



Q3 2023 Earnings Conference Call Thursday, November 2, 2023

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 & Chief Operating Officer
Mahesh Saptharishi – Executive Vice President & Chief Technology Officer

Other Participants

Tim Long – Analyst, Barclays Capital, Inc.
George C. Notter – Analyst, Jefferies LLC
Keith Housum – Analyst, Northcoast Research Partners LLC
Adam Tindle, Analyst, Raymond James & Associates, Inc.
Tomer Zilberman, Analyst, BofA Securities, Inc.
Meta A/ Marshall – Analyst, Morgan Stanley & Co. LLC
Brian Wilcox – Associate Analyst, Cleveland Research Co. LLC
Joseph Cardoso – Analyst, J.P. Morgan Securities, LLC

MOTOROLA SOLUTIONS, INC. MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for holding. Welcome to the Motorola Solutions third quarter 2023 earnings conference call. Today's call is being recorded. If you have any objections, please disconnect at this time. The presentation materials 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 three 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.

All participants have been placed in a listen-only mode. You will have an opportunity to ask questions after today's presentation. If you would like to ask a question, please press * [star] 5 on your telephone keypad to be placed into the queue. You may also press * [star] 5 again to remove yourself from the queue.

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 2023 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. 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 the 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 2022 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.

And with that, I'll turn it over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thanks, Tim. Good afternoon, and thanks, everybody, for joining us today. First, Q3 was another strong quarter with revenue and earnings per share exceeding our guidance, driven by continued strong demand and an improving supply chain environment.

Revenue was up 8% in the quarter, highlighted by 12% growth in Software and Services and 5% growth in Products and Systems Integration. We also expanded operating margins for the fifth consecutive quarter, which resulted in record Q3 operating earnings in both segments and over \$700 million of operating cash flow.

Second, investments in safety and security continue to be a priority for our customers, and we had another record orders quarter in Q3. Year-to-date, orders were up 11%, driven by strong Software and Services, record US federal demand and continued adoption of our APX NEXT device by US state and local customers. Additionally, we ended Q3 with record backlog of \$14.3 billion, up 6% versus the prior year.

And finally, based on our Q3 results and continued momentum in the business, we are again raising our full year guidance for both sales and EPS for the third time this year.

I'll now turn the call over to Jason.

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

Thank you, Greg. Revenue for the quarter grew 8% and was above our guidance with growth in both segments, both regions and all three technologies. FX tailwinds during the quarter were \$13 million, while acquisitions added \$19 million. GAAP operating earnings were \$639 million or 25% of sales, up from 15.7% in the year ago quarter, which had the impact of the \$147 million fixed asset impairment charge related to our exit from the ESN contract in the UK.

Non-GAAP operating earnings were \$741 million, up 10% from the year ago quarter and non-GAAP operating margin was 29%, up 50 basis points, driven by higher sales, lower material costs and improved operating leverage, partially offset by a higher mix of international product shipments and the revenue deferral related to Airwave.

GAAP earnings per share was \$2.70, up from \$1.63 in the year ago quarter, which had the impact of the ESN asset impairment. Non-GAAP EPS was \$3.19, up 6% from \$3 per share last year. The growth in EPS was driven by higher sales and margins, partially offset by the Airwave deferral and a higher effective tax rate in the current year. OpEx in Q3 was \$551 million, up \$29 million versus last year, primarily due to acquisitions and higher employee incentives in the current year.

Turning to cash flow. Q3 operating cash flow was \$714 million, up \$326 million versus last year, and free cash flow was \$649 million, up \$331 million. Increase in year-over-year cash flow was primarily driven by higher earnings and improved working capital. And with our Q3 year-to-date operating cash flow of \$799 million, up significantly from last year, we are solidly on track to deliver on our \$1.9 billion of operating cash flow outlook for this year. Capital allocation for Q3 included \$147 million in cash dividends, \$322 million in share repurchases and \$65 million of CapEx.

Moving to segments. In the Products and SI segment, sales were up 5% versus last year, driven by growth in both LMR and Video. Currency tailwinds were \$4 million and revenue from acquisitions in the quarter was \$1 million. Operating earnings for the segment were \$420 million or 26.1% of sales, up from 24.5% in the prior year, driven by higher sales, lower direct material costs and improved operating leverage, partially offset by mix.

Some notable Q3 wins and achievements in the Products segment include a \$75 million P25 device order for a US federal customer, a \$55 million P25 system order for a Southeast Asia customer, a \$42 million P25 device order for the Texas Department of Public Safety, a \$30 million P25 device order for a US federal customer, a \$20 million P25 device order for Indiana State Police, and a \$3 million fixed video expansion order for a US federal customer.

In Software and Services, revenue was up 12%, inclusive of the Airwave deferral with 31% growth in Command Center and 15% growth in Video. Revenue from acquisitions was \$18 million in the quarter, and FX tailwinds were \$9 million. Operating earnings in the segment were \$321 million, up 7% versus last year and operating margins were 34%, down from 35.7% last year. Excluding the Airwave deferral, operating margins for the segment were up, driven by higher sales and improved operating leverage.

Some notable Q3 highlights, in this segment include a \$23 million LMR service agreement for a large European customer, a \$23 million service agreement for East Bay regional communication systems in California, a \$20 million LMR service agreement for the Los Angeles Police Department, a \$12 million Command Center order for Kern County, 9-1-1 District in Texas, and an \$8 million body-worn camera order for the Metro Nashville Police.

Looking at our regional results. North America Q3 revenue was \$1.8 billion, up 6% on growth in all three technologies. International Q3 revenue was \$773 million, up 13% versus last year, driven by growth in LMR and Video.

Moving to backlog. Ending backlog was a Q3 record of \$14.3 billion, up 6% or \$764 million versus last year, inclusive of \$321 million of favorable currency rates driven by strong demand in North America. Sequentially, backlog was down \$4 million, inclusive of \$125 million of unfavorable FX, driven by the revenue recognition of Airwave, partially offset by strong demand in North America.

In Products and SI, ending backlog was up \$62 million or 1% versus last year, driven primarily by strong demand in North America. And sequentially, backlog was up \$80 million, also driven by strong demand in North America.

In Software and Services, backlog increased \$702 million compared to last year, inclusive of \$294 million of favorable FX, driven by strong demand for multiyear Software and Services contracts in North America, partially offset by the revenue recognition for Airwave. Sequentially, backlog was down \$84 million, driven by unfavorable FX of \$96 million, partially offset by growth in multiyear Software and Services contracts in North America.

Turning next to our outlook. We expect Q4 sales growth of approximately 4%, with non-GAAP EPS between \$3.60 and \$3.65 per share. This assumes a weighted average share count of approximately 171 million shares and an effective tax rate of approximately 24%.

For the full year, we are again increasing both our revenue and earnings guidance. We now expect revenue in the range of \$9.93 billion to \$9.945 billion, up from our prior range of \$9.875 billion to \$9.9 billion, and we expect non GAAP earnings per share between \$11.65 and \$11.70, up from our prior guide of \$11.40 to \$11.48 per share. This full year

outlook assumes \$40 million of FX headwinds, up from \$25 million from our prior guidance. A weighted average diluted share count of approximately 172 million shares and an effective tax rate of approximately 23%.

Before I turn the call back to Greg, I'd like to highlight two points. In addition to the strength of our LMR and Video business, our Command Center portfolio performed well during the quarter. In Q3, we achieved strong growth, complemented by a robust contribution from Rave, an acquisition, which continues to exceed our expectations.

Secondly, our supply chain execution navigating extended lead times for some semiconductors and reducing broker purchases continues to drive year-over-year cost savings. We now expect the impact of lower broker purchases to be a \$70 million tailwind for this year, up from our prior estimate of \$60 million. As a result, we now expect full year operating margin expansion of approximately 200 basis points, up from our prior guidance of 175 basis points.

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

Greg Brown, Chairman & Chief Executive Officer

Thanks, Jason. First, I'm really pleased with our Q3 results, which highlight the durability and criticality of our business and the strength of our portfolio. Revenue was up 8%, and that's inclusive of the revenue deferral related to Airwave that we've talked to you about already.

We also achieved record operating earnings in both segments, record Q3 operating cash flow of over \$700 million and a Q3 record backlog that is 6% higher than last year, which positions us well as we head into next year.

Second, the resilient nature of our business and strong cash flow allows us to continue to be flexible as we deploy capital to drive shareholder value. The strength of our cash flow comes from strong demand from product refresh, consistent margin expansion and improving cash conversion.

Through October, we've repurchased just under \$800 million of stock, highlighting our conviction in the long-term value of MSI. We also ended the quarter with net debt-to-EBITDA ratio of 1.7, which provides us with a healthy balance sheet and additional firepower to continue to invest both organically and consider inorganic investments as well.

And finally, as we look to close out another record year, I think we're exceptionally well positioned for continued growth. Demand for our solutions remains robust. We're continuing to add value to our customers. Our end markets remain resilient, and our teams continue to execute at a high-level.

I'll now turn the call over to Tim, and welcome your questions accordingly.

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 line how to ask a question?

QUESTION AND ANSWER SECTION

Operator: The floor is now open for questions. [Operator Instructions] Our first question comes from Tim Long from Barclays. Your line is now open.

Tim Long

Analyst, Barclays Capital, Inc.

Thank you. Yeah, the two, if I could. First, maybe on the Command Center Software side, sounded pretty strong, obviously, with Rave, a part of that. Could you maybe, Greg, talk a little bit about what's driving that, the addition of Rave seems to be positive. Is it adding to the ability to cross-sell some of the different platforms or – just a little bit more color on what's driving that and how Rave ties into that?

And then the second one, on the backlog still being record, it's pretty impressive. Most companies are seeing backlog coming down. So a little color there and maybe how that makes you feel about next year as far as growth? Do you think you can kind of sustain the type of growth rates you're seeing this year? Thank you.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Just on Rave and then maybe Mahesh can jump in. I would tell you, Tim, I love the acquisition. I think it was well done by the internal team here that found it did the diligence both technical, strategic as well as financial. I love Todd Piatt and his entire team that's come over to the organization. And the performance of Rave, since joining Motorola has exceeded the business case and exceeded our expectations.

Mahesh Saptharishi

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

Full year, I would say that we still expect our growth to be 20%. Look, our core platforms that's NG9-1-1, CAD, Records, Aware are all doing well as well. As Jason read out in the script, St. Charles, Missouri, just refreshed their call handling solution and adopted our geospatial routing NGCS Solution. Western Australia Police refreshed their CAD.

There's also an ecosystem story here. Rave is certainly performing well above our expectations. Arizona is now the 15th state to sign on to Rave Alert. It's a state as a state-wide mass notification system. And as we're doing that, we're also refreshing all the call handling instances across the PSAPs in Arizona. And our call handling system integrated with Rave as appropriate here as well.

When you think about a city like Glendale. Glendale now brings in radio, brings in CAD, 9-1-1, Rave, et cetera, now into a state-of-the-art real-time crime center, all integrated with Aware and now you can think about orchestration when major incidents happened on the heels of things like active shooter incidents, et cetera, that benefit from the fact that the ecosystem allows you to now respond much faster.

Jason Winkler

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

Tim, on backlog, we remain in a strong backlog position with an 8% revenue print in Q3 and backlog of \$14 billion or more being up 6%. Our backlog is very strong. And I'd also point out that our backlog comes over 95% of it from government customers, who buy what they need, when they need it and count on us to deliver it. So we remain – and Q3 orders inbound – in Q3 inbound orders were also strong. So our backlog position is one of strength, and Greg, I'll turn it to you for further comments.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yeah. And Tim, as it relates to 2024, obviously, we'll wait till February to give specifics on any kind of detailed guidance. I would tell you, as we sit here today from a high-level, we would estimate revenue, again, kind of back of the cocktail napkin to be about \$10.5 billion at this point as we sit here today. By the way, that's inclusive of \$250 million of incremental revenue headwinds, about \$200 million of that out of the UK Home Office, we've talked to you about that before.

The deferral of Airwave representing a little bit over \$100 million, the balance of that being the formal exit of ESN, for a total of \$200 million related to the UK Home Office, and anticipated FX headwinds of about \$50 million. So high level, as I sit here today and take a look, that's kind of how I would dimensionalize next year and filling in more detail when we get together in February.

Tim Long

Analyst, Barclays Capital, Inc.

Okay. Thanks very much guys. Appreciate it.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thank you Tim

Jason Winkler

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

Thank you

Operator: The next question comes from the line of George Notter with Jefferies. Your line is now open.

George C. Notter

Analyst, Jefferies LLC

Hi, guys. Thanks very much. Greg, you mentioned the UK, I guess, I was wondering what the latest and greatest is out of the UK. I know you guys were going through the CAT Tribunal process. I think the release today references that you still haven't heard back.

I think you had expected to hear back after a number of weeks. And so wondering what's going on there, wondering if the delay, anything back with you is potentially good news. But what do you think is going to happen there? And what does it look like in terms of the appeal processes if that CAT Tribunal process does not work out? Thanks.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yeah. On the UK, there's really no news to report, George. We had the hearing on August 2nd and 3rd. I think we reiterated the strong case, we feel with a high level of conviction. And you've heard me use adjectives before. I'm very specific with how I would describe the situation. I think it's unprecedented. I think it's overreaching. It's entirely disproportionate, but we made the case.

And as a result, we're waiting on that CAT, that Competition Appeals Tribunal, you referenced that ruling. It's a fairly opaque regulatory process, so I couldn't speculate one way or the other on how to interpret that. We'll wait to get it. I would anticipate getting it certainly between now and the end of the year. And as I've already said as well, if it, in turn, does not go our way, we will continue to exhaust all legal options to defend the position we have, provisioning and delivering outstanding and very reliable emergency communication services throughout the UK.

George C. Notter

Analyst, Jefferies LLC

Got it. And then just as a quick follow-up. I assume the – I understand that you guys have made the adjustment in terms of your financials and expectations. But I assume that contract is still going as is while we wait for the CAT Tribunal to make a decision and then potentially other appeals processes, is that correct? Or are you taking the price hit now?

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

That's right. We're still delivering the services. We're still investing in the network. We're still doing all the things that are expected of us to deliver superior, reliable emergency communication services. We've referenced this to your point, we did start the deferral of revenue on Airwave on August 1st.

So we're deferring that revenue through the balance of this year and that informs about \$200 million of incremental revenue headwinds for next year. Airwave all-in is about \$110 million or \$115 million of that with the balance of \$85 million or so being ESN. So we are obligated to recognize that accounting consistent with the price control of final remedies order, and we're doing that. If there's a different outcome, then we would change that accordingly.

George C. Notter

Analyst, Jefferies LLC

Thank you

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thanks George.

Operator: The next question is from the line of Keith Housum with Northcoast Research. Your line is now open.

Keith Housum

Analyst, Northcoast Research Partners LLC

Good morning, guys. And great quarter. In terms of the supply chain issues that you guys have had in terms of the semiconductor chips, where do we stand with that? I mean, do we still have a significant backlog of chips that might carry over into next year? Or is that largely caught up?

Jason J. Winkler

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

Keith, thanks for the question. The supply chain environment for our needs for chips, which I'll remind everyone is for generally 40 nanometers and above, is improving. Although, it's not to levels of normality. For example, lead times for certain chips are now approaching 25, 26 weeks where they had been double that, but in a normal environment, they should be 15 or 16.

So improvements, yes, and that's what's helping us drive the favorability of now \$70 million in the P&L, but still some opportunity to improve further, and that's what's incorporated into our expectations for Q4 that we'll continue to use the tools that we've been using for a number of quarters now, looking for substitutes, working with our supplier partners and using the available supply that we can find at lower prices.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

And we would expect continued PPV benefit in 2024 as well.

Jason J. Winkler

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

Yes. Next year, as we told you on the last call, we're planning for about \$60 million of 2024 incremental PPV relief over 2023. So we still have opportunity to capture there and expect that in the P&L. And again, that aligns to our expectations that things will continue to improve into 2024.

Keith Housum

Analyst, Northcoast Research Partners LLC

Great. Thanks. Appreciate it. If I can just follow-up; M&A has been a key part of Motorola's strategy over the years. As you're looking forward, I mean, is there anticipation that you're going to keep with some of these small tuck-in acquisitions? Or is there an appetite for perhaps a larger, more transformational acquisition as well?

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yeah. Well, we certainly are in great shape from a balance sheet standpoint and the firepower to do some things inorganically. It's ironic, Keith, because here we're sitting in November and we have not done an acquisition yet to-date. That is certainly not for a lack of an active and a fulsome funnel, but we've been pretty diligent and quite frankly, some sellers have been reluctant at prices that we thought would be more reasonably valued. That's okay.

Having said that, do I anticipate some continued M&A tuck-in activity? I do. And the team, Raj, Mahesh, Jack, Jason, Michael Annes are actively working that funnel. I think we still probably emphasize, in general, services and video security and access control as areas of probably higher priority than others that we would look to do inorganically. And if there's something larger for us to consider, we would evaluate that as well clear-eyed, but balanced both financially and strategically, and we'll see what comes.

Keith Housum

Analyst, Northcoast Research Partners LLC

Great.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thanks, Keith.

Operator: The next question is from the line of Adam Tindle with Raymond James. Your line is now open.

Adam Tindle

Analyst, Raymond James & Associates, Inc.

Okay. Thanks. Good afternoon. Congrats on the results. Greg, I wanted to start with backlog, again, record levels. Just, I guess the heart of the question would be how long you think this can continue? Do you think, we're going to exit this year with record backlog again? Or when do you expect to see maybe some level of attenuation or normalization slowing in backlog based on what your business looks like right now?

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yeah, I certainly wouldn't speculate on backlog, because I don't have a crystal ball. Having said that, Q3, we ended record backlog. Q3 was also a record order's quarter. So I love the funnel. I love our conversion. I love the record orders and I think we're well positioned. By the way, when I look at the quality of the backlog, in terms of aged or duration, that remains strong as well.

As Jason said, we still have to navigate supply chain on the semiconductor front. It's not normalized, lead times remain elevated. But at the end of the day, I like our end markets. I think they're pretty resilient. I like the demand and criticality for what we do, i.e., public safety and enterprise security informed by video security and access control, as well as all the great work Mahesh is doing on the product side, in Command Center.

So we'll see where we're at. But as we sit here in November, do I like how we're entering into 2024? Absolutely. And if there's any changes to that, obviously, we'll update you in February.

Adam Tindle

Analyst, Raymond James & Associates, Inc.

Got it. Okay. And then as we think about that backlog converting to revenue, obviously, supply chain's still challenged, but starting to get better. And I'm wondering what that could ultimately mean for 2024 growth in various scenarios.

Obviously, I'm not guiding to that. I hear you on the \$10.5 billion, but if supply were to kind of free up in a blue sky scenario, are you looking at high single-digit growth or grow better? What are the kind of the different scenarios based on potential backlog converting to revenue?

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yeah. I think I would just stick to the \$10.5 billion as a general high-level anticipated marker and reserve any additional color on either technologies or segments for the February conversation. But again, Adam, and I appreciate the question. But all I would tell you is I think, I feel very good about going into 2024 and we'll update you in about 90 days.

Adam Tindle

Analyst, Raymond James & Associates, Inc.

Okay. Yeah. Understood. I know you like to stay conservative, which I think we all appreciate. Maybe just one final point on this, for Jason. As this backlog comes through, can you maybe speak to the margin profile of that? I can't remember if you're a FIFO or LIFO, but there may be some benefit from higher priced backlog coming through and would think that would potentially help margins moving forward, but any finer point you can put on the mechanics of that would be helpful? Thanks.

Jason J. Winkler

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

Sure. So beginning in Q3 of last year is when our P&L began to see the benefits of the work that Jack and his team did around strategic pricing. We've seen that continue in the back half of last year as well as the entirety of this year. So continue to focus on price and optimization and some of our new products, which customers really like also come at a price increase for us.

So in terms of backlog, we prioritize around, first of all, customers – priority goes to public safety. But for the most part, the backlog that we do have in products is representative of the prices that we've implemented circa July of last year. So you've seen it show up in the P&L, and we would expect that to continue with our growth being driven by both volume and price.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

And I think we do expect operating margin next year.

Jason J. Winkler

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

Absolutely.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yes, exactly.

Adam Tindle

Analyst, Raymond James & Associates, Inc.

Okay. Appreciate that clarification. Thanks, Greg.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thanks, Adam

Operator: The next question comes from the line of Tomer Zilberman with Bank of America. Your line is open.

Tomer Zilberman

Analyst, BofA Securities, Inc.

Hey, guys. Thank you for the question. Just the first one for me. So your revenue outperformance this quarter versus Street expectations really shown through LMR and Command Center, but it looks like you fell a little bit short on a Video product and SI. Can you talk about the weakness there? What drove the 5% growth this quarter?

Jack Molloy

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

Sure. Thanks, Tomer. So first of all, I want to highlight the fact that we're actually really pleased with Q3 because the 8% is against the backdrop of a comp last Q3 of 33%. So our full year expectations remain unchanged. It's really a linearity story.

And I think leaving that, I think we take a look at it and say, from an alignment standpoint, from the portfolio investments, we just announced the H6A camera. We're now shipping the ACC 8, which is a unified video management solution.

And then more importantly, if you think about the verticals that we serve, it's government, which has shown a resilience in funding, it's education, it's healthcare and industrial, which has actually grew 17% for us this quarter. We're really pleased and we think there's good synergies on the investments we're making in the markets that we serve.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

And Tomer, I think you said 5% per Video, as Jack said Video...

Jack Molloy

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

Actually...

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

8%

Jack Molloy

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

8% over 33%.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Over 33% comp. In terms of the segment, S&S, of 5%, I remind you that includes the decrement and deferral of Airwave revenue, which is important and compresses that. But at the same time, we continue to have great performance in Command Center software with the strong print for Q3.

We have strong managed services performance and something that's not even reflected in Q3 is Denmark. And Molloy's team did a fabulous job on a multiyear project and multiyear managed services contract to close on Denmark. So I think that also should inform how you interpret the S&S performance.

Tomer Zilberman

Analyst, BofA Securities, Inc.

Got it. And if I can just follow-up. In terms of your 4Q and your fiscal guidance, I'm sure this is just something more with language than anything, but your 4Q guidance of 4% implies the higher end of your revamped fiscal guidance, while the low end of your fiscal guidance would imply around 3.5% growth for 4Q. So can you just talk about what would draw – what could happen that would draw that incremental 0.5 point weakness?

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yeah. I think what I would say, Tomer, is I kind of focus on the approximately 4%. I understand the math differences of how you've disaggregated it. But we're looking and anticipate 4% revenue growth for Q4.

By the way, that's in the face of \$105 million of headwind for Q4, \$50 million, which is the Airwave deferral that's in that growth, \$40 million, which is the business – light business model, change that we informed you on a couple of months ago, a couple of quarters ago and there's \$15 million of additional FX headwinds. So the 4% is actually pretty healthy quarter that we're pretty proud of, and that's why we're raising the full year accordingly as well.

Tomer Zilberman

Analyst, BofA Securities, Inc.

Great. Thank you.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thanks, Tomer.

Operator: The next question comes from the line of Meta Marshall with Morgan Stanley. Your line is now open.

Meta Marshall

Analyst, Morgan Stanley & Co. LLC

Great. Thanks. I just wanted to dive into a couple of your comments on the call. You guys noted that Rave was doing very well. Is that more customers coming on? Is that you're able to kind of cross-sell it? Is that upsizing other products along with it? Just kind of where some of that Rave strength coming from?

And then maybe on the federal side as well, I noted you talked about the \$75 million P25 deal, but just – is that a broadening of agencies, just faster refreshes, just kind of commentary on the two sources upside this quarter would be helpful. Thanks.

Mahesh Saptharishi

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

Just to start out with on the integrations piece, we announced a quarter ago, I believe, at this point, where we are bundling Rave with all our new VESTA offers going forward. There's an integration between our call handling solution and Rave as well.

We have deeper penetration into the education market with our integration with Orchestrate and with our Video solutions, panic button being a big part of it. We integrated the panic button Rave elements with Aware – CommandCentral Aware for Real-Time Crime Center. So all of that acts as a very positive synergy and I think that helps with the really accelerating Rave adoption across the board.

Jack Molloy

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

As it relates to federal, we're having a record year. And as you know, the federal government close just occurred September 30. We're seeing it, it's broad-based. It's Department of Defense, it's civil, it's law enforcement, it's multiyear.

So we're really pleased with what happened in federal. And then when you start to think about some of the federal supplemental requests, one of the items in there is \$106 billion for the critical national security, which is going to fund Ukraine and Israel. What I would highlight is during the course of this year, we've actually shipped \$100 million into Ukraine, a little greater than \$100 million at this point in time. So as you think about it, everything related to federal, Joe Balchune and John Zidar and their team have really done a job we're really pleased with.

Jason Winkler

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

And just to remind everybody, the size and scale of our federal business last year was 7% of our total revenues. This year, it's trending slightly higher than that. It's an important market for us. And it remains an area of focus, but it's smaller than state and local.

Jack Molloy

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

And one final thing, Meta, that we've talked about is, around the NDA and Secure Communications Act, that has essentially been an unfunded mandate. And now there's \$450 million at the cybersecurity state and local grant, that's going to fund rip and replace, which should be beneficial from a camera business standpoint.

Meta Marshall

Analyst, Morgan Stanley & Co. LLC

Great. Thank you.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thanks, Meta.

Operator: The next question from the line of Ben Bollin with Cleveland Research. Your line is now open.

Brian Wilcox

Associate Analyst, Cleveland Research Co. LLC

Good afternoon. Thanks for taking question. This is Brian Wilcox on for Ben. I was wondering if you could update us on the APX NEXT refresh cycle and where we are in that and how you see that playing out into 2024 and 2025.

Jack Molloy

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

Sure. So in two words, I'd say, momentum acceleration. We're now in receipt of \$600 million of orders since our introduction in late 2020. We actually did \$100 million of orders in Q3 2023. I think the thing we're most pleased with is we're having good success within major cities, but we're now starting to see smaller state and local customers place orders against us.

I would, attribute a few things. A lot of the basics, I would call world-class ergonomics, audio quality. But the game changer for us has really been the application adoption, customers – the demand to have location that works hand in glove with our Command Center software and Rave solution, the ease of use by way of smart programming and then the ability to extend the network through SmartConnect have really been a game changer. I think we look at it and say they're – when we look at our portfolio, APX NEXT family of radios, there's really nothing like it in the public safety domain.

Brian Wilcox

Associate Analyst, Cleveland Research Co. LLC

Okay.

Jack Molloy

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

And as we've said, I think you asked the follow-on question around 2024, we've typically said our LMR business and the device plays into that as it's a mid-single-digit kind of business.

Brian Wilcox

Associate Analyst, Cleveland Research Co. LLC

Okay. And one follow-up, if I could, on the surveillance business. I think you called out some incremental verticals getting involved there, but would love to hear your perspective on the mix between commercial and public sector and surveillance and kind of how that's shifted and where it's going.

Jack Molloy

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

Sure. So public safety is now one of our two largest vertical markets in terms of video security. And I'd remind everybody that we acquired Avigilon that was essentially a nascent business. So that's been the function of our sales team's ability to take a new portfolio in the government. So that's the first thing.

In the enterprise, our business in enterprise, particularly in video security and access control is a little different than most. It's really centered around safety and security. The primary verticals that we touch there, as we've said, is education, it's healthcare. And then business around energy production and utilities and transportation, which have all grown as well. Those are really the core verticals for that business in the enterprise space.

Brian Wilcox

Associate Analyst, Cleveland Research Co. LLC

Thank you.

Operator: The next question comes from the line of Joe Cardoso with JP Morgan. Your line is now open.

Joseph Cardoso

Analyst, J.P. Morgan Securities LLC

Hey, good afternoon, and thanks for the questions. I actually just want to follow-up on the APX NEXT comments and the momentum you're seeing there and combo with the LMR growing mid-single digits. We're just coming up against some

quarters with tough compares. So I just wanted to – just curious or maybe it's more of a clarification. If you think that mid-single-digit growth is sustainable even on top of these difficult compares over the next couple of quarters? And then I have a follow-up. Thank you.

Jason Winkler

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

So our portfolio is refreshing itself around APX NEXT, as Jack mentioned, \$600 million of orders since introduction in 2020. And we have continued to invest in other parts of the portfolio, too, like TETRA and others.

So we're at still early stages of device refresh and while having had a number of good quarters and continued demand, we would expect to continue to be able to grow that business as well as, as I mentioned earlier, the pricing strategy that supports the investments that we make and we spend a sizable amount of R&D to innovate and advance the portfolio should lead to continued growth in the next year.

Joseph Cardoso

Analyst, J.P. Morgan Securities LLC

Got it. That's great. And then my follow-ups actually on free cash flow. You had another solid quarter here. It appears that tailwinds are materializing, example being the elevated levels of inventories that we've seen over the past couple of quarters, that's coming down a bit.

I guess if we take a step back and we starting to cycle past some of the choppy free cash flow generation we've seen over the past couple of quarters, just given kind of that dynamic macro environment and returning more to a consistency type of level we've seen in the past relative to conversions. Any thoughts on whether the level of shareholder return can be maintained or accelerated going forward, just given working capital improving, the momentum behind the business, et cetera? Thanks guys.

Jason Winkler

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

Sure. So I'll start with this year. I mentioned that we're solidly on track to deliver on the \$1.9 billion in cash flow. That was an aggressive plan that we set at the beginning of the year. We mentioned in February that, that included \$300 million of higher cash taxes over 2022. And with cash flow at this point through three quarters being up, we are well positioned to deliver on that \$1.9 billion.

You're also right in that our inventory levels continue to come down. They're down \$200 million from this point last year. They're down \$85 million sequentially and they're still at \$950 million. So as we look into next year and the opportunities, we envision continued opportunity to balance investments in inventory with record backlog and working capital optimization into the future.

Joseph Cardoso

Analyst, J.P. Morgan Securities LLC

Got it. Thanks for all the color.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thanks, Joe.

Operator: [Operator Instructions] [Pause] 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.

So first of all, thanks for everybody dialing in and listening, but also thank you to everybody at Motorola Solutions. A great quarter, great execution, lot of moving parts, but I love the team we've assembled, and I love the collaboration and pristine focus we have, both balancing results and investing for the long term.

I also would say in closing that in a world of challenging and increasing threats, I think the investments we've made in safety and security are as important as ever. In effect, when you think about what we do, we are solving for safer. We're solving for safer communities, safer schools, safer hospitals, safer stadiums.

And we do that by linking and integrating public safety with private organizations and private institutions to ensure that the solutions that we deliver and provision and the bidirectional customized workflow within them, protect people, property and places.

Again, I'm proud of everybody. I think the outlook for our business is strong. Record orders, record backlog, a robust funnel, lots to do, but also lots of opportunity as well. Look forward to talking to you in February. Thanks.

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