



Q3 2014 Earnings Conference Call Tuesday, November 4, 2014

PARTICIPANTS

Motorola Solutions, Inc. Executive Participants

Shep Dunlap – Vice President, Investor Relations
Greg Brown – Chairman and Chief Executive Officer
Gino Bonanotte – Executive Vice President & Chief Financial Officer
Mark Moon – Executive Vice President & President - Sales and Product Operations
Bob Schassler – Executive Vice President, Solutions & Services

Other Participants

Simona K. Jankowski – Analyst, Goldman Sachs & Co.
Tavis C. McCourt – Analyst, Raymond James & Associates, Inc.
Tim Long – Analyst, BMO Capital Markets (United States)
Ehud A. Gelblum – Analyst, Citigroup Global Markets Inc. (Broker)
Kulbinder S. Garcha – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Pierre C. Ferragu – Analyst, Sanford C. Bernstein & Co. LLC
Rod B. Hall – Analyst, JPMorgan Chase & Co.
Keith M. Housum – Analyst, Northcoast Research Partners LLC
Brian Modoff – Analyst, Deutsche Bank Securities, Inc.
Ben J. Bollin – Analyst, Cleveland Research Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and thank you for holding. Welcome to the Motorola Solutions Third Quarter 2014 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 currently posted on the Motorola Solutions Investor Relations website. In addition, a replay of this call will be available approximately three hours after the conclusion of this call over the Internet. The website address is www.motorolasolutions.com/investor. At this time, all participants have been placed in a listen-only mode and the line will be open for your questions following the presentation.

I would now like to introduce Mr. Shep Dunlap, Vice President of Investor Relations. Mr. Dunlap, you may begin.

Shep Dunlap, Vice President, Investor Relations

Thanks and good morning. I would like to welcome you to our call to discuss financial and operating results for the fiscal 2014 third quarter. With me this morning are Greg Brown, Chairman and CEO; Gino Bonanotte, Executive Vice President and CFO; Mark Moon, Executive Vice President, President Sales and Product Operations; Bob Schassler, Executive Vice President, Solution & Services. Greg and Gino will review our results along with commentary and Mark and Bob will join for the Q&A portion.

We have posted an earnings presentation and press release at motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliations for your reference and we encourage you to review those. I also want to remind everyone that as a result of the divestiture of our Enterprise business which was announced on April 15, 2014 and closed on October 27, 2014, the Enterprise business, other than iDEN is reflected as discontinued operations for both the current quarter and prior periods. All financials cited reflect the company's remaining business with its reporting segments of Products and Services. In addition to the financial results summarized in the press release and in this call, you can find additional information including full-year information in our Form 10-Q which will be filed later today.

A number of forward-looking statements will be made during this presentation. Forward-looking statements are any statements that are not historical facts. These statements are based on the current expectations of the company and we can give no assurance that any future results or events discussed in these statements will be achieved. Any forward-looking statements represent our views only as of today and should not be relied upon as representing our views as of any subsequent date. Forward-looking statements are subject to a variety of risks and uncertainties that could cause our actual results to differ materially from the statements contained in this presentation.

And now I'd like to turn it over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thanks, Shep and good morning and thanks for joining us today. We're encouraged by third quarter revenues and earnings and our business continues to show signs of improvement. As I think about the quarter and beyond, there are a few thoughts I would like to share.

First, Q3 sales were better than expected as a result of strength in the Europe and Africa region, improvement in North America and faster conversion of a number of orders that were initially projected for Q4. The environment in North America is beginning to improve as we delivered better than expected system sales, saw more normalized federal demand and drove an increase in backlog. Customer engagements and order pipeline activity remain healthy and consistent with our earlier views for a strong second half of the year.

Second, we continue to more aggressively take cost out of the business and remain fully on track to achieve our target of approximately \$300 million-plus in savings by the end of 2015. We've reduced operating expenses by nearly \$120 million through the first three quarters of this year compared to the same period in 2013 and we now expect slightly more than \$200 million in savings for the full year this year of 2014. Our teams are taking action to reduce complexity and redundancy, which will ultimately improve operating leverage.

Third, I'm thrilled with the successful close of our enterprise transaction which was done at an attractive valuation and puts us on the path of a singularly focused business in the attractive space of mission critical communications and public safety.

Finally, we remain acutely focused on growing this business and optimizing our capital structure. As a result of our strong balance sheet and cash-generating capabilities, today, we announced the addition of \$5 billion to our share repurchase authorization, raising the total amount to \$12 billion. We believe this is an important action that underscores our confidence in the fundamentals of our business and our ability to grow EBITDA and free cash flow over the long term and demonstrates our ongoing commitment to creating value for our shareholders through thoughtful and disciplined capital return.

I'll now turn the call over to Gino to provide additional details on Q3 results and our outlook and then we'll return to provide additional thoughts and color on the quarter.

Gino A. Bonanotte, Executive Vice President & Chief Financial Officer

Thank you, Greg. Q3 2014 revenue was \$1.4 billion, a decrease of 5% from last year. GAAP operating earnings were \$207 million or 14% of sales. Non-GAAP operating earnings were \$259 million or 18% of sales. Operating cash flow was a use of \$115 million, driven by \$397 million of U.S. pension contributions during the quarter, related to our pension de-risking actions announced in September. On a GAAP basis, earnings per share from continuing operations were \$0.27 compared to \$0.98 per share in the third quarter of 2013.

Non-GAAP net earnings from continuing operations were \$0.62 per share compared to \$1.08 in the year-ago quarter, which included a \$0.35 benefit from the formation of our international holding company in 2013. Accelerated cost reductions and higher sales both drove favorable EPS relative to our outlook. For the remainder of this call, we will reference non-GAAP financial results unless otherwise noted.

Q3 product sales were \$921 million, down 8% versus the prior year, driven primarily by lower device sales. Despite this decline, our North America business again improved sequentially. In addition, our PCR business grew in North America and Europe and Africa, as Europe and Africa posted another strong quarter. Systems revenue was down slightly versus the year-ago quarter, although revenue was up, both in North America and Europe and Africa.

Finally, product backlog was up sequentially, led by North America. And coupled with the healthy pipeline, we believe the North America market is beginning to recover. Products segment operating income was \$175 million, or 19% of sales, down from \$204 million, or 20% of sales, in Q3 2013. The decline in operating income was a function of lower sales, offset by cost reductions.

Turning to Services, when normalizing for iDEN, Services grew at 2% for the quarter. Services sales in Q3 were \$515 million, a decrease of less than 1% from the prior year. Systems Integration and Lifecycle Services were flat, while Managed Services was up double digits and Smart Public Safety grew single digits versus the prior-year quarter. Integration Services was up slightly on large projects, such as TETRA deals in Europe and the North America LA-RICS LTE deployment.

Lifecycle Support Services held steady, with significant contributions from system maintenance contracts and software upgrade agreements. Managed Services was up double digits, with strong growth across all regions, while our Smart Public Safety business is being driven by more command and control revenue from early market traction. We are pleased with the performance and competitive position of these new services and look for continued growth.

Operating income in the Services segment was \$84 million, down approximately \$8 million to 16.3% of revenue, driven primarily by lower iDEN sales. Services gross margin was in the mid-30s, generally consistent with past performance and up from Q2. Total company operating expenses from continuing operations were \$434 million, down \$43 million or 9% from the year-ago quarter, driven by continued cost reduction activities. We now expect 2014 OpEx to be down more than \$200 million versus the prior year.

Our year-to-date operating expenses are down \$120 million. The key drivers of which include staff reductions, lower 2014 incentives and organizational efficiencies across all aspects of our business. Approximately one-third of the savings has been in R&D, with the balance of savings in SG&A. Examples

of actions we have driven include consolidation of testing processes and lab sites, leveraging development teams and support costs, and eliminating staff or moving work to lower-cost locations.

In selling and marketing, we have simplified the organizational structure and reduced sales support costs by lowering our overall non-quota carrying employee base. In G&A, we've simplified our management structure across spans and layers while increasing the use of centralized services. And while we're relatively pleased with our progress on cost, there is more work to do.

Shifting to other income and expense, this line item was a net expense of \$29 million, compared to a net gain of \$5 million in the year-ago quarter. We expect this line item to be approximately \$45 million per quarter, primarily driven by interest expense. With respect to taxes, our Q3 effective rate was 33% and we expect our Q4 effective tax rate to be the same. We still expect our cash tax rate to be in the range of 10% to 15% for full-year 2014 and a cash tax rate of approximately 15% through 2019.

Turning to cash flow, cash flow from operating activities in the third quarter was a net usage of \$115 million, which includes a \$397 million contribution related to the U.S. pension transaction announced in September. For the year, we expect operating cash flow from continuing operations to be a net use of approximately \$250 million. This includes the incremental funding of our U.S. plan, of which \$650 million remains to be funded in Q4. Excluding these discretionary pension contributions related to the pension de-risking transaction, the annual operating cash flow would be approximately \$550 million, as previously guided. Let me also remind you that our actions taken on pension de-risking will require no U.S. cash contributions for the next five to six years. Let me also reiterate our conviction to retain our investment-grade rating as we move forward with returning the proceeds in a timely manner.

We ended Q3 with \$2.8 billion in total cash and \$3.4 billion in debt. In Q3, we repurchased \$650 million of stock or approximately 10.4 million shares at an average price of \$62.63 per share. Since the program's inception in the third quarter of 2011, we have reduced our net share count by 30% at an average price of \$52.08 a share. In addition, we paid \$78 million in dividends during the quarter.

In discontinued operations, Q3 revenues for enterprise grew 2% year-over-year to \$605 million in the quarter. We saw solid growth in both North America and Europe throughout most of the portfolio.

Now turning to our outlook, we expect Q4 sales to decline by 1% to 3%. This outlook is consistent with our prior full-year view of a low- to mid-single digit sales decline excluding iDEN. We expect non-GAAP operating earnings per share from continuing operations to be between \$1.13 and \$1.19 per share in Q4. As a reminder, Q4 2013 included a \$0.42 benefit from the formation of our international holding company.

I'll now turn it back to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thanks, Gino. Now I would like to provide some additional color on our outlook and the Q3 results. From a regional perspective, the North America market is improving, consistent with our prior outlook for the second half of 2014. Another quarter of sequential sales improvement and growing backlog are the foundation for the North America recovery as recent headwinds pressuring the North America market continue to fade.

Europe and Africa posted another strong quarter, marking its eighth consecutive quarter of growth for this region. Growth was robust across devices, systems and services and across most countries. Middle East was flat for the quarter but up year-to-date and we believe our prospects continue to improve there

moving forward. Asia Pac performance was lower than expected, but we expect to see positive results next year due to improved backlog, strong pipeline and ongoing customer engagement.

Looking at products, looking at our Products segment, we improved sequentially in North America and had another solid performance in Europe and Africa. From a product perspective, we shipped the APX 7000L, the industry's first converged P25 LTE device, with the security of LMR mission-critical voice and the benefits of LTE data speeds. We launched the LEX L10, a mission-critical LTE handheld device that intelligently prioritizes and displays only the most critical information to first responders based on current status and activity. The LEX L10 supports both public safety LTE private networks and commercial LTE networks.

We're providing a solution to an ASTRO P25 customer to upgrade their radio system and perform interconnection with commercial smartphones. This solution uses the WAVE technology from our Twisted Pair acquisition and will be our largest implementation to date for connecting P25 radios with broadband devices.

Key strategic system awards around the world include five North America P25 wins, with state and local customers worth over \$10 million each, a \$21 million contract with a ministry of defense in Africa, \$10 million of armed forces solutions in both Latin America and Asia Pacific, Middle East, several multimillion-dollar TETRA awards with national police in both Europe and Africa and Asia Pacific, a national defense subscriber contract in Europe and a \$5 million nationwide subscriber order.

Turning to our Services segment, our Services segment turned in another quarter of growth when excluding iDEN. Our increased focus on Services positions us well for the future as communications networks become increasingly complex, software-based and feature rich. This complexity and increased functionality are enabling the next phase of Services growth that includes Lifecycle Management Solutions, Managed Services and Smart Public Safety solutions. Smart Public Safety solutions includes command-and-control, intelligence-led policing, public safety applications and public safety LTE services.

Q3 brought several notable Services wins, including a \$16 million contract for Loudoun County, Virginia, to intelligently connect and manage the myriad of systems and subsystems for enhanced public safety functionality; an \$8 million computer-aided dispatch, consoles and subscriber services migration over five years in Spartanburg County, South Carolina.

An emerging growth area in which we are making progress includes our Smart Public Safety Solutions and we earned a contract with Elgin, Illinois for the implementation of the real-time intelligence console. This is a key component to our real-time Crime Center Solution that will integrate video and other solutions with an agency's existing system, including dispatch platforms to help identify and distribute information to first responders. By sharing the right information at the right time, agencies can shorten response time, proactively deploy resources and increase situational awareness.

So let me close with a few thoughts. First, the business is improving, anchored by the continued turnaround in North America. Second, we are aggressively moving to lower our cost structure and resize this company to be more competitive over time. Third, with the Enterprise sale, we are uniquely positioned to capitalize on our simplified structure and growing our business. And finally, by doing these things and executing on these priorities of growth, operational excellence and capital return, we will be well-positioned for the long-term and will ultimately drive shareholder value.

I'll now turn it back over to Shep.

Shep Dunlap, Vice President, Investor Relations

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

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

QUESTION AND ANSWER SECTION

Operator: Absolutely, the floor is now open for questions. [Operator Instructions] Thank you. And our first question will come from Simona Jankowski, Goldman Sachs. Please go ahead.

<Q – Simona Jankowski – Goldman Sachs & Co.>: Hi. Thanks so much. You announced a deal I think a couple days ago with Telstra for enabling public safety applications on their LTE network. Can you just comment on how common you think this type of implementation might be as opposed to the more traditional public safety network? And also just curious if you saw a similar set of competitors in that deal as your traditional competitors.

<A – Bob Schassler – Motorola Solutions, Inc.>: Hi, Simona. This is Bob Schassler. We see those types of customers where we don't have private broadband spectrum around the world like in Europe and in Australia and we really see the competition being very similar to what we're doing in the private business as well, in the private LTE business.

<Q – Simona Jankowski – Goldman Sachs & Co.>: Gotcha. Okay. And is the economics from an MSI perspective pretty similar to the dedicated public safety network in terms of the devices except that you're missing the infrastructure piece? Is that how we should think about it?

<A – Bob Schassler – Motorola Solutions, Inc.>: Yeah. They'll be very, very similar. The operating margins for both models are very, very similar.

<Q – Simona Jankowski – Goldman Sachs & Co.>: Okay. Great. And then just a quick follow-up for Gino on the \$5 billion repurchase authorization, how should we think about the pace of that into next quarter and next year?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Hi, Simona. The pacing – I think a useful reference point for pacing is our Q3 buyback of \$650 million; as I said, that would be a useful reference point at this time on pacing and what our expectation is moving forward.

<Q – Simona Jankowski – Goldman Sachs & Co.>: Thank you. Appreciate it.

Operator: We'll go next to Tavis McCourt with Raymond James. Please go ahead.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Thanks for taking my question. I wonder first if you could just let us know what the iDEN headwind or revenues was in the quarter and an update on kind of full-year expectations on that product line. And then secondly, Greg, it sounds like the systems business was flat to slightly up, but the devices business was down 8%, and I'm trying to – what are the dynamics in the market that lead to a bifurcation like that? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: From an iDEN perspective, I believe, and Gino will get the exact quarterly number – \$25 million for Q3? Okay. It's down \$25 million in Q3. Remember, we guided you to being down \$100 million, approximately \$100 million for this year. iDEN continues to tail off. From a 2015 perspective, we're planning on iDEN being down approximately \$50 million. In terms of devices, maybe I'll turn it over to Mark Moon.

<A – Mark Moon – Motorola Solutions, Inc.>: I'm sorry, Tavis. Would you give me that question one more time?

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Yeah, no problem, Mark. So I think in the prepared script, Greg mentioned that the systems business was flat to up and this might be a North American comment, but devices sales were down 8%. And I'm wondering what are the dynamics in the market that lead to a bifurcation between the growth rates in systems and devices?

<A – Mark Moon – Motorola Solutions, Inc.>: Yeah, Tavis, I think what we still see is some of the remnants of narrow banding which we've talked about a lot. We do think through the end of this year, the bulk of the narrow banding pressure will be behind us. There will be some trickle into next year, but as you think back to narrow banding, we had a big acceleration in 2012 and really through the first half of 2013 which we believe accelerated about two years of business. So we've seen devices, if you will, that particular growth drop off.

Now with that being said, as we look at the funnel, we look at the pipeline, even as we look at some of the activities in Q4 and beyond, we do think devices will come back, so not really unexpected for the quarter. And quite honestly, the fact that we're still driving good strong infrastructure sales we feel positive about that.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Great. Thanks. Nice quarter.

Operator: And we'll go next to Tim Long with BMO Capital Markets. Please go ahead.

<Q – Tim Long – BMO Capital Markets (United States)>: Thank you. Two questions, if I could. First, obviously you guys have made really good progress on the OpEx front. Could you talk a little bit about gross margin? It looks like it's been down through the first part of this year, a few years in a row here. So maybe if you could just talk about opportunities, kind of what's dragging it down and opportunities to recapture some gross margin?

And then, Greg, if you could just touch a little bit more on the federal. You said it was pretty strong in the quarter. Do you think there's been any change there like you've seen in overall North America? What do you think about the outlook for federal for the next few quarters here? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: So federal, I'll take that one first. As you may remember, last year was pretty dramatic, with about \$150 million decline in the second half of last year. We think it's normalized. In fact, in Q3, federal was up 13%, and in Q4, Tim, we expect it to be up again in double digits. So, we're pleased with the stabilization and the return to growth for Federal.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Tim, this is Gino. With respect to gross margin, the gross margin decline, the gross margin actually is up quarter-over-quarter, in line with our expectation, as a result of a little bit favorable mix, and we will continue to see that trend into Q4. Favorable mix and better sales will yield better gross margin. And I think going forward, as narrow banding, the bulk of narrow banding, is behind us and we have growth in the device business, we'll see margin stabilizing.

<Q – Tim Long – BMO Capital Markets (United States)>: Okay. Thank you.

Operator: And we'll go next to Ehud Gelblum with Citigroup. Please go ahead.

<Q – Ehud Gelblum – Citigroup Global Markets Inc. (Broker)>: Hey, guys. Appreciate it. Thank you. Good morning. First, just a clarification on a prior question about iDEN, just wanted to make sure I understood correctly. Greg, I think you said that iDEN this quarter was down \$25 million year-over-year and that was totally in line with your guidance. On the last conference call, you'd said you thought iDEN would be down \$100 million this year. Was your comment that it would be down \$50 million, was that a this-year comment or next-year comment? So did I...

<A – Greg Brown – Motorola Solutions, Inc.>: You're right on the \$25 million in Q3 decline. You're right on the \$100 million to decline full-year 2014. And my \$50 million decline for iDEN was a 2015 comment

<Q – Ehud Gelblum – Citigroup Global Markets Inc. (Broker)>: Okay.

<A – Greg Brown – Motorola Solutions, Inc.>: Just because we have great visibility on that, because it's contractual, so I wanted to just let you know that, to guide you accordingly.

<Q – Ehud Gelblum – Citigroup Global Markets Inc. (Broker)>: Correct. No, that's very helpful. I wasn't sure I heard it right. So that helps out a lot. A question on federal and then a question on Europe and Africa. Following up on the federal comment, the double-digit increases you had now in Q3 and then expect again in Q4, does that bring you back to the same level that you were doing federal for – I assume, let's use, I guess, 2012 as a baseline? Or does that put us still short of it and therefore, do you expect the levels – was 2012 basically a peak level, or was that a level that we're going to go through as we get into 2015? Just trying to get a sense, on a growth rate level, where that puts us vis-à-vis kind of where we were before.

And then Europe and Africa, as you mentioned, have been strong, I think for eight straight quarters, with good growth there. Can you just go over some of the drivers there? And I assume it's all TETRA, but what are the competitive dynamics going on there? Is there anything like a regulatory issue, like narrow banding, that maybe we could point to that can explain some of that growth and a sense as to how sustainable it is and how far we should be able to model that going forward? Or could there be potential ups and downs and cyclical in that, similar to what happened to North America? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: On the federal business, up 13% in Q3, expected double-digit increase in Q4. Huddy, when you model that out, it's flat to slightly up with last year's fed volume, but still substantially short of the 2012 year that you referenced. So we view that as opportunity to try to grow going forward.

<Q – Ehud Gelblum – Citigroup Global Markets Inc. (Broker)>: How much below the 2012 level are we?

<A – Greg Brown – Motorola Solutions, Inc.>: Probably, loosely, 25% or 30%.

<Q – Ehud Gelblum – Citigroup Global Markets Inc. (Broker)>: And do you think that's a reasonable level to get back to the 2012 number, or was that a peak?

<A – Greg Brown – Motorola Solutions, Inc.>: No, we'll see. We'll see. We'll model the business and see what – it all depends on a whole host of things in terms of the politics and the continuing resolution and budgets at the federal level, but we do think that we can grow from the base performance of this year

into next year, but we'll guide you accordingly as the specifics and how it would dimensionalize in 2015 and beyond.

<A – Mark Moon – Motorola Solutions, Inc.>: Huddy, as far as Europe and Africa, we have had continued very strong success. In fact, eight consecutive quarters, as you mentioned, but really three years of very solid growth. It's really driven across the board. Our performance has been strong; even when you look at Western Europe, we're actually gaining share across the board. And our PCR business was very strong in Q3. Our TETRA business has been very strong, and we've been fortunate to have a number of large projects within the region that has really boosted revenues.

We talked a lot about Norway being one of the largest projects we've ever had. So Bob and his team have been in the middle of implementation, which has drove a lot of revenues over the last two years. We've also had a couple of other very large projects in Northern Africa, as well as other spots. So I think the comparable, as we go into next year, will be tough for sure, because the bleed-off of the Norway implementation, in particular, will cause some pressure. But that business, the reason I describe it the way I did, has been solid across the base. So while I don't think we'll see the high growth rates as we've had going forward, I do think that business will return back to normalization as we move into the next year and beyond.

<Q – Ehud Gelblum – Citigroup Global Markets Inc. (Broker)>: Okay. Appreciate it. Thank you.

Operator: And we'll go next to Kulbinder Garcha with Credit Suisse. Please go ahead.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Thanks. Just a couple of questions from me. First of all, I guess for Greg, in terms of with the order book and the inflection in revenues you're now seeing with narrow banding behind you, is it fair to say that we should be heading back towards your long-term revenue growth rate in government in 2015? Would you feel comfortable with that statement or is there still things shrouding the visibility? That's my first question.

The second one is for Gino. On the free cash flow side, what is the pro forma free cash flow of MSI, would you say, just given the pension change, given the government, the working capital dynamics? That's one thing I'm kind of struggling with a little bit. Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Kulbinder, from a backlog standpoint, product backlog was up \$30 million, primarily driven by North America services. Long-term multi-year contract for services was down \$90 million, pretty much as a result of FX. I think that on the positive side, North America backlog was up \$120 million, \$60 million in product, \$60 million in services. And also, we had a very, very good start in October in terms of backlog and order volume around federal orders that didn't close in September but came in, in October and some very notable state and local deals as well.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: And with respect to cash flow, Kulbinder, we'll guide obviously when we guide 2015 and pro forma beyond. But I think a reference point that may be useful is our expectation for 2015 would be to – from an operating cash flow perspective be comparable to our 2013 operating cash flow as MSI, so effectively, replacing the cash flow from the Enterprise transaction.

<A – Greg Brown – Motorola Solutions, Inc.>: And, Kulbinder, the answer is yes to your question of we still believe that the business longer term is a low to mid-single-digit business that, over time, we will return to as we come back out of the trough with narrow banding.

<A – Shep Dunlap – Motorola Solutions, Inc.>: Next question?

Operator: We'll go next to Pierre Ferragu with Bernstein. Please go ahead.

<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>: Good morning. Thank you for taking my question. I wonder, first, could you give me a bit more color on your very impressive cost-cutting project? Or in the question I have, how is that happening on the field, in your sales force? I mean, your strength in the market is very much related to your ability to be very close to your customers. So if you reduce your cost base, how do you make sure you don't lower the level of service you're able to provide to your clients?

And then I have a quick follow-up on public safety LTE, things have moved very positively this quarter on a couple of deals. Should we expect public safety LTE to accelerate in 2015? And if that's the case, any impact we should think of in terms of your growth outlook for 2015, and also your gross margin impact potentially in 2015? Thank you.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Okay, Pierre. This is Gino. I'll take the cost reduction question first. So clearly, ahead of schedule with more than \$200 million, as Greg described, year-over-year reduction in 2014 and \$43 million in Q3. Year-to-date, \$120 million, and I think it's instructive to look at the composition of that.

As you know, we talked about it in prior calls, our effort around simplifying the company. So the exercise is not an exercise in cost reduction per se, but it's an exercise that gets at trying to reduce the complexity that was inherent in the larger Motorola organization.

So of the \$120 million, a third is in R&D. And you shouldn't read that as necessarily a reduction in R&D, project R&D. It's a reduction in structure, management structure and structure across R&D. The rest is SG&A and it's really a combination of head count, site consolidation, simplifying org structure and centralizing some shared services.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah and as we go about these reductions, Pierre, it's also important to note that we have prioritized non-quota carrying salespeople. So it's more of the shared infrastructure around SG&A, in particular, that Mark and Bob have done a very good job in terms of prioritizing those reductions.

As it relates to public safety LTE, we're expecting approximately \$50 million of revenue this year and as we look into 2015, based on current contracts, we would expect that to more than double next year. So as we kind of dimensionalize 2015, and obviously, we're not going to guide to it, we expect to end Q4 with higher total backlog, higher product backlog, higher backlog scheduled to ship in 2015.

I mentioned the \$50 million decline in iDEN. When we think about Europe and Africa, we anticipate some contraction in 2015 with macro headwinds after higher than normal growth for three consecutive years, largely driven by some of the large projects Moon just referenced like Norway. We expect Latin America and APME to grow and we do expect some modest growth in North America as well with the bulk of narrow banding largely behind us and basically effectively complete by mid-year.

<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>: Great. And maybe if I can, a quick follow-up on your churn business. Could you take us through how it has been evolving across the last couple of quarters?

<A – Shep Dunlap – Motorola Solutions, Inc.>: What business, Pierre, again?

<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>: Churn business. So what didn't come from your backlog in the last couple of quarters? Sorry, the turn business, yes.

<A – Mark Moon – Motorola Solutions, Inc.>: So, Pierre, this is Mark. So as we talked about coming into the year, we knew all year that we were coming in back-load light. We would have to have strong, what we call quick turn, or as you just said churn business, which means we get the order, book it, ship it in the current quarter. That has continued to be strong throughout and really on schedule. We always knew that the year was going to be back-end loaded. The second half still looks the same as what we told you on the last call. We were able to accelerate some of that business. I think Greg mentioned earlier, we've been relentlessly focused on getting new orders and converting those orders to revenue. We were able to convert \$40 million more than we originally expected of Q4 orders into Q3. And the churn business for Q4, which will again be a big part of our number, we continue to remain with good visibility and pipeline on exactly what we've got to go do to commit our overall got-its for the second half and now for Q4.

<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>: Great. Thanks a lot.

Operator: And we'll go next to Rod Hall with JPMorgan. Please go ahead.

<Q – Rod Hall – JPMorgan Chase & Co.>: Yeah, thanks, guys. Just a couple things, I wanted to just check on the backlog numbers, the changes in backlog. You said the Services backlog was mainly affected by FX. Can you give us any idea what the backlog change would be in constant FX in the quarter? And then also wanted to go back to the questions on gross margin and just ask you guys, could you foresee the back-end of 2015 showing up with a 50% or better gross margin? Thanks

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Okay, Rod. This is Gino. On backlog, as Greg mentioned, although sequentially backlog is down \$60 million, product backlog is up \$30 million, driven by North America. The multi-year Services backlog down \$90 million is essentially all related to FX and the aging of those multi-year contracts in future period based on current FX.

<Q – Rod Hall – JPMorgan Chase & Co.>: So are you saying, then, that Services backlog would have been flat in constant FX?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yes.

<Q – Rod Hall – JPMorgan Chase & Co.>: Okay.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: And North America backlog, and I think Greg mentioned it, North America backlog is up \$120 million sequentially, \$60 million of which is product and \$60 million of which is Services. And on gross margin, I don't know that we'd be ready to talk about a specific number. We do see, with mix stabilizing, we talked a little bit about devices versus infrastructure and deployment services. We do expect gross margin to stabilize and we'll update you – we'll update you after our Q4 call on what...

<Q – Rod Hall – JPMorgan Chase & Co.>: Would you be able to say anything about what kind of gross margin target you have in mind, medium term target?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Comparable. Obviously, as you might suspect, there's many variables: the \$50 million of iDEN reduction at this point in its life cycle at very high margins, the composition of some services, LTE services and services in general changes that gross margin mix a little bit. Even though we've specifically talked about Services at operating margin being comparable to

Product, it does impact the gross margin. So while we can talk about specifically in the product – in our Products segment, in aggregate, comparable margins.

<Q – Rod Hall – JPMorgan Chase & Co.>: Okay. Thank you.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Thanks, Rod.

Operator: And we'll go next to Keith Housum with Northcoast Research. Please go ahead.

<Q – Keith Housum – Northcoast Research Partners LLC>: Thanks, guys. Good morning. Question for you, a little bit more on the backlog. You speak to North America being really strong in terms of leading the backlog growth. Can you speak to a geographic basis on how it's looking in the other geographies?

<A – Mark Moon – Motorola Solutions, Inc.>: So in fact, you just mentioned North America and really the North America piece – just a quick comment on that and then I'll kind of take you around to the other regions. But the North America piece was actually even stronger than what we talked about, when you think about the \$40 million that got converted in Q3; as well as, Greg mentioned we had a very good first week. The federal close spilled over into the first week of October, and that was \$35 million more of orders in the first couple of days that really would have looked like quarter ending backlog, but because they spilled over, did not.

We also had three large North America orders in state and local that we thought would close before the end of the quarter that subsequently closed early in October for about \$65 more million. So that North America backlog, very strong, which it needed to be, because North America is a big piece of our Q4.

Now as you go around the world, we have consistently built backlog in Asia. It's been more longer-term, that as Greg just mentioned, we think will come to fruition as we go into next year. And in Europe and Africa, as we work off the large projects, we are working off some of the backlog, which was the comment a little bit earlier about the contraction that we would expect next year, given the headwinds and the effort of these large projects.

But overall, again, very good order, visibility and good quality around the piece. I think the Europe and Africa result is really just a result of Norway and one other large project being worked off through implementation, of which there are several other large projects around the world in the pipeline, particularly in Asia and the Middle East, as we think about what will be in the very near future.

<Q – Keith Housum – Northcoast Research Partners LLC>: Okay. Appreciate that. And in terms of FX, FX has obviously been very volatile in the past few months. How does the FX impact your guidance going forward, I guess, compared to – as you looked at it now and giving guidance versus what what was given three months past?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: FX is incorporated – our view of FX is incorporated in the guidance we've given.

<Q – Keith Housum – Northcoast Research Partners LLC>: Did it bring down, perhaps, your revenue guidance by 1% or 2%, or have any impact on your EPS guidance?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: It did. It did a bit. And obviously, every quarter it moves around a bit, and that's why we really don't specifically talk about it. But, yes, the answer is yes, it did.

<Q – Keith Housum – Northcoast Research Partners LLC>: Great. Appreciate it. Thank you.

Operator: And we'll go next to Brian Modoff with Deutsche Bank. Please go ahead.

<Q – Brian Modoff – Deutsche Bank Securities, Inc.>: Yeah, a question on FirstNet. Some of the conversations we got with some of the large entities in North America, some of the large regional service areas for SMR services like, say, Houston, they're starting to ask, do we need FirstNet? Can we just go with using the public LTE networks, similar to what kind of the arrangement we have with Telstra, leveraging the network that's already built and then using our radios to connect to it, leasing service from them rather than building out a whole new duplicate LTE network nationwide.

What would your growth rate be, looking out over the next couple years, if FirstNet isn't a go, if it's not a project that gets broadly deployed? And what's your view? Kind of give us an update on FirstNet in general, your view of it. And then the second question is, what are you seeing competitively out there? Are you seeing much competition on the LTE front on a global basis? Thanks.

<A – Mark Moon – Motorola Solutions, Inc.>: So let me take it kind of in chunks. I think, first off, whether it's a carrier-led deployment or whether it's a private deployment of public safety LTE, we intend to play. We think we have a broad portfolio and capabilities that plays across the board. We've had great interactions with FirstNet. And you may or may not know, but FirstNet has been proceeding along. They just finished a process for an RFI that had broad responses, of which we were one of them. The plan is for a more comprehensive RFP in the early part of next year. So they're moving forward.

I think the important thing to note in North America is, there was a big effort by public safety to say we need dedicated spectrum. And this was a big move to say, it is different than operating on a carrier network. And most of our customers know that. There are certain things you can do. But in times of crisis or disaster, you need to ensure that you have that dedicated spectrum so you can operate, which hasn't been the case with a lot of carrier networks.

So carriers will be a component, just like Telstra, as you said. But where you've got spectrum to have an augmented private network is very critical. So you mentioned the Houston area. They just recently were granted an SLA by FirstNet. They continue to move forward with their deployment, but they will be a part of the overall network. And similar is true for LA-RICS and others.

So, from a revenue perspective, we are proceeding. We're happy with our couple of implementations that are ongoing, but we plan and anticipate to work closely with FirstNet as they work to build out an overall nationwide network.

From a competitive basis, as we've mentioned several times, we've been investing in public safety LTE for the last three years. We think that we have differentiated ourselves from the other commercial carrier offerings. We are partnered with Ericsson, who we think has been a phenomenal partner for us. And in certain countries, like we mentioned Australia, we're also partnered with one of the top carriers like Telstra. Here in North America, we've worked with Verizon and in the U.K., with Vodafone. So we will have a combination of efforts, but we think we have the capability of bringing a unique offering that really is tailored for public safety.

<Q – Brian Modoff – Deutsche Bank Securities, Inc.>: Okay. Thank you.

Operator: And we'll take our last question from Ben Bollin with Cleveland Research. Please go ahead.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Good morning. Thanks for taking the call. First question, looking back at the competitive landscape, when you look at P25, do you have any thoughts on how it's influenced pricing behavior and customer bidding initiatives in the handheld market? And then I have a follow-up.

<A – Mark Moon – Motorola Solutions, Inc.>: So I think P25 is a very open, interoperable standard. It was designed by APCO, which is the Association of Public Safety Communications Officers. So, you know, it's clearly a square playing field with products that go throughout a broad range of pricing. Primarily, P25 is in North America, as you're aware, so almost all procurements are made off of a competitive procurement or a vehicle that was competitively procured. So we think that clearly, we know we have to compete every day in this particular market, but you're also able to put features that will allow you to differentiate. And the fact that we've got a big installed base and we work every day through our services arm, our partners and our folks in the field, we continue to be very successful even given the competitive market.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. And, Ben, I would add that from a competition standpoint, we believe we've held or gained market share globally. And more specifically, in the P25 market in North America, we believe we're gaining market share.

One other quick comment back to Brian on FirstNet. I thought Mark did a great job answering that, we still believe, in the U.S., that a dedicated spectrum model is clearly the way to go and all the legislation and promulgation of rules reinforces that. The uniqueness of public safety around talk groups and one-to-many and a whole host of other reasons of why it's very different than a commercial carrier network is important to note.

And so we don't see a commercial network competitive alternative in the States for a long time. I mean, mission critical voice, as an example, is not even contemplated in the current 3GPP standards. So we continue to work closely with FirstNet. The relationship has gotten better. We're making progress at LA-RICS, and we'll see how it goes, but we've been measured in our expectations as we model the business around public safety LTE, around the revenue I earlier commented on a few minutes ago.

<Q – Ben Bollin – Cleveland Research Co. LLC>: And a follow-up question, when you look at your state, local, municipal business, can you talk a little bit about how – what type of sentiment you see from those customers into next year? Do they see any changes for their funding sources or have you seen any deviation? And then one housekeeping, how much of the \$200 million in cost savings in 2014 comes from the reversal of the accrued comp? Thank you.

<A – Mark Moon – Motorola Solutions, Inc.>: So from a state and local perspective, really the funding that we have traditionally seen has remained fairly consistent. The level of federal grants has remained consistent. And when you think about state and local and municipalities, a big piece of their purchases are made through their own funding. As we mentioned, I think more than funding, the fact of the purchasing cycles were really driven by the acceleration caused from narrow banding in North America with the state and local customers.

But our activities, as Greg stated earlier, particularly in North America, have continued to improve. We've seen North America business continuing to improve. We said, at the last call, our pipeline for the second half was up \$1 billion over the first half. That continues to remain consistent and positive. So we get good sentiment from the customers around both the need for mission critical communications and the prospects of Motorola being able to earn that business.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: And, Ben, on the variable pay question of the \$200 million plus, approximately \$50 million is related to variable pay year-over-year.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Thank you.

Operator: I will turn the floor back over to Mr. Shep Dunlap, Vice President of Investor Relations for any additional or closing remarks.

Shep Dunlap, Vice President-Investor Relations

Thanks. I want to remind everyone the details outlining highlighted items, our GAAP to non-GAAP P&L reconciliations and other financial information can be found on motorolasolutions.com. An audio replay together with a copy of today's slides will be also available on the site shortly after the conclusion of the call.

As mentioned at the outset, during this call we made a number of forward-looking statements within the meaning of the applicable federal securities law. Such statements include, but are not limited to, comments and answers related to the following topics: growth and profitability of Products and Services segments; including customers and regions, share repurchases, including timing, cost reduction targets, outlooks relating to EBITDA, operating and free cash flow, sales, EPS, OpEx, backlog and margins, the amount of other income and expense, effective and cash tax rate, pension plan contributions, and completion timing impact of our pension de-risking strategy, growth of public safety LTE revenues.

Because forward-looking statements involve risks and uncertainties, actual results could differ materially from those stated in the forward-looking statements. Info about these factors could cause, and in some cases, have caused such differences, to be found in the press release. All other disclosures can be found Item 1A of our Quarterly Report, Form 10-Q for the period ended June 28, 2014. Thanks again. We look forward to speaking with you soon.

Operator: Ladies and gentlemen, this does conclude today's teleconference. A replay of this call will be available over the Internet in approximately 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 and have a wonderful day.