MOTOROLA SOLUTIONS

Q3 2022 Earnings Conference Call
Thursday, November 3, 2022

PARTICIPANTS

Motorola Solutions Executive Participants

Tim Yocum – Vice President, Investor Relations
Greg Brown – Chairman & Chief Executive Officer
Jason Winkler – Executive Vice President & Chief Financial Officer
Jack Molloy – Executive Vice President and Chief Operating Officer
Mahesh Saptharishi – Executive Vice President and Chief Technology Officer

Other Participants

Alyssa Shreves – Research Associate, Barclays Capital (U.S.)
George C. Notter – Analyst, Jefferies LLC
Erik Lapinski – Analyst, Morgan Stanley & Co. LLC
Ryan Cui – Research Associate, Credit Suisse Securities (USA) LLC
Adam Tindle – Analyst, Raymond James & Associates, Inc.
Fahad Najam – Analyst, Loop Capital Markets LLC
Paul J. Chung – Analyst, JPMorgan Securities LLC
Keith Housum – Analyst, Northcoast Research Partners LLC
Jim Suva – Analyst, Citigroup Global Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for holding. Welcome to the Motorola Solutions Third Quarter 2022 Earnings Conference Call. Today's call is being recorded. [Operator Instructions] The presentation material and additional financial tables are posted on the Motorola Solutions Investor Relations website.

In addition, a webcast replay of this call will be available on our website within 2 hours after the conclusion of this call. The website address is www.motorolasolutions.com/investor. [Operator Instructions] I would now like to introduce Mr. Tim Yocum, Vice President of Investor Relations. Mr. Yocum, you may begin your conference.

Tim Yocum, Vice President, Investor Relations

Good afternoon. Welcome to our 2022 Third Quarter Earnings call. With me today are Greg Brown, Chairman and CEO; Jason Winkler, Executive Vice President and CFO; Jack Molloy, Executive Vice President and COO; and Mahesh Saptharishi, Executive Vice President and CTO. Greg and Jason will review our results along with commentary, and Jack and Mahesh will join for Q&A.

We posted an earnings presentation and news release at motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliations for your reference. And during the call, we reference non-GAAP financial results, including those in our outlook, unless otherwise noted. A number of forward-looking statements will be made during this presentation and during the Q&A portion of the call.

Statements are based on current expectations and assumptions that are subject to a variety of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Information about factors that could cause such differences can be found in today's earnings news release and the comments made during this conference call in the Risk Factors section of our 2021 annual report on Form 10-K or any other quarterly report on Form 10-Q and in our other reports and filings with the SEC. We do not undertake any duty to update any forward-looking statements. And with that, I'll turn it over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thank you, Tim, and good afternoon, and thanks for joining us today. First, our Q3 results highlight the continued strong demand and robust funding environment that we're seeing across the business. We grew revenue 13%, EPS 28% and expanded operating margins by 220 basis points. Additionally, we ended the quarter with record Q3 ending backlog of $13.5 billion, up 19% from last year, inclusive of over $800 million of unfavorable currency impact.

Second, we achieved record Q3 revenue in both segments, in products and systems integration, increased demand for video security and land mobile radio technologies and continued solid execution in our supply chain led to revenue growth of 15% during the quarter. And in Software and Services revenue was up 8% and 13% when normalized for FX.

And finally, based on our exceptionally strong Q3 results and our expectations for the remainder of the year, we're raising our full year guidance for both sales and EPS for the second consecutive time, despite full year FX headwinds that now total about $220 million, up $50 million from our expectations last quarter.

So at this point, I'll now turn the call over to Jason to take you through our results and outlook before returning for some final thoughts.

Jason Winkler, Executive Vice President & Chief Financial Officer

Thank you, Greg. Revenue for the quarter grew 13% and was above our guidance with record third quarter revenue in both segments. We also saw growth across all 3 technologies led by 33% growth in video security and access control. In LMR, which grew 9%, our supply chain execution during the quarter enabled us to ship additional product revenue. FX headwinds during the quarter were $66 million, while acquisitions added $32 million.

GAAP operating earnings were $373 million, inclusive of a $147 million noncash fixed asset impairment charge recognized during the quarter related to the now-planned exit from the ESN contract. GAAP operating margins were 15.7%. Non-GAAP operating earnings were $676 million, up 22% from the year ago quarter and non-GAAP operating margin was 28.5%, up from 26.3%. This increase in operating margin was driven by higher sales, higher gross margins and improved operating leverage, particularly in the Products and SI segment.

GAAP earnings per share were $1.63 and compared to $1.76 per share in the year-ago quarter, primarily due to the impairment charge related to the expected early exit of the ESN contract. Non-GAAP EPS was $3.00 per share, up 28% from $2.35 last year. This strong growth in EPS was driven by higher sales and margins as well as a lower effective tax rate related to higher benefits from stock comp recognized in the current year. OpEx in Q3 was $521 million, up $25 million versus last year primarily due to acquisitions.

Turning to cash flow. Q3 operating cash flow was $388 million, up $12 million compared with the prior year, and free cash flow was $318 million, up $3 million. For the full year, we expect operating cash flow to be approximately $100 million lower than our prior guidance, primarily due to our continued investment in inventory, which is helping us execute in a dynamic supply chain environment and deliver against the continued record demand we're seeing in video security and LMR.

Capital allocation for Q3 included $132 million in cash dividends, $94 million in share repurchases and $70 million of CapEx. Additionally, during the quarter, we closed the acquisition of Barrett Communications, a specialty supplier of high-frequency and tactical communications equipment for $18 million net of cash.

Moving to segment results, in the Products and SI segment, we continue to see strong demand across both LMR and video. Sales during the quarter were up 15% versus last year and orders were up 29%, including record Q3 orders for both LMR and video. Currency headwinds were $28 million and revenue from acquisitions in the quarter contributed $13 million. Operating earnings were $375 million or 24.5% of sales, up from 20.6% in the prior year, driven primarily by higher sales and operating leverage, partially offset by higher material costs. The impact from our pricing actions increased in Q3 as expected, and we continue to expect full-year operating margins in this segment to be higher than last year.

Some notable Q3 wins and achievements in the segment include an order in Israel valued at over $400 million for a duration of 25 years. This unique system integration project also includes over $30 million of fixed video equipment and software and is our single largest order ever for Avigilon; a $165 million P25 system and APX NEXT devices award received from Miami-Dade County that includes a new customer for us in the state of Florida; a $67 million P25 order from Southeastern Pennsylvania transit authority; a $45 million P25 order from a customer in Africa; a $29 million P25 devices ordered from a U.S. federal customer; an $18 million TETRA order from a customer in Europe; and a $5 million fixed video order from a major transportation company in North Africa.

In service -- software and services, revenue was up 8%, which includes $38 million of FX headwinds and $19 million of revenue from acquisitions. Total software revenue was up 17%, driven by strong demand in video while in LMR services, revenue was up 4% after $33 million of FX headwinds. Operating earnings in the segment were $301 million or 35.7% of sales, down 30 basis points from last year, driven by higher acquisition expenses.

Some notable Q3 highlights in the segment include 2 large multiyear LMR service renewals; a $43 million won with the State of Maryland; and $15 million with the City of Phoenix; also, a $17 million push-to-talk over broadband order from a customer in the Middle East; a $7 million command center software renewal with Will County, Illinois; a $4 million body-worn camera order for the Texas Department of Public Safety; and a $4 million command center software suite order from Ellis County, Texas.

Looking at regional results. North America Q3 revenue was $1.7 billion, up 16% on growth in all 3 technologies. International Q3 revenue was $686 million, up 4% versus last year, with growth in all 3 technologies, partially offset by unfavorable FX.

Moving to our backlog. Ending backlog was a Q3 record of $13.5 billion, up 19% or $2.1 billion compared to last year, inclusive of approximately $826 million of unfavorable FX and a $99 million orders reduction related to the planned exit from the ESN contract. The growth was driven by the Airwave extension recorded in the fourth quarter of 2021 and increased demand across all 3 technologies. Sequentially, backlog was up $87 million, driven by several large orders received during the quarter, partially offset by $411 million of unfavorable FX and the $99 million adjustment for ESN.

In the Products and SI segment, robust order demand in both LMR and video continues to drive record backlog, which was up $1.2 billion or 35% compared to last year. Sequentially, backlog was up $513 million which was our ninth consecutive quarter of sequential backlog growth in this segment. In Software and Services backlog was up $876 million compared to last year, driven by the Airwave extension and a $288 million increase in multiyear services and software contracts in North America, partially offset by $722 million of unfavorable FX and the adjustment related to ESN. So sequentially, backlog was down $426 million or 5%, driven primarily by unfavorable FX, the ESN adjustment and revenue recognition for Airwave and ESN during the quarter.

Turning now to our outlook. We expect Q4 sales to be up approximately 9% and with non-GAAP earnings per share between $3.40 and $3.45 per share. This assumes $90 million of FX headwinds, a weighted average share count of approximately 172 million shares and an effective tax rate of approximately 23%.

For the full year, we are increasing both our revenue and EPS guidance again. We now expect revenue growth between 9.25% and 9.5%, up from our prior guidance of 8% and we expect non-GAAP earnings per share to be between $10.17 and $10.22 per share, up from our prior guidance of $10.03 to $10.13 per share. This updated guidance now includes full-year FX headwinds of $220 million, up $50 million from our prior guidance, a weighted average share count of approximately 172 million shares and an effective tax rate of approximately 20.5%. This now also assumes $150 million of higher costs for the full year related to the procurement of semiconductors from secondary markets at a premium. This is a $30 million increase over what we indicated earlier in the year and supports the increased revenue included in our updated guidance today.

And finally, as I reflect on where we stand today with just 2 months left in another dynamic year, I'm encouraged with how our teams have been navigating the supply chain environment and overcoming the impact of a historically strong U.S.

dollar. At the beginning of the year, we expected currency headwinds to have a $60 million translation impact on our full-year revenues. The full-year FX headwind has increased by $160 million since then. The decisions we've made to carry higher inventory, pay premiums for semiconductors and the pricing actions we implemented have enabled us to drive higher product revenues that not only offset these significant FX headwinds and but have materially increased our revenue and EPS expectations during the year. I'll now turn the call back over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thanks, Jason. I'm really pleased with our Q3 results, and I'm extremely proud of the people here at Motorola and how our team continues to execute across all areas of the business. We achieved record Q3 sales in both segments. EPS is up by 28%. We expanded operating margins by 220 basis points, and we ended the quarter with a record-ending backlog of $13.5 billion, up 19%. And again, that's in the face of some significant FX headwinds.

Second, we continue to deliver these strong results while also continuing to invest in both new products and strengthening our ecosystem. During the quarter, we extended our successful APX NEXT device portfolio with 3 additional radios that support agencies of all sizes, personnel needs and budgets.

We announced several new video integrations into CommandCentral Aware, bringing body-worn, in-car and emergency drone video feeds into the command center and we expanded our suite of cloud-connected cameras with the Ava Quad a cloud-native forehead camera with built-in analytics.

And finally, as I look ahead, the momentum of our business is strong. Our investments in the portfolio, combined with a robust funding environment are driving increased demand for our solutions. Our supply chain execution and higher inventory is helping us navigate a continually challenging environment to meet this record demand, and our record Q3 backlog positions us well for another year of strong revenue and earnings growth into 2023. I'll now turn the call back over to Tim, and we'll open it up for your questions.

Tim Yocum, Vice President, Investor Relations

Thank you, Greg. Before we begin taking questions, I'd like to remind callers to limit themselves to one question and 1 follow-up to accommodate as many participants as possible. Operator, would you please remind our callers on the line how to ask a question?

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question today comes from Tim Long from Barclays.

<Q – Alyssa Shreves – Barclays Capital (U.S.)>: This is Alyssa Shreves on for Tim Long. I have 2 questions, if I may. You guys had mentioned in your release and prepared remarks about exiting your ESN contract. And just kind of trying to get a little bit more color there. Is that just managing the contract? Or would that also be inclusive of the Kodiak revenue?

And is there anything more you think you'll need to kind of concede in negotiations with the home office? And then just kind of given the raised guidance now, how should we kind of high-level think about 2023 expectations?

<A – Greg Brown – Motorola Solutions, Inc.>: In terms of ESN, Alyssa, I think it's a result of ongoing conversations with the customer. I think more recently, they reached an advanced stage kind of a late-stage negotiation where, at this point, we think it's more likely than not that we will be exiting ESN earlier than the expiration of 2024.

We don't have an agreement signed with them at this point. But I think there's mutual interest in reaching that conclusion, and we continue to work toward that end. So I think we both think it's the right thing to do and a reasonable way forward.

Look, in terms of 2023, and I know we have a lot of good news for the Q3 print. It's a little bit early to think about. There's still a lot of moving parts. I think at this point in time, we think about revenue of about $9.5 billion in 2023. We expect at that level, we could grow with -- in all 3 technologies.

But it's also worth noting that there are still some things that we'll be dealing with into 2023. I think that the supply chain constraints around semiconductor, which we're still experiencing, which is 1 example of why Jason referenced, we're carrying higher inventory purposely and carrying -- and paying more higher PPV premiums.

But I think that those semiconductor supply chain challenges continue into next year, and therefore, I think our higher inventory levels will continue well into 2023. I also think, again, at the moment, we have FX headwinds that look about $150 million, of which, by the way, more than half of that would be actually in Q1 alone.

And then 1 other just thing to think about for all of us in terms of 2023 is we expect about 200 to 300 basis points of higher tax rate headwinds in 2023 that will inform our thinking. But those are high-level chalk-the-field thoughts at this moment, and we would -- we'll obviously give you the specifics in February.

<A – Jason Winkler – Motorola Solutions, Inc.>: Alyssa, if I could also add color to your question around ESN. So the revenues this year for ESN are going to be approximately $65 million. That includes some of the MCPTT as well as the integration and the project. As Greg mentioned, with the exit of the contract, that'll go to 0 in 2024.

We're working through, as part of the negotiation, what transition services and what that looks like in terms of revenue for next year. So we'll update you on that as it concludes. But $65 million in this year's top line results from ESN.

<Q – Alyssa Shreves – Barclays Capital (U.S.)>: Thank you so much.

Operator: We now turn to George Notter from Jefferies

<Q - George C. Notter - Jefferies LLC>: Hi guys, thanks very much and congratulations on all the growth and crisp execution here. I guess I wanted to just keep going on the same line of questioning. Does the exit of the ESN contract help you in the renegotiation with Airwave? Obviously, you're negotiating with the home office and the CMA. I presume about a revised contract extension, but is this a negotiating point in that negotiation? How do you see it?

<A - Greg Brown – Motorola Solutions, Inc.> Yea. I think just to remind you, look, the CMA investigation was undertaken with 2 tenants. One is our returns on Airwave and the evaluation of that. And secondarily, the apparent potential structural dual role of us being both in Airwave and ESN. We talked about the decision working with the customer to exit ESN earlier than the expiration of 2024.

I think the Airwave return issue obviously remains on the table. And while it's related to ESN, it's separate. Now having said that, around the provisional decision that came out more recently, we disagree with the CMA's provisional decision and their findings.

We still are convicted in our position. I think that the -- I think we feel the CMA's provisional decision is legally and economically flawed. I think it's not proportional. It's unprecedented and overreaching. That said, we continue to stay in close conversation with the CMA and with the U.K. home office.

It's kind of also ironic that as we are in the middle of this on Airwave, we coincidentally had the highest customer satisfaction score we've ever had for network performance of Airwave in the month of September, which included and incorporated all the planning around the Queen's funeral. So look, we'll continue to work it, and we will defend our position and pursue all legal avenues that are available to us, including appeals, if we think that's the right thing to do.

<Q - George C. Notter - Jefferies LLC>: Got it, ok. Thank you very much, I appreciate it.

Operator: Our next question comes from Erik Lapinski from Morgan Stanley.

<Q - Erik Lapinski – Morgan Stanley & Co., LLC>: Hi team, thanks and congrats on the quarter. I wanted to go back a little bit to the supply chain piece and just make sure I fully understand some of the dynamics. It sounds like maybe things haven't really improved, but you did see a pretty good ramp in hardware sales during the quarter and maybe you're able to at least get supply, but at a higher price.

So maybe if you could just give us a bit of an update on exactly kind of where you feel like we are in the supply environment. And then as we think about that in the context of backlog, just trying to understand a little bit better, because hardware backlog ramped a lot. Was that due to supply constraints? Is that due to just a factor of kind of the growth you're seeing in shipping times? And just maybe some more details there would be really helpful.

<A - Greg Brown – Motorola Solutions, Inc.>: Yes. Sure. I think we'll tag team this. But as I mentioned, I think the semiconductor supply constraints remain. Now there are a lot that's been said and written about softening demand, and we're heading towards a recession, laptops, smartphones and PCs, that doesn't apply to us.

The more legacy silicon and semiconductor supply that we embed into our solutions is more analogous to the automotive industry. And as you've seen there, the automotive industry continues to be supply constrained, so we don't see a lot of relief.

The progress we're making in satisfying this record demand is the decision to carry higher inventory to meet this record demand, pay more in PPV premiums, we had said we thought we'd spend $120 million for the full year. Jason just referenced, we're going to spend $150 million. That incremental $30 million is paying PPV premiums to satisfy demand. And the third leg of the stool is product redesign.

So I think the environment on supply is on the margins, very slightly better, but still challenging and stiff for us. We're doing the inventory, higher inventory, increased PPV spend and continued product redesign I've referenced in earlier calls to satisfy this record demand.

<A - Jason Winkler – Motorola Solutions, Inc.>: I would add, Greg, that on the automotive front, most of the LMR componentry that we are looking to get is in 40 nanometers and greater. That supports what's going on in automotive and heavy industry. And we're having success in getting what we need.

The $30 million incremental is not only a good business decision, it also aligns to customer prioritization and us needing to fulfill backlog that customers have been waiting for. So in particular, this quarter, in Q3 and again in Q4, we anticipate strong PCR shipments where we're getting to parts of the portfolio that had been delayed in getting componentry for.

So PCR, for example, this year, while we thought it could grow or would grow with constraints at 15% last quarter for the year, we now anticipate it's going to grow 20%. So we're getting access to the components necessary to unlock some of that PCR backlog as an example.

<A - Greg Brown – Motorola Solutions, Inc.>: By the way, it also has helped -- the higher inventory decisions has also helped in video security and access control as well. We now expect that growth annually to be 25% for this year, up from 20%. And the higher inventory has afforded us a position to take some incremental share both in video and PCR because of the available product.

<A - Jason Winkler – Motorola Solutions, Inc.>: Lead times are -- can be a competitive advantage in this market for sure.

<Q - Erik Lapinski – Morgan Stanley & Co. LLC>: Awesome. Thanks guys. Well congrats on the execution.

Operator: Our next question comes from Sami Badri from Credit Suisse.

<Q - Ryan Cui – Credit Suisse Securities (USA) LLC>: Hi, this is Ryan Cui on for Sami, thanks for taking my question. So I have 2 questions. First is can you remind us how many rounds of price increase have been done so far? And is there another round of price increase should we, like, expected considering the -- like, the inflation level? Thanks.

<A – Jason Winkler – Motorola Solutions, Inc.>: So our results for the year are going to be driven by both volume and price. The second half of this year will be even more supported by price because many of the actions we put into place earlier in the year have begun to impact the second half as we churn through prior backlog.

So we've done a variety of value-based pricing across the portfolio. They're helping enable, as we expected, our growth and our results in the second half. We'll continue to look at that, Jack and team around the -- near $800 million of R&D that we spend per year does differentiate our solutions and the work the team is doing on pricing to price-to-value.

<Q - Ryan Cui – Credit Suisse Securities (USA) LLC>: Got you. I appreciate that. If I can squeeze in another one. So are you seeing any, like, signs of, like, potential slowdown, especially in the EU market considering the broad, like, concern from macroeconomic risk?

<A - Greg Brown – Motorola Solutions, Inc.>: We're not. We're not seeing that. I think that the Q3 print, I think, speaks for itself. And again, I can't thank the people across Motorola Solutions enough. I think the execution and focus has been superb. And there are a lot of moving parts, right?

The historical pressure on the dollar, continued supply challenges, a lot of moving parts, but we're not. And also further reinforced by ending the quarter with record Q3 backlog. So I think demand remains strong.

<A – Jack Molloy – Motorola Solutions, Inc.>: Greg, just to piggyback on that, when you really -- when you think about our business outside of public safety, our next biggest vertical is education, which obviously, given the initiatives around safe schools, around access control, analytics, that's been a hot market and there's not only funding through the American rescue plan, there's also funding being pointed at that through the Bipartisan Safe Cities Act, which directly addresses access, egress, ingress issues at schools.

<Q - Ryan Cui – Credit Suisse Securities (USA) LLC>: Got you, appreciate the color, thanks so much.

<u>Operator:</u> We now turn to Adam Tindle from Raymond James.

<Q - Adam Tindle – Raymond James & Associates, Inc.>: Okay thank you. I wanted to, Greg, return to the ESN conversation on the exit. I think a lot of investors view that as kind of the hedge to Airwave potentially going away at some point, kind of like having both LTE and LMR, so I wanted to understand why the strategic business decision to exit, given it seemed like a hedge that you had?

And then what does that mean for ESN? Does that network retired? Does it change hands? What becomes the Airwave alternative after this? And Jason, if you…

<A - Greg Brown – Motorola Solutions, Inc.>: No, I don't…

<Q - Adam Tindle – Raymond James & Associates, Inc.>:
…could talk about $65 million -- go ahead, Greg. I don't mean to throw too much out there.

<A - Greg Brown – Motorola Solutions, Inc.>: No, I'm sorry. I'm sorry, keep going, Adam. We want to get everything together. Go ahead. I'm sorry.

<Q - Adam Tindle – Raymond James & Associates, Inc.>: I was just going to sneak in for Jason. He said $65 million of revenue, but my understanding was this wasn't the highest profitability. So I just wanted to understand the profitability impact of this.

<A - Greg Brown – Motorola Solutions, Inc.>: Yes. On the first question, I don't think we ever looked at ESN as a hedge. We were asked way back when to bid on it. We did. I think we've fulfilled our deliverables. We've been fully committed to this project. And we've worked closely with the customer.

And again, what I said, they're -- obviously, they're interrelated, Airwave and ESN. They're the same customer and ESN has plans to be a certain network by the U.K. home office. But I never viewed ESN as a hedge. I viewed it as building lot 2 and -- from MSI and delivering on the expectations they had for us.

As the discussions advance this year and more recently in the past quarter, I think there's mutual agreement. It's the right thing to do to exit. Now the original contract, it was expiring at the end of 2024 anyway. So I think we both felt it was the right thing to do.

As Jason said, $65 million of revenue about this year and goes to zero in 2024. And for next year, it's obviously less than 65, but that has to be worked out in a final agreement with transition terms that predicate exactly what that looks like for next year.

<A - Jason Winkler – Motorola Solutions, Inc.>: And in terms of margin, you're right, it's lower than the rest of S&S. You think of it as a custom integration project in addition to us supplying them to MCPTT. So it's an integration-like margin profile on that $65 million.

<A – Greg Brown – Motorola Solutions, Inc.>: And Adam, I'd point to you to the U.S. where we are a subcontractor to AT&T for all things FirstNet, which is a 4G now evolving to 5G high-speed LTE network, and we participate in that. And at the same time, we continue to grow and build LMR here domestically in the states. And in fact, we see record demand for LMR here in the U.S., while simultaneously participating in FirstNet. So I don't see it as a hedge, and I don't see it as a trade-off per se.

<Q - Adam Tindle – Raymond James & Associates, Inc.>: Got it. Okay. And then on the other subject, I wanted to talk about the price-cost equation in your business model. I mean, we can debate when the $150 million of cost comes out of the model from a timing perspective, but I think we can all agree that, that's probably not permanent. It's going to come out at some point.

And I'm wondering when that happens, what's your intention with price at that point? You've implemented all these price increases. Would there be a need to reduce price at that point? Or do you think price sticks $150 million comes out and we might be looking at a structurally different level of margin in your business?

<A - Jason Winkler – Motorola Solutions, Inc.>: We view the price increases on our products as stickier than the $150 million of temporary market conditions that really are driven by brokers and third parties extracting maximum value in a scarce commodity play right now. So we've had good success in looking through the portfolio and engaging with our customers, and we'll continue to procure the parts that we need to at the parts -- at the prices that are market-driven right now. But as we look forward, there's opportunity there.

<A - Greg Brown – Motorola Solutions, Inc.>: Yes. The other thing I would remind you, when you think about 2023, is, as we said, we expect inventory to remain at elevated levels well into 2023. And second, we've prioritized public safety shipments this year, so we have some lower-tier PCR sitting in backlog that will have to flush through in Q4 and also into next year being a little bit of a counterweight to just the peel off of that $150 million.

<Q - Adam Tindle – Raymond James & Associates, Inc.>: Is there a simple way to think about the price spend? I mean the $150 million is really easy for us to understand. Is there a way to think -- price was x dollars in '22 and an incremental X dollars in '23? Or is it just too complicated to do that?

<A - Greg Brown – Motorola Solutions, Inc.>: No, I would say this. For 2022, the growth we've had is both volume and price year-to-date. For the full year, Adam, we expect the growth to be volume and price increases, but with volumes still being a little bit more than half. It would be maybe appropriate to dimensionalize some further thoughts around pricing in February, but that's the best we could give you at this point in time.

<Q - Adam Tindle – Raymond James & Associates, Inc.>: Understood. Thank you.

Operator: We now turn to Fahad Najam from Loop Capital.

<Q - Fahad Najam – Loop Capital Markets LLC>: Thanks for taking my question. I wanted to ask you first of all a clarification. Off of your S&S backlog, how much of it is from ESN? Is that about $100 million?

<A - Jason Winkler – Motorola Solutions, Inc.>: $99 million of the contract value was reduced. So that's a reduction in backlog. Yes.

<Q - Fahad Najam – Loop Capital Markets LLC>: Okay. So that's the entirety of the ESN backlog you were carrying in the ESN. There's no additional related projects from that, right, in that $99 million.

<A - Jason Winkler – Motorola Solutions, Inc.>: That's right. The decision to exit the ESN contract, as most probable, reduced our backlog by $99 million for future contract as well as we had a noncash charge of $147 million off the balance sheet, corresponding to our project and the delivery. Those are the 2 numbers that I think are most relevant to financially what we've decided is the most likely outcome.

<Q - Fahad Najam – Loop Capital Markets LLC>: Got it, thank you. Now to my questions. Greg, in terms of how much of your revenue you're being in benefit from stimulus funds? Are you still expecting the majority of funds to show up next year? Just kind of paint us through how you're thinking about calendar '23. I appreciate the initial outlook you shared with us. But maybe if you could double-click on your business, what's driving that?

<A - Jack Molloy – Motorola Solutions, Inc.>: Sure. So it's always important to probably take it back and point out that what we do, it's a need-to-have and not a nice-to-have. But with that said, we've got $200 million year-to-date through Q3 in revenue that's tied in some way to the American Rescue Plan. The bigger thing to point to is this is a multiyear phenomenon. The ARP funds run through 2024. In all likelihood, some element of that will be extended as well.

<A - Greg Brown – Motorola Solutions, Inc.>: I think it's actually $200 million in year-to-date orders.

<A - Jack Molloy – Motorola Solutions, Inc.<: Orders. You're right. Yes. Good clarification.

<Q - Fahad Najam – Loop Capital Markets LLC>: Alright, appreciate the answers, thank you.

Operator: [Operator Instructions] We now turn to Paul Chung from JPMorgan.

<Q - Paul Chung – JP Morgan Securities LLC>: Hi thanks for taking my question. You mentioned you feel comfortable with that $9.5 billion in '23 initially. Can you kind of expand on the pace of growth you expect between segments? Can we still see that 20% type growth in video? And as we start to think about gross margins for next year, can you kind of quantify the uplift we should kind of expect as, hopefully, you start to see some component pricing come down and supply chain costs also come down?

<A - Greg Brown – Motorola Solutions, Inc.>: Yes. I think, Paul, the color I'm giving in the $9.5 million is really that. It's meant to be more directional than specific. I think we'll reserve the individual specifics around segments and technologies when we have the next earnings call in February.

I would say, though, it has been our ongoing goal and history, from a margin standpoint anyway, and I'd say operating margins, that aspirationally, we would look to expand operating margins again in 2023. But we want to see the Q4 print, the disposition of the backlog that will inform us better on the specifics in February around more detail from a segment and technology view.

<Q - Paul Chung – JP Morgan Securities LLC>: Got you. I appreciate that. And then just to follow up on free cash flow guide, that kind of implies a record ramp here in 4Q. What are some risks here across working cap to hitting that guide and your visibility into cash flows? And are you starting to see some component pricing easing a bit helping in '23?

<A - Jason Winkler – Motorola Solutions, Inc.>: Our Q4 cash flow call and -- is supported by almost $900 million of higher sales in the second half. So a tremendous AR opportunity. We've had better linearity we did in Q3, and we'll have it again in Q4 anticipate. So around getting products out the door sooner in the quarter such that they can turn to cash within the quarter, we call it quick-turn.

And then, of course, we are anticipating lower payments and slightly lower inventory to end the year off of our current elevated $1.157 billion inventory level. So we anticipate we had a good Q3 operating cash flow and we anticipate having another very good Q4 in getting to the $1,775 that we talked about during my portion of the call.

<Q - Paul Chung – JP Morgan Securities LLC>: Got you, very helpful, thank you.

Operator: Our next question comes from Keith Housum from Northcoast Research.

<Q - Keith Housum – Northcoast Research Partners LLC>: Good afternoon guys, I appreciate it. Greg, you mentioned that the Airwave, perhaps the appeals process, can you provide a little bit of color about what options actually Motorola will have if the CMA is successful coming through with its proposal adjustments for the Airwave?

<A - Greg Brown – Motorola Solutions, Inc.>: Yes. Thank you, Keith. Again, the decision that came out was provisional. We don't expect a final decision until early next year. To your question, it's worth mentioning that after a final decision, there is then a remedy implementation phase that actually takes a few more months to sort out what the final ruling is in terms of how to implement.

I think statutorily, that has to be done no later than I think it's 9 or 10 months after the final decision. So that takes time to do that. I told you that we are convicted in our position. And while we are obviously going to continue to work with the CMA and the customer, we think the findings in the provisional are unfounded and overreaching and unprecedented.

By the way, it's worth also mentioning, there is a notation in the actual provisional decision that includes a potential invitation for the home office and us to agree to a different arrangement than what the CMA has proposed. That's explicit and referenced embedded in the provisional. We would certainly be open to that conversation. And so we'll see how things develop. But there's several more months to go here.

<Q - Keith Housum – Northcoast Research LLC>: Appreciate it. And then I'm going to ask -- I'll ask a different question for my follow-up, if I could. The video surveillance going from 20% to 25% growth for the year. I guess, could you just provide a little bit of color about some of that strength there. Obviously, it's been notable that some of your Chinese competitors are getting some more challenges, I guess, for lack of a better word, around the world. Is that contributing to that growth?

<A - Greg Brown – Motorola Solutions, Inc.>: I think -- you were clipping in and out, but I think that the direction of your question is the -- kind of the inertia against some Chinese suppliers adding to our growth this year. I think the answer is yes, but actually, it's kind of measured. Because remember, under the NDAA, the National Defense Authorization Act at the Fed level, it prohibits future procurement from Huawei, Hytera, Hikvision, Dahua ZTE. It is not a rip-and-replace.

So I don't think there's a pop-the-clutch moment of big growth there, which is the same thing in terms of the NDAA provision around grant money. The other positive move that could help as a potential tailwind kind of circumstantially will be the Secure Equipment Act at the FCC level, which, by the way, could be as early as November, but it also could take more time.

But if the FCC follows along the lines or contours of the NDAA, that could potentially prohibit in the case of LMR-Hytera procurement. And in the case of video security, Hikvision and Dahua future procurement for the enterprise, that would be favorable. So clearly, it's a favorable trend. But -- and I think it's a contributor, but I don't think it's an overwhelming driver to the results we're printing to date.

<Q - Keith Housum – Northcoast Research Partners LLC>: Great, thank you.

Operator: Our final question comes from Jim Suva from Citigroup.

<Q - Jim Suva – Citigroup Global Markets, Inc.>: Thank you very much. Education, you highlighted, Greg, on your comments, which is great to hear. Can you give us a little bit of insight about, like, percent of sales now versus importantly, outlook. It seems like that's a growing area. I mean, just recently, our school PTA had a meeting talking about the situation of putting in technology, and I actually recommended your type of products and -- but it's a long discussion.

And so can you talk about kind of the time line there on what you're seeing and the profitability, I assume, continues to increase as certain other school districts start to seed solutions to other school districts and it kind of starts to self-market itself at some point, but the initial kickoff seems pretty hard. Thank you so much.

<A – Jack Molloy – Motorola Solutions, Inc.>: Jim, you nailed it. It is a game of inertia. But just to dimensionalize it, think of it as around 25% of our fixed video security and access control business. The one thing that we've been very thoughtful around the investments we've made not only organically. It started with Avigilon and the investments we've made organically there, but the acquisitions by way of Ava and Openpath.

Because what we're seeing, and as you pointed out, larger school districts may want an on-prem solution. And a lot of the moneys that are being directed now are actually at a private and smaller schools, and they might want a cloud-based solution. So we feel like we've got -- obviously, we've got the ability to meet the customers depending on their needs for where they are.

In terms of growth rate, you've seen in the print, we had 33% growth. Education is growing in that category. So it's roughly 1/4 of our fixed video security business growing approximately 30% this year.

<A - Jason Winkler – Motorola Solutions, Inc.>: And this is also an area of investment as we further integrate all of our portfolio in and around safer schools. Mahesh, maybe you could talk about some of the things we're doing to integrate the portfolio so to better position our portfolio to keep schools safe.

<A - Mahesh Saptharishi – Motorola Solutions, Inc.>: Introduced a program called Safety Reimagined not too long ago. And the key elements -- a technology element of Safety Reimagined was a solution called orchestrate. And one of the things that orchestrate enables us to do is to really coordinate the detection capabilities of our AI-enabled fixed cameras to actions that are possible within the school, including notifications to radios as well.

And all of this enables effective public-private partnership even during a response time frame. So when you put it all together, it actually takes advantage of the entirety of the Motorola Solutions portfolio, and we are uniquely positioned to go in and solve specific problems for schools.

<Q - Jim Suva – Citigroup Global Markets, Inc.>: Thank you so much for the details and congratulations.

Operator:
This concludes our question-and-answer session. I'll now turn the floor over to Mr. Greg Brown, Chairman and Chief Executive Officer for any additional comments or closing remarks.

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

Thank you very much. I appreciate everybody joining us Thursday afternoon. Look, I just want to summarize and just say thank you to everybody. Despite ongoing supply chain challenges, significant FX headwinds, increasing inflation and the Fed raising interest rates, despite all of that, we continue to grow.

We continue to grow based on volume and some pricing power. We're raising expectations on top and bottom for the full year. We've delivered on capital allocation strategy year-to-date, investing more than $1.3 billion. But most importantly, we continue to meet the needs of our customers. I mean, the environment's strong, exceptionally strong, strong funding, record orders, record backlog.

And while we're really proud of the print, I'm also equally proud of that we're printing these results while still investing in the business and in the portfolio to differentiate ourselves accordingly. I like our position heading into 2023, and I am deeply grateful and thankful to everybody at Motorola Solutions, a hell of a quarter.

And by the way, particularly all of those of you in Florida, the systems integration team, the services team during Hurricane Ian, the strength of our LMR networks shone through, but even more importantly, the courage and the pride of our people showed through, too, time and time again. I'm grateful and I'm proud of you. Thanks for joining us, and we'll talk to you again in a few months.

Operator:
Ladies and gentlemen, this does conclude today's teleconference. A replay of this call will be available over the Internet within 2 hours. The website address is www.motorolasolutions.com/investor. We thank you for your participation and ask that you please disconnect your lines at this time.