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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended April 1, 2023
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________________ to ____________________

Commission File Number: 000-19406

Zebra Technologies Corporation

(Exact name of registrant as specified in its charter)

Delaware	**36-2675536**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3 Overlook Point, Lincolnshire, IL 60069
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(847) 634-6700**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Class A Common Stock, par value $.01 per share	ZBRA	The NASDAQ Stock Market, LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of April 25, 2023, there were 51,430,338 shares of Class A Common Stock, $.01 par value, outstanding.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
QUARTER ENDED APRIL 1, 2023
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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	April 1, 2023	December 31, 2022
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 85	$ 105
Accounts receivable, net of allowances for doubtful accounts of $1 million each as of April 1, 2023 and December 31, 2022	736	768
Inventories, net	835	860
Income tax receivable	22	26
Prepaid expenses and other current assets	140	124
Total Current assets	1,818	1,883
Property, plant and equipment, net	280	278
Right-of-use lease assets	172	156
Goodwill	3,895	3,899
Other intangibles, net	604	630
Deferred income taxes	432	407
Other long-term assets	273	276
Total Assets	$ 7,474	$ 7,529
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 215	$ 214
Accounts payable	602	811
Accrued liabilities	671	744
Deferred revenue	447	425
Income taxes payable	139	138
Total Current liabilities	2,074	2,332
Long-term debt	1,880	1,809
Long-term lease liabilities	157	139
Deferred income taxes	75	75
Long-term deferred revenue	333	333
Other long-term liabilities	64	108
Total Liabilities	4,583	4,796
Stockholders' Equity:		
Preferred stock, $.01 par value; authorized 10,000,000 shares; none issued	—	—
Class A common stock, $.01 par value; authorized 150,000,000 shares; issued 72,151,857 shares	1	1
Additional paid-in capital	584	561
Treasury stock at cost, 20,726,888 and 20,700,357 shares as of April 1, 2023 and December 31, 2022, respectively	(1,814)	(1,799)
Retained earnings	4,186	4,036
Accumulated other comprehensive loss	(66)	(66)
Total Stockholders' Equity	2,891	2,733
Total Liabilities and Stockholders' Equity	$ 7,474	$ 7,529

See accompanying Notes to Consolidated Financial Statements.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except share data)
(Unaudited)

	Three Months Ended	
	April 1, 2023	April 2, 2022
Net sales:		
Tangible products	$ 1,170	$ 1,207
Services and software	235	225
Total Net sales	1,405	1,432
Cost of sales:		
Tangible products	618	681
Services and software	120	114
Total Cost of sales	738	795
Gross profit	667	637
Operating expenses:		
Selling and marketing	161	152
Research and development	146	137
General and administrative	99	99
Amortization of intangible assets	26	33
Acquisition and integration costs	—	4
Exit and restructuring costs	10	—
Total Operating expenses	442	425
Operating income	225	212
Other income (loss), net:		
Foreign exchange gain	1	8
Interest (expense) income, net	(37)	30
Other (expense), net	(4)	—
Total Other (expense) income, net	(40)	38
Income before income tax	185	250
Income tax expense	35	45
Net income	$ 150	$ 205
Basic earnings per share	$ 2.92	$ 3.86
Diluted earnings per share	$ 2.90	$ 3.83

See accompanying Notes to Consolidated Financial Statements.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended	
	April 1, 2023	**April 2, 2022**
Net income	$ 150	$ 205
Other comprehensive (loss) income, net of tax:		
Changes in unrealized (losses) and gains on anticipated sales hedging transactions	(3)	5
Foreign currency translation adjustment	3	(5)
Comprehensive income	$ 150	$ 205

See accompanying Notes to Consolidated Financial Statements.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions, except share data)
(Unaudited)

	Class A Common Stock Shares	Class A Common Stock Value	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2022	51,451,500	$ 1	$ 561	$ (1,799)	$ 4,036	$ (66)	$ 2,733
Issuances of treasury shares related to share-based compensation plans, net of forfeitures	29,784	—	5	—	—	—	5
Shares withheld to fund withholding tax obligations related to share-based compensation plans	(504)	—	—	—	—	—	—
Share-based compensation	—	—	18	—	—	—	18
Repurchase of common stock	(55,811)	—	—	(15)	—	—	(15)
Net income	—	—	—	—	150	—	150
Changes in unrealized gains and losses on anticipated sales hedging transactions (net of income taxes)	—	—	—	—	—	(3)	(3)
Foreign currency translation adjustment	—	—	—	—	—	3	3
Balance at April 1, 2023	51,424,969	$ 1	$ 584	$ (1,814)	$ 4,186	$ (66)	$ 2,891

	Class A Common Stock Shares	Class A Common Stock Value	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2021	53,415,275	$ 1	$ 462	$ (1,023)	$ 3,573	$ (29)	$ 2,984
Issuances of treasury shares related to share-based compensation plans, net of forfeitures	20,082	—	8	(2)	—	—	6
Shares withheld to fund withholding tax obligations related to share-based compensation plans	(1,639)	—	—	(1)	—	—	(1)
Share-based compensation	—	—	17	—	—	—	17
Repurchase of common stock	(648,875)	—	—	(305)	—	—	(305)
Net income	—	—	—	—	205	—	205
Changes in unrealized gains and losses on anticipated sales hedging transactions (net of income taxes)	—	—	—	—	—	5	5
Foreign currency translation adjustment	—	—	—	—	—	(5)	(5)
Balance at April 2, 2022	52,784,843	$ 1	$ 487	$ (1,331)	$ 3,778	$ (29)	$ 2,906

See accompanying Notes to Consolidated Financial Statements.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Three Months Ended	
	April 1, 2023	April 2, 2022
Cash flows from operating activities:		
Net income	$ 150	$ 205
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44	52
Share-based compensation	18	17
Deferred income taxes	(20)	(37)
Unrealized loss (gain) on forward interest rate swaps	13	(38)
Other, net	2	(1)
Changes in operating assets and liabilities:		
Accounts receivable, net	33	(56)
Inventories, net	26	22
Other assets	(27)	(19)
Accounts payable	(212)	(14)
Accrued liabilities	(82)	(143)
Deferred revenue	22	18
Income taxes	5	51
Settlement liability	(45)	—
Other operating activities	(3)	(3)
Net cash (used in) provided by operating activities	(76)	54
Cash flows from investing activities:		
Purchases of property, plant and equipment	(16)	(14)
Purchases of long-term investments	(1)	(5)
Net cash used in investing activities	(17)	(19)
Cash flows from financing activities:		
Payments of long-term debt	(119)	(25)
Proceeds from issuance of long-term debt	191	130
Payments for repurchases of common stock	(15)	(305)
Net proceeds related to share-based compensation plans	5	5
Change in unremitted cash collections from servicing factored receivables	8	(25)
Net cash provided by (used in) financing activities	70	(220)
Effect of exchange rate changes on cash and cash equivalents, including restricted cash	(1)	(2)
Net decrease in cash and cash equivalents, including restricted cash	(24)	(187)
Cash and cash equivalents, including restricted cash, at beginning of period	117	344
Cash and cash equivalents, including restricted cash, at end of period	$ 93	$ 157
Less restricted cash, included in Prepaid expenses and other current assets	(8)	(16)
Cash and cash equivalents at end of period	$ 85	$ 141
Supplemental disclosures of cash flow information:		
Income taxes paid	$ 54	$ 29
Interest paid	$ 24	$ 8

See accompanying Notes to Consolidated Financial Statements.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Description of Business and Basis of Presentation

Zebra Technologies Corporation and its subsidiaries (“Zebra” or the “Company”) is a global leader providing innovative Enterprise Asset Intelligence (“EAI”) solutions in the Automatic Identification and Data Capture (“AIDC”) industry. We design, manufacture, and sell a broad range of products and solutions, as well as various workflow optimization solutions, including cloud-based software subscriptions and robotic automation solutions. We also provide a full range of services, including maintenance, technical support, repair, managed and professional services. End-users of our products, solutions and services include those in retail and e-commerce, manufacturing, transportation and logistics, healthcare, public sector, and other industries. We provide our products, solutions and services globally through a direct sales force and an extensive network of channel partners.

Management prepared these unaudited interim consolidated financial statements according to the rules and regulations of the Securities and Exchange Commission for interim financial information and notes. As permitted under Article 10 of Regulation S-X and the instructions of Form 10-Q, these consolidated financial statements do not include all the information and notes required by United States Generally Accepted Accounting Principles (“GAAP”) for complete financial statements, although management believes that the disclosures made are adequate to make the information not misleading. These interim financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

In the opinion of the Company, these interim financial statements include all adjustments (of a normal, recurring nature) necessary to fairly present its Consolidated Balance Sheet as of April 1, 2023, the Consolidated Statements of Operations, Comprehensive Income, Stockholders’ Equity, and Cash Flows for the three months ended April 1, 2023 and April 2, 2022. These results, however, are not necessarily indicative of the results expected for the full fiscal year ending December 31, 2023.

Note 2 Significant Accounting Policies

For a discussion of our significant accounting policies, see Note 2, *Significant Accounting Policies* within Part II, Item 8. “Financial Statements and Supplementary Data” in the Annual Report on Form 10-K for the year ended December 31, 2022. There have been no changes to our significant accounting policies since our Annual Report on Form 10-K for the year ended December 31, 2022.

Note 3 Revenues

The Company recognizes revenue to depict the transfer of goods, solutions or services to a customer at an amount that reflects the consideration which it expects to receive for providing those goods, solutions or services.

Revenues for products are generally recognized upon shipment, whereas revenues for services and solution offerings are generally recognized over time by using an output or time-based method, assuming all other criteria for revenue recognition have been met. Revenues for software are recognized either upon delivery or over time using a time-based method, depending upon how control is transferred to the customer. In cases where a bundle of products, services, solutions and/or software are delivered to the customer, judgment is required to select the method of progress which best reflects the transfer of control.

Disaggregation of Revenue
The following table presents our Net sales disaggregated by product category for each of our segments (in millions):

	Three Months Ended					
	April 1, 2023			April 2, 2022		
Segment	Tangible Products	Services and Software	Total	Tangible Products	Services and Software	Total
AIT	$ 467	$ 24	$ 491	$ 370	$ 24	$ 394
EVM	703	211	914	837	201	1,038
Total	$ 1,170	$ 235	$ 1,405	$ 1,207	$ 225	$ 1,432

In addition, refer to Note 17, *Segment Information & Geographic Data* for Net sales to customers by geographic region.

Performance Obligations
The Company's remaining performance obligations primarily relate to repair and support services, as well as solution offerings. The aggregated transaction price allocated to remaining performance obligations for arrangements with an original term exceeding one year was $1,144 million and $1,105 million, inclusive of deferred revenue, as of April 1, 2023 and December 31, 2022, respectively. On average, remaining performance obligations as of April 1, 2023 and December 31, 2022 are expected to be recognized over a period of approximately two years.

Contract Balances
Progress on satisfying performance obligations under contracts with customers related to billed revenues is reflected on the Consolidated Balance Sheets in Accounts receivable, net. Progress on satisfying performance obligations under contracts with customers related to unbilled revenues ("contract assets") is reflected on the Consolidated Balance Sheets as Prepaid expenses and other current assets for revenues expected to be billed within the next twelve months, and Other long-term assets for revenues expected to be billed thereafter. The total contract asset balances were $20 million and $16 million as of April 1, 2023 and December 31, 2022, respectively. These contract assets result from timing differences between billing and satisfying performance obligations, as well as the impact from the allocation of the transaction price among performance obligations for contracts that include multiple performance obligations. Contract assets are evaluated for impairment and no impairment losses have been recognized during the three months ended April 1, 2023 and April 2, 2022, respectively.

Deferred revenue on the Consolidated Balance Sheets consists of payments and billings in advance of our performance. The combined short-term and long-term deferred revenue balances were $780 million and $758 million as of April 1, 2023 and December 31, 2022, respectively. During the three months ended April 1, 2023, the Company recognized $135 million in revenue, which was previously included in the beginning balance of deferred revenue as of December 31, 2022. During the three months ended April 2, 2022, the Company recognized $129 million in revenue, which was previously included in the beginning balance of deferred revenue as of December 31, 2021.

Note 4 Inventories

The components of Inventories, net are as follows (in millions):

	April 1, 2023	December 31, 2022
Raw materials	$ 314	$ 293
Work in process	5	4
Finished goods	516	563
Total Inventories, net	$ 835	$ 860

Note 5 Business Acquisitions

Matrox
During the first quarter of 2023, the Company did not record any significant measurement period adjustments relating to its acquisition of Matrox Electronic Systems Ltd. ("Matrox"). The primary fair value estimates still considered preliminary as of April 1, 2023 include intangible assets and income tax-related items.

Note 6 Investments

The carrying value of the Company's long-term investments, which are included in Other long-term assets on the Consolidated Balance Sheets, was $113 million as of both April 1, 2023 and December 31, 2022. The Company paid $1 million and $5 million for the purchases of long-term investments during the three months ended April 1, 2023 and April 2, 2022, respectively. Net gains and losses related to the Company's long-term investments are included within Other (expense), net on the Consolidated Statements of Operations. The Company recognized net losses of $1 million during the three months ended April 1, 2023. The Company did not recognize any net gains or losses during the three months ended April 2, 2022.

Note 7 Exit and Restructuring Costs

In the third quarter of 2022, the Company committed to certain organizational changes and leased site rationalizations designed to generate structural cost efficiencies (collectively referred to as the “2022 Productivity Plan”). The total cost under the initial scope of the 2022 Productivity Plan, which is expected to be completed in 2023, is estimated to be approximately $25 million.

Total Exit and restructuring charges associated with the 2022 Productivity Plan to date were $22 million with $10 million recorded for the three months ended April 1, 2023.

The Company's remaining obligations under the 2022 Productivity Plan are expected to be substantially settled within the next year and are primarily reflected within Accrued liabilities on the Consolidated Balance Sheets.

Note 8 Fair Value Measurements

Financial assets and liabilities are measured using inputs from three levels of the fair value hierarchy in accordance with Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements*. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 established a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into the following three broad levels:

- Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs (e.g. U.S. Treasuries and money market funds).
- Level 2: Observable prices that are based on inputs not quoted in active markets but corroborated by market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs to the extent possible. In addition, the Company considers counterparty credit risk in the assessment of fair value.

The Company's financial assets and liabilities carried at fair value as of April 1, 2023, are classified below (in millions):

	Level 1	Level 2	Level 3	Total
Assets:				
Forward interest rate swap contracts (2)	$ —	$ 59	$ —	$ 59
Investments related to the deferred compensation plan	36	—	—	36
Total Assets at fair value	$ 36	$ 59	$ —	$ 95
Liabilities:				
Foreign exchange contracts (1)	$ 5	$ 19	$ —	$ 24
Liabilities related to the deferred compensation plan	36	—	—	36
Total Liabilities at fair value	$ 41	$ 19	$ —	$ 60

The Company's financial assets and liabilities carried at fair value as of December 31, 2022, are classified below (in millions):

	Level 1	Level 2	Level 3	Total
Assets:				
Forward interest rate swap contracts (2)	$ —	$ 72	$ —	$ 72
Investments related to the deferred compensation plan	35	—	—	35
Total Assets at fair value	$ 35	$ 72	$ —	$ 107
Liabilities:				
Foreign exchange contracts (1)	$ 5	$ 14	$ —	$ 19
Liabilities related to the deferred compensation plan	35	—	—	35
Total Liabilities at fair value	$ 40	$ 14	$ —	$ 54

(1) The fair value of the foreign exchange contracts is calculated as follows:
- Fair value of regular forward contracts associated with forecasted sales hedges is calculated using the period-end exchange rate adjusted for current forward points.
- Fair value of hedges against net assets denominated in foreign currencies is calculated at the period-end exchange rate adjusted for current forward points unless the hedge has been traded but not settled at year end (Level 2). If this is the case, the fair value is calculated at the rate at which the hedge is being settled (Level 1).

(2) The fair value of forward interest rate swaps is based upon a valuation model that uses relevant observable market inputs at the quoted intervals, such as forward yield curves, and is adjusted for the Company's credit risk and the interest rate swap terms.

Note 9 Derivative Instruments

In the normal course of business, the Company is exposed to global market risks, including the effects of changes in foreign currency exchange rates and interest rates. The Company uses derivative instruments to manage its exposure to such risks and may elect to designate certain derivatives as hedging instruments under ASC Topic 815, *Derivatives and Hedging* ("ASC 815"). The Company formally documents all relationships between designated hedging instruments and hedged items as well as its risk management objectives and strategies for undertaking hedge transactions. The Company does not hold or issue derivatives for trading or speculative purposes.

In accordance with ASC 815, the Company recognizes derivative instruments as either assets or liabilities on the Consolidated Balance Sheets and measures them at fair value. The following table presents the fair value of its derivative instruments (in millions):

	Asset (Liability)		
		Fair Values as of	
	Balance Sheets Classification	April 1, 2023	December 31, 2022
Derivative instruments designated as hedges:			
Foreign exchange contracts	Accrued liabilities	$ (19)	$ (14)
Total derivative instruments designated as hedges		$ (19)	$ (14)
Derivative instruments not designated as hedges:			
Forward interest rate swaps	Prepaid expenses and other current assets	$ 24	$ 25
Forward interest rate swaps	Other long-term assets	35	47
Foreign exchange contracts	Accrued liabilities	(5)	(5)
Total derivative instruments not designated as hedges		$ 54	$ 67
Total net derivative asset		$ 35	$ 53

The following table presents the net (losses) gains from changes in fair values of derivatives that are not designated as hedges (in millions):

	(Losses) Gains Recognized in Income		
		Three Months Ended	
	Statements of Operations Classification	April 1, 2023	April 2, 2022
Derivative instruments not designated as hedges:			
Foreign exchange contracts	Foreign exchange gain	$ (5)	$ (1)
Forward interest rate swaps	Interest (expense) income, net	(7)	34
Total (loss) gain recognized in income		$ (12)	$ 33

Activities related to derivative instruments are reflected within Net cash (used in) provided by operating activities on the Consolidated Statements of Cash Flows.

Credit and Market Risk Management
Financial instruments, including derivatives, expose the Company to counterparty credit risk of nonperformance and to market risk related to currency exchange rate and interest rate fluctuations. The Company manages its exposure to counterparty credit risk by establishing minimum credit standards, diversifying its counterparties, and monitoring its concentrations of credit. The Company's counterparties are commercial banks with expertise in derivative financial instruments. The Company evaluates the impact of market risk on the fair value and cash flows of its derivative and other financial instruments by considering reasonably possible changes in interest rates and currency exchange rates. The Company continually monitors the creditworthiness of the customers to which it grants credit terms in the normal course of business. The terms and conditions of the Company's credit policies are designed to mitigate concentrations of credit risk.

The Company's master netting and other similar arrangements with the respective counterparties allow for net settlement under certain conditions, which are designed to reduce credit risk by permitting net settlement with the same counterparty. We present the assets and liabilities of our derivative financial instruments, for which we have net settlement agreements in place, on a net basis on the Consolidated Balance Sheets. If the derivative financial instruments had been presented gross on the Consolidated Balance Sheets, the asset and liability positions would have been unchanged as of April 1, 2023 and would have been increased by $4 million as of December 31, 2022.

Foreign Currency Exchange Risk Management
The Company conducts business on a multinational basis in a variety of foreign currencies. Exposure to market risk for changes in foreign currency exchange rates arises primarily from Euro-denominated external revenues, cross-border financing activities between subsidiaries, and foreign currency denominated monetary assets and liabilities. The Company manages its objective of preserving the economic value of non-functional currency denominated cash flows by initially hedging transaction exposures with natural offsets and, once these opportunities have been exhausted, through foreign exchange forward and option contracts, as deemed appropriate.

The Company manages the exchange rate risk of anticipated Euro-denominated sales using forward contracts, which typically mature within twelve months of execution. The Company designates these derivative contracts as cash flow hedges. Unrealized gains and losses on these contracts are deferred in Accumulated other comprehensive income (loss) ("AOCI") on the Consolidated Balance Sheets until the contract is settled and the hedged sale is realized. The realized gain or loss is then recorded as an adjustment to Net sales on the Consolidated Statements of Operations. Realized amounts reclassified to Net sales were $3 million of losses and $16 million of gains for the three months ended April 1, 2023 and April 2, 2022, respectively. As of April 1, 2023 and December 31, 2022, the notional amounts of the Company's foreign exchange cash flow hedges were €669 million and €549 million, respectively. The Company has reviewed its cash flow hedges for effectiveness and determined that they are highly effective.

The Company uses forward contracts, which are not designated as hedging instruments, to manage its exposures related to net assets denominated in foreign currencies. These forward contracts typically mature within one month after execution. Monetary gains and losses on these forward contracts are recorded in income and are generally offset by the transaction gains and losses related to their net asset positions. The notional values and the net fair values of these outstanding contracts were as follows (in millions):

	April 1, 2023		December 31, 2022	
Notional balance of outstanding contracts:				
British Pound/U.S. Dollar	£	7	£	11
Euro/U.S. Dollar	€	169	€	191
Euro/Czech Koruna	€	15	€	15
Singapore Dollar/U.S. Dollar	S$	16	S$	5
Mexican Peso/U.S. Dollar	Mex$	139	Mex$	372
Polish Zloty/U.S. Dollar	zł	63	zł	47
Net fair value of liabilities of outstanding contracts	$	5	$	5

Interest Rate Risk Management
The Company's debt consists of borrowings under a term loan ("Term Loan A"), Revolving Credit Facility, and Receivables Financing Facilities, which bear interest at variable rates plus applicable margins. As a result, the Company is exposed to market risk associated with the variable interest rate payments on these borrowings. See Note 10, *Long-Term Debt* for further details related to these borrowings.

The Company manages its exposure to changes in interest rates by utilizing long-term forward interest rate swaps to hedge this exposure and to achieve a desired proportion of fixed versus floating-rate debt, based on current and projected market conditions. The Company has interest rate swap agreements with a total notional amount of $800 million to lock into a fixed SOFR interest rate base, which is subject to monthly net cash settlements effective through October 2027.

Note 10 Long-Term Debt

The following table shows the carrying value of the Company's debt (in millions):

	April 1, 2023	December 31, 2022
Term Loan A	$ 1,684	$ 1,728
Revolving Credit Facility	215	50
Receivables Financing Facilities	204	254
Total debt	$ 2,103	$ 2,032
Less: Debt issuance costs	(4)	(4)
Less: Unamortized discounts	(4)	(5)
Less: Current portion of debt	(215)	(214)
Total long-term debt	$ 1,880	$ 1,809

As of April 1, 2023, the future maturities of debt are as follows (in millions):

2023 (9 months remaining)	$ 121
2024	127
2025	66
2026	88
2027	1,701
Total future maturities of debt	$ 2,103

All borrowings as of April 1, 2023 were denominated in U.S. Dollars.

The estimated fair value of the Company's debt approximated $2.0 billion as of April 1, 2023 and December 31, 2022, respectively. These fair value amounts, developed based on inputs classified as Level 2 within the fair value hierarchy, represent the estimated value at which the Company's lenders could trade its debt within the financial markets and do not represent the settlement value of these liabilities to the Company. The fair value of debt will continue to vary each period based on a number of factors, including fluctuations in market interest rates as well as changes to the Company's credit ratings.

Term Loan A

The principal on Term Loan A is due in quarterly installments, with the next quarterly installment due in March 2024 and the majority due upon maturity in 2027. The Company may make prepayments, as it did in the current period, in whole or in part, without premium or penalty, and would be required to prepay certain outstanding amounts in the event of certain circumstances or transactions. As of April 1, 2023, the Term Loan A interest rate was 5.91%. Interest payments are made monthly and are subject to variable rates plus an applicable margin.

Revolving Credit Facility

The Company has a Revolving Credit Facility that is available for working capital and other general business purposes, including letters of credit. As of April 1, 2023, the Company had letters of credit totaling $7 million, which reduced funds available for borrowings under the Revolving Credit Facility from $1,500 million to $1,493 million. As of April 1, 2023, the Revolving Credit Facility had an average interest rate of 5.90%. Upon borrowing, interest payments are made monthly and are subject to variable rates plus an applicable margin. The Revolving Credit Facility matures on May 25, 2027.

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Receivables Financing Facilities
The Company has two Receivables Financing Facilities with financial institutions that have a combined total borrowing limit of up to $280 million. As collateral, the Company pledges perfected first-priority security interests in its U.S. domestically originated accounts receivable. The Company has accounted for transactions under its Receivables Financing Facilities as secured borrowings. The Company's first Receivables Financing Facility allows for borrowings of up to $180 million and matures on March 19, 2024. The Company's second Receivable Financing Facility allows for borrowings of up to $100 million and matures on May 15, 2023.

As of April 1, 2023, the Company's Consolidated Balance Sheets included $632 million of receivables that were pledged under the two Receivables Financing Facilities. As of April 1, 2023, $204 million had been borrowed and was classified as current. Borrowings under the Receivables Financing Facilities bear interest at a variable rate plus an applicable margin. As of April 1, 2023, the Receivables Financing Facilities had an average interest rate of 5.75%. Interest is paid monthly on these borrowings.

Each of the Company's borrowing arrangements described above include terms and conditions that limit the incurrence of additional borrowings and require that certain financial ratios be maintained at designated levels.

The Company uses interest rate swaps to manage the interest rate risk associated with its debt. See Note 9**,** *Derivative Instruments* for further information.

As of April 1, 2023, the Company was in compliance with all debt covenants.

Note 11 Leases

During the three months ended April 1, 2023, the Company recorded an additional $26 million of right-of-use ("ROU") assets obtained in exchange for lease obligations primarily related to the commencement of a new office facility lease.

Future minimum lease payments under non-cancellable leases as of April 1, 2023 were as follows (in millions):

2023 (9 months remaining)	$	36
2024		48
2025		35
2026		28
2027		21
Thereafter		72
Total future minimum lease payments	$	240
Less: Interest		(47)
Present value of lease liabilities	$	193

Reported as of April 1, 2023:		
Current portion of lease liabilities	$	36
Long-term lease liabilities		157
Present value of lease liabilities	$	193

The current portion of lease liabilities is included within Accrued liabilities on the Consolidated Balance Sheets.

Note 12 Accrued Liabilities, Commitments and Contingencies

Accrued Liabilities
The components of Accrued liabilities are as follows (in millions):

	April 1, 2023	December 31, 2022
Settlement	$ 180	$ 180
Unremitted cash collections due to banks on factored accounts receivable	138	130
Payroll and benefits	73	90
Customer rebates	50	55
Incentive compensation	48	100
Leases	36	37
Warranty	26	26
Foreign exchange contracts	24	19
Freight and duty	17	19
Other	79	88
Accrued liabilities	$ 671	$ 744

Warranties
The following table is a summary of the Company's accrued warranty obligations (in millions):

	Three Months Ended	
	April 1, 2023	April 2, 2022
Balance at the beginning of the year	$ 26	$ 26
Warranty expense	7	8
Warranties fulfilled	(7)	(8)
Balance at the end of the period	$ 26	$ 26

Contingencies
The Company is subject to a variety of investigations, claims, suits, and other legal proceedings that arise from time to time in the ordinary course of business, including but not limited to, intellectual property, employment, tort, and breach of contract matters. The Company currently believes that the outcomes of such proceedings, individually and in the aggregate, will not have a material adverse impact on its business, cash flows, financial position, or results of operations. Any legal proceedings are subject to inherent uncertainties, and the Company's view of these matters and their potential effects may change in the future. The Company records a liability for contingencies when a loss is deemed to be probable and the loss can be reasonably estimated.

During the second quarter of 2022, the Company entered into a License and Settlement Agreement ("Settlement") to resolve certain patent-related litigation. The payment terms under the Settlement consist of 8 quarterly payments of $45 million that began in the second quarter of 2022. The remaining portion is payable in the next 12 months and is included within Accrued liabilities on the Consolidated Balance Sheets.

Note 13 Income Taxes

The Company's effective tax rate for the three months ended April 1, 2023 and April 2, 2022 was 18.9% and 18.0%, respectively. In the current period, the variance from the 21% federal statutory rate was primarily due to U.S. tax credits and the favorable impacts of foreign earnings subject to U.S. taxation. In the prior period, the variance from the 21% federal statutory rate was primarily attributable to lower tax rates on foreign earnings and U.S. tax credits. The increase in the effective tax rate from the prior period was primarily due to the increased statutory tax rate in the U.K. that became effective in 2023, partially offset by changes in the global mix of pretax earnings.

The Company evaluated the provisions of the Inflation Reduction Act of 2022, signed into law on August 16, 2022; the American Rescue Plan Act, signed into law on March 11, 2021; the Consolidated Appropriations Act of 2021, signed into law on December 27, 2020; and the Coronavirus Aid, Relief and Economic Security Act, signed into law on March 27, 2020. The provisions of these laws did not have a significant impact on our effective tax rate in either the current or prior year.

Management continues to monitor guidance regarding these laws and developments related to other coronavirus tax relief throughout the world for potential impacts.

In December of 2021, the Organization for Economic Co-operation and Development ("OECD") released Pillar Two Model Rules defining the global minimum tax rules, which contemplate a minimum tax rate of 15%. The OECD continues to release additional guidance on these rules and the framework calls for law enactment by OECD members to take effect in 2024. The Company will continue to monitor developments.

The Company earns a significant amount of its operating income outside of the U.S. that is taxed at rates different than the U.S. federal statutory rate. The Company's principal foreign jurisdictions that provide sources of operating income are the U.K. and Singapore. The Company has received an incentivized tax rate from the Singapore Economic Development Board, which reduces the income tax rate in that jurisdiction effective for calendar years 2019 to 2023. The Company has committed to making additional investments in Singapore over the period 2019 to 2023. However, should the Company not make these investments in accordance with the agreement, any incentive benefit would have to be repaid to the Singapore tax authorities.

The Company is not permanently reinvested with respect to its U.S. directly-owned foreign subsidiaries. The Company is subject to U.S. income tax on substantially all foreign earnings under Global Intangible Low-Taxed Income, while any remaining foreign earnings are eligible for a dividends received deduction. As a result, future repatriation of earnings will not be subject to additional U.S. federal income tax but may be subject to currency translation gains or losses. Where required, the Company has recorded a deferred tax liability for foreign withholding taxes on current earnings. Additionally, gains and losses on any future taxable dispositions of U.S.-owned foreign affiliates continue to be subject to U.S. income tax.

Management evaluates all jurisdictions based on historical pre-tax earnings and taxable income to determine the need for valuation allowances on a quarterly basis. Based on this analysis, a valuation allowance has been recorded for any jurisdictions where, in the Company's judgment, tax benefits are not expected to be realized. There were no significant changes to our valuation allowances during the three months ended April 1, 2023.

Uncertain Tax Positions
As of April 1, 2023, no significant uncertain tax positions are expected to be settled within the next twelve months. Due to uncertainties in any tax audit or litigation outcome, the Company's estimates of the ultimate settlements of uncertain tax positions may change and the actual tax benefits may differ significantly from estimates.

Note 14 Earnings Per Share

Basic net earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income by the weighted average number of diluted common shares outstanding. Diluted common shares outstanding is computed using the Treasury Stock method and, in periods of income, reflects the additional shares that would be outstanding if dilutive share-based compensation awards were converted into common shares during the period.

Earnings per share (in millions, except share data):

	Three Months Ended	
	April 1, 2023	April 2, 2022
Basic:		
Net income	$ 150	$ 205
Weighted-average shares outstanding	51,420,536	53,021,423
Basic earnings per share	$ 2.92	$ 3.86
Diluted:		
Net income	$ 150	$ 205
Weighted-average shares outstanding	51,420,536	53,021,423
Dilutive shares	327,533	425,317
Diluted weighted-average shares outstanding	51,748,069	53,446,740
Diluted earnings per share	$ 2.90	$ 3.83

Anti-dilutive share-based compensation awards are excluded from diluted earnings per share calculations. There were 56,291 and 40,771 shares that were anti-dilutive for the three months ended April 1, 2023 and April 2, 2022, respectively.

Note 15 Accumulated Other Comprehensive Income (Loss)

Stockholders' equity includes certain items classified as AOCI, including:

- **Unrealized gain (loss) on anticipated sales hedging transactions** relates to derivative instruments used to hedge the exposure related to currency exchange rates for forecasted Euro sales. These hedges are designated as cash flow hedges, and the Company defers income statement recognition of gains and losses until the hedged transaction occurs. See Note 9, *Derivative Instruments* for more details.

- **Foreign currency translation adjustments** relate to the Company's non-U.S. subsidiary companies that have designated a functional currency other than the U.S. Dollar. The Company is required to translate the subsidiary functional currency financial statements to U.S. Dollars using a combination of historical, period end, and average foreign exchange rates. This combination of rates creates the foreign currency translation adjustment component of AOCI.

The changes in each component of AOCI during the three months ended April 1, 2023 and April 2, 2022 were as follows (in millions):

	Unrealized gain (loss) on sales hedging	Foreign currency translation adjustments	Total
Balance at December 31, 2021	$ 18	$ (47)	$ (29)
Other comprehensive income (loss) before reclassifications	22	(5)	17
Amounts reclassified from AOCI(1)	(16)	—	(16)
Tax effect	(1)	—	(1)
Other comprehensive income (loss), net of tax	5	(5)	—
Balance at April 2, 2022	$ 23	$ (52)	$ (29)
Balance at December 31, 2022	$ (11)	$ (55)	$ (66)
Other comprehensive (loss) income before reclassifications	(7)	3	(4)
Amounts reclassified from AOCI(1)	3	—	3
Tax effect	1	—	1
Other comprehensive (loss) income, net of tax	(3)	3	—
Balance at April 1, 2023	$ (14)	$ (52)	$ (66)

(1) See Note 9, *Derivative Instruments* regarding timing of reclassifications to operating results.

Note 16 Accounts Receivable Factoring

The Company has Receivables Factoring arrangements, pursuant to which certain receivables are sold to banks without recourse in exchange for cash. Transactions under the Receivables Factoring arrangements are accounted for as sales under ASC 860, *Transfers and Servicing of Financial Assets*, with the sold receivables removed from the Company's balance sheet. Under these Receivables Factoring arrangements, the Company does not maintain any beneficial interest in the receivables sold. The banks' purchase of eligible receivables is subject to a maximum amount of uncollected receivables. The Company services the receivables on behalf of the banks, but otherwise maintains no significant continuing involvement with respect to the receivables. Sale proceeds that are representative of the fair value of factored receivables, less a factoring fee, are reflected in Cash flows from operating activities on the Consolidated Statements of Cash Flows, while sale proceeds in excess of the fair value of factored receivables are reflected in Cash flows from financing activities on the Consolidated Statements of Cash Flows.

The Company has two Receivables Factoring arrangements. One arrangement allows for the factoring of up to $25 million of uncollected receivables originated from the Europe, Middle East, and Africa ("EMEA") region. The second arrangement allows for the factoring of up to €150 million of uncollected receivables originated from the EMEA and Asia-Pacific regions. With respect to the second arrangement, the Company may be required to maintain a portion of sales proceeds as deposits in a restricted cash account that is released to the Company as it satisfies its obligations as servicer of sold receivables, which totaled $8 million and $12 million as of April 1, 2023 and December 31, 2022, respectively, and is classified within Prepaid expenses and other current assets on the Consolidated Balance Sheets.

During the three months ended April 1, 2023 and April 2, 2022, the Company received cash proceeds of $373 million and $408 million, respectively, from the sales of accounts receivables under its factoring arrangements. As of April 1, 2023 and December 31, 2022, there were a total of $52 million and $61 million, respectively, of uncollected receivables that had been sold and removed from the Company's Consolidated Balance Sheets.

As servicer of sold receivables, the Company had $138 million and $130 million of obligations that were not yet remitted to banks as of April 1, 2023 and December 31, 2022, respectively. These obligations are included within Accrued liabilities on the Consolidated Balance Sheets, with changes in such obligations reflected within Net cash provided by (used in) financing activities on the Consolidated Statements of Cash Flows.

Fees incurred in connection with these arrangements were not significant.

Note 17 Segment Information & Geographic Data

The Company's operations consist of two reportable segments: Asset Intelligence & Tracking ("AIT") and Enterprise Visibility & Mobility ("EVM"). The reportable segments have been identified based on the financial data utilized by the Company's Chief Executive Officer (the chief operating decision maker or "CODM") to assess segment performance and allocate resources among the Company's segments. The CODM reviews adjusted operating income to assess segment profitability. To the extent applicable, segment operating income excludes business acquisition purchase accounting adjustments, amortization of intangible assets, acquisition and integration costs, impairment of goodwill and other intangibles, exit and restructuring costs, as well as certain other non-recurring costs. Segment assets are not reviewed by the Company's CODM and therefore are not disclosed below.

Financial information by segment is presented as follows (in millions):

	Three Months Ended	
	April 1, 2023	**April 2, 2022**
Net sales:		
AIT	$ 491	$ 394
EVM	914	1,038
Total Net sales	$ 1,405	$ 1,432
Operating income:		
AIT[2]	$ 132	$ 60
EVM[2]	130	189
Total segment operating income	262	249
Corporate eliminations[1]	(37)	(37)
Total Operating income	$ 225	$ 212

(1) To the extent applicable, amounts included in Corporate eliminations consist of business acquisition purchase accounting adjustments, amortization of intangible assets, acquisition and integration costs, impairment of goodwill and other intangibles, exit and restructuring costs, as well as certain other non-recurring costs.

(2) AIT and EVM segment operating income includes depreciation and share-based compensation expense. The amounts of depreciation and share-based compensation expense are proportionate to each segment's Net sales.

Information regarding the Company's operations by geographic area is contained in the following tables. Net sales amounts are attributed to geographic area based on customer location.

Net sales by region were as follows (in millions):

	Three Months Ended	
	April 1, 2023	April 2, 2022
North America	$ 725	$ 699
EMEA	443	500
Asia-Pacific	154	149
Latin America	83	84
Total Net sales	$ 1,405	$ 1,432

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Zebra Technologies Corporation and its subsidiaries ("Zebra" or the "Company") is a global leader respected for innovative Enterprise Asset Intelligence ("EAI") solutions in the Automatic Identification and Data Capture ("AIDC") industry. We design, manufacture, and sell a broad range of products and solutions, including cloud-based software subscriptions, that capture and move data. These products and solutions include mobile computers; barcode scanners and imagers; radio frequency identification device ("RFID") readers; specialty printers for barcode labeling and personal identification; fixed industrial scanning and machine vision; real-time location systems ("RTLS"); related accessories and supplies, such as self-adhesive labels and other consumables; and related software applications. We also provide a full range of services, including maintenance, technical support, repair, managed and professional services, as well as various workflow optimization solutions, including cloud-based software subscriptions and robotic automation solutions. End-users of our products, solutions and services include those in the retail and e-commerce, manufacturing, transportation and logistics, healthcare, public sector, and other industries within the following regions: North America; Europe, Middle East, and Africa ("EMEA"); Asia-Pacific; and Latin America.

Our customers have traditionally benefited from proven solutions that increase productivity and improve asset efficiency and utilization. The Company is poised to drive, and capitalize on, the evolution of the data capture industry into the broader EAI industry, supported by technology trends including the Internet of Things ("IoT"), ubiquitous mobility, automation, cloud computing, and the increasingly on-demand global economy. EAI solutions offer additional benefits to our customers including real-time, data-driven insights that improve operational visibility and drive workflow optimization.

The Company's operations consist of two reportable segments that provide complementary offerings to our customers: Asset Intelligence & Tracking ("AIT") and Enterprise Visibility & Mobility ("EVM").

- The AIT segment is an industry leader in barcode printing and asset tracking technologies. Its major product lines include barcode and card printers, supplies, including temperature-monitoring labels and services.

- The EVM segment is an industry leader in automatic information and data capture solutions. Its major product lines include mobile computing, data capture, RFID, fixed industrial scanning and machine vision, services, workflow optimization solutions and location solutions. Our workflow optimization solutions include cloud-based software subscriptions, retail solutions, and robotic automation solutions.

We are a market leader in our core businesses, which are generally considered to be comprised of our mobile computing and data capture products, printing products and supplies, as well as support and repair services. We continue to focus on growth opportunities within adjacent and expansion markets by scaling and integrating our recent business acquisitions, inclusive of our $881 million acquisition of Matrox Electronic Systems Ltd. ("Matrox") in the second quarter of 2022.

First Quarter 2023 Financial Highlights and Other Recent Developments

- Net sales were $1,405 million in the current year compared to $1,432 million in the prior year.
- Operating income was $225 million in the current year compared to $212 million in the prior year.

- Net income was $150 million, or $2.90 per diluted share in the current year, compared to Net income of $205 million, or $3.83 per diluted share in the prior year.

- Net cash used in operating activities was $76 million in the current year compared to net cash provided by operating activities of $54 million in the prior year.

The impacts of global cost inflation, rising interest rates, and a stronger U.S. dollar have continued in the current year; we believe these factors have contributed to a continued elongation of the sales cycle for large order deployments as well as moderating demand. As our overall supply chain continues to recover, with improvements in both component part availability and costs of transportation, our ability to meet customer demand has improved as compared to the prior year. We believe these trends will continue in the current year to varying degrees. We have, and expect to continue to, partially mitigate the financial impacts of operating headwinds through a combination of targeted list price increases, operating cost management, as well as our ongoing foreign currency exchange and interest rate management.

In the third quarter of 2022, the Company committed to certain organizational changes and leased site rationalizations designed to generate structural cost efficiencies (collectively referred to as the “2022 Productivity Plan”). The total cost under the initial scope of the 2022 Productivity Plan, which is expected to be completed in 2023, is estimated to be approximately $25 million. Total Exit and restructuring charges associated with the 2022 Productivity Plan to date were $22 million with $10 million recorded for the three months ended April 1, 2023.

In the first quarter of 2022, we announced the suspension of our business operations in Russia. Neither Russia nor Ukraine comprises a material portion of our business; therefore, the war thus far has not had a significant effect on our results of operations. Additionally, the war has not significantly affected our ability to source supplies or deliver our products and services to our customers in the surrounding EMEA region. We will continue to monitor this for potential future adverse impacts on our business.

Results of Operations

Consolidated Results of Operations
(amounts in millions, except percentages)

	Three Months Ended			
	April 1, 2023	April 2, 2022	$ Change	% Change
Net sales:				
Tangible products	$ 1,170	$ 1,207	$ (37)	(3.1)%
Services and software	235	225	10	4.4 %
Total Net sales	1,405	1,432	(27)	(1.9)%
Gross profit	667	637	30	4.7 %
Gross margin	*47.5 %*	*44.5 %*		*300 bps*
Operating expenses	442	425	17	4.0 %
Operating income	$ 225	$ 212	$ 13	6.1 %

Net sales to customers by geographic region were as follows (amounts in millions, except percentages):

	Three Months Ended			
	April 1, 2023	April 2, 2022	$ Change	% Change
North America	$ 725	$ 699	$ 26	3.7 %
EMEA	443	500	(57)	(11.4)%
Asia-Pacific	154	149	5	3.4 %
Latin America	83	84	(1)	(1.2)%
Total Net sales	$ 1,405	$ 1,432	$ (27)	(1.9)%

Operating expenses are summarized below (amounts in millions, except percentages):

	Three Months Ended			
			As a % of Net sales	
	April 1, 2023	April 2, 2022	2023	2022
Selling and marketing	$ 161	$ 152	11.5 %	10.6 %
Research and development	146	137	10.4 %	9.6 %
General and administrative	99	99	7.0 %	6.9 %
Amortization of intangible assets	26	33	NM	NM
Acquisition and integration costs	—	4	NM	NM
Exit and restructuring costs	10	—	NM	NM
Total Operating expenses	$ 442	$ 425	31.5 %	29.7 %

Consolidated Organic Net sales growth:

	Three Months Ended April 1, 2023
Reported GAAP Consolidated Net sales growth	(1.9)%
Adjustments:	
Impact of foreign currency translations (1)	3.1 %
Impact of acquisitions (2)	(1.5)%
Consolidated Organic Net sales growth (3)	(0.3)%

(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 Organic Net sales growth, amounts directly attributable to business acquisitions are excluded for twelve months following their respective acquisitions.

(3) Consolidated Organic Net sales growth is a non-GAAP financial measure. See the *Non-GAAP Measures* section at the end of this item.

First quarter 2023 compared to first quarter 2022

Total Net sales decreased $27 million or 1.9% compared to the prior year as growth in our AIT segment was more than offset by a decline in our EVM segment. While our customers continue to digitize and automate their workflows, current year Net sales within our EVM segment were negatively impacted by fewer large order deployments. Prior year Net sales of both segments were negatively impacted by supply chain bottlenecks, which were particularly pronounced in our AIT segment. Excluding the effects of currency changes and acquisitions, the decrease in Consolidated Organic Net sales was 0.3%.

Gross margin increased to 47.5% for the current year compared to 44.5% for the prior year. Gross margin was higher in our AIT segment, while gross margin of our EVM segment was unchanged from the prior year. Both segments, particularly AIT, benefited from lower premium freight and component part costs compared to the prior year.

Operating expenses for the quarters ended April 1, 2023 and April 2, 2022 were $442 million and $425 million, or 31.5% and 29.7% of Net sales, respectively. The increase in Operating expenses over the prior year was primarily due to higher Exit and restructuring costs and the inclusion of operating expenses associated with recently acquired businesses, which were partially offset by lower Amortization of intangible assets.

Operating income increased 6.1% to $225 million for the current year compared to $212 million for the prior year. The increase was primarily due to higher Gross profit, which was partially offset by higher Operating expenses.

Net income decreased 26.8% compared to the prior year due to increased Other (expense), net, and a higher effective income tax rate, which were partially offset by higher Operating income.

- Other (expense) income, net was an expense of $40 million for the current year, compared to income of $38 million in the prior year primarily due to the current year including a $7 million loss on interest rate swaps versus a $34 million gain in the prior year as well as higher interest expense due to higher average outstanding debt levels and interest rates in the current year.

- The Company's effective tax rates for the three months ended April 1, 2023 and April 2, 2022 were 18.9% and 18.0%, respectively. The increase in the effective tax rate compared to the prior year was primarily due to an increase in the U.K. statutory tax rate that became effective in the current year, partially offset by changes in the global mix of pretax earnings.

Diluted earnings per share decreased to $2.90 as compared to $3.83 in the prior year due to lower Net income, partially offset by lower average shares outstanding.

Results of Operations by Segment

The following commentary should be read in conjunction with the financial results of each reportable business segment as detailed in Note 17, *Segment Information & Geographic Data* in the Notes to Consolidated Financial Statements. To the extent applicable, segment operating income excludes business acquisition purchase accounting adjustments, amortization of intangible assets, acquisition and integration costs, impairment of goodwill and other intangibles, exit and restructuring costs, as well as certain other non-recurring costs.

Asset Intelligence & Tracking Segment ("AIT")
(amounts in millions, except percentages)

	Three Months Ended			
	April 1, 2023	April 2, 2022	$ Change	% Change
Net sales:				
Tangible products	$ 467	$ 370	$ 97	26.2 %
Services and software	24	24	—	— %
Total Net sales	491	394	97	24.6 %
Gross profit	242	154	88	57.1 %
Gross margin	*49.3 %*	*39.1 %*		*1020 bps*
Operating expenses	110	94	16	17.0 %
Operating income	$ 132	$ 60	$ 72	120.0 %

AIT Organic Net sales growth:

	Three Months Ended April 1, 2023
AIT Reported GAAP Net sales growth	24.6 %
Adjustments:	
Impact of foreign currency translations [(1)]	3.8 %
AIT Organic Net sales growth [(2)]	28.4 %

(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) AIT Organic Net sales growth is a non-GAAP financial measure. See the *Non-GAAP Measures* section at the end of this item.

First quarter 2023 compared to first quarter 2022

Total Net sales for AIT increased $97 million or 24.6% compared to the prior year primarily due to higher sales of printing products across all regions. Current year Net sales included the benefit of targeted list price increases, partially offset by the negative effects of foreign currency changes. Prior year Net sales included the negative effects of supply chain bottlenecks. Excluding the impact of foreign currency changes, AIT Organic Net sales increased by 28.4%.

Gross margin increased to 49.3% in the current year compared to 39.1% for the prior year primarily due to lower premium freight and component part costs, volume leverage and favorable business mix, partially offset by the negative impact of foreign currency changes.

Operating income increased 120.0% in the current year compared to the prior year due to higher Gross profit, partially offset by higher Operating expenses.

Enterprise Visibility & Mobility Segment ("EVM")
(amounts in millions, except percentages)

	Three Months Ended			
	April 1, 2023	**April 2, 2022**	**$ Change**	**% Change**
Net sales:				
Tangible products	$ 703	$ 837	$ (134)	(16.0)%
Services and software	211	201	10	5.0 %
Total Net sales	914	1,038	(124)	(11.9)%
Gross profit	425	483	(58)	(12.0)%
Gross margin	*46.5 %*	*46.5 %*		*0 bps*
Operating expenses	295	294	1	0.3 %
Operating income	$ 130	$ 189	$ (59)	(31.2)%

EVM Organic Net sales growth:

	Three Months Ended April 1, 2023
EVM Reported GAAP Net sales growth	(11.9)%
Adjustments:	
Impact of foreign currency translations (1)	2.7 %
Impact of acquisitions (2)	(2.0)%
EVM Organic Net sales growth (3)	(11.2)%

(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 EVM Organic Net sales growth, amounts directly attributable to business acquisitions are excluded for twelve months following their respective acquisitions.

(3) EVM Organic Net sales growth is a non-GAAP financial measure. See the *Non-GAAP Measures* section at the end of this item.

First quarter 2023 compared to first quarter 2022

Total Net sales for EVM decreased $124 million or 11.9% compared to the prior year primarily due to lower sales of mobile computing products largely attributed to fewer large order deployments, and unfavorable currency changes, which were partially offset by higher sales of data capture products, contributions from our recent acquisitions, targeted list price increases, and higher sales of services and software. Excluding the impacts of foreign currency changes and acquisitions, EVM Organic Net sales decline was 11.2%.

Gross margin was 46.5% in both the current and prior year. The benefits of lower premium freight and component part costs in the current year were offset by the negative impact of foreign currency changes.

Operating income for the current year decreased by 31.2% compared to the prior year primarily due to lower Gross profit.

Liquidity and Capital Resources

The primary factors that influence our liquidity include the amount and timing of cash collections from our customers, cash payments to our suppliers, capital expenditures, acquisitions, and share repurchases. Management believes that our existing capital resources, inclusive of available borrowing capacity on debt and other financing facilities and funds generated from operations, are sufficient to meet anticipated capital requirements and service our indebtedness. The following table summarizes our cash flow activities for the periods indicated (in millions):

	Three Months Ended		
Cash flow (used in) provided by:	**April 1, 2023**	**April 2, 2022**	**$ Change**
Operating activities	$ (76)	$ 54	$ (130)
Investing activities	(17)	(19)	2
Financing activities	70	(220)	290
Effect of exchange rates on cash balances	(1)	(2)	1
Net decrease in cash and cash equivalents, including restricted cash	$ (24)	$ (187)	$ 163

The change in our cash and cash equivalents balance during the three months ended April 1, 2023 compared to the prior year is reflective of the following:

- $130 million operating activity outflow primarily due to higher cash payments for inventory purchases, income taxes and interest along with the current year Settlement payment, partially offset by favorability in the timing of customer collections and lower employee incentive compensation payments.

- $290 million financing activity inflow primarily due to lower common stock repurchases in the current year.

Company Debt

The following table shows the carrying value of the Company's debt (in millions):

	April 1, 2023	**December 31, 2022**
Term Loan A	$ 1,684	$ 1,728
Revolving Credit Facility	215	50
Receivables Financing Facilities	204	254
Total debt	$ 2,103	$ 2,032
Less: Debt issuance costs	(4)	(4)
Less: Unamortized discounts	(4)	(5)
Less: Current portion of debt	(215)	(214)
Total long-term debt	$ 1,880	$ 1,809

Term Loan A

The principal on Term Loan A is due in quarterly installments, with the next quarterly installment due in March 2024 and the majority due upon maturity in 2027. The Company may make prepayments, as it did in the current period, in whole or in part, without premium or penalty, and would be required to prepay certain outstanding amounts in the event of certain circumstances or transactions. As of April 1, 2023, the Term Loan A interest rate was 5.91%. Interest payments are made monthly and are subject to variable rates plus an applicable margin.

Revolving Credit Facility
The Company has a Revolving Credit Facility that is available for working capital and other general business purposes, including letters of credit. As of April 1, 2023, the Company had letters of credit totaling $7 million, which reduced funds available for borrowings under the Revolving Credit Facility from $1,500 million to $1,493 million. As of April 1, 2023, the Revolving Credit Facility had an average interest rate of 5.90%. Upon borrowing, interest payments are made monthly and are subject to variable rates plus an applicable margin. The Revolving Credit Facility matures on May 25, 2027.

Receivables Financing Facilities
The Company has two Receivables Financing Facilities with financial institutions that have a combined total borrowing limit of up to $280 million. As collateral, the Company pledges perfected first-priority security interests in its U.S. domestically originated accounts receivable. The Company has accounted for transactions under its Receivables Financing Facilities as secured borrowings. The Company's first Receivables Financing Facility allows for borrowings of up to $180 million and matures on March 19, 2024. The Company's second Receivable Financing Facility allows for borrowings of up to $100 million and matures on May 15, 2023.

As of April 1, 2023, the Company's Consolidated Balance Sheets included $632 million of receivables that were pledged under the two Receivables Financing Facilities. As of April 1, 2023, $204 million had been borrowed and was classified as current. Borrowings under the Receivables Financing Facilities bear interest at a variable rate plus an applicable margin. As of April 1, 2023, the Receivables Financing Facilities had an average interest rate of 5.75%. Interest is paid monthly on these borrowings.

See Note 10, *Long-Term Debt* in the Notes to Consolidated Financial Statements for further details related to the Company's debt instruments.

Receivables Factoring
The Company has Receivables Factoring arrangements, pursuant to which certain receivables are sold to banks without recourse in exchange for cash. One arrangement allows for the factoring of up to $25 million of uncollected receivables originated from the EMEA region. The second arrangement allows for the factoring of up to €150 million of uncollected receivables originated from the EMEA and Asia-Pacific regions. Transactions under the Receivables Factoring arrangements are accounted for as sales under ASC 860, *Transfers and Servicing of Financial Assets*, with the sold receivables removed from the Company's balance sheet. Under these Receivables Factoring arrangements, the Company does not maintain any beneficial interest in the receivables sold. The banks' purchase of eligible receivables is subject to a maximum amount of uncollected receivables. The Company services the receivables on behalf of the banks, but otherwise maintains no significant continuing involvement with respect to the receivables. Sale proceeds that are representative of the fair value of factored receivables, less a factoring fee, are reflected in Cash flows from operating activities on the Consolidated Statements of Cash Flows, while sale proceeds in excess of the fair value of factored receivables are reflected in Cash flows from financing activities on the Consolidated Statements of Cash Flows.

As of April 1, 2023 and December 31, 2022, there were a total of $52 million and $61 million, respectively, of uncollected receivables that had been sold and removed from the Company's Consolidated Balance Sheets.

As servicer of sold receivables, the Company had $138 million and $130 million of obligations that were not yet remitted to banks as of April 1, 2023 and December 31, 2022, respectively. These obligations are included within Accrued liabilities on the Consolidated Balance Sheets, with changes in such obligations reflected within Net cash provided by (used in) financing activities on the Consolidated Statements of Cash Flows.

See Note 16, *Accounts Receivable Factoring* in the Notes to Consolidated Financial Statements for further details.

Share Repurchases
On May 17, 2022, the Company announced that its Board of Directors authorized a share repurchase program for up to $1 billion of its outstanding shares of common stock. This authorization augments the previous $1 billion share repurchase authorization which was announced on July 30, 2019. The newly authorized share repurchase program does not have a stated expiration date. The level of the Company's repurchases depends on a number of factors, including its financial condition, capital requirements, cash flows, results of operations, future business prospects and other factors its management may deem relevant. The timing, volume, and nature of repurchases are subject to market conditions, applicable securities laws and other factors and may be amended, suspended or discontinued at any time. Repurchases may be affected from time to time through open market purchases, including pursuant to a pre-set trading plan meeting the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934. During the first three months of 2023, the Company repurchased 55,811 shares of common stock for approximately $15 million. As of April 1, 2023, the Company has cumulatively repurchased 3,379,094 shares of common stock for approximately $1.1 billion, resulting in a remaining amount of share repurchases authorized under the plans of $930 million.

Significant Customers

End-users of our products, solutions and services are diversified across a wide variety of industries. We have three customers, who are distributors of the Company's products and solutions, that individually accounted for more than 10% of our Net sales for the periods presented. In the aggregate, the approximate percentage of our segment and Company total Net sales was as follows:

	Three Months Ended					
	April 1, 2023			April 2, 2022		
	AIT	EVM	Total	AIT	EVM	Total
Significant customers as a % of Net sales	16.6 %	32.8 %	49.4 %	14.3 %	28.7 %	43.0 %

These customers accounted for 53.0% of accounts receivable as of April 1, 2023. No other customer accounted for more than 10% of total Net sales during the periods ended April 1, 2023 and April 2, 2022.

Safe Harbor
Forward-looking statements contained in this filing are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995 and are highly dependent upon a variety of important factors, which could cause actual results to differ materially from those expressed or implied in such forward-looking statements. When used in this document and documents referenced, the words "anticipate," "believe," "intend," "estimate," "will," and "expect" and similar expressions as they relate to the Company or its management are intended to identify such forward-looking statements but are not the exclusive means of identifying these statements. The forward-looking statements include, but are not limited to, the Company's financial outlook for full year of 2023. These forward-looking statements are based on current expectations, forecasts and assumptions, and are subject to the risks and uncertainties inherent in the Company's industry, market conditions, general domestic and international economic conditions, and other factors. These factors include:

- Market acceptance of the Company's products, services and solution offerings and competitors' offerings and the potential effects of emerging technologies and changes in customer requirements,
- The effect of global market conditions, including the North America; EMEA; Latin America; and Asia-Pacific regions in which we do business,
- The impact of changes in foreign exchange rates, customs duties and trade policies due to the large percentage of our sales and operations being outside the U.S.,
- Our ability to control manufacturing and operating costs,
- Risks related to the manufacturing of the Company's products and conducting business operations in non-U.S. countries, including the risk of depending on key suppliers who are also in non-U.S. countries,
- The Company's ability to purchase sufficient materials, parts, and components, our ability to provide services, software, and products to meet customer demand, particularly in light of global economic conditions,
- The availability of credit and the volatility of capital markets, which may affect our suppliers, customers, and ourselves,
- Success of integrating acquisitions,
- Our ability to attract, retain, develop, and motivate key personnel,
- Interest rate and financial market conditions,
- Access to cash and cash equivalents held outside the U.S.,

- The effect of natural disasters, man-made disasters, public health issues (including pandemics), and cybersecurity incidents on our business,
- The impact of changes in foreign and domestic governmental policies, laws, or regulations,
- The outcome of litigation in which the Company may be involved, particularly litigation or claims related to infringement of third-party intellectual property rights, and
- The outcome of any future tax matters or tax law changes.

We encourage readers of this report to review Part II, Item 1A, "Risk Factors" in this report for further discussion of issues that could affect the Company's future results. We undertake no obligation, other than as may be required by law, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances, or any other reason after the date of this report.

New Accounting Pronouncements

We do not expect any recently issued accounting pronouncements to have a material impact to our consolidated financial statements.

Non-GAAP Measures

The Company has provided reconciliations of the supplemental non-GAAP financial measures, as defined under the rules of the Securities and Exchange Commission, presented herein to the most directly comparable financial measures calculated and presented in accordance with GAAP.

These supplemental non-GAAP financial measures – Consolidated Organic Net sales growth, AIT Organic Net sales growth, and EVM Organic Net sales growth – are presented because our management evaluates our financial results both including and excluding the effects of business acquisitions and foreign currency translation, as applicable. Management believes that the supplemental non-GAAP financial measures presented provide additional perspective and insights when analyzing the core operating performance of our business from period to period and trends in our historical operating results. These supplemental non-GAAP financial measures should not be considered superior to, as a substitute for, or as an alternative to, and should be considered in conjunction with the GAAP financial measures presented.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in the Company's market risk during the quarter ended April 1, 2023. For additional information on market risk, refer to Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" in the Annual Report on Form 10-K for the year ended December 31, 2022.

Item 4. Controls and Procedures

Management's Report on Disclosure Controls

Our management is responsible for establishing and maintaining adequate disclosure controls as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Our management assessed the effectiveness of our disclosure controls as of April 1, 2023. Based on this assessment and those criteria, our management believes that, as of April 1, 2023, our disclosure controls were effective.

Changes in Internal Control over Financial Reporting

During the quarter ended April 1, 2023, there have been no changes in our internal controls that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within Zebra have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note 12, *Accrued Liabilities, Commitments and Contingencies* in the Notes to Consolidated Financial Statements included in this report.

Item 1A. Risk Factors

In addition to the other information included in this report, you should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" in the Annual Report on Form 10-K for the year ended December 31, 2022, and the factors identified under "Safe Harbor" in Part I, Item 2 of this Quarterly Report on Form 10-Q, which could materially affect our business, financial condition, cash flows, or results of operations. The risks described in the Annual Report are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently considers immaterial also may materially adversely affect its business, financial condition, and/or operating results. There have been no material changes to the risk factors included in our Annual Report for the year ended December 31, 2022.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth information with respect to repurchases of the Company's common stock for the three months ended April 1, 2023:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions) (1)
January 1, 2023 - January 28, 2023	55,811	$ 268.75	55,811	$ 930
January 29, 2023 - February 25, 2023		—	—	930
February 26, 2023 - April 1, 2023		—	—	930
Total	55,811	$ 268.75	55,811	$ 930

(1) On May 17, 2022, the Company announced that its Board of Directors authorized a share repurchase program for up to $1 billion of its outstanding shares of common stock. This authorization augments the previous $1 billion share repurchase authorization which was announced on July 30, 2019. Repurchases may be effected from time to time through open market purchases, including pursuant to a pre-set trading plan meeting the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934. As of April 1, 2023, the Company has cumulatively repurchased 3,379,094 shares of common stock for approximately $1.1 billion, resulting in a remaining amount of share repurchases authorized under the plans of $930 million.

Item 6. Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial information from Zebra Technologies Corporation Quarterly Report on Form 10-Q, for the quarter ended April 1, 2023, formatted in Inline XBRL: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income; (iv) the Consolidated Statements of Stockholders' Equity; (v) the Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements. The instance document does not appear in the interactive data file because Inline XBRL tags are embedded in the iXBRL document.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended April 1, 2023 formatted in Inline XBRL (included in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	ZEBRA TECHNOLOGIES CORPORATION
Date: May 2, 2023	By: /s/ William J. Burns
	William J. Burns
	Chief Executive Officer
Date: May 2, 2023	By: /s/ Nathan Winters
	Nathan Winters
	Chief Financial Officer