



Q3 2021 Earnings Conference Call Thursday, November 4, 2021

PARTICIPANTS

Motorola Solutions Executive Participants

Tim Yocum – Vice President, Investor Relations
Greg Brown – Chairman & Chief Executive Officer
Jason Winkler – Executive Vice President & Chief Financial Officer
Jack Molloy – Executive Vice President, Products & Sales
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
Kyle McNealy – Research Associate, Jefferies LLC
Adam Tindle – Analyst, Raymond James & Associates, Inc.
Trevor Bowers – Research Associate, Northcoast Research Partners LLC
Louie DiPalma – Analyst, William Blair & Co. LLC
Paul Silverstein – Analyst, Cowen and Company, LLC
Ben Bollin – Analyst, Cleveland Research Co. LLC
Fahad Najam – Analyst, MKM Partners LLC
Erik Lapinski – Research Associate, Morgan Stanley & Co. LLC
Jim Suva – Analyst, Citigroup Global Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for holding. Welcome to the Motorola Solutions Third 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 3 hours after the conclusion of this call over the Internet. The website address is www.motorolasolutions.com/investor.
[Operator Instructions] You will have the 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 Third 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/investors. 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 previously 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 to over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thanks, Tim. And good afternoon, and thanks, everybody, for joining us today. I'm going to start off by sharing a few thoughts about the overall business before Jason takes us through our results and our outlook.

First, Q3 results highlight the continued strong demand we're seeing across the business. We grew revenue 13%, earnings per share 21% and expanded operating margins by 150 basis points. Additionally, we ended the quarter with a record Q3 backlog of \$11.4 billion, up 7% from last year.

Second, we saw strong growth in all three technologies during the quarter. In LMR, revenue was up 11% while navigating a very challenging supply chain environment. In video security and access control revenue was up 26%, driven by strong broad-based demand for both our fixed and mobile video offerings. And in command center software revenue was up 13% as we continue to expand within our existing installed base and win new customers.

And finally, based on our strong Q3 results and our expectations for the remainder of the year, we're again raising our full-year guidance for both sales and EPS.

I'm now going to 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

Thanks, Greg. Our Q3 results included revenue of \$2.1 billion, up 13%, including \$15 million from acquisitions and \$25 million from favorable currency rates. GAAP operating earnings of \$451 million and operating margins of 21.4%, compared to 18.9% in the year-ago quarter. Non-GAAP operating earnings of \$555 million, up \$92 million or 20%, from the year-ago quarter, and non-GAAP operating margins of 26.3% of sales, up from 24.8%, driven by higher sales, higher gross margins and improved operating leverage in both of our segments.

GAAP earnings per share of \$1.76 compared to \$1.18 in the year-ago quarter. The increase was primarily due to higher sales, higher gross margins and improved operating leverage as well as a loss related to the refinancing of long-term debt that occurred in the third quarter of 2020.

Non-GAAP EPS of \$2.35 compared to \$1.95 last year, primarily due to higher sales, higher gross margin and improved operating leverage again in both segments. OpEx in Q3 was \$496 million, up \$41 million versus last year, primarily due to higher compensation related to incentives and higher expenses related to acquisitions.

Turning to cash flow. Q3 operating cash flow was \$376 million compared with \$392 million in the prior year, while free cash flow was \$315 million compared with \$343 million in the prior year. The decrease in cash flow was primarily due to an increase in working capital inclusive of our higher inventory, partially offset by higher earnings.

Year-to-date operating cash flow was \$1.1 billion, up \$225 million compared with last year, and free cash flow was \$959 million, up \$201 million over last year. The increase in cash flow year-to-date was primarily driven by higher earnings, partially offset by higher cash taxes paid during this year. Our capital allocation in Q3 included \$137 million in share repurchases at an average price of \$234.18, \$120 million in cash dividends and \$61 million of CapEx.

Additionally, during the quarter, we closed the acquisition of Openpath, a leader in cloud-based access control solutions for \$297 million. We invested \$50 million in equity securities of Evolv, whose technology powers our concealed weapons detection solution. And subsequent to quarter-end, we acquired Envysion, a leader in enterprise video security and business analytics, for \$124 million, net of cash.

Moving next to our segment results. Q3 Products and Systems Integration sales were \$1.3 billion, up 14%, driven by strong growth in LMR and video security. Revenue from acquisitions in the quarter was \$12 million. Operating earnings were \$273 million, or 20.6% of sales, up from 18.9% in the year prior, on higher sales, higher gross margins and improved operating leverage.

Some notable Q3 wins and achievements in this segment include \$72 million of P25 orders from a large US federal customer, a \$70 million TETRA order from the German Navy, a \$45 million TETRA upgrade from a large EMEA customer, a \$43 million P25 order from a large North America customer, a \$22 million P25 upgrade from Metro São Paulo in Brazil, and also during the quarter we grew our video security and access control product revenue by 23%.

Moving to the Software and Services segment. Q3 revenue was \$782 million, up 11% from last year, driven by growth in LMR services, video security and command center software. Revenue from acquisitions in the quarter was \$3 million. Operating earnings were \$282 million or 36% of sales, up 140 basis points from last year, driven by higher sales, higher gross margins and improved OpEx leverage.

Within this segment, some notable Q3 wins included a \$41 million command center software contract with a large US state and local customer, \$31 million P25 multiyear extension with a customer in North America, a \$17 million push-to-talk over broadband multiyear renewal with a large US customer, a \$7 million CommandCentral suite and video security order with the City of Yonkers, New York, which expanded off of a prior body worn camera win. During the quarter, we grew our video security and access control software revenue by 32%. Additionally, we launched the M500, the first in-car video system enabled by artificial intelligence.

Moving next to our regional results. Q3 North America revenue was \$1.4 billion, up 14% on growth in LMR, video security and command center software. International Q3 revenue was \$658 million, up 10%, also driven by LMR, video security and command center software. We saw strong growth in EMEA and Latin America during the quarter, while in Asia Pac we continued to experience headwinds related to COVID-19 lockdowns in various countries.

Moving to backlog. Ending backlog was a Q3 record of \$11.4 billion, up \$710 million compared to last year, driven primarily by growth in North America. Sequentially, backlog was up \$144 million, also driven primarily by growth in North America. Software and Services backlog was up \$6 million compared to last year, driven by a \$479 million increase in multiyear services and software contracts, partially offset by revenue recognition on Airwave and ESN over the last year.

Sequentially, backlog was down \$112 million, driven primarily by revenue recognition for Airwave and ESN during the quarter, partially offset by growth in services and software contracts in North America. The Products and SI backlog was up \$704 million compared to last year and \$256 million sequentially, driven primarily by LMR growth in both regions.

Turning next to our outlook. We now expect full-year sales to be up 10% to 10.25% compared to our prior guide of 9.5% to 10%. And we now expect full-year earnings per share between \$9.00 and \$9.04 per share, up from our prior guide of \$8.88 to \$8.98 per share. This increased outlook includes the video security and access control technology growing greater than 30%. It also includes our current view of supply chain conditions, FX at current spot rates and an effective tax rate of 21.5%, along with a diluted share count of 174 million shares.

And finally, we now expect full-year OpEx to be \$1.95 billion, inclusive of our two latest acquisitions, Openpath and Envysion, and we expect full-year operating cash flow to be approximately \$1.825 billion, up \$25 million from our prior estimate.

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

Greg Brown, Chairman & Chief Executive Officer

Thanks, Jason. I thought I would end with a few thoughts as we conclude the call, and before we open it up for questions.

First, our results for the quarter were outstanding, and I'm extremely proud of how the team is executing through a very tough supply chain environment. We achieved record Q3 sales, operating earnings and EPS, expanded operating margins by 150 basis points and finished the quarter with a record Q3 ending backlog.

Second, I want to share some color on what we're actually seeing in the two segments. In Products and SI, demand for both our LMR and video security solutions remained robust, highlighted by the strong revenue growth in Q3, and record-ending backlog. Supply chain constraints continued to impact our LMR business and particularly our PCR business as demand outpaced our ability to obtain supply in Q3, and we expect will continue to do so in Q4.

In Software and Services, we continue to see strong demand, which is driving revenue growth and improved profitability. In fact, as we finish the year, we now expect operating margin to increase by 200 basis points year-over-year for the segment. Our customers continue to increase their investment in our value-added services, and in software, while we now expect command center software revenue growth to be low double-digits, our video security and access control software revenue growth will likely be greater than 35% this year and is the fastest growing area within our software portfolio.

Finally, as I look ahead, I'm encouraged by how we're positioned. Our strong Q3 backlog in both segments provides us with significant demand visibility. We're expanding our relationships within our existing installed base to provide more software and services. The customer funding is as good as I've seen it, and our NDAA-compliant manufacturing in North America is providing a key differentiator for our fixed video solutions. And while we expect the challenging supply chain environment to be with us through at least the first half of next year, we're still planning for another year of strong revenue earnings and cash flow growth in 2022.

And I'll now turn the call back over to Tim.

Tim Yocum, Vice President, Investor Relations

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

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

QUESTION AND ANSWER SECTION

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

<Q – Tim Long – Barclays Capital, Inc.>: Thank you. Maybe just one on the video and access control. Obviously, 30%-plus, really strong this year. Can you talk a little bit about sustainability as we look into next year, and what do you think some of the real guideposts we should be watching as far as drivers, NDAA, FCC, any other things that could lead to market share gains there?

And then the follow-up on the command center software side, low-double digits, I think there have been some views it could be better than that. So maybe can you talk a little bit about what needs to be done for that business to reaccelerate from these levels? Is it winning new customers, is it more stimulus, is it more the bundled sales? If you could give us some color on that, too, that would be great. Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. Tim, on video, it's just – it's phenomenal execution by Molloy and the entire management team. As you know, it's our largest addressable market now expected to grow over 30%. By the way, organically it's probably a little over 20%, so still really strong robust growth. We've rounded out the portfolio, we've refreshed the product portfolio. I think Jack and team have done a great job investing in go-to-market and increasing our R&D in a downturned market. I think video continues to be more – and access control, continues to be more and more important with our customers and more of a need-to-have than a nice-to-have.

As you referenced, the NDAA is helpful, for sure, around federal procurement, as well as the eligibility for federal grant money. And look, with the FCC, as you know and as you referenced, there's pending – legislation has been done, it's awaiting Biden's signature. If President Biden signs it, when and if he does, that authorizes the FCC to proceed with the rulemaking they've undertaken which would evaluate Chinese vendors in the entire enterprise market. So that clearly would be significant as well. Don't know the timing for that, but that would be a tailwind if that were to materialize.

I don't know, Jack, you want to add anything about the overall demand profile.

<A – Jack Molloy – Motorola Solutions, Inc.>: Just the only other thing. I think first of all, new product introduction, both in terms of cameras, but also moving – pivoting the capability for the move to the cloud. I think also you look at it from an acquisition standpoint. We've acquired Openpath who's really, quite frankly, a game-changer from the access control standpoint. This weekend we announced the acquisition of Envysion, so you can look at that as a way for us to get more vertically focused in terms of our solution. And as Greg has talked about in the past, one of the reasons we acquired Pelco and IndigoVision was to add greater international scale. We've invested heavily in go-to-market in North America. I think the next frontier will be in Europe, Middle East and Africa.

<A – Greg Brown – Motorola Solutions, Inc.>: And as it relates to command center software, candidly, Tim, in retrospect, the target was maybe a little overly ambitious, but having said that, we're still growing at 1.5x the market, so we're taking share. It's growing double digits. Q3 was particularly good on orders. And the backlog composition is a little bit longer in duration, incorporating some things around Next Gen 911 and annual recurring revenue.

<A – Mahesh Saptharishi – Motorola Solutions, Inc.>: And just in terms of specific things that we're doing, a core tenet for us is always to meet customers where they are. That's a part of our product strategy. Many of our customers have invested in some sophisticated IT infrastructure on-premises. And they would like to continue to benefit from those investments. But they also know that certain cloud capabilities are just better – those capabilities are just better delivered through the cloud. And we want to give the customers to flexibility to choose and to move to the cloud in their own timeline.

And so with the relation to that, we're offering flexibility in deployment via hybrid offerings. And we're doing three specific things there. One, we're offering our on-prem solutions inclusive of CAD and records on a subscription basis. We're going to be integrating the capabilities, both existing and new capabilities in CommandCentral Cloud with our on-prem solutions to allow our customers to choose what capabilities they would like to consume from the cloud.

And third, cybersecurity is a very important consideration regardless of whether the solution is deployed on-prem or whether it's in the cloud. We're integrating cybersecurity monitoring as a service into both those solutions as a whole. I think all that combined really accelerates adoption of cloud capabilities across all our customers.

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

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

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

Operator: Your next question comes from Sami Badri with Credit Suisse. Please go ahead.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Hi. Thank you. First, around this time of every single year you usually give us out-year initial takes or views. Greg, I was hoping you give us any kind of guidepost for revenue or EPS growth or even margin. And then the second question I have is actually on just US federal and what percentage of revenue that was in the quarter and what the expectation is for US federal revenues to be for the full year. That's it. Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. So, we're not going to, obviously, Sami, guide 2022, per se. But I will tell you that kind of as we sit here today, we're thinking tough supply chain environment. By the way, Q3 – Q3 was a tough – I'm proud of the quarter, I'm proud of the print, but it was tough. And Q4 is tough as well. So I think that Q3, Q4 from a supply chain standpoint is the toughest we've experienced. We still expect it to be difficult and challenging first half of 2022 – at least first half of 2022. So that's kind of the backdrop. Having said that, I think about revenue growth at this point high level of about 7% and maybe further dimensionalization of Software and Services revenue growth of around 10%. That's high-level. Our current thinking, obviously, details to follow in a quarter from now. It would also be our expectation and goal to expand operating margins in 2022 in the face of higher input costs as well. That's kind of some high-level color.

<A – Jason Winkler – Motorola Solutions, Inc.>: And, Sami, to dimensionalize the second part of your question with respect to fed, it's roughly 8% of our revenues. We're having another strong year in fed like last year. So 8% of revenues is its contribution to us. In totality, it's one of our largest customers.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Perfect. Actually, I had one follow-up. And maybe this is for Mahesh. It's about the M500 in-car video system enabled by AI. Do you guys have any competitors that actually do this right now, at least with an installed base like yours and even a rollout or even go-to-market product like yours?

<A – Mahesh Saptharishi – Motorola Solutions, Inc.>: No. WatchGuard for the past 10 years has been the leader in in-car video, bar none. And the M500 is really a product of all the insights and the excellent feedback we've gotten from those customers. And, candidly, I think the M500 improves upon the core features of the 4RE, which is the current in-car video solution from WatchGuard. We improve on our synchronized playback capability, which is something that is a part of tight integration with our body-worn camera and our in-car video solution so that you can get a perspective of what's happening in the incident in a time-synchronized manner. This is something that is very unique to what we do. Record After the Fact is a very unique capability that we have within the WatchGuard portfolio. And we have a dedicated display capability in the product which is something that we have gotten excellent feedback from our customers on. It allows you to both record, review and tag video with a dedicated display.

In addition to that, what M500 brings to the table is ALPR capabilities, ALPR capabilities not just with watch list, but also integrated with our LEARN platform which has the largest database of plate reads out there that's time and location stamped, which allows for great real-time forensics and investigation capability.

And to the rear camera in the M500 platform we've added passenger analytics capabilities so that when a passenger is detected, we can actually effectively trigger recordings as an option, configurable within the system. The platform itself is AI enabled to the point where now we can add new capabilities in the future via simple firmware upgrades which actually future-proof customers as well. So all in, this is a very unique and a powerful in-car video platform that's a product of all the experience that we have gained over the past 10 years.

<A – Jason Winkler – Motorola Solutions, Inc.>: And Greg, perhaps if I could elaborate on the about 7% growth...

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

<A – Jason Winkler – Motorola Solutions, Inc.>: ...for next year. As we look at next year and plan for it, the linearity we're looking at for Q1 is more consistent with 2019, about 21%. In fact, the 2019 first half or the entirety of the linearity of that year looks to be a better indicator for what we see in terms of supply chain and the planning we're doing for the business.

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

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

Operator: Our next question comes from Kyle McNealy with Jefferies. Please go ahead.

<Q – Kyle McNealy – Jefferies LLC>: Hi, guys. Thanks very much for the question. I'm on here for George Notter. This was a really strong result for Products backlog coming out of the quarter. It looks like you had a good quarter for the number of larger LMR deals, and that seems to be driving. And you had a good portion from US and International. So I'm wondering if you can comment on what's driving the volume of larger deals, like is there something specific or a trend that's kind of going on in the near term, or is this general continue macro recovery after the pandemic eases worldwide. And I'm also wondering if you expect that momentum to continue based on your view of the pipeline. Thanks.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah, Kyle. So to your point, it's been a very good first three quarters of the year. We actually expect that performance to continue. We're sitting on record backlog up \$631 million year-over-year. And that's not only – historically, we'd look at that and say that's a North America phenomenon, I think the strength of the story here is it's North America performance, so it's large scale device refresh, it's statewide infrastructure upgrades, some of which we're in further discussions through ARP funding which will play out over the course of the next few years. But also internationally, we've been in receipt of two large orders from the German defense, as well as a Romanian upgrade as well. So, again, we've been really pleased with the performance to date. We expect that performance to continue.

<A – Jason Winkler – Motorola Solutions, Inc.>: Yeah. Demand is definitely exceeding supply. And the other thing about our backlog, particularly in products, is approximately half of it's expected to turn into revenue within 12 months. So there's a longer duration impact of the deals Jack mentioned where we're deploying, implementing, and they benefit the revenue stream over a longer period of time.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. And, Kyle, just the last thing I would say is – as I said in my prepared remarks, demand is strong, and our demand visibility is good, in addition to the backlog that Jack articulated and the linearity that Jason just said. Taking a step back, this is more than just pent-up demand. It's a reflection of what we do as a need-to-have versus a nice-to-have. The funding environment, as I referenced, both budgets and stimulus is strong. We've refreshed a lot of the portfolio on the product side. We've made a conscious investment in go-to-market channels and feet on the street.

We've continued to acquire. We've got the benefit of the National Defense Authorization Act. More revenue is software and services-oriented. So I think there's a lot of different positive ingredients in the blender here that continue to fuel our growth going forward.

<Q – Kyle McNealy – Jefferies LLC>: Okay. Great. Thanks very much. And one follow-up. I'm not sure if you mentioned it, but do you have an update on the run rate of the PCR business now, and maybe an outlook for a continuing recovery and the outlook for PCR?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. I think PCR is where the supply chain challenge is most acute. It grew in Q3; it will grow for the full year, Kyle, probably as we match supply and demand and it's fluid. We expect it to end up about mid- to high-single digit growth with a reasonable chunk of delinquent backlog for us to execute against in 2022.

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

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

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Okay. Thanks. Good Afternoon. I wanted to start on the Products and Systems Integration margin expansion. Operating profit grew at double the rate of revenue basically and

had nice margin expansion in that segment. I wouldn't consider this an industry where you would get short-term pricing power benefit to hit margins positively. So just maybe looking for some more color on the PSI margin expansion.

And then as an extension to that question, if I look at that segment before COVID, it was a low- to mid-20s operating margin. Clearly, not going to finish there in 2021 based on your guidance. But maybe some of the gating factors to getting back to those historical operating margins in that segment would be helpful.

<A – Jason Winkler – Motorola Solutions, Inc.>: Sure. So thanks for the question. So one thing that's – we're pleased with the operating margin expansion in Products. One thing we are benefiting from is the prioritization of our portfolio to public safety. So that's a favorable mix element around margins and ASPs. As Greg mentioned and Jack, we're constrained more so in PCR, which is a bit on a lower tier. So favorable mix is definitely improving what you see in Q3.

We're pleased with the OE performance on the year. I would also remind you that as we began the year and planned this year at the OE line for the company, we were facing a \$100 million year-over-year increase in incentives as we reset the plans to 100% coming off of last year where we only paid half. So the bulk of that \$100 million for the year is in the Products segment. So we're expanding operating margins despite overcoming that additional P&L burden.

In terms of its outlook, we're continuing to manage through higher input costs, higher freight. But our plans with the growth that we've talked about, we will continue, even in the face of higher supply costs to expand operating margins in that segment.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Got it. And maybe as a follow up, Greg, I'm going to take a stab since it's been in the public domain on Airwave, any potential comments you can make on developments? Investors have long considered you kind of double-hedged because of both Airwave and ESN, but wondering if they should be considering the potential risk of losing that hedge?

And secondly, you are not afraid to get creative. I'm just wondering if there is maybe any sort of alternative ownership structures like a JV or something like that that you're considering. So I know it's a tough topic, but anything that you can give us would be helpful. Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: I appreciate the question. So just to remind you, I think you know, Adam, that the contract for Airwave runs through all of next year through 2022. ESN, under its current construct runs through all of 2024. We've been in active conversations with the UK home office. They have expressed the desire to extend the Airwave contract. That's underpinned the ongoing conversations we've had. We also obviously are involved with the CMA and are adhering to the process that they've outlined. I think the process will take several months. It will go well into 2022.

There is really nothing more to say on it on that front other than we continue to make the investments in the network as well to keep it current, to keep it reliable. The service levels to the end user customer and no disruption in that are the absolute utmost importance. And we'll continue the dialog with both the UK home office and the CMA, and I am hopefully we'll have constructive outcomes. But we'll see how it plays out over the next several months. But I do appreciate you bringing it up.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Understood. Very helpful. Thanks, Greg.

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

Operator: Your next question comes from Keith Housum with Northcoast Research. Please go ahead.

<Q – Trevor Bowers – Northcoast Research Partners LLC>: Hi. This is Trevor filling in for Keith. I have a couple of questions about the supply chain. So how have the supply chain challenges evolved since the last quarter? Do you expect them to worsen before improving? Or from your perspective, would you say that supply chain challenges have peaked?

<A – Greg Brown – Motorola Solutions, Inc.>: It's a great question, Trevor. I think the most acute challenges we've had year to date were undoubtedly in Q3. I think they're continuing in Q4. So if I look at 2021, definitely the most pain on supply chain we've experienced is in Q3 and we expect to experience in Q4. I think the environment will be rugged and challenging through the first half – at least the first half of 2022. And that's informing, obviously, the guide for the remainder of the year, although we're raising top and bottom. And it informs the linearity that Jason referred to earlier around Q1.

<A – Jason Winkler – Motorola Solutions, Inc.>: And I'd also add in terms of what we're doing to manage through a difficult environment. Number one, we're prioritizing our customer needs, and that starts with public safety. Additionally, Motorola has world-class engineering across the organization. Jack's team is helping think through alternative designs where engineers very quickly find parts that are available when one part is constrained. So our teams are doing a good job there. Each one of us here on the call have supplier relationships that we have C-level dialogs going on so that we can get our allocations. And finally, we're carrying higher inventory as well to manage the environment.

<Q – Trevor Bowers – Northcoast Research Partners LLC>: All right. Great. Thank you very much.

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

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

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

<A – Greg Brown – Motorola Solutions, Inc.>: How are you?

<Q – Louie DiPalma – William Blair & Co. LLC>: Excellent. LMR product revenue increased by a healthy 12% this quarter after an 18% increase last quarter despite the referenced supply chain issues. Can you give us a sense on what you think your penetration is for your APX NEXT radio, your MXP600 TETRA, and your recently announced TRBO? I think you launched the APX NEXT in the fall of 2019. So a lot of investors are just wondering like what inning are we in for the respective upgrade cycles for these different product refreshes that you have had over the past couple of years?

<A – Jack Molloy – Motorola Solutions, Inc.>: Louie, first, let's attack the APX NEXT piece. It's very early days. We're really, really pleased. So we announced it in 2019. Obviously, last year during the COVID year I would say we had – the market was somewhat stalled in the first and second quarter. We've seen a significant ramp-up in terms of orders since then. But all day long we've talked about – you heard me make mention before this, typically a three- to five-year cycle where we start getting some material refresh within our customer's base. You asked about an inning, I would say we're in the top of the second inning potentially. We have room to run here in terms of APX NEXT.

The second question was related to the MXP600 in Europe. And it's, again, very early days. We've had some market success. But the interesting thing to point out for both the APX NEXT as well as the MXP is those were designed for very high-tier part of the market. So that's attractive. But the reality is we're going to be feathering in mid-tier and entry-tier on both the APX Next line as well as the MXP line. So we're really encouraged by that because that starts to get to the meat of the market, so to speak. So I think that handles your question.

<Q – Louie DiPalma – William Blair & Co. LLC>: Great. And you spoke about the supply chain headwinds persisting through the first half of 2022. Do you think these issues result in a deceleration in the recent revenue rate? Or should we forecast for like sustained revenue growth for the next three quarters?

<A – Jason Winkler – Motorola Solutions, Inc.>: So, Louie, I think our comments – or my comments around the linearity that we're planning for reflect our views of the supply chain, particularly for Q1 and the first half of next year, limiting our ability to fulfill the very good demand that's there. And, yes, for things to improve in the second half and to have a good year that Greg mentioned of planning for about 7% in total revenue growth.

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

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

Operator: Our next question comes from Paul Silverstein with Cowen and Company. Please go ahead.

<Q – Paul Silverstein – Cowen and Company, LLC>: Thanks, guys. Appreciate you taking the questions. First off, if I missed it I apologize, but what was the supply chain impact in Q3, and what do you expect it to be in Q4 in terms of quantifying it, both the revenue impact and the margin impact?

<A – Jason Winkler – Motorola Solutions, Inc.>: In terms of Q3, our results and the growth that we had, except for PCR, which was limited in its ability, we were able to match the supply with the demand pretty well in Q3. As we look to Q4 and the constraints that we have embedded in our guidance for the year, and therefore Q4, about \$100 million of revenue is limited. It could have been there, had we had the requisite supply. That's our current estimate in terms of an impact to Q4. That said, we're still growing greater than we thought and guided to last time. Now 10% to 10.25% but that \$100 million is our current estimate as to had we had better supply, what more we could have done in Q4.

<Q – Paul Silverstein – Cowen and Company, LLC>: Jason, if I'm doing the math right, that's about – if I translate that to EPS, it's about a \$0.10 impact?

<A – Greg Brown – Motorola Solutions, Inc.>: Depends on the mix, obviously.

<A – Jason Winkler – Motorola Solutions, Inc.>: Yeah. It depends on the mix, and a large part of that's PCR, so it's probably a little left of center. But in general, you can do the math, as you've done, around what its contribution could be at. I'd add further color around the supply chain costs that we are seeing. In order to get the requisite supply, there are increasing costs. I mentioned freight before. Many companies like us are facing higher freight costs. The number that we're embedding in the P&L this year for higher premiums is nearly \$45 million on the year, with a lot of that in the second half. And then as I look to Q4 and the plans we put together for Q4, having to buy and get these materials not only through expedited freight, but through other means through brokers and distribution and the like, is adding about \$20 million of pressure to what we had planned for Q4. So those things are in the mix, too. We're doing what's necessary to get the supply that we can get.

<Q – Paul Silverstein – Cowen and Company, LLC>: Jason, I apologize. You're expecting \$20 million pressure in Q4 from freight costs or from elevated component costs?

<A – Jason Winkler – Motorola Solutions, Inc.>: Components is the \$20 million number in Q4. Freight is an annual number, Paul, that we've been bearing all along, and on its annual basis it's \$45 million. About \$20 million in the first half, and \$25 million in the second half. That's the freight higher costs. You know, the ocean and air both are exorbitant prices right now, and we're having to mix to more faster delivery methods, which is causing a higher freight cost as well.

<Q – Paul Silverstein – Cowen and Company, LLC>: But it sounds like it's a 1% to 1.5%. If I assume a \$10 million to \$15 million impact in Q4 from freight, it's about \$30 million to \$35 million all-in. It looks like it's about 1.5 percentage point adverse impact, if I did the math right.

<A – Jason Winkler – Motorola Solutions, Inc.>: The numbers that we've shared are our estimates within what we were facing, so I think you've got it correctly captured, yes.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. I think you're in the ZIP Code.

<Q – Paul Silverstein – Cowen and Company, LLC>: All right. I appreciate it. It sounds pretty meaningful between revenue and margins, not surprisingly. My other question is also just clarifications. You all have said that – if I remember correctly, I think you said public sector video in Q2 had hit a \$330-plus million run rate – annual run rate, up

from \$300 million previously. I'm hoping you could update us. And I think similarly you had said mobile cameras, body worn cameras in Q2 was up 80% year-over-year. That was an acceleration over 60% previously. I was hoping you could update that growth rate.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, I think – and Jack can jump in – I think the \$330 million you referenced was an estimate for 2021 for public sector contribution, and I think we're holding to that number. So I don't think we have an update on that front. And on body-worn – I don't know if you want to...

<A – Jack Molloy – Motorola Solutions, Inc.>: Paul, body worn, so record unit shipments in Q3. Really pleased with that. We've talked about the fact that the customers, our customers want an alternative, we think we've filled that really well. The other thing I'd say is we're uniquely positioned internationally given our scale and global presence. We talked about the French MOI. They've actually put subsequent orders into Q3. Mahesh just reference M500, so we think we're in a good position in body worn and in-car.

<Q – Paul Silverstein – Cowen and Company, LLC>: All right. Just one – last quick one from me. In terms of pricing environment, in supply constraints I'd be surprised if it got worse. It won't be a surprise if it got better, but any insight you can share on what you're seeing and what you're seeing competitively?

<A – Jason Winkler – Motorola Solutions, Inc.>: Yeah. We've been looking carefully at our portfolio through the year. We've made a few surgical adjustments in LMR, primarily in North America, and also in fixed video. We'll continue to look at that. Another opportunity for us is, we have constant new product releases and oftentimes, as Jack mentioned, APX Next, for example. We typically release at the higher part of the portfolio, and with that presents a mix opportunity to offset some of the costs that we discussed earlier. So we'll continue to look at it carefully, and of course, monitoring what is a very competitive end market that we're in both LMR and fixed video.

<Q – Paul Silverstein – Cowen and Company, LLC>: Great. I appreciate the responses. Thank you.

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

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

<Q – Ben Bollin – Cleveland Research Co. LLC>: Thank you. Good afternoon, everyone. Thanks for taking my question. Greg or Jack, I was hoping you could take us through a little bit about what you're seeing with American Rescue Plan funding to date. How you think it might have manifested thus far. And then the second part of the question is, I'd be interested in any thoughts you have about how customers are looking at this money within each piece of your business. So within surveillance radio, even command center, how you think it's influencing their behavior. That's it for me, thank you.

<A – Jack Molloy – Motorola Solutions, Inc.>: Okay. So first of all, Greg said it earlier, and I think it's always important to point out that we're in a unique position because really what we do is all need-to-have. It's not nice-to-have. So I kind of decompose the American Rescue Plan conversation into a few different things. We have public safety, and that's everything from P25 statewide and local networks to command center software. We're in pretty consistent dialog with our customers regularly in public safety who had what we call shovel-ready projects or things that maybe would have been a midterm need, and we're in conversations on how they may fund those things now.

The other benefit is, state and local receipts, actually particularly at the state level, revenues are up as well. So Greg made a comment earlier about funding environment. The funding environment, I would say doing business in public safety in 28 years, it's the best I've ever seen as well. So I would say we're in a really good position there both on the P25 landscape. Infrastructure upgrades and devices, as well as command center software. Our teams – the one thing our sales team does, we think they're really good at technology, we think they're better and they're experts at getting deals funded, so we think that's going to benefit us there.

The second thing I would say, the other technology sleeve that's going to benefit significantly is video and security and access control. If you think about education alone, school funding. \$170 billion pointed to that market, and really when

kids have come back to school the first thing they're talking about is they're talking about, how do we bring them back in a safe manner. One of the things our team did over the COVID, we talked about, this was to write COVID dashboard. So if you connect to Avigilon Cloud Services you get our COVID dashboard, gives social distancing, who went through what door. This is all really pertinent information, and we think our school superintendents and security directors are really interested in our technology here.

The last thing I would say is, there's money being pointed at airports and transit, \$35 billion. As they reopen, many of them are upgrading both their radio networks, so we've got opportunities for PCR with all the major airlines, as well as their consoles in the command center space, and then ultimately also video security. How do they protect the perimeter security? How do they get better information? So I would say across all three of our technology continuums, as well as our services business, the money, the environment, we're in a good spot. We think our sales team is poised to execute.

<A – Greg Brown – Motorola Solutions, Inc.>: And Ben, when you total up those buckets within the rescue plan, as Jack just described, it's over \$0.5 trillion that is available to our end users, \$350 billion in state and local, by the way, that's multiyear and goes through the end of 2024. So hence, why we both see and believe that the environment, multiyear and what we're seeing in the pipeline is pretty good.

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

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

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

<Q – Fahad Najam – MKM Partners LLC>: Thank you for taking my question. First, a clarification. Can you remind me what revenue was from acquisitions in the quarter?

<A – Jason Winkler – Motorola Solutions, Inc.>: Yes. In total – I'll give it to you by segment real quick. It was – in Products, it was \$12 million and in Services and Software, it was only \$3 million.

<Q – Fahad Najam – MKM Partners LLC>: Appreciate it. Thank you. Now to my question, if I look at your LMR business overall, PSI sales have accelerated, the Software and Services attach rate currently remains in the \$550 million, \$545 million quarterly run rate. Should we see kind of like an increase in the Software and Services from the increased PSI sales in future quarters? Is it just because you're selling new equipment and the Software and Services hasn't quite attached to it yet, and so we should expect some meaningful acceleration in Software and Services revenue for LMR in fiscal 2022?

<A – Jason Winkler – Motorola Solutions, Inc.>: So, Fahad, this year for products, for example, we're expecting mid- to high-, probably closer to high-single digit growth. Services and Software is low-double digits. There is some leading indicators as products grow. You're right, there are some services attached to it that come after the sale. The bulk however of our services and software growth is around not product attached but rather command center software, video software and things like software upgrade programs and the likes that are on existing installed bases. So those are the key drivers within S&S. It's less product attached. It's more the unique offerings we have and the value propositions around services and software that are driving the low-double digit growth in Services and Software.

<Q – Fahad Najam – MKM Partners LLC>: Got it. And the same question on the video surveillance, the Software and Services portion of the video surveillance market is clearly growing a lot faster. Just trying to understand the dynamics there. What's driving the software attach rates or services in video versus PSI sales? I'm just kind of trying to understand the dynamics there, please.

<A – Jason Winkler – Motorola Solutions, Inc.>: So with respect to video in the disaggregation within Services and Software, the video number within Services and Software is largely software. It's a minimally services business because we go through distribution partners, integrators, and the likes. So think of that video software number within S&S as being predominantly software. Things like our Video Management System, VMS, ACC and others, our offers

within in-car video are what's more – in that case, it's real pure software in a terrific business, somewhat product attached but also stand-alone in terms of how we sell it.

<A – Jack Molloy – Motorola Solutions, Inc.>: It's the analytics, it's the AI at the edge, it's all the things we do. I've made mention earlier that we've invested into our Avigilon Cloud Services. We've now got meaningful connections on that, and that will be another way for customers to get upgrades and I think make keeping current on software, software maintenance more dynamic as well.

<A – Jason Winkler – Motorola Solutions, Inc.>: Yeah. In particular, that connections to the cloud and the work that Jack is doing with his team are leading to many new business opportunities, hundreds of thousands of cameras, thousands of sites, and the business is really moving in that direction to cloud enabled.

<A – Jack Molloy – Motorola Solutions, Inc.>: And the last thing, Fahad, I'd say on that is you hear Greg talk a lot about acquisitions, I'll hit again on Envysion. That's approximately \$25 million in recurring revenue there. You think about Openpath which is an access control – recurring revenue model access control, and so we're re-envisioning that business as well. So those are other things that really are more software-driven recurring revenue model business and that's really where we're pushing the business.

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

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

Operator: Our next question comes 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. Understand this is a small deal relative to everything else. But maybe if we could dive in a little bit on the command center deal you saw with the City of Yonkers. I'm wondering like what drove their upgrade to CommandCentral. Was that timing of refresh with what they already had? Were they looking to integrate their body camera deployment? And then you also noted a fixed video portion of that. Are they integrating fixed video into the CommandCentral deployment? And are there other similar deals in the pipeline that you're looking at that you can work with customers maybe as they take advantage of some of their funding?

<A – Jack Molloy – Motorola Solutions, Inc.>: I'll take a first stab at this. But at the customer level, Yonkers is a very progressive, technology-savvy police chief and command staff. This started – I want to say this probably started – the discussion started probably sometime mid-last year originally around a mobile video. And they've added, obviously, to that in the command center space. And I think what they're thinking about is they're leveraging how is information sharing, so everything from digital evidence managements to how that's shared seamlessly through the rest of the command center. I don't know if, Mahesh, there is anything else you would add on to that, but.

<A – Mahesh Saptharishi – Motorola Solutions, Inc.>: Yeah. I think you can about this almost as across the incident life cycle we have products today that touch on every aspect of that incident life cycle. Fixed video from Avigilon really gives you that pre-incident view but also gives you that view during the incident integrated into our video management solution, but also coming into our CommandCentral Aware platform as well. Then you have CommandCentral suite products across the board. Then you have Vigilant ALPR solution that was part of that equation as well to enable fast investigations, leveraging both the fixed camera solution but also ALPR cameras as well. Body worn cameras feeding into that same evidence platform. Adding to the mix. And then mass notification was also part of the story there. So all that together really gives you a view of an integration between those products, really enabling effective incident response. And I think that was really the value to Yonkers.

<Q – Erik Lapinski – Morgan Stanley & Co. LLC>: Thank you. And when you just see the market and those types of deals, do you expect more of a consolidation that way? It seems that it would make sense but also understand not everyone is as tech-savvy as maybe their police chief. What can you do from a sales motion perspective to kind of bring in more deals like that?

<A – Jack Molloy – Motorola Solutions, Inc.>: So two things. Mahesh made a comment, and this is something Mahesh and I talk about all the time, it's meet customers where they are. So some customers have a different – they're on different investment journeys. Some may want to buy from different vendors. What we're incenting our sales team to do, and this is really important. This actually started in 2020, is incenting them. And they have a chance to make some pretty significant incentives to sell full suite integrated networks where they're using all pieces of our command center software technology. That's the goal. We think they've got the right relationships, and what they'll need to do is go continue to execute on that and find more and more Yonkers.

<Q – Erik Lapinski – Morgan Stanley & Co. LLC>: Awesome. Sounds great.

<A – Mahesh Saptharishi – Motorola Solutions, Inc.>: Just to add to that. So 75% of our orders in Q3 were either new customers ordering more than one of our platforms or adding to existing Motorola solutions, really leveraging the tight integration between them all.

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

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

Operator: Our next question comes from Jim Suva with Citi Group. Please go ahead.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Thank you. Mine will be pretty easy. The first one is, Greg, you said something, and my ears didn't quite catch it. So maybe you can clarify. You said really preliminary, preliminary really early looks for next year. I heard a 7%, then I think I heard a 10%. But I wasn't sure if you were breaking down product/services or company-wide. If you could just clarify that. Then I have one other little clarification.

<A – Greg Brown – Motorola Solutions, Inc.>: Sure, Jim. Yeah. No, I was talking about 7% – about 7% revenue growth in 2022, full company view, and then Software and Services being around 10% revenue growth within that envelope. That's kind of what we see at this point in time. And then the details and more color we would give a quarter from now.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: See, that was easy. So my second easy part is, and then I'll be done. Your outlook, you raised your revenue for the full year and for Q4. But then the EPS, you raised it, but not as much as the EPS beat. Is that all attributed to additional shipping costs? Or is there something else in Q4 as to why earnings wouldn't be as much as the beat that just we had in Q3? Thank you.

<A – Jason Winkler – Motorola Solutions, Inc.>: Jim, it's Jason. It's some of what I discussed earlier with Paul around supply chain costs. But additionally, it is a higher OpEx in Q4 for funding the two acquisitions that we just brought into the fold of Openpath and Envysion which is driving our envelope to \$1,950M for the year. Those are – we're happy to fund those within the OpEx line. Great companies. That's also factoring into the math that you're doing.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Thank you. And thank you so much for the details on the calls.

<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 Mr. Greg Brown, Chairman and Chief Executive Officer, for any additional or closing remarks.

Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thank you. Listen, I just want to say thank you to the whole management team but also to all the employees in MSI. I mean, there is so many good things going on, but it's a tough environment. I want to thank the people on the front line, the sales organization that's really executing well and contributing to Q3 record backlog. Supply. You hear it with every company. You hear it all the time. But the supply chain environment, as we said, challenging in Q3, remains

challenging in Q4. And I just think the team here in mixing and matching – and there is more fluidity and uncertainty in supply chain in Q3 and Q4 than we've had in prior periods. And I think the adaptability and staying in touch – in close touch with key suppliers – I appreciate all that, everybody on the support teams and back office and support functions. In particular, HR, and Karen Dunning and Terry Bell because we have – it's a tough environment, we have vaccine mandate compliance requirements, we're always following rules and regulations by facility and by state. And Karen and Terry, Mark Hacker – phenomenal.

I'm thrilled with Q3 and the results across the board. I'm proud that we're able to for three consecutive quarters raise top and bottom line. And I think we're really well positioned going into 2022, despite the challenges we have. But we'll stick together, like we always do. We'll be flexible and we'll continue to be steadfast and focused. And I appreciate everybody's contribution onward and upward. And thank you, everybody.

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 we ask that you please disconnect your lines at this time.