Zebra Technologies
Second Quarter 2023 Results

August 1, 2023

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Nathan Winters, CFO

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Bill Burns, CEO

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Bill Burns, CEO
Nathan Winters, CFO
Joe Heel, Chief Revenue Officer



Second Quarter 2023 P&L Summary (1)

- Sales results unfavorable to outlook due to weakening end-market demand through the quarter, amplified by distributor destocking
- Adjusted Net Sales $1,214M, down 16%
  - All regions declined, primarily driven by mobile computing
  - Lower sales to all-size customers, particularly large enterprise
  - All end-markets declined, led by Retail & Ecommerce and Transportation & Logistics
  - Printing modestly declined on a challenging prior-year comparison
  - RFID, data capture, supplies, services and software were bright spots
- Adjusted EBITDA Margin of 21.2%, decreased 70 bps
  - Adjusted Gross Margin increased 200bps primarily due to lower premium supply chain costs
  - Operating expense deleveraging on lower sales, partially mitigated by cost actions
- Non-GAAP Diluted EPS $3.29, down 29%









(1) Refer to the appendix of this presentation for reconciliations of GAAP to non-GAAP financial measures

Actions to Address Challenges

CHALLENGES

- Macroeconomic uncertainty
  - Elongated sales cycles and deployments
  - Capex budgets in flux
- Reset of trajectory for ecommerce, including parcel delivery
  - Certain customers absorbing their capacity built during Pandemic
- Distributor destocking as demand decelerates, product lead times have recovered, and cost of capital is elevated
- Inflationary cost increases and currency dynamics
- Component inventory on Zebra balance sheet expected to remain elevated through 2023 due to lower-than-expected sales volumes (impacting Free Cash Flow)

ACTIONS

- $85M net annualized opex savings
  - Reduced spending across the organization
  - Expanded restructuring plans ($105M total charges)
- Accelerate growth in under-penetrated markets (e.g., Japan, government, manufacturing, machine vision)
- Continuing to work closely with customers as they digitize and automate their operations
- Targeted price increases are mitigating inflation and FX
- Renegotiating long-term supply commitments
- Working with our contract manufacturers to draw down component inventories to normalized levels
- Free Cash Flow conversion metric added to long-term incentive compensation plan

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Second Quarter P&L Summary[1]

In millions, except per share data	2Q23	2Q22	Change
Adjusted Net Sales	$1,214	$1,468	(17.3)%
Organic Net Sales Growth[2,3]			(16.0)%
Adjusted Gross Profit	$583	$675	(13.6)%
Adjusted Gross Margin	48.0%	46.0%	+200bps
Adjusted Operating Expenses	$344	$370	(7.0)%
Adjusted EBITDA	$257	$321	(19.9)%
Adjusted EBITDA Margin	21.2%	21.9%	(70)bps
Non-GAAP Diluted EPS	$3.29	$4.61	(28.6)%

SEGMENT ORGANIC SALES GROWTH[2,3]
- EVM Segment (23.6)%
- AIT Segment +0.2%

REGIONAL ORGANIC SALES GROWTH[2,3]
- North America (11)%
- EMEA (24)%
- Asia Pacific (17)%
- Latin America (6)%

EBITDA MARGIN AND EPS DECREASE
- Adjusted Gross Margin improved due to lower premium supply chain costs, partly offset by unfavorable FX and volume deleveraging
- Lower Adjusted Operating Expenses
- Higher interest costs
- Lower share count

[1] Refer to the appendix of this presentation for reconciliations of GAAP to non-GAAP financial measures
[2] Assumes constant FX to prior-year period
[3] Excludes revenue from acquisitions for the 12 months following each respective acquisition date

Cash Flow & Balance Sheet



Cash Flow: 1H23

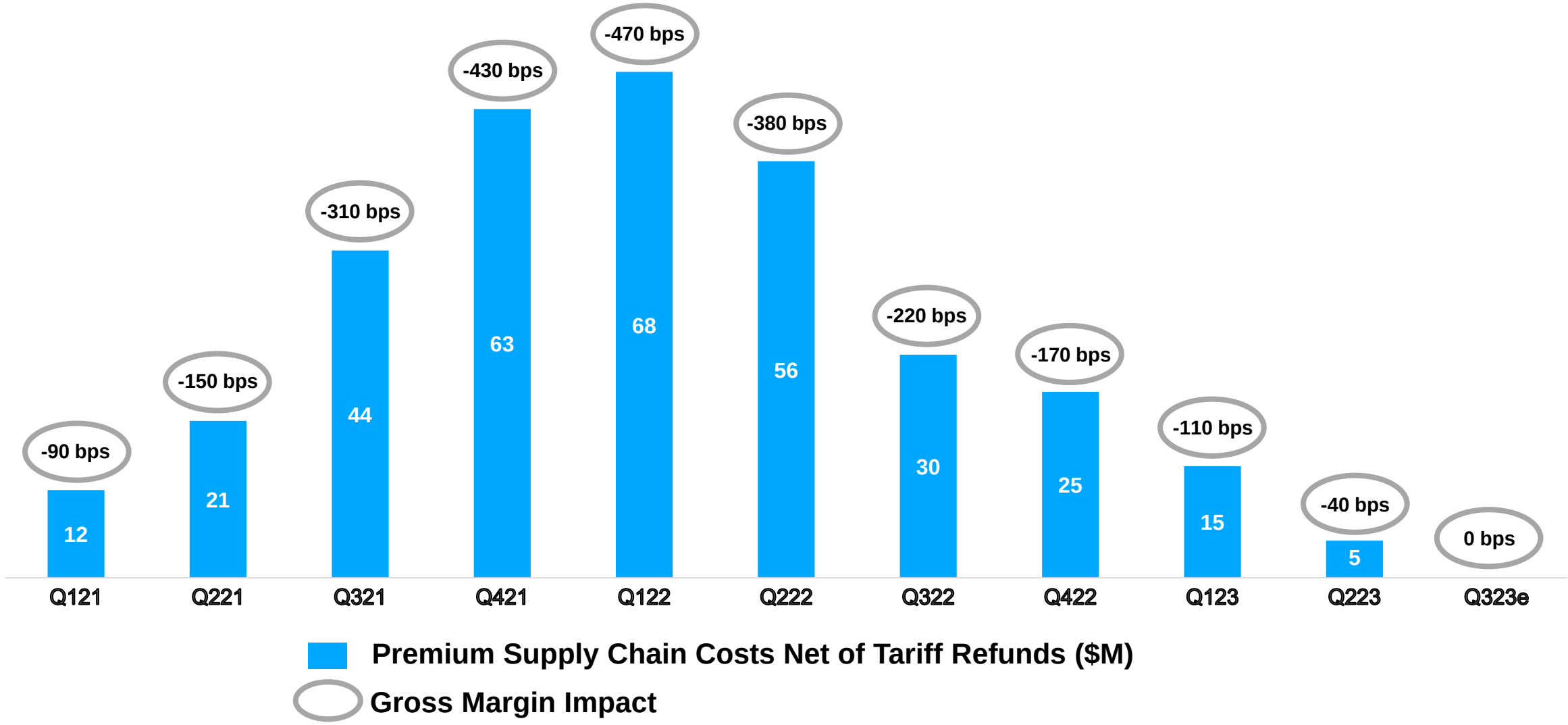
- Free cash flow of $(144)M, $267M lower YoY
  - Higher use of working capital
    - Higher cash taxes
    - Payments for inventory
  - $45M of additional settlement payments
- $185M net borrowings
- $52M share repurchases



Strong Balance Sheet: 2Q23

- $68M cash & cash equivalents
- $2.2B total debt on balance sheet
- Net-debt-to-adjusted-EBITDA ratio of 1.8x
- $1.1B capacity under revolving credit facility

Premium Supply Chain Costs & Gross Margin Impact



Note: Premium supply chain costs calculation compared to pre-pandemic 2019 baseline

Outlook & Assumptions

3Q23

- Net sales decline between 30% and 35% YoY
  - ~ 1 percentage point negative impact from foreign currency changes
- Adjusted EBITDA margin ~ 10% to 12%
- Non-GAAP diluted EPS ~ $0.60 to $1.00

FY23

- Net sales decline between 20% and 23% YoY
  - > 1 percentage point negative impact from foreign currency changes
  - ~ 50 basis points additive impact from recently acquired businesses(1)
- $20M negative gross profit impact from premium supply chain costs from pre-pandemic baseline ($0 in 2H23)
- Adjusted EBITDA margin ~18%
- Free cash flow expected to be positive in 2H23 and negative for FY23
- Capital expenditures ~ $65-$75M
- Depreciation ~ $65-$75M and Amortization ~ $100-$110M
- Stock-based compensation expense ~ $65-$75M
- Cost of borrowing (pre-tax) ~ 6% (excludes benefit of floating-to-fixed rate swap)
- Non-GAAP tax rate ~ 18%

(1) Refers to impact to growth rate for the 12 months following the June 3, 2022 acquisition date of Matrox Imaging

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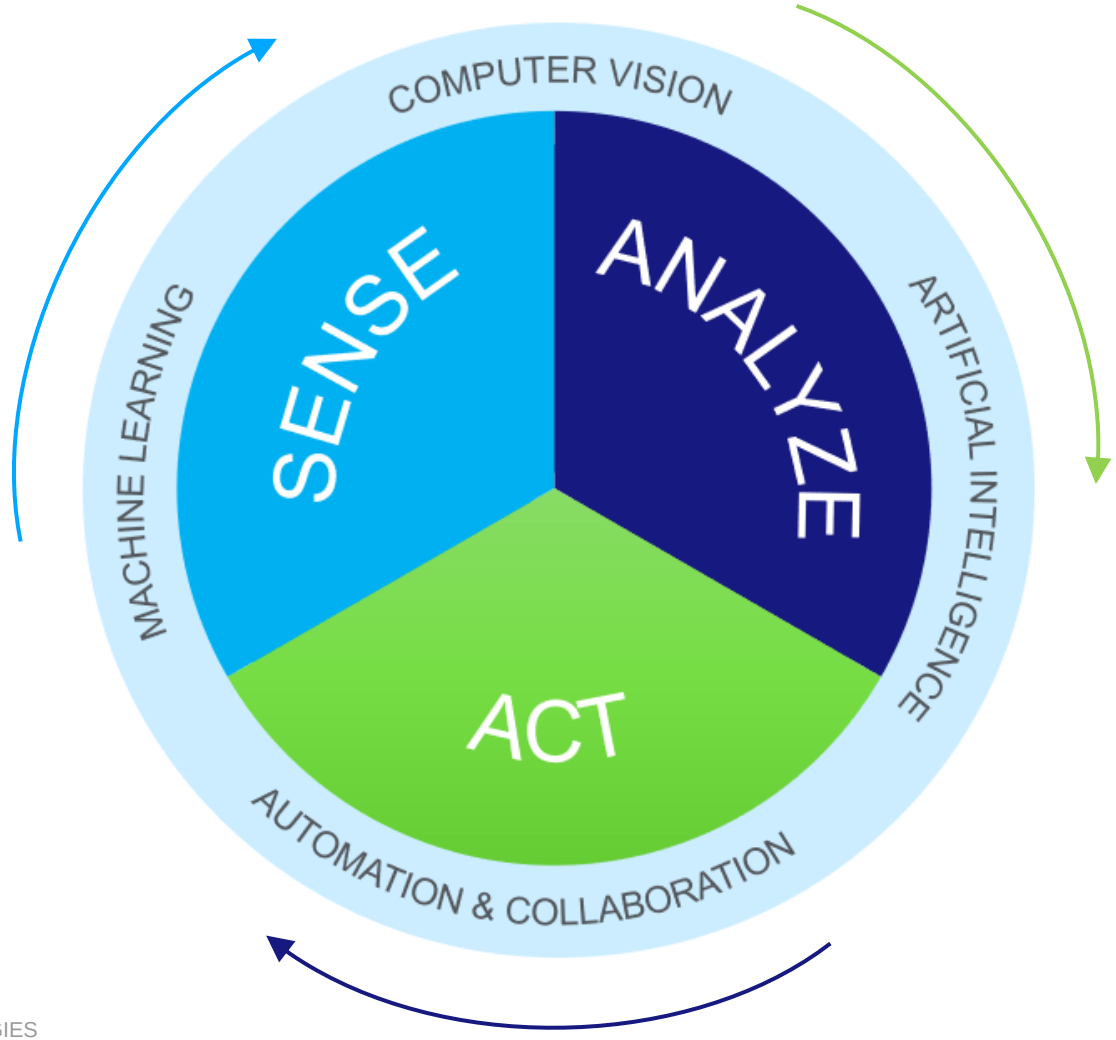
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Zebra Digitizes & Automates the Front Line of Business

Transforming Workflows: Purpose-Built Hardware + Software + Cloud Analytics

Real-Time Actionable Insights









Megatrends Supportive of Zebra's Long-Term Growth Trajectory

Digitization & IoT Analytics



Automation



Mobile & Cloud Computing



On Demand Economy



Artificial Intelligence



Sources: *Gartner, Planet Retail, Transport Intelligence, Interact Analysis, Forrester*
CAGR: Expected 2023-2026 Compound Annual Growth Rate per industry sources

Enterprise Mobile Computing Critical to Connecting and Empowering the Front-Line

Increase Collaboration
& Labor Productivity

Facilitate Faster
Check-Out / Payments



Real-Time Insights to Serve
Customers/Shoppers/Patients

Emerging Applications Advancing
Efficiency, Inventory Accuracy, & Service

Spotlight on Select Adjacent and Expansion Markets

Higher-Growth Offerings Complement Our Core



Advanced Location Solutions

- Market leader in RFID solutions
- Driving strong double-digit profitable sales growth
- Serving new use cases beyond retail, into supply chain visibility



Machine Vision

- Machine Vision accretive to gross margin and EBITDA margin
- Investing in R&D and go-to-market efforts to further diversify and scale in attractive sub-markets, including electric vehicle manufacturing
- Strong growth in certain end markets has partially offset current weakness in the semiconductor industry



Workflow Optimization Software

- Software offering includes workforce & task management, communication & collaboration tools, inventory visibility and demand planning
- Working to complete migration to cloud-based platform
- Actions expected to enable offerings to be EBITDA margin accretive

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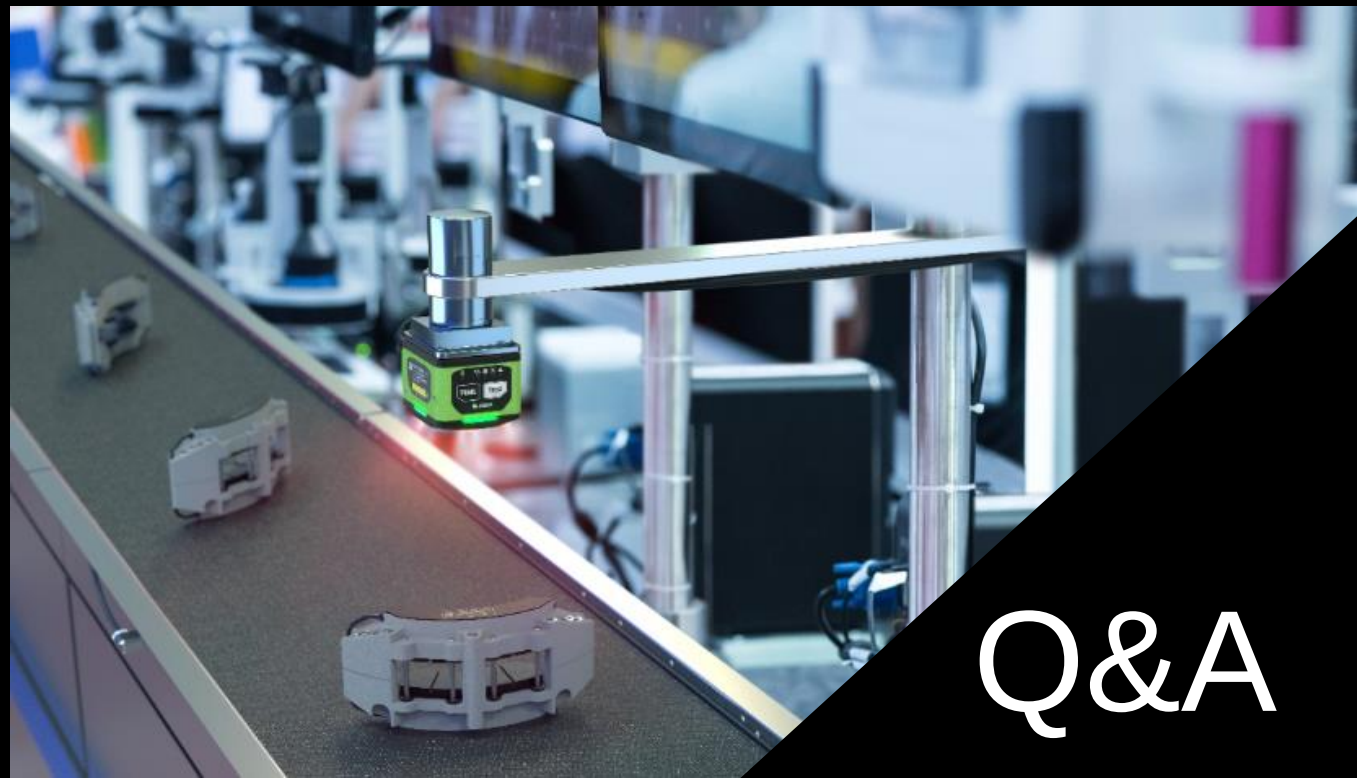

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ZEBRA


ZEBRA
twigs & twine
F
USPS FIRST-CLASS
USPS TRACKING #


ZEBRA




Q&A

Appendix

Use of Non-GAAP Financial Information

This presentation contains certain Non-GAAP financial measures, consisting of “adjusted net sales,” “adjusted gross profit,” “adjusted gross margin,” “EBITDA,” “Adjusted EBITDA,” “Adjusted EBITDA margin,” “Adjusted EBITDA % of adjusted net sales,” “non-GAAP net income,” “non-GAAP earnings per share,” “non-GAAP diluted earnings per share,” “free cash flow,” “organic net sales,” “organic net sales growth (decline),” and “adjusted operating expenses.” Management presents these measures to focus on the on-going operations and believes it is useful to investors because they enable them to perform meaningful comparisons of past and present operating results. The company believes it is useful to present non-GAAP financial measures, which exclude certain significant items, as a means to understand the performance of its ongoing operations and how management views the business. Please see the “Reconciliation of GAAP to non-GAAP Financial Measures” tables and accompanying disclosures at the end of this presentation for more detailed information regarding non-GAAP financial measures herein, including the items reflected in adjusted net earnings calculations. These measures, however, should not be construed as an alternative to any other measure of performance determined in accordance with GAAP.

The company does not provide a reconciliation for non-GAAP estimates on a forward-looking basis (including the information under “Outlook” above) where it is unable to provide a meaningful or accurate calculation or estimation of reconciling items and the information is not available without unreasonable effort. This is due to the inherent difficulty of forecasting the timing or amount of various items that have not yet occurred, are out of the company’s control and/or cannot be reasonably predicted, and that would impact diluted net earnings per share, the most directly comparable forward-looking GAAP financial measure. For the same reasons, the company is unable to address the probable significance of the unavailable information. Forward-looking non-GAAP financial measures provided without the most directly comparable GAAP financial measures may vary materially from the corresponding GAAP financial measures.

As a global company, Zebra's operating results reported in U.S. dollars are affected by foreign currency exchange rate fluctuations because the underlying foreign currencies in which the company transacts change in value over time compared to the U.S. dollar; accordingly, the company presents certain organic growth financial information, which includes impacts of foreign currency translation, to provide a framework to assess how the company’s businesses performed excluding the impact of foreign currency exchange rate fluctuations. Foreign currency impact represents the difference in results that are attributable to fluctuations in the currency exchange rates used to convert the results for businesses where the functional currency is not the U.S. dollar. This impact is calculated by translating current period results at the currency exchange rates used in the comparable period in the prior year, rather than the exchange rates in effect during the current period. In addition, the company excludes the impact of its foreign currency hedging program in the prior year periods. The company believes these measures should be considered a supplement to and not in lieu of the company’s performance measures calculated in accordance with GAAP.

GAAP to Non-GAAP Organic Net Sales Growth Reconciliation

(Unaudited)

	Three Months Ended July 1, 2023		
	AIT	EVM	Consolidated
Reported GAAP Consolidated Net sales growth (decline)	(1.7)%	(24.6)%	(17.3)%
Adjustments:			
Impact of foreign currency translations [1]	1.9 %	1.9 %	1.9 %
Impact of acquisitions [2]	— %	(0.9)%	(0.6)%
Consolidated Organic Net sales growth (decline)	0.2 %	(23.6)%	(16.0)%

	Six Months Ended July 1, 2023		
	AIT	EVM	Consolidated
Reported GAAP Consolidated Net sales growth (decline)	11.7 %	(19.0)%	(9.7)%
Adjustments:			
Impact of foreign currency translations [1]	2.7 %	2.4 %	2.5 %
Impact of acquisitions [2]	— %	(1.5)%	(1.0)%
Consolidated Organic Net sales growth (decline)	14.4 %	(18.1)%	(8.2)%

(1) Operating results reported in U.S. Dollars are affected by foreign currency exchange rate fluctuations. Foreign currency translation impact represents the difference in results that are attributable to fluctuations in the currency exchange rates used to convert the results for businesses where the functional currency is not the U.S. Dollar. This impact is calculated by translating the current period results at the currency exchange rates used in the comparable prior year period, inclusive of the Company's foreign currency hedging program.

(2) For purposes of computing Consolidated Organic Net sales growth (decline), amounts directly attributable to business acquisitions are excluded for twelve months following their respective acquisitions.

GAAP to Non-GAAP Gross Margin Reconciliation

(In millions)
(Unaudited)

	Three Months Ended					
	July 1, 2023			July 2, 2022		
	AIT	EVM	Consolidated	AIT	EVM	Consolidated
GAAP						
Reported Net sales	$ 459	$ 755	$ 1,214	$ 467	$ 1,001	$ 1,468
Reported Gross profit	225	356	581	204	470	674
Gross Margin	49.0 %	47.2 %	47.9 %	43.7 %	47.0 %	45.9 %
Non-GAAP						
Adjusted Net sales	$ 459	$ 755	$ 1,214	$ 467	$ 1,001	$ 1,468
Adjusted Gross profit [1]	226	357	583	204	471	675
Adjusted Gross Margin	49.2 %	47.3 %	48.0 %	43.7 %	47.1 %	46.0 %

	Six Months Ended					
	July 1, 2023			July 2, 2022		
	AIT	EVM	Consolidated	AIT	EVM	Consolidated
GAAP						
Reported Net sales	$ 981	$ 1,638	$ 2,619	$ 878	$ 2,022	$ 2,900
Reported Gross profit	483	765	1,248	364	947	1,311
Gross Margin	49.2 %	46.7 %	47.7 %	41.5 %	46.8 %	45.2 %
Non-GAAP						
Adjusted Net sales	$ 981	$ 1,638	$ 2,619	$ 878	$ 2,022	$ 2,900
Adjusted Gross profit [1]	484	767	1,251	364	949	1,313
Adjusted Gross Margin	49.3 %	46.8 %	47.8 %	41.5 %	46.9 %	45.3 %

(1) Adjusted Gross profit excludes share-based compensation expense.

GAAP to Non-GAAP Net Income Reconciliation

(In millions, except share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
GAAP Net income (loss)	$ 144	$ (98)	$ 294	$ 107
Adjustments to Cost of sales[1]				
Share-based compensation	2	1	3	2
Total adjustments to Cost of sales	2	1	3	2
Adjustments to Operating expenses[1]				
Amortization of intangible assets	26	35	52	68
Acquisition and integration costs	2	14	2	18
Settlement and related costs	—	372	—	372
Share-based compensation	1	26	23	42
Exit and restructuring costs	14	2	24	2
Total adjustments to Operating expenses	43	449	101	502
Adjustments to Other income (expense), net[1]				
Amortization of debt issuance costs and discounts	—	4	1	4
Investment loss	—	—	1	—
Foreign exchange loss (gain)	5	3	4	(5)
Forward interest rate swap (gain)	(18)	(11)	(11)	(45)
Total adjustments to Other income (expense), net	(13)	(4)	(5)	(46)
Income tax effect of adjustments[2]				
Reported income tax expense (benefit)	27	(55)	62	(10)
Adjusted income tax (benefit)	(33)	(50)	(81)	(98)
Total adjustments to income tax	(6)	(105)	(19)	(108)
Total adjustments	26	341	80	350
Non-GAAP Net income	$ 170	$ 243	$ 374	$ 457
GAAP earnings (loss) per share				
Basic	$ 2.80	$ (1.87)	$ 5.72	$ 2.04
Diluted	$ 2.78	$ (1.87)	$ 5.68	$ 2.02
Non-GAAP earnings per share				
Basic	$ 3.31	$ 4.64	$ 7.28	$ 8.68
Diluted	$ 3.29	$ 4.61	$ 7.24	$ 8.61
Basic weighted average shares outstanding[3]	51,377,064	52,138,470	51,395,062	52,642,348
Diluted weighted average and equivalent shares outstanding[3]	51,707,460	52,138,470	51,724,026	53,033,729

1. Presented on a pre-tax basis.
2. Represents adjustments to GAAP income tax expense commensurate with pre-tax non-GAAP adjustments (including the resulting impacts to U.S. BEAT/GILTI provisions), as well as adjustments to exclude the impacts of certain discrete income tax items and incorporate the anticipated annualized effects of current year tax planning.
3. For GAAP purposes, in periods of a net loss, restricted stock and performance share awards, which are participating securities, are excluded from weighted-average shares outstanding and all unvested share-based awards were anti-dilutive and therefore excluded from diluted shares. For the three months ended July 2, 2022, Non-GAAP basic and diluted weighted average shares outstanding were 52,298,897 and 52,656,342, respectively.

GAAP to Non-GAAP EBITDA Reconciliation

(In millions)
(Unaudited)

	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
GAAP Net income (loss)	$ 144	$ (98)	$ 294	$ 107
Add back:				
Depreciation (excluding exit and restructuring)	18	16	35	35
Amortization of intangible assets	26	35	52	68
Total Other expense (income), net	23	8	63	(30)
Income tax expense (benefit)	27	(55)	62	(10)
EBITDA (Non-GAAP)	238	(94)	506	170
Adjustments to Cost of sales				
Share-based compensation	2	1	3	2
Total adjustments to Cost of sales	2	1	3	2
Adjustments to Operating expenses				
Acquisition and integration costs	2	14	2	18
Litigation settlement	—	372	—	372
Share-based compensation	1	26	23	42
Exit and restructuring costs	14	2	24	2
Total adjustments to Operating expenses	17	414	49	434
Total adjustments to EBITDA	19	415	52	436
Adjusted EBITDA (Non-GAAP)	$ 257	$ 321	$ 558	$ 606
Adjusted EBITDA % of Adjusted Net Sales (Non-GAAP)	21.2 %	21.9 %	21.3 %	20.9 %

GAAP to Non-GAAP Free Cash Flow Reconciliation

(In millions)
(Unaudited)

	Six Months Ended	
	July 1, 2023	July 2, 2022
Net cash (used in) provided by operating activities	$ (110)	$ 154
Less: Purchases of property, plant and equipment	(34)	(31)
Free cash flow (Non-GAAP)[1]	$ (144)	$ 123

(1) Free cash flow, a non-GAAP measure, is defined as Net cash provided by (used in) operating activities in a period minus purchases of property, plant and equipment (capital expenditures) made in that period. This measure does not represent residual cash flows available for discretionary expenditures as the measure does not deduct the payments required for debt service and other contractual obligations or payments for future business acquisitions. Therefore, we believe it is important to view free cash flow as a measure that provides supplemental information to our entire statements of cash flows.

About Zebra

Zebra (NASDAQ: ZBRA) empowers the front line of business in retail, manufacturing, transportation and logistics, healthcare, and other industries to achieve a performance edge. We deliver industry-tailored, end-to-end solutions that intelligently connect people, assets and data to help our customers make business-critical decisions.

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