MOTOROLA SOLUTIONS

Q4 2022 Earnings Conference Call
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PARTICIPANTS

Motorola Solutions, Inc. Executive Participants

Tim Yocum – Vice President, Investor Relations
Greg Brown – Chairman & Chief Executive Officer
Jason J. 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

Tim Long – Analyst, Barclays Capital (U.S.)
George C. Notter – Analyst, Jefferies LLC
Adam Tindle – Analyst, Raymond James & Associates, Inc.
Meta Marshall – Analyst, Morgan Stanley & Co. LLC
Sami Badri – Analyst, Credit Suisse Securities (USA) LLC
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MOTOROLA SOLUTIONS, INC. MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for holding. Welcome to the Motorola Solutions Fourth Quarter 2022 Earnings Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time. The presentation material and additional financial tables are posted on the Motorola Solutions Investor Relations website. In addition, a webcast replay of this call will be available on our website within two hours after the conclusion of this call. The website address is www.motorolasolutions.com/investor. All participants have been placed in a listen-only mode. You will have an opportunity to ask questions after today's presentation. [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

Welcome to our 2022 Fourth 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've posted an earnings presentation and news release at www.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. These statements are based on current expectations and assumptions that are subject to a variety of risks and uncertainties. Actual results could differ materially from these forward-looking statements.

Information about factors that could cause such differences can be found in today's earnings news release, in the comments made during this conference call, in the risk factors section of our 2021 annual report on Form 10-K, or any 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.

I'll now turn it over to Greg.

Greg Brown, Chairman & Chief Executive Officer

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

First, our record Q4 results highlight the continued robust demand we're seeing for our Public Safety and enterprise security solutions. During the quarter we grew revenue 17%, earnings per share 26%, expanded operating margins by 150 basis points and generated a record $1.3 billion of operating cash flow. Additionally, orders remained strong which led to record ending backlog of $14.3 billion, up $800 million versus last year.

Second, 2022 was an outstanding year across-the-board. In our Products and Systems Integration segment we grew revenue 14%, driven by strong growth in both LMR and video security and we ended the year with record backlog up 22% versus last year. We also expanded operating margins in the segment by 110 basis points despite higher costs related to semiconductors. In Software and Services revenue was up 8% and 12% when normalized for FX headwinds highlighted by double-digit growth in both video security and command center.

And finally, as I look to 2023, our record backlog position coupled with a robust funding environment positions us well for another year of strong revenue and earnings growth.

I'll now turn the call over to Jason to take you through our results and outlook.

Jason J. Winkler, Executive Vice President & Chief Financial Officer

Thank you, Greg. Revenue for the quarter grew 17% with record fourth quarter revenue in both segments and in all three technologies. Revenue exceeded our guidance and was driven by supply chain execution during the quarter enabling higher product revenues in LMR.

FX headwinds during the quarter were $87 million while acquisitions added $39 million. GAAP operating earnings were $692 million, up 26% versus last year and GAAP operating margins were 25.6% compared with 23.7% in the prior year.

Non-GAAP operating earnings were $822 million, up 23% from the year-ago quarter and non-GAAP operating margin was 30.4%, up from 28.9%. This was Motorola Solutions' first-ever quarter of over-30% operating margin and was driven by the higher sales in both segments and the improved operating leverage, particularly in the Products and SI segment.

GAAP earnings per share was $3.43, up from $2.30 in the year-ago quarter on higher sales and in a lower effective tax rate driven primarily by a $47 million or $0.27 per share tax benefit from the release of evaluation allowance against US foreign tax credits. Non-GAAP EPS was $3.60, up 26% from $2.85 last year, driven by higher sales and improved operating leverage.

OpEx in Q4 was $541 million, up $21 million versus last year primarily due to acquisitions and higher incentives. For the full year 2022, revenue was $9.1 billion, up 12% with strong growth in both segments and across all three technologies. The impact from unfavorable currency was $216 million and revenue from acquisitions was $121 million. GAAP operating earnings were $1.7 billion or 18.2% of sales versus 20.4% in the year prior. The decrease was primarily driven by the $147 million non-cash fixed asset impairment recognized in the current year related to our exit of ESN.

Non-GAAP operating earnings were $2.4 billion, up $251 million, and non-GAAP operating margins were 26% of sales, up from 25.9% in the year prior driven by higher sales and improved operating leverage, partially offset by higher material costs and higher expenses from acquisitions.

GAAP earnings per share was $7.93, up 11% compared to the $7.17 in the year prior driven by higher sales, a lower effective tax rate and partially offset by the asset impairment charge related to the ESN exit and higher material costs. Non-GAAP earnings per share was $10.36, up 13% from $9.15 in 2021 on higher sales and improved operating leverage partially offset by higher material costs.

For the full year, our operating expenses were $2.1 billion, up $107 million from 2021 primarily driven by acquisitions and investments into our video business, and the effective tax rate for 2022 was 20% compared to 21% in the year prior due to higher benefits from stock-based compensation in the current year.

Turning next to cash flow. Q4 operating cash flow was a record $1.3 billion, up $570 million compared with the prior year and free cash flow was $1.2 billion, up $565 million from 2021. Our record cash flow performance during the quarter was driven by improved working capital and higher earnings, and for the full year operating cash flow was $1.8 billion with free cash flow of $1.6 billion consistent with the prior year. Higher earnings in 2022 were offset by the cash payments related to the increase in annual incentive payments earned in 2021 and higher inventory.

Capital allocation for 2022 included $1.2 billion for acquisitions, $836 million in share repurchases at an average price of $225.00 per share, and $530 million in cash dividends. Additionally, during the year, we issued $600 million of new long-term debt and repaid $275 million of outstanding debt. We also increased our dividend 11%, our 12th consecutive year of double-digit increases.

Moving next to our segment results. In Products and SI, strong demand continued with Q4 sales up 21%, including record revenue in both LMR and video. Currency headwinds were $43 million and revenue from acquisitions in the quarter was $20 million. Operating earnings in Q4 were $514 million or 28.4% of sales, up from 25.3% in the year prior driven primarily by higher sales and operating leverage partially offset by higher material costs.

Some notable Q4 wins and achievement in this segment include several large APX NEXT device orders, including $45 million from the city of Houston, $39 million from a large US customer, $30 million from the City of Dallas and a $21 million add-on order from our large US customer that previously purchased APX NEXT devices. Additionally, during the quarter, we received a $20 million APX NEXT and command center order from Kansas City, a $19 million P25 system order for a large international customer and a $3 million fixed video order for Metra Rail in Chicago.

For the full year, Products and SI revenue was $5.7 billion, up 14% from the prior year driven by higher sales of LMR and video. Revenue from acquisitions was $53 million and currency headwinds were $98 million. Full year operating earnings were $1.2 billion or 20.5% of sales, up from 19.4% in the year prior on higher sales and improved operating leverage partially offset by higher material costs.

In Software and Services, Q4 revenue was up 9%, which included $44 million of FX headwinds and $19 million of revenue from acquisitions. Total software revenue was up 17% with double-digit growth in both Video and Command center, while in LMR Services revenue was up 5% after a $39 million FX headwind.

Q4 operating earnings in the segment were $308 million or 34.4% of sales, down 100 basis points from last year driven by unfavorable mix and higher acquisition expenses.

Some notable Q4 highlights in this segment include a $56 million P25 multiyear extension of the managed services operations at Interexport which serves the Chilean National Law Enforcement Police; a $25 million P25 software upgrade renewal for a large US customer; a $22 million Next Generation 911 expansion and renewal order for the Greater Harris County, Texas area; a $21 million system upgrade and multiyear services renewal for Lane County, Oregon; a $15 million P25 and command center upgrade order for Columbus, Georgia; and a $15 million license plate recognition camera system expansion order from the Illinois State Police.

For the full year revenue was $3.4 billion, up 8% on growth in video, LMR Services and command center. Revenue from acquisitions was $68 million and currency headwinds were $118 million. Full year operating earnings were $1.2 billion or 35.3% of sales, down 110 basis points versus the prior year driven by mix and higher acquisition expenses.

Looking at our regional results. North America in Q4 revenue was $1.9 billion, up 18% on strong growth in both segments and in all three technologies. For the full year, North America revenue was $6.4 billion, up 15% with double-digit growth in both segments and in all three technologies.

International Q4 revenue was $808 million, up 15% versus last year with growth in all three technologies, and for the full year international revenue was $2.7 billion, up 5% inclusive of the significant FX headwinds.

Moving to backlog. Ending backlog was a record $14.3 billion, up $788 million or 6% compared to last year inclusive of $418 million of unfavorable FX and a $99 million reduction related to the exit of the ESN contract. The backlog growth was driven by the continued record demand we're seeing across all three technologies.

Sequentially backlog was up $837 million despite the record Q4 sales with growth in both segments. In the Products and SI segment robust order demand in both LMR and video continues to drive record backlog, which was up $894 million or 22% compared to last year. Sequentially, Products and SI backlog was up $68 million. This was our tenth consecutive quarter of sequential backlog growth in this segment.

In Software and Services, backlog was down $106 million compared to last year, which included $367 million of unfavorable FX driven by Airwave and ESN revenue recognition and the ESN exit, partially offset by strong growth in North America multiyear services and software contracts. Sequentially, Software and Services backlog was up $769 million or 9% driven by strong orders in North America and favorable FX adjustment from the prior quarter.

Turning now to our outlook. We expect Q1 sales to be up between 12% and 13%, with non-GAAP earnings per share between $2.02 and $2.07 per share. This assumes $40 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 expect sales between $9.65 billion and $9.7 billion and non-GAAP earnings per share between $11.10 and $11.22 per share. This assumes $40 million of FX headwinds, a weighted average share count of approximately 172 million shares and an effective tax rate between 23% and 24%. We expect full year OpEx to be up approximately $150 million versus last year, driven by acquisitions we've made and our continued investments in video, and we expect full year operating cash flow of approximately $1.9 billion.

And finally, the reason our effective tax rate is expected to be up 300 basis points to 400 basis points over last year is due to lower excess tax benefits on share-based compensation in 2023, and a higher UK tax rate that takes effect in April. We're also anticipating approximately $300 million of higher cash taxes compared to last year, inclusive of a one-time $75 million tax payment that relates to an IP reorganization we did in 2022.

And before I turn the call back to Greg, I wanted to update you on some strategic decisions we've made with respect to our PCR business. First, in order to further optimize our supply chain, we have moved the lowest part of PCR which is sold to small businesses and some consumers, to a license model with a third-party manufacturer. As a result of this change, we will only recognize revenues equal to the margin from the product. In addition, we made a decision to exit some PCR markets in Asia. We expect these changes together to constitute an $80 million headwind to our 2023 revenues which is fully contemplated in our full year revenue guidance for 2023.

And finally, we enter the new year with an even stronger balance sheet. We ended 2022 with $1.3 billion of cash and a net-debt-to-adjusted-EBITDA ratio of less than 2 times. In addition, our US pension is in a strong funding position with over 80% funded, reflecting the numerous actions we've implemented over the last several years. We have also proactively refinanced our debt maturities with fixed rate long-term debt and established a balanced maturity profile with an average duration of approximately eight years. All of this gives us the flexibility to continue to deliver on our capital allocation framework and be opportunistic in M&A.

I'll now turn the call back over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thanks, Jason. First, 2022 was a phenomenal year for the company. We achieved double-digit revenue growth for the second consecutive year, with record sales in both segments and all three technologies. We expanded operating margins despite the continued supply challenges related to semiconductors, and we ended the year with a record $14.3 billion of backlog, up almost $800 million versus the prior year.

Second, our acquisition of Rave Mobile Safety during Q4 was our seventh acquisition last year. Rave adds approximately $70 million of annual recurring revenue for 2023 and expands the company's addressable market by approximately $7 billion. Whether it's a student or a teacher alerting public safety with the push of a button, or 911 call takers coordinating a more informed response, Rave Mobile Safety amplifies the connection between our video security and command center portfolios.

Since 2015, we've invested almost $6 billion in acquiring companies that have helped us create a broad set of public safety and enterprise security solutions. These assets have helped accelerate our revenue growth, diversify the composition of our revenue streams and more than quadrupled our addressable market to what we now estimate to be $60 billion.

And finally, as I look ahead, the momentum of our business remains strong. The funding environment for Public Safety and enterprise security remains exceptional. Our investments in APX NEXT device portfolio are driving a refresh cycle that is still in the very early days, with less than 10% of customers' installed base upgraded to date. Our AI and cloud solutions continue to help drive market share gains in video security and command center software and will continue to navigate the ongoing supply chain challenges. I'm extremely pleased with how we're positioned as we enter this year, and I expect it to be another year of strong revenue and earnings growth for the company.

And with that, I'll now turn the call back over to Tim and we'll take your questions.

Tim Yocum, Vice President, Investor Relations

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

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

QUESTION AND ANSWER SECTION

Operator: Yes, sir. The floor is now open for questions. [Operator Instructions] Thank you. And our first will come from Tim Long with Barclays. Your line is now open.

Tim Long
Analyst, Barclays Capital, Inc.

Thank you. Greg, maybe could you just give us a little sense of the backdrop. It sounds like obviously backlog is pretty strong, but talk a little bit about kind of federal ARPA and other revenue sources. How is that starting to flow through? How are your customers taking advantage of that, and what do you think that means to visibility over the next few years?

And then Jason, for you, on the clarification. Just talk a little bit about gross margins. Maybe walk us through, the next year at some point we should be getting some bounce back from components and logistics, and maybe just touch on price increases that we've seen and how that would flow through the model and hit the gross margins next year. Thank you.

Jack Molloy
Executive Vice President and Chief Operating Officer, Motorola Solutions, Inc.

So, this is Jack. I'll take the first question. I think it was regarding the federal funding, but really good news. So we had over $400 million of orders in 2022, but I think most importantly, the $350 billion that was allocated state and local is a multiyear funding phenomenon, so we look at our multiyear funnel out through 2026 at being north of $1 billion. Some of the deals that Jason cited were funded in part or – and completely funded by ARPA dollars. So, we've had good success. Our sales team in North America traditionally really understands funding models and I think they're working it well and we've seen good results.

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

And Tim, I'll also remind you that the ARPA funding $350 billion for state and local, $170 billion earmarked for education. But most importantly, its multiyear funding, and much of this will go into and through 2026. So the foundation of funding and that's the strong environment Jack described, we capitalized in 2022, as he talked about the robustness of the funnel this year, but the best part of all is its multiyear dimension in nature.

Jason J. Winkler
Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.

And Tim, I'll take the second part of your question. So, as you recall, as we navigated through 2022 and having to secure parts from brokers, that year, 2022 last year, we incurred about $165 million of higher costs for semiconductors in 2022 than 2021. That was a headwind for us. We were able to get access to some parts in Q4. That's in part what helped our Q4 performance.

So as we plan for 2023 now, we anticipate still needing to run the play of buying broker parts. It still remains a difficult environment particularly for automotive-grade semiconductors but we do believe and are planning for about a $50 million tailwind to the total amount of dollars that will allocate and spend to secure parts as for the plans we have in 2023, so $50 million tailwind in 2023 relative to 2022's cost profile.

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

And, Tim, from a gross margin perspective overall, for MSI, we expect gross margins to be up in 2023. We also expect operating margins to be up in 2023.

Tim Long
Analyst, Barclays Capital, Inc.

Okay. Thank you, guys.

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

Thanks, Tim.

Operator: Thank you. Our next question will come from George Notter with Jefferies. Your line is open.

George C. Notter
Analyst, Jefferies LLC

Hi, guys. Thanks very much. It sort of feels like somebody forgot to tell you guys that we're in a recessionary environment. The business seems to be cranking on all cylinders here. Greg, anything you worry about in terms of a recessionary environment at all? I mean, I get it. The ARPA funds are kind of back-filling maybe for any softness that you could see out over the horizon, but any thoughts about tax receipts, whether it's property tax or income tax receipts ultimately slowing down a year or two from now impacting the business?

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

George, the answer is no, to be candid with you. The environment's strong. The funding environment as we talked about is exceptional. 75% of our business as you know is government and public safety; 25% is enterprise. We still see continued strength. This year we expect growth in all three technologies: LMR to be mid-single-digits, video security to be about 15%, command center to be about 20%. So – and there was an article in the Journal last weekend. State budgets are as flush as they have been in several years. We talked already about the multiyear funding horizon for ARPA.

Now, nobody's immune from a recession. We've always been diligent in managing the expense structure of the firm. The majority of the driver of higher OpEx for this company year-on-year and period on period is generally acquisitions so I think we have a great portfolio, a fantastic environment, strong demand, and we are acutely focused on continued execution, new product development, acquisition integration, and growing faster than the market versus our competitors, so – now, look, sometimes I worry that I'm not worried, okay, but the team is aligned and we feel really good about where we are. Appreciate the question.

Jason J. Winkler
Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.

And also, Greg, I...

George C. Notter
Analyst, Jefferies LLC

Got it. And then just one quick follow up if I could. What kind of impact are you getting in the business from higher pricing just thinking about the growth rate as we look out to 2023?

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

So I would say the growth that we had last year, full year, was driven by both volume and price increase. I'd weight it a little bit more toward volume last year. That composition that drives our growth rate overall for this year is also volume and price, and I would weight it slightly toward volume again this year. We've exercised surgically and responsibly certain price increases that we've talked about a number of times last year, so I think we're well- positioned going forward.

George C. Notter
Analyst, Jefferies LLC

Thank you.

Jason J. Winkler
Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.

Greg, the other thing I'd offer, insights into our PCR business which in 2022 grew nicely. It's now back to 2019 levels, and a part of our backlog or unfulfilled orders for us or delays are in PCR, so we have a sizable amount of PCR backlog and demand which we will continue to fulfill into 2023.

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

And it's a great point, Jason, because despite the fact that we had a great PCR Q4, really strong growth for the full year, to Jason's point, back to 2019 pre-pandemic levels, and he referenced an $80 million PCR oriented headwind which represents a business model change, even with those, all those ingredients into the blender, we still are expecting PCR growth for 2023.

George C. Notter
Analyst, Jefferies LLC

Great. Thank you.

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

Thank you.

Operator: Thank you. Our next question will come from Adam Tindle with Raymond James. Your line is open.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Okay. Thanks. Good afternoon. I wanted to start with a question, Greg, if there was any potential updates that we could give or guardrails on the potential outcomes for Airwave at this point; we understand obviously you've got some tailwinds to the model from managing costs and supply chain, the potential headwind looming is what could happen with Airwave, so just want to make sure that we're netting those things out and any guardrails you can give us on where that could potentially shape out.

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

Yeah, what I'd say is I'd remind you that CMA, their stated intention is to make a final decision this month. Maybe it's next month but it's relatively soon. We remain unchanged in our finding and belief that – with full conviction, that their effort is disproportionate. It's unprecedented. It's overreaching, so our view on that is unchanged.

Now, recall the investigation – the market investigation is grounded around Airwave and ESN. What I can update you on is that we have successfully signed a contract with the UK home office to exit ESN. I think it was a good multi-month effort where both of us are satisfied. That will result, Adam, in us exiting ESN earlier than anticipated.

We are doing a transition services agreement in 2023 but then effectively after 2023, we are out of ESN, so I think that is an update that's worthy of sharing, because a quarter ago we talked about our intention to do that, but that was before we actually codified and signed the agreement.

Now, having said all that, I think look, as we guide the full year, we guide the full year with the $80 million business model change around PCR. We guide the year both top and bottom with continued supply constraints and I think it's important to know that, because there's a lot of reports that supply chain's a lot better, but for the businesses that we're in, and we compete primarily with industrial providers or automotive, for the semiconductors that we're contending for, it's not that changed.

Lead times actually are largely unchanged, so that informs our guidance as well, and as we sit here on February 9, we think all in, it's a prudent and balanced view of the year all things considered.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

All right. And maybe just a follow up on Rave. Obviously, spending over $0.5 billion I'm sure there was a lot that went into that decision. Greg, I'd love for you maybe just to talk about the expected ROI and any financial metrics – sorry if I missed any – that you could provide related to that acquisition to justify that level of capital allocation. Thank you.

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

Yes, so we are very excited about the asset and the important thing, Adam, is it's an asset that's worth more to us than anyone else, so when you think about the capital deployed, against the backdrop of an addressable market that expands $7 billion, and all ARR, annual recurring revenue with a run rate of $70 million, we like those attributes.

Their verticals, 80% of the business is profiled around state and local and education, which that too is absolutely in the sweet spot of what we do and how Molloy goes to market. So the asset we're excited about, I think it's worth, and we think it's worth more to us than anyone else and we've done an extensive view of the industry as well and we're excited about what it means.

Mahesh Saptharishi
Executive Vice President & Chief Technology Officer, Motorola Solutions, Inc.

A few more things to add on this. Greg already mentioned the vertical alignment that we have here, state and local governments, education which is significant for us, health care and corporate buildings. All of these are key areas where Rave plays a very important part. And Rave very critically as we mentioned before connects enterprise security with public safety in some very unique ways and augments both sides of the portfolio.

Probably three areas, technology areas that I want to highlight. The first is Rave enhances individual safety with mobile apps, so think about that as the Rave Prepare capability, where people with special needs can actually create a profile and offer information ahead of potentially something happening, so that the response can actually be more effective.

The second is a panic button. The ability to push a button and get help as needed benefiting from what the profile was created previously as needed as well. Rave Alert which is a mass notification capability to keep people informed. So think about that as everything that covers people, people and safety, individual safety.

The second area is facility preparedness so think about the Rave Facility capability where information about a facility can better inform a public safety response including keeping responders safe and that's a very critical capability. Rave Collaborate helps set up standard operating procedures of how someone should respond for various incidents ahead of when an incident actually happens. This very uniquely enables us to coordinate the ability that we have on the radio security side and the command center side to make sure that the standard operating procedure along with the automation that sits behind it can orchestrate a very successful and capable response.

And lastly, the third area is that it accelerates response as a whole. The Rave 911 suite provides very critical information to both 911 and dispatchers in terms of location information, of where individuals are, other information such as video directly from the site and also Rave allows for cross-jurisdictional information sharing.

You take all those three capabilities with enterprise security and command center, it really enhances our overall portfolio, and as Greg said, the one plus one here is actually much greater than two.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Thank you.

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

Thanks, Adam.

Operator: Thank you. Our next question will come from Meta Marshall with Morgan Stanley. Your line is open.

Meta A. Marshall
Analyst, Morgan Stanley & Co. LLC

Great. Thanks. Maybe following up on kind of that Rave response, which was very helpful just kind of in laying out the integration. I guess just is there any timeline to kind of integrating the solutions that your video solution or command center could kind of interoperate more seamlessly with Rave or is that already kind of built into the solution, just kind of getting a sense of when the one-to-one really does become more than two and if there's any timeline to that. And then maybe just a second question, obviously, the backlog has grown pretty significantly. Are there any meaningful changes to duration that we should just be mindful of when thinking about that backlog and how it would peel off? Thank you.

Mahesh Saptharishi
Executive Vice President & Chief Technology Officer, Motorola Solutions, Inc.

Maybe just starting with the timeline elements. There are many elements of what I just outlined that already exist today and they're integrated in various ways today. What we would like to do and this is the future-looking element of it, where we unify more of these solutions within our command center product portfolio but also the video security and access control portfolio, and that is to come in that it helps us enhance the use cases and make our products more differentiated but some of the key capabilities in terms of being able to connect a detection that happens on the public safety side and that's leading to an informed response on the command center side whether that's 911 or dispatch, those capabilities exist today, and along with the incident mass notification capability, being able to appropriately alert people, inform people during a situation. All those capabilities exist today, so there's more to come on this, but the base capability where the one plus one is greater than two, that's today.

Jason J. Winkler
Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.

On the backlog, so our backlog not only is it up in total to the $14.3 billion, it's up $900 million in Products and the duration of our backlog is even better than it had been last year, so we're in a strong position for backlog as well as the continued expectation for the orders that we execute on during the year.

Meta A. Marshall
Analyst, Morgan Stanley & Co. LLC

Great. Thanks.

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

Thanks, Meta.

Operator: Thank you. Our next question will come from Sami Badri with Credit Suisse. Your line is open.

Sami Badri
Analyst, Credit Suisse Securities (USA) LLC

Hi. Thank you very much and congrats to what's a very robust 4Q and very robust 2023 guidance. My question has to do with the APX NEXT orders and just the typical refresh rate of public safety institutions and how they order your radios. So the question is are the ARPA funds and are the elevated levels of state and local budget catalyzing a compression in the typical refresh rate of LMR radios which is partially explaining the strength you're seeing in LMR?

Jack Molloy
Executive Vice President and Chief Operating Officer, Motorola Solutions, Inc.

Sami, it's Jack. So as I said, I believe it was in the August call that we're in the early innings of the P25 upgrade cycle in North America. A couple of things to point out.

Number one, APX NEXT was introduced at the highest tier of the market and that's where it's been focused. Just recently, meaning the second half of 2022, we filled in that portfolio so now we have a mid-tier APX NEXT available. That in and of itself will be an accelerant for a lot of what you'd call suburban and county municipalities outside of the big cities.

We've done $370 million of orders since the product was announced. To give you a feel for the accelerant, $210 million of orders in 2022, and without question, the ARPA funding will be an accelerant to – it used to be a 10-year kind of refresh cycle. We've seen that pull into a seven-year refresh cycle but I'd point you to the city of Houston that actually leverage largely ARPA funds but actually used some budgets that they had surpluses in their own budget to move forward with this device.

I think there's a few things that are really driving this. People want to do more with their device and so clearly the ability to extend a network as people go to do mutual aid events, smart connect, the owner experience. I mean a big city police department, it's tough to get technicians. It used to take them 10,000 man hours to actually upgrade software, cyber fixes and those kind of – bug refreshes. That can be done in 10 minutes now, leveraging the LTE compatibility and the last thing is location matters and what we've seen is GPS and provisioning that capability even through our CAD networks, it's been a big add for our customers and so there's clearly been a lot of excitement. You've seen a lot of very marquee police departments and I think with the mid-tier series launching I think we're going to continue to see that accelerant; and just to be clear, we did $210 million of orders last year. I expect to do double that this year.

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

And it's fair to say...

Sami Badri
Analyst, Credit Suisse Securities (USA) LLC

Got it.

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

I think APX NEXT is probably the most successful LMR product we've launched. Certainly, in my tenure and the most successful for all of the reasons that Jack talked about, private network, public network, seamless roaming, LMR-to-LTE and all the operational cost savings. Yes, obviously the funding environment helps, but the product itself is so strong in what it does and unique in its capabilities, I think that is as significant as anything.

Sami Badri
Analyst, Credit Suisse Securities (USA) LLC

Got it. Thank you for giving us color. The one other follow-up question is, I think we can clearly see where you guys are going with Rave Mobility, but I think the bigger question for analysts is, when we look at Rave, when we look at Ava Security, when we look at a bunch of these other acquisitions you have made, they all look like they're going to have to be integrated on the backend and then offered in a much more broader way to a lot of your customers for a much bigger type of consumption model. How far away are you guys from offering this or being market-ready with a fully integrated suite in the backend that can really service the frontend consumption side?

Mahesh Saptharishi
Executive Vice President & Chief Technology Officer-Software & Mobile Video, Motorola Solutions, Inc

So, I think we've talked about our Safety Reimagined program a few times before, and a key element of that Safety Reimagined program is actually to bring all these elements together in an integrated fashion and facilitate the orchestration of incident response in a manner where that response is more effective.

So, with that in mind, we have actually spent time developing a piece of software called Orchestrate, which actually starts connecting these different pieces together and very visually allows enterprise security professionals and even public safety professionals to be able to say, this is how the automation behind-the-scenes of events going from say, us being able to detect a weapon visually in the field of you have a camera, should trigger say an access control lockdown.

That access control lockdown in turn can perhaps trigger a mass notification to people in the facility that mass notification, then following that triggers a call to 911. Dispatchers are now informed as to where individuals are. These are capabilities that between our Collaborate platform, our Orchestrate platform, we're able to do today. And I think, as a solution we are starting to sell Safety Reimagined as a solution.

Jason J. Winkler
Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.

In addition to the product and the roadmap that Mahesh described, I think as Greg mentioned earlier, we're excited about Rave because it allows us to extend our sales channel to selling into public safety and education. So, immediately, that organization gets the power of Jack Molloy's entire sales organization, selling the product as it is today, into those accounts, and that in part is why we believe we're the most valuable owner of that asset.

Jack Molloy
Executive Vice President and Chief Operating Officer, Motorola Solutions, Inc.

Sami, just couple other points I think are important to point out. We see the video security market, in particular fixed video security, there really is a little bit of divergence in terms of you have on-prem customers that want an on-prem solution for certain critical infrastructure markets and then you've seen another market that without question from VMS, but – from a video security, but also from an access control standpoint, they are starting to accelerate to cloud. We've done a couple things to take advantage.

So moving forward, we're going to have the capabilities to deliver if you're an on-prem customer or you're a cloud customer, you'll be able to leverage the analytics that we've cultivated within our camera portfolio. That's important. The other thing that's important is, you remember, we also acquired IndigoVision and Pelco and we had three different essentially VMSes that we had to support. We've unified that experience under ACC 8, Avigilon Control Center 8 which is our VMS. So, there has been progress, to your point. I just wanted to make sure you understood a couple of those things as well.

Sami Badri
Analyst, Credit Suisse Securities (USA) LLC

Awesome. Thank you very much.

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

Thank you.

Operator: Thank you. Our next question will come from Fahad Najam with Loop Capital. Your line is open.

Fahad Najam
Analyst, Loop Capital Markets LLC

Thank you for taking my question. I wanted to kind of look at the linearity of your outlook. You're guiding 1Q 2023 revenue to grow 12% to 13%, yet full year you're guiding maybe at 7% year-on-year growth. So, kind of – I understand lead times haven't changed for your supply chain, but the global supply chain outlook is indeed improving. You might see it later in the year, but still I'm trying to question the linearity that you're implying. This implies almost like a slowdown in the second half of the year which sounds counterintuitive. So, can you walk me through your assumptions?

Jason J. Winkler

Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.

Sure. Fahad, I would point you to, first, the comp set from last year where in the first half we grew at a rate of 8% and in the second half a rate of almost double that. So if you look at last year's comps, it in part informs our expectations for growth this year.

Secondly, we talked about this $80 million PCR business model change moving to license. A majority of that impact is occurring in the second half for us. That helps inform what we expect for growth all year, but higher growth in the first half. And as Greg mentioned, with lead times unchanged, we forecast the business based on the lead times that our suppliers commit to us and we update it as the year progresses, and our current guide is informed by our supply commitments.

We just had a summit with our top 20 suppliers yesterday and have the latest information and commitments from them, and we'll continue to work the supply environment proactively which we did in 2022.

Fahad Najam

Analyst, Loop Capital Markets LLC

For my follow-up, I wanted to ask your thoughts on your revenue growth outlook for video surveillance. You've been talking 20% growth, but over the last two years you've grown that business 30-plus percent. If I'm not mistaken, the FCC has now recently announced a more wider ban of Hikvision and Dahua products that has far bigger implications, probably favorably for your business. So, how should we be thinking about and how are you thinking about your video surveillance revenue growth in 2023, and how does this new FCC ban impact your business?

Jack Molloy

Executive Vice President and Chief Operating Officer, Motorola Solutions, Inc.

Sure. Fahad, so our outlook for the 2023 is 15% growth, but I'd point out 15% off of pretty significantly difficult comp. We grew 24% in 2022. We've kind of said, in general, we think the NDAA is generally conducive. And we think it's – within the mix it's a tailwind to the business, but we don't think it's going to have any real profound impact over the course of 2023, but we're really excited particularly as the things I just outlined.

Our portfolio is coming together. We now have offerings from an on-prem standpoint as well as a cloud standpoint. But again, I think 15%, I also think it's important to take a look at where we're getting that, where we're generating that growth. Government and education are our two largest verticals and we think they're a little bit insulated in terms of, if there is any kind of economic slowdown; and the other piece of it is health care and the commercial market space as well.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Fahad, I'd also point out that some of the higher growth rates of video security like in 2022 or before, the top revenue growth rate was in part driven by acquisitions. As you normalize those acquisitions and they go into the base and you look at the underlying strength of the growth rate, between 2021 and 2022 and into 2023, it's much more comparable on a year-over-year basis.

Fahad Najam
Analyst, Loop Capital Markets LLC

Appreciate the answer. Thank you.

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

Thanks, Fahad.

Operator: Thank you. Our next question will come from Paul Chung with JPMorgan. Your line is open.

Paul J. Chung
Analyst, JPMorgan Securities LLC

Hi. Thanks for taking my questions. So, can you talk about kind of the operating leverage benefits you're seeing in the model? I mean, you saw kind of modest growth in OpEx despite record revenues this year, and very strong organic top-line, so as we think about next year, how do we think about the pace of spend, kind of incremental costs related to Rave and other acquisitions and you also mentioned gross margins up this year. Can you expand on the magnitude of your expectations there and the shape throughout the year and I have one follow up.

Jason J. Winkler
Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.

Sure. So I'll start with OpEx. I mentioned that we expect OpEx to be up $150 million this year. The primary drivers of that are, in fact, Rave, the recent acquisition combined with investments that we continue to make within video which is our fastest-growing technology.

In terms of leverage, we saw the leverage that we expected in the second half of 2022 on the operating line and we expect continued operating margin expansion in 2023. I mentioned in part $50 million of a tailwind in lower costs for us to attain the supply in 2023 than what we had to pay in 2022. That will largely benefit the product segment and we'll continue to expand operating margins with both the volume and price growth drivers that Greg mentioned earlier.

Paul J. Chung
Analyst, JPMorgan Securities LLC

Okay. Great. And then on free cash flow very strong performance here to end the year, despite $300 million working cap drag, it's always nice to see very strong earnings contribution, kind of driving that free cash flow, but as we look to 2023, how do we think about working cap dynamics and overall trends for 2023 which could be a record year for free cash flow. Thank you.

Jason J. Winkler
Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.

Sure. So we outlooked $1.9 billion in operating cash flow. CapEx will be pretty similar to last year. For a number of years now our CapEx as a percent of OCF is around 15%. It's actually less than the 20% that we have in our capital allocation model and that's likely to continue. We are a low CapEx, asset-light kind of model, so as OCF, we expect growth in OCF, we'll have higher earnings.

I did mention $300 million higher cash tax amount that we are incorporating into 2023 as well but we'll see good earnings growth, good cash flow growth, and we'll continue to work through inventory. Inventory has been a helpful investment for us as we navigated 2022. We'll plan and are planning for it to come down in 2023 as we fulfill record demand, but we'll continue to use it as an asset. It's served us well in getting customer – in meeting customer demand, but we'll continue to work through lower inventories in 2023.

Paul J. Chung
Analyst, JPMorgan Securities LLC

Great. Thank you.

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

Thanks, Paul.

Operator: Thank you. Our next question will come from Keith Housum with Northcoast Research. Your line is open.

Keith Housum
Analyst, Northcoast Research Partners LLC

Good afternoon, guys, and congratulations on a great quarter another consistent performance for you guys. As we think about your Product and System Integrations business, obviously, we saw you guys call out a lot of the APX NEXT refreshes but there's only one systems update that was included in that list. Can you guys kind of talk about the mix between the system upgrades versus the device upgrades that you guys are going through and are you guys seeing more of a moving back toward the device upgrades?

Jason J. Winkler
Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.

We're seeing both, Keith. The one thing I'd point to is that over the past several years, our customers have been transitioning to an always-current upgrade arrangement, we call it an SUA. It's a more predictable arrangement for them and keeps them on their journey technology-wise. That revenue stream is more predictable for us and a large number of customers in North America are on that journey for their infrastructure needs, which is a less lumpy systems business for us, so we'll continue to see devices upgrades. We told you where we are in the early innings of that and we'll see systems upgrades but we'll see it come through the P&L in both a product-related upgrade but in some cases, higher services revenue for systems upgrades.

Jack Molloy
Executive Vice President and Chief Operating Officer, Motorola Solutions, Inc.

Yeah, Jason, that's a good point. It's also – and this has pivoted more into a recurring revenue model and it will. There will be elements in terms of replacing base stations for these networks. It'll continue to be an opportunity for us but largely it's come into software meaning it's an SUA program as Jason pointed out but also it's been an accelerant for our manage and support services business as well.

Keith Housum
Analyst, Northcoast Research Partners LLC

Great. Thanks. And as a follow-up question here goes with guidance here, command center growth expectations above 20% for 2023. Is the primary driver of that the integration of Rave? Are you guys seeing success elsewhere starting to pay dividends?

Jason J. Winkler
Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.

20% includes the inorganic addition of Rave but the rest of command center software also expected to grow low double-digits which is consistent with the expectation that we had and executed to in 2022.

Keith Housum
Analyst, Northcoast Research Partners LLC

Great. Thanks. Appreciate it.

Operator: Thank you. Our next question will come from Louie DiPalma with William Blair. Your line is open. Louie, please make sure that you're unmuted.

Louie DiPalma
Analyst, William Blair & Co. LLC

Greg, Jason, Jack, Mahesh and Tim, good afternoon.

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

How are you?

Jason J. Winkler
Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.

Hey, Louie.

Louie DiPalma
Analyst, William Blair & Co. LLC

Doing well. Related to your video division, the topic of artificial intelligence and machine learning has been in the financial mainstream recently with chatGPT. Can you discuss how Motorola deserves to be in the conversation of leading AI vendors with some of your video analysis automation tech that you showcased at the IACP conference and in general, how powerful are your AI tools now and how has that progressed over the past couple of years? Thanks.

Mahesh Saptharishi
Executive Vice President & Chief Technology Officer, Motorola Solutions, Inc.

Sure. So the chatGPT is a technology that I think has been in development for quite a long time and it really benefits from lots of advances in natural language understanding, reinforcement learning, GPT there stands for generative pre-trained transformers and it's the third-generation of that tool.

Now if you kind of break that up a little bit, the natural language elements of it, think of what we do on the Smart Transcription side where we understand natural language, we are able to pick out entities, that's addresses, names, license plate numbers, et cetera, and then map that into a capability to fill out forms, give supervisors a heads up when a call-taker potentially needs help, et cetera.

On the video side think of it as what we're doing where we're taking video and actually converting that to language. So facilitating things like natural language searches so being able to understand what is the user asking for and mapping that effectively into a set of results that are returned based upon our automated analysis of video, and we're able to do that at the edge, and with our acquisition of Calipsa, we're able to extend that capability into the cloud. And one of the things that Calipsa with the cloud AI allows us to do is very rapidly provide this capability to multiple different cameras across-the-board, across all our portfolios, Pelco specifically, Avigilon, inclusive of that as well.

So those two things, together, give us the capability now to say okay, if there's particular events that are happening, we can alert on them, unusual activity being another one of them. So chatGPT I think is just an indicator of one element or one area of machine learning that is really advanced. We're benefiting from multiple pieces of that across video understanding, across language understanding, and audio understanding to the point where we're not implementing it across all other products, so hopefully that's a rough answer to your question.

Louie DiPalma
Analyst, William Blair & Co. LLC

Thanks. That was helpful. I'm sure you could talk for dozens of hours on that topic. One more question. Last week, yeah, last week, the city of East Chicago in Indiana announced that it was deploying portable solar powered video analytics platform from Avigilon. I was wondering, do you view solar-powered cameras as a significant growth area for the Motorola video group?

Mahesh Saptharishi
Executive Vice President & Chief Technology Officer, Motorola Solutions, Inc.

So there's probably two areas, I'm not entirely sure of the specific opportunity you're talking about, but more broadly, we do have Avigilon cameras that are deployed today with solar platforms for quick deploy applications. Many times this is for construction sites, for sort of sports events that happen or concert events that happen and you need a rapidly-deployed solution; that is one part of it.

The other part of it is on our automatic license plate recognition solution, we introduced the L6Q camera towards the end of last year, and that is a fully wireless solution, so it is a camera that is equipped with both video and radar as a detection mechanism. It is solar powered. It can be solar powered or it can be powered with a regular AC or DC connection. It also is LTE capable so it is fully wireless in all its capabilities and we are seeing a fairly rapid uptake in that solution because of its ease of install as well. It is probably the easiest to install video camera device out there today.

Louie DiPalma
Analyst, William Blair & Co. LLC

Perfect. Exactly what I was looking for. Thanks.

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

Thanks, Louie.

Operator: Thank you. Our next question will come from Ben Bollin with Cleveland Research. Your line is open.

Ben Bollin
Analyst, Cleveland Research Co. LLC

Good afternoon, everyone. Thanks for taking the question. The first item I had is I'm curious, could you talk through the K-12 trends you've seen as of late? Talk to maybe materiality and how some of the COVID relief funding is starting to manifest. Mahesh talked about Safety Reimagined but any other types of projects that you're seeing in that space would be helpful.

Jack Molloy
Executive Vice President and Chief Operating Officer, Motorola Solutions, Inc.

Sure. So I'd pointed out earlier but education is our largest vertical in terms of video security and access control. There's been $170 billion allocated to funding school safety and it continues to outpace, as much as we grew 24% last year, education continues to even outpace our growth in the overall business. It's one that school safety is paramount to what everyone's doing. It's not only video security, it's access control but it also brings in PCR radios and their ability to interoperate to provide intelligence in terms of there's an ingress, egress at a door, there is things that happen, I mean, analytics play a huge role in driving our education success in terms of unusual motion detection if there's an altercation in a cafeteria, think of things like that. Stadiums, things happen with teenage kids in stadiums and those kind of things, so all those things have kind of culminated into a great opportunity.

One of the things we did early days is we actually went out, hired a team to – all they do is get up and focus every day on the educational space because one of our core beliefs here is we believe domain expertise, market knowledge matters in terms of going back and working with the product group making sure we're making the right definitions.

The other thing I'd add, public schools get a lot of attention but one of the reasons we looked at Ava is we actually looked at a lot of private schools who wanted a cloud solution. We didn't have a solution before we bought Ava, and we've identified opportunities to accelerate growth in the private education system as well there.

Ben Bollin
Analyst, Cleveland Research Co. LLC

Okay. That's great. The follow-up is within command center, Greg, you spoke to 20% growth in 2023. Jason, I think you said ex Rave, low-doubles. If you look at command center as a percentage of mix, it's been pretty stable, about 7 points of revenue over the last several years. A lot of things going on, but could you talk a little bit about the sales motion there, the complexity of the systems, and longer term when you think that might be a bigger driver to the overall mix or grows as percentage of the total if you get a more widespread investment among those customers. That's it, thank you.

Jack Molloy
Executive Vice President and Chief Operating Officer, Motorola Solutions, Inc.

Yeah, I think the primary thing I'd point to there is we have – you have to think about the command center market in terms of – it's very widespread. There's 6500 public safety answering points in North America, and what you see taking place, I think, where we've talked about is you've got historically, you had three to four different RFP cycles, meaning CAD RMS, you had a 911 system, you had consoles and – radio consoles in some respect as well as the Aware platform can is more of a proactive mechanism to look at police and what we're seeing I think particularly as we start to see newer and more technology-savvy dispatchers enter the market, they want a unified experience. They want to look at a piece of software that is commonality instead of looking at four different things operating with multiple different screens, different ways to interface with the technology, so I know that everybody would like this thing to just turn on and everybody go to kind of a Microsoft suite.

The reality is they've made investments, some of them maybe just bought a new RMS system three years ago and there's a cycle to that but we think there's a cycle that's a benefit to us and I think one of the things Mahesh and his team have done a great job at is they've put us in a position to go have a conversation with a customer. It isn't bad for us if they buy those things in three different cycles because they buy them from us; as long as they like the experience we deliver, we think there's a margin opportunity there as well.

Ben Bollin
Analyst, Cleveland Research Co. LLC

Thanks, Jack.

Mahesh Saptharishi
Executive Vice President & Chief Technology Officer, Motorola Solutions, Inc.

Also, we moved to a hybrid strategy in 2021…

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

Exactly.

Mahesh Saptharishi
Executive Vice President & Chief Technology Officer, Motorola Solutions, Inc.

And then just looking at how we performed over 2022, our SaaS growth was actually 2 times that of command center total revenue. And today, about a third of our command center software customers are actually – they have at least one cloud-hosted hybrid solution in the mix there, and then we mentioned Greater Harris County as one of the deals this year, or in last quarter.

An important element of that solution was the Smart Transcription solution that I mentioned previously, and Greater Harris County is actually the largest Smart Transcription deployment to date. And so, we're seeing more adoption of hybrid solutions going into that and that's growing well for us.

Ben Bollin
Analyst, Cleveland Research Co. LLC

Thanks, guys.

Operator: Thank you. Our last question will come from Paul Silverstein with Cowen. Your line is open.

Paul Silverstein
Analyst, Cowen & Co. LLC

I appreciate that. I hope the advantage of going last is that I can ask an awful lot of questions. But on a serious note, Greg, the guidance you all gave, in organic terms, what does that translate to stripping out what you're expecting from Rave or any other contemplated acquisitions? And how does that compare to organic growth in 2022? I assume, Rave is the only or the biggest inorganic piece this year.

Jason J. Winkler
Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.

Yeah, it's largely Rave. Last year, inorganic revenues contributed $121 million to our – and this year, it's largely the Rave of around 70-plus million dollars from Rave. So, that's the bridge.

Paul Silverstein
Analyst, Cowen & Co. LLC

So you don't have – in that guidance, you're not putting in anything in terms of prospective acquisitions other than Rave that was disclosed and it's obviously a fair deal less than what acquisitions contributed?

Jason J. Winkler
Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.

It's the business as we see it and have it today.

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

That's right.

Paul Silverstein
Analyst, Cowen & Co. LLC

All right. I appreciate that, and which ties into the next question. Your LMR business just grew 9% last year following 7.6% growth the year before and 3.9% the year before that for a business that you historically have characterized understandably I think as low-single-digit, and so it came off a very strong year and had even stronger growth. In terms of relative to the mid single-digit guidance on LMR, trying to understand the upside potential to that, I assume the downside to this is limited but trying to understand the upside potential.

Can you just review – I know you've touched on it throughout the call, but can you review what were the key drivers in that? You mentioned that PCR was up. I don't think you gave us a number. I assume it was back up to the $1 billion level that you referenced in 2019, I think that was the level. But can you go through the various drivers, APX, PCR, et cetera, that contributed to that awfully strong growth and what you're expecting going forward?

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

So Paul, I'd say, let's start foundationally and thematically. I think it's a statement about the strength and durability of Land Mobile Radio first and foremost, as a platform. LMR versus an LTE or cellular alternative, number one. Number two. We talk a lot about APX NEXT, APX NEXT being the premier high-tier device, most successful product launch

MSI has ever had, where customers are clamoring for it given the feature functionality.

The LTE roaming, the over-the-air software efficiency that eliminates or minimizes their operating expense, and then we're taking APX NEXT and we're introducing the APX NEXT mid-tier refresh. So you think about, more broadly, there's 13,000 LMR networks around the world. You take a subset of that within our North American centric and P25 and you have a whole device portfolio refresh, high-end led by APX NEXT, mid-tier, then APX mid-tier. By the way, we're refreshing the TETRA portfolio as well and we've continued to add and enhance the PCR portfolio.

Then, you add the backdrop of ARPA funding and state budgets that are as strong as they've been in years, and PCR up extraordinarily, and the best quarter it's ever had in Q4 and it has returned to pre-pandemic levels; and to your point, it's back to about $1 billion. And even with the business model change around PCR exiting certain countries in Asia, recognizing margin instead of full top-end revenue, we still – that expect to grow off of a record 2022.

So, you have device portfolio refresh, best-in-class product. This is a need to have, not a nice to have. That's not just a slogan, that's a reality. And the demand for LMR writ large and the platforms and the feature functionality that comes with that, not to mention the integration to command center and things like video security and access control, are powering this technology forward.

Now, why mid single-digit? Because I remind you, we're still in a supply-constrained environment. Lead times are still the same as they were a quarter or two ago. If there's relief on that front, or that changes throughout the year, we'll inform you, but that's what's driving that guide.

Paul Silverstein
Analyst, Cowen & Co. LLC

Greg, I think you just told us that if supply permits demand would accommodate more than that mid single-digit 5% guidance. But my last question, any update with respect to you all being able to collect on that not insubstantial Hytera litigation award?

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

Work in progress. By the way, it's worth saying, Paul, that our expectation for cash flow in fiscal 2023 assumes no collection in that year. They owe us about $680 million. We've collected some, a relatively de minimis amount. Our trial is the civil trial. They have a 21-count criminal trial that begins at the DOJ federal level in February of 2024. We've asked the court to hold Hytera in contempt for failing to make a royalty payment.

Look, it's a long slog. It's a multiyear fight against Hytera, but it's the right thing to do. We're going to protect the intellectual property of this firm. We'll see how it plays out. We had, by the way, their defendant switch his plea and plead guilty in the UK. That's the senior engineering executive for Hytera that reported to the CEO. He changed his plea several months ago to guilty, so I know it takes long and the wheels of justice grind relatively slowly. But we'll stay tuned and update you accordingly, but in terms of our forecasting or assumptions for fiscal 2023, there's zero from a cash standpoint.

Paul Silverstein
Analyst, Cowen & Co. LLC

I appreciate that. Guys, can I just clarify one thing going back to the LMR question. Greg, you and Jack and Jason have made the point historically and previously that the new APX handsets accommodate the richer applications that require the new APX handset in order for your customers to deploy. I trust that's still the case and the fact that there's a strong take-up of APX NEXT bodes well for take-up of the incremental command center software and LMR Services, et cetera, and so one goes hand-in-hand with the other.

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

Well, the fact that the APX NEXT has software applications that are embedded in the capability of the device themselves, that platform is there to upgrade and add apps over time.

Paul Silverstein
Analyst, Cowen & Co. LLC

Okay. I appreciate it.

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

Yes. Thank you, Paul.

Operator:
All right. Thank you. This does conclude the question-and-answer session. I would now like to turn the floor back over to Greg Brown, Chairman and Chief Executive Officer, for any additional and closing remarks.

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

Thank you, everybody, for joining the call. I would just summarize by saying what we do has never been more important than it is now. I mean, last year was a truly outstanding year, second consecutive year of double-digit top line revenue growth. We expanded operating margins despite the higher input costs around semiconductors. We acquired seven companies for the deployment and utilization of capital of $1.2 billion. The demand environment remains exceptionally strong heading into this year. We've got strong multiyear funding. We've got record orders. We've got record backlog.

The exciting part is we're at the intersection of public safety and enterprise security and the width and breadth of our technology ecosystem, I think, further fortifies our role as a trusted adviser to our customers.

I want to thank every single Motorolan that's listening into this call. This is an incredible company with a very strong purpose, passion, reengineering, innovation mentality, and as we heard yesterday in the supplier conference that Jason referenced and Jack, Mahesh and I participated in, these are special people with a commitment to serve and a commitment to the community. It's above and beyond.

I appreciate everybody on the call. Thank you for joining and we look forward to updating you again in a few months. Appreciate you all.

Operator:
Ladies and gentlemen, this does conclude today's teleconference. A replay of this call will be available over the Internet within two 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.