



Q4 2023 Earnings Conference Call Thursday, February 8, 2024

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

George C. Notter – Analyst, Jefferies LLC
Tim Long – Analyst, Barclays Capital, Inc.
Matthew Niknam – Analyst, Deutsche Bank Securities, Inc.
Adam Tindle, Analyst, Raymond James & Associates, Inc.
Joseph Cardoso – Analyst, J.P. Morgan Securities, LLC
Tomer Zilbrman – Analyst, BofA Securities, Inc.
Ben Bollin – Analyst, Cleveland Research Co. LLC
Keith Housum – Analyst, Northcoast Research Partners LLC
Louie DiPalma – Analyst, William Blair & Co. LLC
Jamie Reynolds – Analyst, Morgan Stanley & Co. LLC

MOTOROLA SOLUTIONS, INC. MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for holding. Welcome to the Motorola Solutions Fourth Quarter 2023 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 the 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.

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 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 motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliations for your reference. And during the call, we'll 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 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, and good afternoon, and thanks for joining us today.

First, Q4 was an exceptional quarter, achieved record revenue in both segments and all three technologies, including double-digit growth in Video Security and Command Center, highlighting the strength and robust demand for our Safety and Security Solutions that help protect people, property, and places.

Additionally, we expanded operating margins for the sixth consecutive quarter, generated over \$1.2 billion of operating cash flow and strengthened our Video Security portfolio with the recent acquisition of IPVideo, creator of the HALO Smart Sensor. Second, our full year results were outstanding. In our Products and SI segment, we grew revenue 9%, driven by strong growth in both LMR and Video Security, and we ended the year with record product backlog. We also expanded operating margins in the segment by 380 basis points, driven in part by higher ASPs and lower product costs.

In Software and Services, revenue was up 10%, inclusive of the Airwave revenue reduction, highlighted by strong growth in Video Security, Command Center and our Services business outside of the UK. And we also generated record operating cash flow of \$2 billion, up 12% versus the prior year. And finally, as we enter 2024, our robust backlog position coupled with the continued strong demand for our Safety and Security Solutions positions us well for another year of strong revenue and earnings growth.

And with that, I'm going to turn the call over to Jason.

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

Thank you, Greg. Revenue for the quarter grew 5% and was above our guidance with growth in both segments, both regions and all three technologies. FX tailwinds during the quarter were \$16 million, while acquisitions added \$17 million.

GAAP operating earnings were \$738 million, or 25.9% of sales, up from 25.6% in the year-ago quarter. Non-GAAP operating earnings were \$870 million, up 6% from the year-ago quarter and non-GAAP operating margin was 30.5%, up 10 basis points. The increase in both GAAP and non-GAAP operating earnings was driven by higher sales and lower direct material costs.

GAAP earnings per share was \$3.47, up from \$3.43 in the year-ago quarter. Non-GAAP EPS was \$3.90, up 8% from \$3.60 last year. The growth in EPS was driven by higher sales and higher margins. OpEx in Q4 was \$597 million, up \$60 million versus last year, primarily due to higher incentives and acquisitions in the current year.

For the full year 2023, revenue was \$10 billion, up 10%, with strong growth in both segments and across all three technologies. Revenue from acquisitions was \$98 million and the impact of unfavorable foreign currency rates was \$38 million. GAAP operating earnings were \$2.3 billion, or 23% of sales versus 18.2% in the prior year. The increase was primarily driven by lower direct material costs, higher sales, the \$147 million ESN fixed asset impairment charge in the prior year and lower intangible amortization expense in the current year. Non-GAAP operating earnings were \$2.8 billion,

up \$416 million and non-GAAP operating margins were 27.9% of sales, up from 26% of sales in the prior year, driven by lower direct material costs, higher sales, inclusive of higher ASPs, and improved operating leverage.

GAAP earnings per share was \$9.93, up 25% compared to \$7.93 in the prior year, primarily driven by higher earnings and the asset impairment charge related to the exit of ESN in the prior year, partially offset by a higher effective tax rate in the current year. Non-GAAP earnings per share was \$11.95, up 15% from \$10.36 in 2022 on higher earnings, partially offset by a higher effective tax rate. For the full year, OpEx was \$2.2 billion, up \$178 million versus 2022, primarily driven by higher employee incentives and higher expenses associated with investments in Video and Rave. And the effective tax rate for 2023 was 21.9% compared to 20.1% in the prior year due to lower benefits from employee stock-based compensation in the current year.

Turning to our cash flow. Q4 operating cash flow was \$1.2 billion, driven by higher earnings, partially offset by higher cash taxes. And for the full year, we generated record operating cash flow of \$2 billion and record free cash flow of \$1.8 billion. The increase was driven by higher earnings, partially offset by higher cash taxes. Capital allocation for 2023 included \$804 million in share repurchases, \$589 million in cash dividends and \$253 million of CapEx. Additionally, during the quarter, our board of directors approved a \$2 billion increase to the share repurchase program and an 11% increase in our dividend, which is the 13th consecutive year of double-digit increases.

Moving next to segment results. In the Products and SI segment, Q4 sales were up 4% versus last year, driven by growth in LMR and Video. Operating earnings were \$567 million or 30.0% of sales, up from 28.4% in the prior year driven by higher sales and lower direct material costs. Some notable Q4 wins and achievements in this segment include a \$90 million P25 system and devices order from a US customer; a \$67 million P25 device order for Emergency Services Telecommunications Authority in Australia, a \$57 million P25 APX NEXT devices order for a US customer, a \$38 million P25 system order for the State of Arizona Department of Public Safety, a \$31 million TETRA System order for a European customer, and a \$13 million fixed video order for an international customer.

And for the full year, Products and SI revenue was \$6.2 billion, up 9% from the prior year, driven by higher sales of LMR and Video. Revenue from acquisitions was \$15 million and currency headwinds were \$19 million. Full year operating earnings were \$1.5 billion or 24.3% of sales, up from 20.5% in the prior year on higher sales, inclusive of higher ASPs and lower direct material costs.

In Software and Services, Q4 revenue was up 7%, driven by growth in Video, Command Center and LMR. Revenue from acquisitions was \$15 million in the quarter, and FX tailwinds were \$11 million. Q4 operating earnings in the segment were \$303 million and operating margins were 31.6%, down from 34.4% last year, primarily driven by the Airwave revenue reduction related to the price control. Some notable Q4 highlights in the segment; include a \$330+ million LMR managed services renewal through 2034 for Denmark's Nationwide Public Safety Communications Network, a \$48 million Command Center order for the City of Chicago's Office of Public Safety Administration, a \$20 million LMR service agreement for Spokane, Washington's Regional Emergency Communications and a \$19 million mobile video order from a US customer, and finally, a \$10 million Command Center order for the City and County of San Francisco.

For the full year, revenue was \$3.7 billion, up 10% on growth in LMR Services, Command Center and Video. Revenue from acquisitions was \$83 million and currency headwinds were \$19 million. For the full year, operating earnings were \$1.3 billion or 33.9% of sales, down 140 basis points versus the prior year driven by the Airwave revenue reduction and higher acquisition-related expenses.

Looking next at our regional results. North America revenue was \$2 billion in Q4, up 6% and \$6.9 billion for the full year, up 9% driven by growth in both segments and across all three technologies. And in international, Q4 revenue was \$832 million, up 3% versus last year, driven by growth in Video and LMR. And for the full year, international revenue was \$3 billion, up 11% versus last year, driven by growth in LMR and Video.

Moving to backlog. Ending backlog for Q4 was \$14.3 billion, down \$88 million versus last year, inclusive of approximately \$1 billion of backlog reduction related to the Airwave price control and revenue recognition for Airwave and ESN. Sequentially, backlog was down \$15 million, inclusive of the Airwave and ESN reduction and \$160 million of favorable FX.

In the Products and SI segment, ending backlog was up \$93 million, or 2%, driven primarily by strong demand in North America. Sequentially, backlog was up \$99 million, also driven by demand in North America.

In Software and Services backlog decreased \$181 million from last year and \$114 million sequentially. Excluding Airwave and ESN, Software and Services backlog was up almost \$800 million versus last year, driven by strong multiyear agreements in both regions.

Turning now to our outlook. We expect Q1 sales to be up approximately 8% with non-GAAP earnings per share between \$2.50 and \$2.55 per share. This assumes a weighted average diluted share count of approximately 172 million shares and an effective tax rate of approximately 23%.

And for the full year, we expect revenue growth of approximately 6%, and non-GAAP earnings per share between \$12.62 and \$12.72 per share. This full year outlook assumes a weighted average diluted share count of approximately 171 million shares and an effective tax rate between 23% and 24%. Additionally, we expect another strong year of operating cash flow with 2024 expectations of \$2.2 billion in operating cash flow.

And before I turn it back to Greg, I wanted to share some additional highlights. First, I want to give you some color on the technology growth expectations that are included in the sales guidance for the year. In Video Security and Access Control, we're planning for 10% growth, which is informed by the acceleration and strong adoption of our cloud offerings.

For Command Center, we also expect 10% growth consistent with last year's organic growth rate. And in LMR, we expect to grow mid-single digits or high-single digits when normalized for the impact of the UK Home Office.

Second, I would like to share with you some exciting updates about our Video business. In light of two recent partnerships that support our growth expectations, one with Jabil and another with Google. With Jabil, we've entered into a strategic manufacturing agreement where Jabil will assume responsibility for our manufacturing operations at our sites in Canada and Texas. This agreement further optimizes our video supply chain, provides redundancy, future cost savings and scalability.

Additionally, it allows us to focus on engineering, designing and bringing to market video solutions that serve our customer security needs, while continuing to enable regulatory compliance with NDAA rules for the procurement of secure equipment.

And with Google, yesterday, we announced a new strategic agreement with Google Cloud that harnesses the power of their latest cloud advancements to enable Assistive Intelligence, such as accurate and reliable video content delivery, mapping and other AI capabilities. Google Cloud also enables Avigilon Alta, our fast-growing cloud-native fixed video and access control platform, which we introduced a little more than a year ago.

Alta combines the power of our AI analytics with the ease and simplicity of a cloud-delivered VMS that is increasingly preferred by some verticals like education. The rapid adoption in Alta contributed almost a quarter of our growth last year to total Video and includes a higher subscription attachment compared to a traditional Avigilon-Unity sale.

And finally, we ended the year with a very strong balance sheet, including \$1.7 billion in cash, a fixed-rate balance debt maturity profile and our net debt-to-EBITDA ratio of 1.4 times is our lowest, since 2015 providing us with ample flexibility to continue to deploy capital and drive shareholder value.

I'll now turn the call back to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thanks, Jason.

First, 2023 was a phenomenal year for the company. We achieved record sales in both segments and all three technologies, significantly expanded operating margins, grew earnings per share by 15% and generated record operating cash flow of \$2 billion.

We also returned \$1.4 billion to our shareholders through dividends and share repurchases, and we strengthened our Video Security portfolio with the recent acquisition of IPVideo.

Second, this past November, we announced our new brand narrative, Solving for Safer. This reflects our purposeful transformation centered on public safety and enterprise security and our sharpened focus on solving for safer communities, safer schools and safer businesses.

Our solutions across LMR, Video Security and Command Center that are powered by Artificial Intelligence, enable collaboration between public safety agencies and enterprises, connecting those in need with those who can help. And while we recognize technology is not the only way to a safer future, it does play a vital role.

And finally, as we enter 2024, the momentum of our business remains strong. Funding for public safety continues to be a priority, investments we've made in the portfolio, including our APX NEXT device and by the way, the software applications that run on this device are driving higher ASPs for our products and strong growth in Software and Services.

We're also seeing a noticeable acceleration of cloud adoption and video security that is driving margin accretive revenues in Software and Services. And with our exceptionally strong balance sheet, we have the opportunity to continue to deploy capital to drive long-term shareholder value. I'm extremely pleased how we're positioned and I expect 2024 to be another year of strong revenue and earnings growth for our company.

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

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, please remind our callers on the line how to ask a question.

QUESTION AND ANSWER SECTION

Operator: The floor is now open for questions. [Operator Instructions] Thank you. The first question is from George Notter with Jefferies. Your line is now open.

George C. Notter

Analyst, Jefferies LLC

Hi, guys. Thanks a lot. I have a question on the margin expansion in the business. I guess, I wanted to ask about what kind of headwinds you guys still had running through the business in 2023. I'm thinking about things like expedite fees and even freight costs. I know that a lot of those fees didn't come out of the model until you guys had burned down some backlog.

So I guess, I'm wondering how much of the headwind was in the 2023 numbers? And then I assume that will be all out fully for the 2024 year, I'm just kind of wondering what kind of benefit you might get on margins there? And then just as a follow-up, a second question was just on Silver Lake. I'm just curious about, is there any update there on what those guys might do? And how much you kind of fund the unwind of that position? Thanks a lot.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

George, so just to reconfirm, we do expect operating margin expansion for 2024. That's in part by informed – continued improvement in PPV. I have to compliment, Jason, in the supply chain and Jack's Ops team did a great job exceeding what we set out as targets last year. And to remind you, we are expecting another \$60 million of PPV improvement in this year in 2024.

From a gross margin standpoint, for the firm, we expect them to be comparable to slightly up. So I think we do a pretty good job on the operating leverage side of this business, both on gross margin and operating margin. By the way, the OpEx envelope year-over-year is probably going to be up about \$80 million 2024 over 2023 of which half is organic, \$40 million and \$40 million is inorganic.

As it relates to Silver Lake, really no update that they are in the final year of their second five-year pipe. It expires in September. The diluted share count is already calculated into our EPS expectations. So, really nothing to report at this point. The partnership remains good, and we'll see how that plays forward for the balance of the year.

By the way, we do expect as we think about Silver Lake on the expiration of the pipe, we do expect higher interest expense this year to be about \$40 million, which includes the assumption of \$1.3 billion of refinancing, of which \$1 billion is the Silver Lake notes and \$300 million is debt that expires in September this year.

George C. Notter

Analyst, Jefferies LLC

Great. That's helpful. Thanks very much.

Operator: The next question comes from the line of Tim Long with Barclays. Your line is now open.

Tim Long

Analyst, Barclays Capital, Inc.

Thank you. Just wanted to ask a little bit on the top line. Maybe, Greg, for you, the Q1 guide looks pretty strong, but the full year is a little bit lower on growth. So maybe can you talk about visibility or what you're kind of expecting in the back half of

the year? Is it just compares or conservatism or anything else we need to be aware of for that little discrepancy in growth rates?

And then I did want to, secondly, follow-up on the Video 10% growth. I mean, obviously, the numbers are getting bigger here. But can you kind of put that in context of where you are with share gains? And getting deeper into the government verticals and getting some benefits this year from ARPA funding, say on safe schools and other areas, if you can just put that into context with some of those drivers, that would be great? Thank you.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

So let's take the full year first. I think it's important to say that I'm super proud of last year. But to your point, as we're sitting here in February, backlog is strong, but Tim, so is the pipeline. So we're in a good aged backlog position, but the pipeline remains strong as well, which makes me feel good about where we sit here for the balance of the year.

I'd also tell you that when we think about the full year guide, it's coming off of a Q4 that exceeded our guidance. It's coming off of a full year that exceeded our guidance. And if you anchor it to the color I gave last time at about \$10.5 billion, it's about \$75 million higher than that reference a quarter ago.

Now having said all that, so we guide for full year 6%. I remind you that \$200 million is a headwind related to the UK Home Office. So year-over-year, we expect Airwave revenue to be about \$375 million. But if you take year-over-year, you add in the \$200 million full year UK Home Office headwind that can normalize the year-over-year comparison.

Additionally, one other thing worth mentioning is, and Jack talked about this a quarter ago, we had exceptionally strong revenue contribution from Ukraine of \$150 million last year. And based on what's expected to be shipped in backlog, we expect that to be \$50 million. So you take the year-over-year 6%, you take \$200 million decrement for UK Home Office headwind. You normalize for Ukraine, and I think our growth is quite solid and a prudent guide at this point in time.

Jason J. Winkler

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

One other insight into the Video growth of approximately 10% this year. Within that, we're really pleased with the cloud growth that we're seeing.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

True.

Jason J. Winkler

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

Alta, which we talked about on the call as a platform, which is cloud-native is growing exceptionally well. We've also made a decision to rationalize some of our on-prem VMS. And the combination of that growth rate in 2024 and rationalizing the VMS is about \$40 million of impact in 2024. So we're continuing to grow, and Jack, if you want to talk about the market and how we're doing in Video?

Jack Molloy

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

Yeah. Tim, I'd also dimensionalize both. Jason alluded to it both in script and his comments. Cloud's growing, but we also – our expectations are also that our on-prem business is very healthy, continues to grow. As it relates to share, we believe we're continuing to take market share.

You also asked a question, Tim, in government. Total government video sales, that encompasses both mobile and fixed video, are now at \$500 million in 2023. And I would highlight our government video growth is growing faster than our overall total business. So I think – I don't think it's being driven at all by ARPA. I think it's being driven by prioritization and really building more and more efficiency and mobility within police forces as they have to contend with more and more crime.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Tim, one other thing, just because we're still to George's question, weaning off PPV and we'll have some commensurate benefits this year. If you take last year and this year, as we're working through this supply chain and elevated inventory and improved freight in PPV. If you look at first half and second half, Tim, to your point about guide and linearity, it's very similar to last year. So I'm not concerned about anything as we sit here with our expectation for the full year performance.

Tim Long

Analyst, Barclays Capital, Inc.

Okay. Thank you very much.

Operator: The next question comes from the line of Matthew Niknam with Deutsche Bank. Your line is now open.

Matthew Niknam

Analyst, Deutsche Bank Securities Inc.

Hey, guys. Thank you for taking the questions. One question, one follow-up. So just on the supply chain. I think this was alluded to a little bit, but just if you can give any more color on the latest you're seeing there? And any noticeable impact from some of the disruption we've seen on the Red Sea front, if that's impacted you guys at all in terms of costs? And then secondarily, can you just talk a little bit more about the Jabil agreements, strategic rationale there and any cost implications we should keep in mind? Thank you.

Jason J. Winkler

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

Sure, I'll answer the second one first. The Jabil agreement is for them in 2024 to operate the two factories that will be transitioning to them. So not a significant change in cost profile in 2024. But as we look to 2025 and with our growth expectations, there will be opportunities for cost as well as an efficient way to scale the growth that we're expecting. So it was an agreement and us looking into the future and we're very pleased with it and providing us additional redundancy as well. It will help us scale, grow and also manage our cost envelope as we grow.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

And The Red Sea?

Jason J. Winkler

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

The Red Sea, we remain primarily on air as our mode of transportation. And so as a result, not a lot on the ocean and the impact of higher container rates is negligible for us. So given the state of the supply chain, while it's improving, we found that air and air rates are a good investment to make. And make sure that we're getting everything we need when we need it.

We've seen continued improvement from supply chain and our vendors, particularly in semiconductors. And they have some improvements to make, and we expect them to continue to improve on the deliveries of, in particular, nanometer chips of 40 nanometers and above in some cases. So improving and working through it.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

And as we work through the year, it would be our expectation at the end of the year, to have overall inventory reduced again this year as things normalize and improve.

Matthew Niknam

Analyst, Deutsche Bank Securities Inc.

That's relative to the \$827 million you ended last year at?

Jason J. Winkler

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

That's right. The \$827 million was down \$200 million from its 12-month predecessor, and we expect to drive the \$827 million down even further by year's end as we navigate an improving environment.

Matthew Niknam

Analyst, Deutsche Bank Securities Inc.

Appreciate it. Thank you.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thank you.

Operator: The next question comes 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. Jason, I just wanted to start on backlog trends for a clarification. I know reported backlog in total appears – the headline appears to be down. But I think there's a lot of impact from Airwave in that. Could you just give us a sense of what backlog looks like ex Airwave?

And then just as a follow-up on that topic, either Jack or Greg or if you want to both weigh in. This is just a metric that I think investors are watching very closely because backlog builds and records have happened across tech hardware, whether it's Cisco in networking or PCs before that, and led to a sharper digestion period than initially anticipated once that backlog started softening.

So I wonder if you could maybe just double-click on the current state of supply and demand and address how you think about the similarities or differences in what you're seeing in your business? And the time and shape of normalization if and when that does happen? Thank you.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yeah. I would start, Adam, and tell you that this is one of the things I'm most proud of when I look at the trend for the full year. Overall backlog of \$14.3 billion, ending year from a year ago with absorbing just under a \$800 million decrement for the calculation of Airwave. And the three-year plus or three-year backlog that, that sits. So be able to keep that at the same level or comparable levels with that reduction is pretty significant.

The other thing that gives me optimism is the exceptionally strong product backlog that we exited Q4 and the aged backlog that we sit in the position of as we enter. But I also remind you, so I love the backlog position, but I also love the pipeline. And the ongoing demand and what I see in the funnel and when I look at Molloy and his team's conversion rates, I'm optimistic by what's in backlog. I'm also optimistic what's in pipeline.

Jason J. Winkler

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

Couple of attributes, I think, that are important to understand in our backlog. First, over 95% of our backlog comes to us from our government customers and our public safety customers. So, and the majority of that is a direct relationship and a contractual one between us and an end customer, that is very important.

And secondly, as you think about our backlog, we entered the year, much like last year, in a position where about half of our revenues for the year, a little bit more than that, will come to us from backlog. And with that strength, combined with the pipeline strength, that's what informs our guide for our 6% growth.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Exactly.

Adam Tindle

Analyst, Raymond James & Associates, Inc.

Very helpful. Just quickly, Jason, sorry, if I missed it. Did you talk about free cash flow expectations in 2024? And any benefit from working capital with the Jabil agreement? I know sometimes that could have some transitional working capital that may be favorable. So free cash flow and the potential benefit?

Jason J. Winkler

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

Yeah. Given the 2024 is an operate in place kind of steady agreement, the working capital benefits are minimal in terms of that agreement. That said, we do expect working capital improvement. We talked about inventory, our outlook for operating cash flow is \$2.2 billion. That's up off of last year's record \$2 billion. And within that operating cash flow, the contribution for our CapEx continues to be 15% or less. So we're expecting another strong year of cash flow.

Adam Tindle

Analyst, Raymond James & Associates, Inc.

Very helpful. Thank you.

Operator: The next question comes from the line of Joseph Cardoso with JPMorgan. Your line is now open.

Joseph Cardoso

Analyst, J.P. Morgan Securities LLC

Hey. Thanks for the question, guys. I just wanted to follow up on the last free cash flow question. I guess when I'm taking a look at it kind of implies that you're going to have a nice step up in free cash flow generation, which, in combination, exiting 2023 with, I think, \$1.7 billion of cash on the balance sheet. It looks like you'll have a fair bit of dry powder. Can you just help us think about the appetite in 2024 to deploy cash buybacks, M&A? Like should we be thinking about a more aggressive than typical nature? Any color would be appreciated. Thank you.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Just in terms of capital allocation, we always think of it, and I love the fact that we have the balance sheet that we do. Jason, in his remarks talked about 1.4 net debt-to-adjusted EBITDA. So I love the flexibility that gives us. I'm proud of the way we are good stewards of capital, both returning it to the shareholder and share repo and dividend, but being surgical and thoughtful to accretive acquisitions as well.

So you think about this cash flow, and I always think the wheel of 55%, 30%, 15%. 55% of that cash flow is available for share repo or acquisition, fungible between the two, representative of the opportunities that come our way. 30% is dividend and 15%, as Jason just referenced, is CapEx.

Even though we made only one acquisition at the end of the year in IPVideo, it certainly wasn't reflective of the engagements that we had. I think there's a lot of opportunity. I love the fact that we have the organic opportunity, whether it's device refresh, public safety prioritization, ARPA funding, enterprise opportunity, video and government. You know the opportunities that are in front of us organically, which are consequential. Equally, I'm excited about acquisition opportunities that can make our portfolio stronger, particularly around either Video, Software or Services. So that's how we think about it.

Jason J. Winkler

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

The other thing that was noteworthy in 2023, given the strength of our balance sheet is that we did earn an upgrade from Moody's to Baa2, and as Greg mentioned, we'll be in the debt markets this year, refinancing \$1.3 billion, and so having taken note of the strength of the cash flow in 2023 as well as our expectations in 2024 that will help us as we refinance.

Joseph Cardoso

Analyst, J.P. Morgan Securities LLC

No, guys, I appreciate the color there. And then just for my follow-up, can we just get an update on Airwave? I noticed in the press release it sounded like you guys have the option to file an application with the UK Court of Appeal. Like are you guys actually taking that step? Can you provide any color around that? And then any color in terms of the next steps beyond the filing and what other options you have at your disposal? Thanks for the question.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yeah. We will pursue the next step, which is appealing to the UK Court of Appeals. We anticipate doing that next week. I've said all along, and we remain pretty consistent that, this whole thing is beyond unique. We still believe it's unprecedented. We think it's legally flawed, but I'm not going to wine about it. I'm consistent in our description, we're going to pursue all the avenues available to us to defend our position.

So to your point, that will be the filing of the appeal to the UK Court of Appeals next week, unclear how long that will take. Probably several months, but that remains to be seen.

The only other thing I'd say is in public commentary that has been made with the CMA and other Parliamentary hearings. It's pretty obvious that they believe that Airwave will be needed well beyond 2026. The references have been made by different parties to either needing it through 2029 or 2030. So we will continue to move forward as best we can, engaging where we can, maintaining the investments that we need to make in this network and customer service levels is as high as they've ever been.

Jason J. Winkler

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

And just as a reminder, our current backlog with the adjustment we mentioned in Q4 has our contract with the UK Home Office through 2026.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

That's right.

Jason J. Winkler

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

There's opportunity for us to serve that account beyond that.

Joseph Cardoso

Analyst, J.P. Morgan Securities LLC

I appreciate the color, guys. Thanks. Thanks for all the questions.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thank you.

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

Tomer Zilberman

Analyst, BofA Securities, Inc.

Hey, guys. Thank you for the question. Just wanted to start off first with ARPA. I just want to get an update what it contributed to orders this year and your expectations going into next year? I know you previously noted it was 5% contribution in 2022, and I think you said in the first half of this year, it was also 5%?

Jack Molloy

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

Yes, Tomer, that's consistent with what we've said before. I think, the key thing I would say as it relates to budgets right now is public safety spend continues to get prioritized. Number two, I've just scoured through the state and local budget drafts of 2025. By and large, the situation remains very solid, even the states that have had an influx of immigrants have actually appropriated more dollars to public safety, which is interesting. But in generally speaking, when we look at it, the budget situation in state and local is very solid.

Tomer Zilberman

Analyst, BofA Securities, Inc.

Got it. And then maybe just as a quick follow-up. I know you've touched on backlog already, but curious how the duration of the backlog has improved in the last three months and maybe the start of this year?

Jason J. Winkler

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

To begin this year, its duration is similar to slightly improved from the beginning of where we were entering last year. So the duration and the quality attributes of the backlog are as good or better than they were last year.

Tomer Zilberman

Analyst, BofA Securities, Inc.

Got it. Thank you.

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

Ben Bollin

Analyst, Cleveland Research Co. LLC

Good afternoon, everyone. Thanks for taking the question. Greg, bigger picture question. Going into an election year. Curious how that has any impact, if at all, on how you guys thought about 2024 in your top-line target?

And then a secondary question would be, could you share your thoughts around the typical refresh that you see in these fixed video deployments? And how you think about replacement versus net new placements in the wild and how that kind of comes together in that 10% figure that you're talking about for Video growth this year? Thank you.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yeah. Ben, in terms of the election year, it's interesting, we always talk about this, too. If you kind of look back over the history of this business, we do pretty well irrespective of a Republican or a Democratic Administration. So we've had great success in 2023. We expect to have another strong year this year. When there is a presidential change, there's always some period of transition. They'll typically operate under a continuing resolution. But in the main, generally speaking, we have a pretty solid foundational level of performance, with kind of low beta risk given the backlog and the continual high priority demand of public safety.

On fixed video – and we talked about, Jason articulated, the 10% target for this year. Look, I actually like the fact that we have the width and breadth of the portfolio that we do. So we have the broadest portfolio in Video, fixed or mobile, prem or cloud, and we can meet the customer wherever they want to be met to buy. Most of our customers have both cloud and prem. If, in fact, that there's a notable acceleration of cloud adoption, which we've seen and we are seeing that moves more toward cloud, that's great. If that moderates the top-line growth from 15% to 10%, that's okay too, because of the long-term value of that dollar of revenue, the stickiness with the customer relationship. And as Molloy said, he and we still believe we're taking share. So we feel good about the position. In terms of refresh on cameras, Jack, maybe you want to talk about that?

Jack Molloy

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

Yeah, Ben, it obviously varies if they're citywide deployments, meaning outside cameras, you start to see a replacement cycle of anywhere to kind of three years to five years in the networks that we manage internally. Those upgrades are more driven by the R&D investments that Mahesh and team have made around analytics. I would note one thing. The acquisition we made in Pelco, we were actually very pleased in 2023 with the growth that Pelco had. But as we think about competitive VMSs that are out there, the work that we have ahead of us this year is to go and leverage our Pelco portfolio to drive new opportunities in the camera replacement cycle.

Mahesh Saptharishi

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

Just one more thing to add to that is just to support our Alta growth with Video. One of our initial acquisition theses was just the ability to expand the camera portfolio that Alta supports. And something that we did towards the end of last year was to expand the entire H6SL line, which is one of the more popular lines within the Avigilon camera family now that is entirely supported within Alta Video. And I think that's also going to help with the refresh cycles and also help with some of the transition to cloud.

Unity 8, we introduced that last year, and Unity 8, one of the special things about it is it's not just an on-prem solution. It's actually an on-prem solution that can bridge into the cloud as well. So as we think about those transitions, the boundary between on-prem and cloud is a bit fuzzy and I think, in a good way for us.

Ben Bollin

Analyst, Cleveland Research Co. LLC

Thanks, guys

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thank you. Thanks, Ben.

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

Keith Housum

Analyst, Northcoast Research Partners LLC

Good afternoon, guys, and great job on the quarter and for the year. I guess question for you on the IPVideo acquisition. Perhaps just walk us through some of the rationale for that acquisition and perhaps where you see some of the cross-selling opportunities and growth opportunities going forward?

Mahesh Saptharishi

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

Sure. So the HALO Video Sensor or the Halo Sensor is actually not a new thing for us. Avigilon has partnered with IPVideo for quite some years. We have actually been reselling the IPVideo Solution. And the key reason there is that there are plenty of situations like in schools where video cannot be used in certain locations, but these sensors can.

So think of it as the detection of smoking vape sensors, et cetera, in bathrooms. In areas where we typically do not install cameras, but become quite important from a security and a safety standpoint. HALO is sort of the leading sensor when it comes to air quality, vape sensing, audio analytics, including gunshot detection. And so as we think about really expanding our capability within education and beyond, this was just a natural fit for us to bring in and integrate more closely with our Unity and Alta platforms.

Jack Molloy

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

The only thing I'll add on that, and just in terms of cross-sell would be that they've done very well in education. It's our role to get in and expand that business into healthcare into workplaces, into transit areas where you have issues with people smoking and those kind of things as well. We think we've got the relationships to extend into those markets as well.

Keith Housum

Analyst, Northcoast Research Partners LLC

Okay. Makes sense. Helpful. I appreciate it. As a follow-up question, changing gears on you slightly here. Another conversation on PCR. I know there's been some moving pieces throughout the year in terms of getting out of some of the areas like Asia, but perhaps just give an update on where PCR stands? I know there's been also some issues with supply chain earlier in the year. Any update would be helpful there? Thanks.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yeah. PCR actually did great in 2023, Keith, about \$1.1 billion of revenue last year, and it was a record in full year 2023. So the performance by that team was exceptional. And I would expect PCR to be comparable levels this year that's informed into the LMR mid-single-digit technology growth or actually high-single-digit when you normalize for Airwave. So PCR is quite resilient and doing well.

Keith Housum

Analyst, Northcoast Research Partners LLC

Great. Much appreciated. Thank you.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

You bet.

Operator: The next question comes from the line of Louie DiPalma with William Blair. Your line is now open.

Louie DiPalma

Analyst, William Blair & Co. LLC

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

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Louie, how are you doing?

Louie DiPalma

Analyst, William Blair & Co. LLC

Doing great. I was wondering, does Google bring any special benefits for partnering with them for, Alta versus the other major cloud providers? I know you have, I think, a partnership with Azure for your Command Center business?

Mahesh Saptharishi

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

Yeah, Louie. So to begin with, Avigilon Alta video is already on Google Cloud today. And, this is really a scale story and especially a scale around some key vectors, for example, AI. And so as we think about expanding Alta geographically, as we think about expanding Alta and more broadly, video across our capability set, AI was important, mapping capabilities was important, low latency data delivery, video delivery was important, and we thought that Google would be a good partner as we expand our installation and our capability of deploying within Google Cloud.

In terms of, sort of, more a broader comment on this, look, there's lots of stuff happening in the cloud world today, whether that's on the AI side, core cloud services, et cetera. And we want to be able to provide our customers with the best performance at the best price point. And so this Google partnership is really part of our multi-cloud strategy at the end of it all. So that's really what drove it.

Louie DiPalma

Analyst, William Blair & Co. LLC

Great. And are the economics significantly different for Alta versus Unity? Are you actively pushing for one instead of the other?

Jason J. Winkler

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

We're positioned to offer our customers a choice, as Jack mentioned, we have growth expectations for both Unity, the on-prem as well as Alta. Customers like those in education, we mentioned on the call, are increasingly choosing Alta. The difference between the two is really how the VMS or software layer is delivered. In the case of Alta, the VMS is delivered and deployed through the cloud under a term license. And in the case of Unity, it's an on-prem and more of a perpetual with a maintenance arrangement. So those are the two models we have, Jack? Customers are...

Jack Molloy

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

Yeah. Two things there, Louie, is the purchase decision remains very dynamic up until the last, call it, two weeks to three weeks of a decision. But it's interesting as we look at win-loss data, one of the interesting things is that we've had competitors who are more point solution providers who have been eliminated from decisions, and we've had both Alta and Unity as finalist decisions, which, again, I think speaks to the breadth and the advantage that gives us in the marketplace.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

And Louie, while the customer decides, it's not so much what we push, it's what they want. And as Jack said many customers deployed, they deploy both. Cloud fixed video is smaller from our overall revenue contribution than prem fixed video, but it's noteworthy to say that the growth of Cloud fixed video is a strong multiple of the prem solution.

Louie DiPalma

Analyst, William Blair & Co. LLC

Yeah. And is there increasing momentum for Alta, I think you mentioned how 25% of the growth for 2023 with Video is from Alta. Do you think that 25% is going to increase to 35% or something like that in 2024?

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

I don't know. It depends on what 2024's growth composition ultimately ends up being. But what I will say is the cloud solution, in our case Alta is growing significantly faster than prem. So it's hard to predict the composition at the end of year 2024 until we see how things settle.

Louie DiPalma

Analyst, William Blair & Co. LLC

Excellent. That's all I had. Thanks, everyone.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thank you, Louie.

Operator: [Operator Instructions] Our next question comes from the line of Meta Marshall with Morgan Stanley. Your line is now open.

Jamie Reynolds

Analyst, Morgan Stanley & Co. LLC

Hey, everybody. You've got Jamie on for Meta. I appreciate you taking the time. Similar to one of the earlier questions and understanding that you're still seeing strong growth and some impressive wins in the quarter. The Q4 growth and accompanying 2024 outlook in Command Center, just looked a little bit lower than what we've been modeling. So I guess, is there any additional detail you can provide as to what you're seeing there and what's driving that outlook on 2024? And then as a follow-up, how should we think about the contribution from pricing broadly and the growth outlook for 2024?

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

And maybe we could tag team this. But Command Center, that's another one I was particularly proud of because we grew 21% for the year. Now obviously, Rave was a key driver in that. And Rave has turned out to be a great acquisition for us actually exceeding its business case.

If you take that out, Jamie, and you normalize for organic growth, the organic growth is another solid year of 10% growth. And by the way, that's inclusive of the growth of a \$25 million headwind that actually represents the transitioning out of ESN. So when you think about the overall 10% growth of Command Center, you do have to include the normalization of the exit of ESN that's worth \$25 million, but growth remains pretty strong in that segment as well.

Jason J. Winkler

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

And in terms of growth drivers for 2024, we would expect growth from both volume and price, inclusive of ASPs continuing to grow as they did in 2023 as our customers adopt more of the feature-rich part of the portfolio, including APX NEXT in other parts of the portfolio, we would expect that to continue, and that's included in our growth expectations.

Jamie Reynolds

Analyst, Morgan Stanley & Co. LLC

Great. Thank you so much for the time.

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thanks, Jamie.

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

Greg Brown

Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thanks. Listen, thank you for dialing in and listening. I would just close by saying that I think as we're entering 2024 or in it now in February, it's pretty clear that public safety and enterprise security have never been more important. I love the fact that we've got the broadest and most comprehensive product portfolio. I like the fact that as customers index to a more notable adoption on cloud acceleration, we're able to capitalize on that with our Alta solution. I love the fact that we have the APX NEXT refresh cycle, in particular, continue to march forward, and that remains robust. And as was mentioned on the call, I am particularly excited about our partnership with Google.

For all of the Motorolans listening in on the call, I'm really proud of you. I'm proud of our team's execution in 2023, and I'm anticipating another strong year in 2024, and I appreciate everything you're doing. I look forward to catching up and talking with you and debriefing in a quarter. Thanks again for all the great work.

Operator: Ladies and gentlemen, this does conclude today's teleconference. A replay of the 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.
