growth for the remainder of the year, inclusive of the continued supply chain challenges that we're navigating primarily in LMR.

Second, in video security, demand remains strong. We've continued investing in this area even during the early days of the pandemic, and these investments have positioned us well to capture the increased demand we're now seeing from our customers. Additionally, we just announced our acquisition of Openpath, a leader in cloud-based access control solutions. Openpath is disrupting the access control industry and extends our value proposition in the \$15 billion video security market.

As a result, we're also renaming the technology within our revenue disaggregation from video security and analytics to now video security and access control to reflect these investments and the future of video and access control convergence.

And finally, as I look to the second half of the year, I'm encouraged. I'm encouraged by our execution across all of the businesses. In LMR, customers are looking to invest in their networks, including several statewide upgrades and we're gaining traction with our APX NEXT device designed for the highest tier of public safety requirements.

In video security and command center software, we're leveraging our large installed base and go-to-market footprint to drive continued strong growth. And with respect to ESG, we recently released our 2020 corporate responsibility report, which highlights our strategy and performance. Our work in this critically important area has been recognized by Forbes, who named us as one of the best employers for diversity and Barron's who named us as one of the most sustainable companies. I'm proud of what our teams are doing and look forward to further progress as we continue to deliver mission-critical solutions that create value for employees, customers, communities and our shareholders. And with that, I'll now turn the call back over to Tim.

Tim Yocum, Vice President, Investor Relations

Thanks, Greg. Before we begin taking questions, I'd like to remind callers to limit themselves to one question and one follow-up to accommodate as many participants as possible.

Operator, would you please remind our callers on the line how to ask a question?

QUESTION AND ANSWER SECTION

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

<Q – Tim Long – Barclays Capital, Inc.>: Thank you. Maybe just two, if I could. First, could you touch a little bit on the command center software side? Maybe just give us a little update on how you're penetrating the PSAPs and how the suite sales are going with more than one or two software modules to the customer base?

And then second, on the video side, it looks like there's been a lot of traction and wins internationally on the body-worn side. Can you talk a little bit about the US market where, I guess, over the next few years, maybe there'll be more bids coming up? So, could you just talk a little bit about how you could further penetrate the US market there? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. On command center software, we continue, Tim, to make good progress. Our growth rate in Q2, increasing over Q1, the penetration of new customers also continues to expand. From a suite standpoint, I think, the number of customers in Q2 ordering the suite is comparable to about the 25%, we stated last time a quarter ago, but we continue to make solid progress on multiple fronts on the command center software side. And overall, I think, I'm pretty pleased.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah. Tim, it's Jack. Hello. Maybe just to follow-on to that. I think, the other thing as it relates to command center software, just from an environmental standpoint, I think, there's some excitement, both with our sales teams and our customer engagement just in terms of our – we have an on-prem

solution that we actually have a path to the cloud for customers. And I think being able to meet them for where they want to be will be effective for us.

So, that just closing off on that with command center software. Mobile video, just a couple updates there, Tim, or with the body-worn business. So, we had talked the previous three quarters that we had grown our orders north of 60%. We actually grew north of 80% this quarter. Tim, we doubled our body-worn camera shipments through the first half of the year over the first half in 2020, and it looks like from the data we've looked at and it's just early what's in, but it looks like we continue to take share through Q2.

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

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

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

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Hi, thank you. I have two questions. Greg, first and maybe, Jack, could you give us an update on PCR and how much that contributed to your very high growth rate in LMR in the quarter?

And then the second question is, I was hoping you could kind of give us more color on Openpath and how much revenues it contributed to the business? And was Openpath profitable before you guys acquired and started integrating?

<A – Greg Brown – Motorola Solutions, Inc.>: So, in terms of PCR, I mean, kind of taking a step back. Obviously, we've raised the full year again for the second time, Sami. If you look at this from a segment level, our performance is strong in both segments. Software and Services is stronger. But also, we had a given color that we thought Product and SI would grow mid-single digits for the full year. Our raise is driven by Product and SI now being expected to grow mid to high single digits for the full year. That stronger growth is driven primarily by video, but also by LMR.

In Q2, PCR had a great quarter, strong double-digit growth. But it's also the area, as Jason referenced, that's probably the most supply constrained. So, if I think, about, Sami, your question about expectations for PCR growth over the full year, I'd like to think about it as mirroring the mid to high single digits for the Product and SI segment overall. Q2 was much stronger than that, but in the second half, we have to continue to navigate supply constraints, and that's informing our expectations and guidance for full year PCR.

On Openpath, it's not profitable. For the remainder of the year, full year, the stub revenue period, it's probably about \$5 million of incremental revenue in the second half of this year, the last five months, and it's \$0.05 dilutive. But having said that, I'm super excited by this acquisition. I think, it's leading edge around cloud based multifactor authentication access control. I love the products, I love the architecture, I love the management team and the leadership team. Mahesh was instrumental in guiding this along with Raj and John Kedzierski and couldn't be more pleased with it.

I don't know if you want to mention anything Mahesh about it.

<A – Mahesh Saptharishi – Motorola Solutions, Inc.>: Within the Avigilon portfolio, we've always had access control. Access control, in fact, has been one of the fastest growing product portfolios within Avigilon. It is an on-prem solution. The on-prem solution connects to third-party readers, controllers and panels as appropriate. Where Openpath is going is really a mobile-first approach and a cloud-native approach. The user experience that we see in the future for access control is one where authorized users never realize that the door is locked in the first place. It's frictionless, it is contactless. And from that standpoint, Openpath complements our Avigilon access control solution well. And together, I think, we have a good solution going forward.

<A – Jason Winkler – Motorola Solutions, Inc.>: And just last item on the revenue. You had asked it's about \$0.05 dilutive to EPS this year and \$5 million in revenue in the second half.

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

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, and congrats on another great quarter. Maybe sticking on some of the fixed video side, when we think about that large federal deal you won, are there other federal deals in the pipeline you're looking at now? Is that an area where demand is picking up with a lot of the federal funding and things we talked about last quarter, just wondering on that.

And then maybe if we could also talk about the enterprise side, and if Openpath does open more opportunities in enterprise because it looked like their presence was probably stronger there. So, anything on that? Thank you.

<A – Jack Molloy – Motorola Solutions, Inc.>: Sure. Hey, Erik. So, I think, the – starting out – are there – yes, question, are there more big opportunities in the federal government? Yes. I would tell you; the federal government is ripe with opportunities. There's opportunities by way of the NDAA. There's opportunities that our go-to-market teams have created. Also, the Pelco acquisition, if you recall from a year ago had federal contracts in place. So, there's opportunities there. So, the federal government as part of the overall government market is one of the three largest growth vectors for us in fixed video.

The second part of your question, I believe, Erik, could you just repeat, what was the second part...?

<Q – Erik Lapinski – Morgan Stanley & Co. LLC>: On enterprise.

<A – Jack Molloy – Motorola Solutions, Inc.>: On enterprise. Yeah. So, just a reminder, our video security and access control business is still really roughly 70% to three-quarters enterprise. So, Openpath, as Mahesh very eloquently alluded to, will – I think, will accelerate converged opportunities between video security and access control. Our customers more and more – COVID taught us that they want the ability to remote monitor networks. They want frictionless access control. I think, the marriage of those two things together will only open up more and more doors in the enterprise for us.

<A – Greg Brown – Motorola Solutions, Inc.>: And Eric, a quarter ago, Jack talked about fixed video government revenues being about \$300 million, maybe a little bit more. I think, as we sit here today, the government contribution for all-in video revenue is closer now to \$330 million to \$340 million of revenue. And again, the demand we see is really strong. We had 66% growth in Q2, about 40% of that was organic. And again, informing our full year raise, we now expect video security technology to be – we said it was 20% plus, we now expect approximately 30% with organic growth being a little bit more than 20% of that. So, really good performance by that whole portfolio.

<Q – Erik Lapinski – Morgan Stanley & Co. LLC>: Awesome. Thank you.

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 the supply chain constraints. It's obviously a recurring theme to earnings season here. But could you talk about what, kind of, revenue impact it might have had this quarter? And then also the margin impact, and then how do you see that going forward? Thanks a lot.

<A – Jason Winkler – Motorola Solutions, Inc.>: Thanks for the question. So, the supply environment that we've been navigating all year is primarily around LMR, and as Greg mentioned, specifically most around PCR. Our supply situation did improve incrementally in Q2. And in our guidance for the second half, we've contemplated continuing to have to navigate supply chain-related constraints. Those are factored into our full year guidance in our second half. So, we expect to have – to navigate through them. We're working with key suppliers, a handful of suppliers, handful of critically important parts. We're making progress. The teams are doing well. We have executive relationships that are helping us prioritize. And our suppliers recognize that our equipment is critically important to first responders. So, we have good success in getting prioritization.

On the cost side, despite the challenging environment, we have not seen material input cost rise significantly in the first half. Of course, we plan every year for material cost reductions, those are becoming more challenging to achieve. That said, we didn't see a big material cost driver in the first half. We'll navigate through some small increases in the second half.

One area in the P&L that we are absorbing higher costs is freight. If you control for the volume and the growth that we've had, we're seeing rate increases whereby the first half absorbed \$20 million more than would have been expected on higher growth, which is a reflection of higher air freight, the shift to shorter supply chains, elongated lead times, et cetera, which we're navigating. So, that's where we've seen the one input cost rise is in freight.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. And just to put a bow on it, George, I think, that what's informing our full year raise for the year is demand, not necessarily any improvement in supply chain. Although, as Jason just talked about, I think, he and his team did a very nice job in hand-to-hand combat working through Q2, but we have our work to do with key suppliers for the back half of the year. Again, this is primarily around PCR, but I think, that view is contemplated into our full year guidance.

<Q – George Notter – Jefferies LLC>: Got it. And then, Greg, real quickly, you mentioned the raise on expectations for the full year. I think, you're getting a tailwind from FX here. Certainly, you had some in Q2. I'm not sure how much of that was already in the plan. But it feels like you're going to continue to get some benefit. Is that part of the full year raise on guidance or no?

<A – Greg Brown – Motorola Solutions, Inc.>: Not much. The FX benefit when you take a look at the full year was much more weighted to the first half. So, that's not really driving. It's a component, but it's not as much as it was in the first half. We had, I think, \$100 million in the first half tailwind. And if I look back half Q3, Q4, that tailwind is more like approximately \$40 million.

<A – Jason Winkler – Motorola Solutions, Inc.>: So, it hasn't changed much from the last time we shared those numbers, and it's always been first half tailwind more so, than second half.

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

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

<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>: Thanks. Greg and Jason, I think, you all had previously characterized demand is increasing month-by-month, not just quarter-by-quarter, but ongoing improvement. Is that moderating as we proceed further and further into the – or out of the pandemic or perhaps not out of the pandemic? What are you seeing from a linearity perspective?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, I mean, obviously, in terms of overall demand, demand is strong, Paul. It represents itself in Q2's results. I recognize the comp of it being a COVID quarter. But also guiding in Q3, a double-digit top line revenue print, 9.5% to 10% is strong. And that's being driven in large part by record backlog.

So, this is – it's a really good demand environment. It's incrementally better. And look, if I take a step back, high level, I see demand strong. I see the funding environment for our customers, and this is a North America-centric comment, but that's where two-thirds of our revenue is. And with the stimulus and \$350 billion available to state and local, and then other monies available to education and FEMA and other areas, there's literally hundreds of billions available to our end user customers through the end of 2024, some of the outlined timelines.

So, demand is strong. Funding is strong. Backlog is at a record Q2 and we're also getting traction with new products that we invested in during the downturn. And I think, a lot of video security technology and that's double-digit growth rate in Q2 and the overall raise to now approximately 30% for video security technology, of which over 20% is organic, is driven by new product investment. We had also talked about new product, APX NEXT. We're continuing new product on command center software, both prem and cloud, new product investment inorganically with cloud-based access controls.

So high level, Paul, again, there's a lot of work to do, and we want to be easy in the saddle in the second half and navigate these supply chain challenges, but there's a lot of positive that I see.

<A – Jason Winkler – Motorola Solutions, Inc.>: Paul, even in the parts of our business that are less backlog driven. For example, video, that's about pipeline. It's about execution within the quarter and the 40% organic growth in Q2 and our outlook for now 30% growth for that business on the year is a function of higher pipeline as well as executing and delivering within the quarter on that part of the business.

<A – Jack Molloy – Motorola Solutions, Inc.>: Paul, the other thing that we've seen...

<Q – Paul Silverstein – Cowen and Company>: Go ahead, go ahead. I'm sorry.

<A – Jack Molloy – Motorola Solutions, Inc.>: Paul, the other thing we've seen is that we saw a lot of our competitors furlough selling resources during COVID. We actually continue to put the pedal to the metal, hired more particularly in the video security space. And as we look back on that 12, 9 months after the fact, we think without a doubt, that's created great opportunity and it's created our ability to go take market share in that space.

<Q – Paul Silverstein – Cowen and Company>: Guys, can I just follow up? The massive amount of federal largesse that's on the docket, albeit not yet passed and may not pass. Are customers – are first responder agencies already talking to you about allocating funds, or are they waiting for the actual dollars to flow?

<A – Greg Brown – Motorola Solutions, Inc.>: So, Paul, what I would say is – so, think of this – think of government money in two buckets. There's – we don't even talk about the CARES Act money anymore. But by the way, CARES Act money was available last year that we benefited from, and it's available through the end of this year that we're benefiting from.

I would say that the results we've printed so far largely don't even include the stimulus money that I just articulated, which is \$350 billion of state and local, \$170 billion in education, \$38 billion in airport and transit, et cetera. But those conversations to your question, Paul, are absolutely beginning to take hold with our go-to-market sales organization for both this year and multi-year planning.

<Q – Paul Silverstein – Cowen and Company>: Got it. All right, I appreciate the response. Thank you.

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

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

<Q – Louie DiPalma – William Blair & Co. LLC>: Greg, Jason, Mahesh and Tim, good afternoon.

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

<Q – Louie DiPalma – William Blair & Co. LLC>: Greg, can you talk about the prevalence of the access control market for the education vertical specifically? It seems that you've invested a lot for the education vertical with Avigilon and that security with access control has increased in importance with the multitude of gun-related incidents. Is this a major opportunity for Motorola? And do you plan to continue to be acquisitive in order to grow your share of the access control market?

<A – Jack Molloy – Motorola Solutions, Inc.>: So, Louie, it's Jack, I'll start, and I think, Mahesh will have some things to add in to my comments.

<Q – Louie DiPalma – William Blair & Co. LLC>: Hi, Jack.

<A – Jack Molloy – Motorola Solutions, Inc.>: So, first of all – how are you? Education is one of our top – it's our second largest vertical in terms of growth right now in video security and access control. Front and center to what every school superintendent, school safety director is thinking about is safety of their kids. We talk about the convergence of video security and access control, but there's also the ability to converge two-way radio through our Safety Reimagined platform that we're selling to schools.

Greg just talked about the federal monies that have been pointed to schools. It's historic in terms of schools. One of the biggest problems they always had, there's interest, but there isn't funding. And now we've got interest married with funding. We also put together a specialized sales team that just talks to school superintendents every day, and we think that overlay team has helped us kind of accelerate opportunities.

Mahesh from a technology standpoint, is there anything you want to add?

<A – Mahesh Saptharishi – Motorola Solutions, Inc.>: I think, the only other thing I'd add there is we just launched our Motorola Solutions concealed weapons detection solution, which is a key part of the story. When you think about it in the context of access control, it's not just who are you, are you authorized to be there, but also what risk you pose. So, this complements our access control solution really well.

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

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

Operator: Our next question will come from Trevor Bowers with Northcoast Research. Please go ahead.

<Q – Trevor Bowers – Northcoast Research>: Hi, guys. Congrats on the quarter, and thanks for taking my question. You mentioned on the last call and also earlier today that it looks like you're taking share in the body-worn camera market. What would you say is driving the success in that space?

<A – Jack Molloy – Motorola Solutions, Inc.>: So, I think, first of all, customers want an alternative. It's been a market primarily led by one company. They want an alternative. But I think in public safety, trusted relationships matter. We've been in business for, as you know, over 90 years, we've got trusted relationships throughout the state and local market. We also bear the advantage of having a very large international footprint. And we think that's, obviously, been beneficial to us as well. We've got things we're working on in terms of new products, both in terms of body-worn cameras, in terms of in-car solutions. But again, we think it's an area around police transparency and accountability that will continue to get focus and funding. And we think there's an opportunity for two players in the market, and we're capitalizing accordingly.

<A – Mahesh Saptharishi – Motorola Solutions, Inc.>: The one other thing I would...

<A – Mahesh Saptharishi – Motorola Solutions, Inc.>: Maybe the one other thing that I would add is Jack mentioned this previously, we meet our customers' needs where they are. And so having both an on-premises solution along with a cloud solution really matters here as well. And that's the other reason we win.

<Q – Trevor Bowers – Northcoast Research>: Okay, great. And then what, sort of, long-term impact would you say the pandemic has had on Motorola's go-to-market approach? For example, do you expect there to be less travel and entertainment spending in the future or maybe more efficiencies as a result of the new sales and delivery methods? How should we think about that going forward?

<A – Jack Molloy – Motorola Solutions, Inc.>: Great question. Think pivot to digital. I think digital marketing and our spend to try to get customers, particularly customers that have latent needs that we may be unaware of, that's one. We've pivoted to continue to grow our inside sales force, not only in the US but abroad. We think that's critically important. And we've also just become more efficient in terms of not only our frontline selling teams, but our all powerful sales engineers. How do you get more leverage and get more technical acumen in the moments that matter with our customers. And that's truly been something that we've pivoted to.

With all that said, what we do are fairly large-scale enterprise or government sales, and it's going to take some face-to-face engagement. So we're still going out and seeing customers. But we're just driven to be more efficient. And we don't think it is much about time traveling and selling time. That was a legacy way to think about it. We think about – and I measure our teams in terms of engagement time now. And so that's really where we've seen the pivot.

<Q – Trevor Bowers – Northcoast Research>: Okay, great. Thanks a lot, and congrats again.

<A – Greg Brown – Motorola Solutions, Inc.>: 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 afternoon guys. Thanks for taking the question. Greg, you've talked about the framing for the American Rescue Plan Act and the amount of money there. What's your perspective on when you see the sweet spot of that spending, if you think about your sales cycles and how it typically flows? And do you have any thoughts on how it might be influencing customer behavior in the different segments, radio, surveillance, command center?

<A – Greg Brown – Motorola Solutions, Inc.>: So Ben, first of all, thanks for the question. I think the sweet spot starts and I mean just very early innings, in the back half of this year, and it's a multiyear run, so state and local funding, the \$350 billion runs through December of 2024, the \$38 billion or \$40 billion for airports and transit run through 2024. There's \$7 billion-plus for broadband connectivity that runs through September 2030. It's a long runway. So I don't necessarily think there's going to be a pop the clutch quarter for a multi-month period. I think it's going to be strong and reasonably consistent over the next few years.

I think it helps – I actually think it helps across the suite of what we provide. It helps LMR, public safety LMR, primarily P25 and the sustainability of multi-year service contracts that elongate these platforms, that allow us to do subscriber and radio refresh like APX NEXT over a multiyear period. I think it clearly helps video, whether it's fixed video or body-worn for state and local, county, municipalities, we talked about the benefits around education, and quite frankly, I think money can flow around 911 PSAP and command center software as well. So I think it's a lift for all three. Hard to dimensionalize, which one is more of a benefit, but it's clearly favorably to the products and solutions that we have, and I like the position.

<Q – Ben Bollin – Cleveland Research Co. LLC>: And then a follow-up, Jason, if I could. You gave the disaggregation of the revenue on slide 13. Could you talk a little bit about the way to think about how much of this as being recurring? And also interested if there's any variation in either average contract duration or how customers are invoicing the recurring business versus the traditional product type businesses? Thanks.

<A – Jason Winkler – Motorola Solutions, Inc.>: Sure. Thanks, Ben. So in terms of recurring, our proxy for recurring is the segment that is Software and Services, which I believe this quarter was 39% of total revenues. That includes a lot of different varieties of recurring business, including service renewals, subscriptions, et cetera, and that was up significantly and has been growing, as you know, even during the pandemic and is growing at a rate that's very positive.

With earnings expansion at OE this year, we believe now at 170 bps of OE expansion within the Software and Services segment. So not only growing but expanding profitability.

On the technology side, from that same disaggregation, you can see that the video software is a strong driver, as well as command center software and that LMR is performing as well with up mid-single digits.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Thanks everyone.

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

Operator: Our next question will come from Fahad Najam with MKM Partners. Please go ahead.

<Q – Fahad Najam – MKM Partners LLC>: Thank you for taking my question. So given the very favorable backdrop that you just highlighted. And if I understood you correctly, Greg, that some of the funding from 2020 is beginning to flow through right now per my text, some programs like the AFG program were getting funding from bills that were passed in calendar 2020. So yet to see the benefit of all the ARPA and the stimulus spending, why not take the opportunity to update us on the long-term model? It clearly looks like your 9 & 10 model is a little bit conservative, you probably can make it 8 & 10 now, given the expansion in operating margins from favorable software sales?

<A – Greg Brown – Motorola Solutions, Inc.>: Fahad, thank you. So look, this is a strong environment. Demand is strong and the environment is generally favorable, but we are still in a pandemic. And we see that, by the way, popping up, not just with the Delta variant and different policies within the US, but we've seen it in supply chain. We've seen it in factories. We've seen it in other countries, and we want to be prudent and mindful around the current environment that we're in.

And while demand is strong and funding is good, and there's a lot of reasons to be optimistic and encouraged. We just want to be very mindful and aware of what we don't know and the uncertainty that I think is informing and incorporated into the remainder of the full year.

I do think that there'll be time, Fahad, over time to update all of you in 2022. By the way, I think that we're likely going to have an Analyst Day. We're targeting doing that in Q1 of next year as we get through this fiscal year, as we get through the large implications of the pandemic, as we get to a point where hopefully the FDA gives general approval for the vaccine, as we get to where many more populations and countries are vaccinated and herd immunity is achieved. And we just think that's a better environment to give an update at that point in time.

So I'm not going to – I appreciate your interest and not going to update the model per se yet, but I like how we're positioned for the back half of the year, and I think we've got some good momentum to build on.

<Q – Fahad Najam – MKM Partners LLC>: Okay. I appreciate the answer. I have a follow-up question on video. Thank you for disclosing that fixed government video is about \$300 million. Can you give us a sense on how big mobile is and how fast could that be growing in general, it seems like it's growing even faster than your fixed video access control business?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, just two things. Video, first of all, Fahad, on the \$300 million, we're now updating that today where we expect the video revenue to government customers now to be about \$330 million to \$340 million. We talk about the addressable market of video security and access control of being about \$15 billion. By the way, that's a 2021 addressable market number.

That grows next year. That's inclusive of fixed video. It's inclusive of body-worn video. It's inclusive of in-car video and the commensurate VMS software and cloud-based revenues.

So it's an all-in number. Remember, with the acquisition of Avigilon, which is fixed video, the acquisition of Pelco, fixed video, the acquisition of IndigoVision, fixed video, that fixed video is the predominant amount of revenue contribution within the technology disaggregation that we characterize, just to give you a reminder.

<A – Jason Winkler – Motorola Solutions, Inc.>: Yeah. So at the total level of all video, the rough split between what is fixed video and what is mobile video at the \$1 billion plus. The part of our business that this year is growing, we believe, at 30% this year, and that's our increased expectations is 70% fixed and 30% mobile. Both are growing nicely.

<Q – Fahad Najam – MKM Partners LLC>: Okay. Can you care to share with us how fast is mobile growing? Is it like – in the quarter how fast was it, is it high 50%?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, I would just say this in terms of data points. Remember, Q2 was, I know it's 66% all-in, 40%, little bit more was organic. And Jack talked about strong double-digit 60%, 65% orders growth for body-worn. So that's strong growth, which has driven us taking share in the first half. And given that the market is looking for a viable alternative and our product performance continues to improve. And when I look at the body-worn video book of business, and things like Malta or the UK or the French MOI, it's pretty strong growth.

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

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

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

<Q – Jim Suva – Citigroup, Inc.>: Thank you and great job really executing through such a turmoil time of COVID, supply chain issues and things like that. Looking ahead, is it possible that as hopefully we get mass immunity and COVID hopefully dies down and people return back to the office and meetings in person.

Is it possible that your command center business and installations could actually accelerate just because it's been so hard to meet with people and do testing and show all the bells and whistles of your solutions? And also with the government stimulus coming in? Or is that just not the way to think about how things could roll out in the, say, the next year or two?

<A – Greg Brown – Motorola Solutions, Inc.>: Jim, I would think about it that as we printed the first half of the year in Q2 and look at the second half and basically, what you're describing is the trends. I really see video security and access control leading the way, which is why we're raising the technology view from what we thought would be a full year 20% plus performance to approximately 30%, and that's driving the segment guide products in SI from mid to mid-to-high.

So I think if you're thinking about an anchor tenant of incremental growth from current expectations of where we were. I think it's led by video security and then the second area I'd actually say is LMR. And those two areas are driving the increased momentum.

With command center software, while it's our smallest component, we're still growing at greater the industry rate. So I'm pleased about that. But we also are offering both on-prem and cloud, and we've got organic work to do on the internal development on cloud. But I think, Jim, looking forward, I think of video security, access control and LMR as being more of a incremental drivers from a trend standpoint.

<Q – Jim Suva – Citigroup, Inc.>: Thank you so much, and again congratulations to you and your full teams.

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

Operator: This concludes our question-and-answer session. I will turn the floor back over to Greg Brown, Chairman and CEO, for any additional or closing remarks.

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

Thank you, everybody. Listen, I'm really pleased with Q2's results and the execution we were able to achieve. And I just want to take the opportunity to thank my team and to thank all the people in Motorola Solutions. You delivered, you produced, you were unflinching, you're resilient, and I'm super proud of you.

I think the other thing I'm proud of is we've continued to invest in this business. We did it in the throes of COVID last year. Jack referenced it. We continue to do that. I think in part some of the benefits we're able to demonstrate and the second raise of the year is driven by ongoing investment decisions we've made.

And last two thoughts are I like our momentum. I like the momentum as we enter this back half of the year, particularly pleased with the increased strength of video security. But I'm also proud of the fact that now approximately half of our revenue for the full year will be derived from video security and Software and Services. And that's a much different composition and disposition than where we were several years ago.

So I just want to thank everybody; to my team. I'm proud of you, and we got a lot of work to do, and we know what we need to do in the back half. So thank you.

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.