



## Q3 2013 Earnings Conference Call Wednesday, October 23, 2013

### **PARTICIPANTS**

#### **Motorola Solutions, Inc. Corporate Participants**

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**Shep Dunlap** – Vice President, Investor Relations  
**Greg Brown** – Chairman and Chief Executive Officer  
**Gino Bonanotte** – Acting Chief Financial Officer  
**Mark Moon** – Executive Vice President and President, Sales and Field Operations

#### **Other Participants**

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**Simona K. Jankowski** – Analyst, Goldman Sachs & Co.  
**Pierre C. Ferragu** – Analyst, Sanford C. Bernstein Ltd.  
**Tavis C. McCourt** – Analyst, Raymond James & Associates, Inc.  
**Jim Suva** – Analyst, Citigroup Global Markets Inc. (Broker)  
**Kulbinder S. Garcha** – Analyst, Credit Suisse Securities (USA) LLC (Broker)  
**Andrew C. Spinola** – Analyst, Wells Fargo Securities LLC  
**Brian Modoff** – Analyst, Deutsche Bank Securities, Inc.  
**Keith M. Housum** – Analyst, Northcoast Research Partners LLC  
**Peter J. Misek** – Analyst, Jefferies LLC  
**Tim Long** – Analyst, BMO Capital Markets (United States)

### **MANAGEMENT DISCUSSION SECTION**

**Operator:** Good morning and thank you for holding. Welcome to the Motorola Solutions third quarter 2013 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](http://www.motorolasolutions.com/investor). I would now like to introduce Mr. Shep Dunlap, Vice President of Investor Relations. Mr. Dunlap you may begin your conference.

#### **Shep Dunlap, Vice President, Investor Relations**

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Thank you and good morning. Welcome to our call to discuss third quarter results. With me this morning are Greg Brown, Chairman and CEO; Gino Bonanotte, Corporate Vice President and acting CFO; and Mark Moon Executive Vice President and President of Sales and Product Operations. Greg and Gino will review our results along with commentary and mark will join for the Q&A portion of the call.

Earlier this morning, we posted an earnings presentation and press release at [www.motorolasolutions.com/investor](http://www.motorolasolutions.com/investor). These materials include GAAP to non-GAAP reconciliations for your reference. It is important to review these materials.

A number of forward-looking statements will be made during this presentation. Forward-looking statements are any statements that are not historical facts. These forward-looking statements are based on the current expectations of Motorola Solutions, 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 with that, I would like to now turn the call over to Greg.

**Greg Brown, Chairman & Chief Executive Officer**

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Thanks Shep and good morning and thanks for joining us today. Today we reported third quarter sales of \$2.1 billion, a decrease of 2% from last year. Sales in Government declined 4% while Enterprise sales increased 2%. On a GAAP basis, net earnings from continuing operations were \$1.16 per share compared to \$0.72 in the year ago quarter.

Non-GAAP net earnings from continuing operations were \$1.32 compared to \$0.84 per share in Q3 of last year. For the remainder of this call, we will reference non-GAAP financial results unless otherwise noted.

As I share our results for the quarter, I think there are three key themes I'd like to emphasize. First, we drove improved operating margins in both businesses, as a result of solid gross margins and lower operating expenses, and we remain on track to deliver on our 18% operating margin target for the full year.

Second, the Government business remains very solid, coming off last year's record levels with strength in Europe, strength in the U.S. state and local, and that is despite weaker than expected U.S. Federal sales. This business is very well positioned for growth in Q4 with record backlog.

Third, our Enterprise business is showing signs of improvement despite a muted spending environment in our key markets and verticals.

I'll now turn the call over to Gino to provide additional details on our Q3 results and then I'll return to further discuss the quarter.

**Gino Bonanotte, Acting Chief Financial Officer**

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Thanks, Greg. In Q3, we continued our focus on driving margin improvement and operational discipline. Although we saw an expected top-line decline in the quarter, we remain encouraged regarding our position in both businesses. In terms of the quarter, Q3 total company sales declined 2%. Third-quarter Government sales were \$1.5 billion, a decrease of 4% from the prior-year quarter.

In the Europe and Africa region, we saw double-digit growth driven by large project rollouts in our expanded device portfolio in TETRA. In North America, results were mixed. We experienced strong strength in state and local government offset by weakness in our federal sales. We did not see the typical ramp that corresponds with a federal fiscal yearend. In addition, we saw significantly lower than normal U.S. Federal orders and RFP activity in September.

Turning to margins, we posted operating margins in the Government segment of 20.4%, which were flat with Q3 2012. Improved operating expenses offset the anticipated decline in revenues and corresponding gross margins.

Enterprise revenues increased 2% to \$647 million. Excluding the impact of Psion and iDEN, Q3 revenues declined 4% compared to high single and low double-digit declines over the past four quarters. As Greg mentioned, we believe this business is stabilizing and we are encouraged by continued customer engagement and trials for our expansion products. Operating margins in the Enterprise business improved 290 basis points, from 12.2% to 15.1%. Higher sales volume, stable gross margins and lower OpEx contributed to the margin increase.

For the total company, operating expenses were \$659 million, which is down \$50 million or 170 basis points from the year-ago quarter. Approximately \$20 million of this decrease comes from structural cost improvements, while the balance is attributable to lower variable or incentive payments this year.

While I'm pleased with our efforts to reduce operating cost year-to-date, we continue to actively drive operating leverage, which remains a high priority. Given the actions that we have undertaken this year, we expect Q4 operating expenses of approximately \$50 million lower than the prior-year quarter.

Overall, operating earnings for the third quarter were \$397 million, 18.8% of sales, compared to \$387 million or 18% in Q3 2012. This represents an 80 basis point improvement as a result of our continued focus on operating expense management.

Other income and expense was a net expense of \$18 million in the quarter compared to a net expense of \$13 million in Q3 of 2012. This expense was approximately \$20 million lower than we expected due to the timing of gains on several investments within our Ventures portfolio during the quarter. We continue to expect this line item to be an expense of approximately \$40 million per quarter going forward.

Our effective tax rate was 7% for the quarter. The third-quarter effective tax rate was favorably impacted by \$96 million of net tax benefit associated with excess foreign tax credits on undistributed foreign earnings. This benefit was a result of actions taken earlier this year to implement the foreign holding company structure we announced in May.

Based on our current outlook, we expect our effective tax rate to be in the range of 10% to 11% for the full year 2013, and approximately 13% for Q4. In 2014, we expect our ongoing effective tax rate to return to 32% to 33%.

Moving to cash flow: cash generated by operating activities in the third quarter of 2013 was \$152 million compared to \$182 million in the third quarter of 2012. For the full year, we expect cash flow from operations of approximately \$800 million. We ended the quarter with \$2.9 billion in total cash and \$2.5 billion in debt.

With respect to capital return, we repurchased \$425 million or 7.5 million shares at an average price of \$56.60 per share. As a reminder, we have approximately 2.1 billion remaining under our current share repurchase authorization. In addition to repurchase activity, we paid \$69 million in dividends during the quarter.

Now turning to our outlook: with the ongoing uncertainty around the U.S. Federal business our, full year outlook is for sales to be approximately flat to last year. We remain on track for operating margins of approximately 18% for the year and expect non-GAAP earnings per share of \$4.63 to \$4.70 per share.

I'll now turn it over to Greg for business highlights from the quarter.

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**Greg Brown, Chairman & Chief Executive Officer**

Thanks, Gino. In Government, public safety continues to be a priority for our customers and with over 60% of the public safety networks deployed still using analog technology, the opportunity for steady growth continues as customers migrate to digital. Our mission-critical customers expect technology that is intuitive, easy to deploy and are operable and future proof.

Over 20 years ago, we released the ASTRO 25, the world's first narrowband digital public safety radio network and today we continue to innovate around the open P25 standard, and this quarter we will

release our latest version of ASTRO 25 digital infrastructure. In fact in Q4 we have over 100 million in shippable backlog associated with this major release that offers a seamless migration path and improves serviceability and scalability including future LTE upgrades.

Our ASTRO business declined single digits compared with last year's double-digit growth while subscriber revenues remained flat with last year's record levels. We won two very large ASTRO awards in Q3, LA-RICS in California for \$280 million and Queensland, Australia for over \$200 million. Both of these contracts span 15 years. These key wins were the results of years of planning and execution and they represent the trusted partnership customers have in us for their mission-critical needs.

We also received another large award for \$52 million for Phase 3 of the State of Maryland's mission-critical radio system in the City of Indianapolis, signed a 10-year \$29 million service agreement for their ASTRO system.

Bolton County, Georgia with a \$20 million award is investing in our latest P25 offering to replace their existing Motorola trunked radio system which has been in service since 1992.

And Franklin County in Ohio placed an \$8 million order to join the Ohio statewide Motorola ASTRO system for their first responders. Other notable awards at a local level included the City of Arlington, Texas, for \$11 million the City of Portland, Oregon for \$18 million. In Canada we won several contracts including a contract together with Bell Mobility to supply the Province of Nova Scotia with an ASTRO 25 network, APX subscribers and 10 years of lifecycle services. And the Quebec Government selected us for a multimillion dollar contract that includes APX's radios and dispatch consoles.

In addition, we won a \$17 million contract with the City of Montréal which includes APX's radios with installation and 10 years of maintenance. And on the command-and-control application side of the business, Prince George County, Maryland awarded us a \$9 million contract to implement our Premier One computer-aided dispatch system.

Our TETRA business grew double digits driven by subscriber shipments and higher services. We recently migrated the Norwegian public safety network on to our latest TETRA platform and a new award from the Norwegian fire and health agencies represents a 7,000 unit expansion for users on this system. In Germany, we shipped over 20,000 TETRA handsets to the Ministry of Interior. We also delivered 7 million of TETRA software to a country in the Middle East and received a \$22 million order from a large country in North Africa.

We continue to win significant competitive awards in China demonstrating the competitiveness of our TETRA solution. This quarter we received orders from Shanxi Provincial Police for \$15 million and Wuxi Metro Police for \$2 million.

TETRA continues to be the leading technology choice among real customers as well globally and this quarter we won multimillion-dollar awards with Delhi Metro in India as well as Dalian Metro and Chengdu Metro in China.

Our professional and commercial radio business declined compared to the year-ago quarter driven primarily by lower sales in North America. However, we believe that we're gaining share in this market with our best in class digital portfolio and we continue to invest for growth. For example, we introduced MOTOTRBO Anywhere, a complement to digital PCR portfolio, which demonstrates the power of interoperability between public and private networks. MOTOTRBO Anywhere now enables an install base of millions of MOTOTRBO radio users to communicate with smartphone users for secure business-critical communications.

We continue to invest in LTE, which represents an important part of our future. Over the last three years and since we first teamed with Ericsson in an exclusive LTE partnership we've been developing features and products for public safety's unique LTE requirements. In the U.S. we continue to work closely with FirstNet to ensure the successful development and implementation of an interoperable public safety broadband network that meets the needs of first responders.

On the device side, we recently added a version of the LEX 700 Mission Critical Handheld on the Android 4.2 Jelly Bean operating system. The LEX 700 is designed to work on band class 14 private public safety LTE network as well as commercial cellular networks and 802.11 Wi-Fi.

We also recently collaborated with Verizon to deliver the VML 700 Vehicular Modem, which is designed to operate on LTE-based public safety broadband networks including FirstNet and Verizon's commercial network. These devices can be used on public networks and then migrate to private networks as they're built.

Our commitment to innovation was evident at the recent APCO show in Anaheim, California where we introduced the new solution to protect firefighters using APX Radios to monitor air tank information at the command center and a new enhanced data channel for the ASTRO system specifically designed for improved GPS and telemetry.

We continue to create a path for our customers to transition from analog systems to digital. For example we introduced a new migration path for customers still using a legacy version of our analog systems, which is now over 15 years old. These users can now enjoy the benefits of new digital technology using SmartX enabled systems made possible with trunking simulcast and repeater functionality. This enables existing radios in the fleet to interoperate with the latest digital radios such as our APX Radio subscriber.

Moving on to the Enterprise, sales increased 2% in our Enterprise business. When excluding iDEN and excluding Psion, the business declined 4%, which is still an improvement over the last several quarters. Enterprise mobile computing increased low single digits and together with Psion actually increased double digits while our WLAN product business declined.

Scale, innovation, customization and domain expertise are key differentiators for us in Enterprise. Integration with legacy applications is also critically important for our customers. Many of whom have made millions of dollars in back office investments. In areas where customer preference for Android in the Enterprise has emerged, we intend to lead this transition along with the products and application development tools.

For example, we continue to invest in R&D to adapt, enhance, integrate and secure the Android operating system to make it truly Enterprise-ready with our recent MX extensions which ship on all of our Android-based devices. Our software teams have added our suite of Enterprise-grade security, device management and performance extensions and we've launched mobile computers running Jelly Bean, the most popular version of Android supported by our new MX extensions and RhoMobile.

One of our core Enterprise mobile computing products, the MC67 will soon be available on Android while an entirely new device the TC55 will launch on Jelly Bean later this month. The TC55 is a pocket-size touch computer, which merges the features of a traditional Enterprise class mobile computer with the form factor and functionality of a smartphone.

We're also helping customers and partners transition applications with our fourth generation of RhoMobile, a development platform that enables applications to run on any operating system and meanwhile we will continue to execute on our dual OS strategy and continue our work with Microsoft.

One continued area of strength this year in Enterprise was with Asia PAC/Middle East where sales grew double digits. We attribute this in part to improved sales coverage within the region as well as a stronger product portfolio with the addition of the MC2100 and MC45, coupled with our services differentiation.

In China, we are growing in Enterprise by double digits while maintaining margins. We were awarded a contract from Blue Dart in India for mobile device management, this solution will enable Blue Dart to accelerate their pace of automation and equip one of the largest field delivery workforces in India with thousands of our MC65 devices.

We signed two large multi-million dollars deals with TNT, a leading global international courier company based in Europe. One deployment is in France and the other one is in Italy and both are for our MC67 mobile computers to equip the company's field operations.

In the Netherlands, we received a multimillion-dollar contract award from Jumbo Supermarkets for MC17s to improve their customer satisfaction and increase customer loyalty with their self-scanning solutions. This complements our recently developed smart badges, which have also been successfully implemented in Jumbo Supermarkets as well.

Interest in our expanded Enterprise portfolio continues. As evidenced by our over 100 trial deployments among new expansions products like the Android-based MC40 and the MP6000, our first ever bioptic scanner. In general, conversion on these pilots to large-scale rollouts continues to take more time, as customers take longer to evaluate new form factors and operating systems.

One of our largest awards to date for the MC40 was from a large retailer in Western Europe this quarter with a \$4 million contract for these devices to improve their customer service and replenishment operations. Examples of other customers who've begun to rollout our MC40 include a chain of discount variety stores in Australia, and a nationwide Kraft's retailer in the U.S. deploying MC40 Android devices to deliver a better in-store customer experience.

Moving on to the regional results this quarter for the total company. North America revenues declined 6% with single-digit declines in both Government and Enterprise. Latin America was down 5% driven by Enterprise while Government was flat. Europe and Africa was up 13% with double digit growth in both Government and Enterprise.

Asia-PAC, Middle East declined 3% with continued double digit growth in Enterprise along with a single digit decline in Government. Total service sales were up single digits over last year Q3. The Queensland award for over \$200 million represents another important managed services win for us in Australia and a \$16 million upgrade of State of Colorado's Pikes Peak Regional Network represents one of our largest comprehensive lifecycle management agreements to date.

We continue also to see healthy interest in our Real-Time Crime Center solution, which integrates mission-critical voice with real-time streaming video together with access to arrest records, photos and other multimedia inputs.

One example is the creation of a new operations center by the State of Illinois's Attorney's Office and local businesses, which incorporates our Real-Time Crime Center applications to assist with fighting both financial and retail crimes. Since launching this services-led offering earlier this year, we booked \$20 million in orders.

Our Mobility Lifecycle Management capabilities were a key differentiator also in a recent agreement with Yodel, a leading parcel delivery company in the U.K. They agreed to a multi-year strategic partnership worth in excess of \$10 million for deployment of over 7,000 Enterprise mobile computers including our MC67 and MC45 as part of a mobile lifecycle solution to support their delivery network.

So, let me wrap up with some closing comments. I am encouraged by our Q3 results for several reasons. First, in Government we have the strongest product portfolio in our history, record backlog, and we expect the Government business to return to growth in Q4.

We're making excellent progress on delivering managed services solutions and next-generation applications for our customers and this business is very well positioned going forward.

Second, in Enterprise we are seeing signs of improvement. We remain number one in all of our major product categories. Backlog is up and we will continue to take actions that strengthen our go-to-market focus and overall capabilities and we're making investments in solutions that best serve our customers and their industry-specific requirements.

Third, our team has moved swiftly and thoughtfully with respect to streamlining our cost structure to match the current demand environment. These actions will position us well in terms of driving operating leverage now and down the road and while we've made some tough decisions with respect to lowering costs, we remain fully committed to growth and are appropriately balancing the need to reduce expenses with the need to make targeted investments for future growth.

#### **Shep Dunlap, Vice President, Investor Relations**

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

#### **QUESTION AND ANSWER SECTION**

**Operator:** The floor is now open for questions. At this time, if you have a question or comment please press \*1 on your touch-tone phone. If at any point your question is answered you may remove yourself from the cue by pressing the pound key. We do ask that while you pose your question, please pick up your handset to provide optimal sound quality. Our first question comes from Simona Jankowski with Goldman Sachs. Please go ahead.

**<Q – Simona Jankowski – Goldman Sachs & Co.>:** Hi. Thanks very much. I wanted to ask you first on the recent headcount reductions that were in the press. Was that part of the \$50 million cost reduction plan that you announced last quarter or was that incremental? And along those lines, are you still targeting a 19% operating margin for next year?

**<A – Greg Brown – Motorola Solutions, Inc.>:** Simona, yes. Those actions were part of the \$50 million that we described in expected annualized savings for next year. And at this point, yes, we are also targeting a 19% operating margin for next year as well.

**<Q – Simona Jankowski – Goldman Sachs & Co.>:** Okay. Thanks very much.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Thanks, Simona.

**Operator:** And we'll go next to Pierre Ferragu with Sanford C. Bernstein. Please go ahead.

**<Q – Pierre Ferragu – Sanford C. Bernstein Ltd.>:** Hi. Good morning. Thank you for taking the question. If I look at your Enterprise business, what I understand from your comments is that you're

clearly turning the corner in mobile computing and beyond like the structural decline in iDEN your only area where performance is still a bit disappointing is Wireless LAN, and that's also a segment where you are clearly not number one. You have like a very small market share. It's also a segment where the market has gotten much more competitive lately.

So I have two questions. The first one is, I would assume that this is a market that will at some point need some consolidation. And so how do you think about that? And my second question would be, if we look at WLAN at the moment, what's happening there? You mentioned six months ago a change in business model, where you were moving towards services. So how do you see the future of this business unit if you keep it as a part of Motorola Solutions and how do you think about considering alternative strategic directions than keeping it internally going forward? Thanks.

**<A – Greg Brown – Motorola Solutions, Inc.>**: Well, Pierre, thanks for the questions. First of all, we're pleased generally with the performance in the Enterprise business in Q3. I love the fact that the Enterprise business for the first time in four or five quarters returned to growth of 2%. As I mentioned, the enterprise mobile computing business is up single digits and with Psion it's up double digits. Our market share position remains very strong and we're number one in those key categories and we're pleased with the business and as well as the pipeline and the engagement around the discussions for mobile computing.

We also are – I think Girish and his product team have done a really nice job on the new products that just are rolling out this month on Android Jelly Bean. As it relates to WLAN, it was down in the face of market growth. As I've mentioned, I do think we had some reasonable managed services deals in the quarter, and I like the pipeline and the funnel at this point in time in terms of where we are with customers.

When you look at the verticals that we're particularly strong in like retail and transportation and logistics, the WLAN business is a leader. You're right, we're still transitioning from product to more of a managed services-like offering and there's more work to do and we're not where we need to be. So we know what we need to do and we are absolutely focused to not only growing this business but positioning it for sustainable growth in the long term.

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

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

**<Q – Tavis McCourt – Raymond James & Associates, Inc.>**: Hi, thanks for taking my question. Greg, in Q4 guidance you specifically said Government should be up year-over-year. How should we think about Enterprise? Should that make it back to something flattish or will it still be a decline in your view?

**<A – Greg Brown – Motorola Solutions, Inc.>**: For the quarter, we expect Government to return to growth. And on the Enterprise side, I think it is slightly down...

**<Q – Tavis McCourt – Raymond James & Associates, Inc.>**: Okay.

**<A – Greg Brown – Motorola Solutions, Inc.>**: ...for the quarter. That's the composition that we're looking at.

**<Q – Tavis McCourt – Raymond James & Associates, Inc.>**: And then, Gino, can you give us an update on kind of the free cash flow we should expect for this year and then maybe the puts and takes as we think about next year's free cash flow, some of the headwinds this year that might go away? That would be helpful. And then, Greg, kind of an update commentary on kind of the Microsoft OS strategy in the Enterprise. Obviously you guys seem to be bringing out a lot of new Android products. Where do you



think your other OS partner is in terms of updating the OS for something a little more touch-centric in these rugged applications? Thanks.

**<A – Greg Brown – Motorola Solutions, Inc.>**: Well, let me take the second one first, Tavis. On Microsoft and our overall software strategy, I'm pleased with Girish and the product team because they're doing a fantastic job on Android and we're rolling out a number of new products on Android Jelly Bean 4.2.

In addition to that, we've also announced MX or Motorola Extension which is enterprise grade services around device management, enterprise application control, power management, multi-user logins. So I think we're really well positioned on Android. Of course we have the RhoMobile solution which is an HTML5 solution that's agnostic of the operating system and in terms of Microsoft our expectation is that they would deliver an updated release of the operating system some time to us midyear, by which we would then follow on with product availability after that point in time.

**<A – Gino Bonanotte – Motorola Solutions, Inc.>**: And, Tavis, on cash flow we expect operating cash flow of \$800 million for the year. Just some commentary on cash flow, certainly from my first day there's been a focus – primary focus on cash. We talked about, on the last call, \$150 million of risk to the cash flow number, clearly going through the components – working capital components as well as balance sheet components. That risk has materialized and also reflected in the \$800 million is the expectation of approximately flat revenue; weakness around federal, uncertainty around federal, driving the approximately flat revenue number, as well as some timing on some large projects. So our expectation is \$800 million of operating cash flow for the year.

**<Q – Tavis McCourt – Raymond James & Associates, Inc.>**: Thanks.

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

**Operator**: And we'll go next to Jim Suva with Citigroup. Please go ahead.

**<Q – Jim Suva – Citigroup Global Markets Inc. (Broker)>**: Thank you very much. I have two questions. First of all, strategically if you look at your position globally, I believe it was earlier in the year that you had some international challenges specifically in Asia. Can you update us in that and also let us know if the political changes in China has had any impact on your business at all or if it just really didn't?

And then the second question is, is can you help us understand the importance of keeping the Wireless LAN business and the reason why, and I don't expect you to dispel every rumor out there or trade blog about your company, but there was several sources picking up that you guys would be potentially considering selling it. And sometimes if that information is accurate out there it can actually be detrimental to the business as competitors use that as a door-knocking opportunity. Thank you.

**<A – Greg Brown – Motorola Solutions, Inc.>**: So, let me take China and WLAN and then I'll turn it over to Mark for Asia. In China, Jim, we're pleased with our performance to date. Our overall revenue is up, Government is up as well as Enterprise is up. And I think the Enterprise business in particular has done a very good job growing strongly in the face of increased competition and yet we're holding our margins. And I think it's a testimonial to the quality of the product portfolio. TETRA in particular has done very well, in particular on rail applications, given the best in class mission-critical characteristics of TETRA. So China has actually been a bright spot.

Now, obviously it will get more competitive going forward. There's efforts to localize certain standards by which we would expect to work very closely with the Chinese government and participate in the rollout and deployment of those standards. So, I think China has been overall a bright spot for us so far this year.

On WLAN, you're right; there has been speculation and rhetoric. I'm not going to get into that. You know that it's been an area of focus for us for some time. By the way, I still think in a stare and compare we have one of the best product portfolios in the industry, supplemented by very good intellectual property and the WLAN business as I mentioned is really strong in retail and transportation logistics and the priority verticals that we're pretty strong in. In terms of Asia, I'll turn it over to Mark.

**<A – Mark Moon – Motorola Solutions, Inc.>**: So, Jim, as you mentioned, we've been talking about our performance in Asia all year. We talked about we were disappointed. Coming into the year we made a number of structural changes. We came in with very low backlog particularly on the Government side, and we talked about decline in Q1 of 20%, Q2 of 10%. Actually we had hoped to get back roughly flat in this quarter. We did not accomplish that. We still declined single digits so improvement over the previous two quarters but still some decline. The point that's important for me, I also talked about though, while we were improving this business that we would continue to show signs of increased backlog. And in fact in this quarter our backlog position in Asia has improved over 200 million, driven of course by Queensland but also growth beyond the Queensland, Australia award, which I think is very positive.

I do think in Q4 we will get back to growth and certainly Asia Pacific and the Middle East is a growth region for us so we're putting all the things in place to continue to grow backlog, to continue to get the right coverage in the right places for the growth areas and we're expecting good solid growth as we go into next year. Again, as Greg mentioned, China has been a bright spot across the board. Enterprise throughout Asia has been bright all the way through, continues to show good strong growth and so we do see momentum building and in fact, as Greg mentioned, pleased with China because to date we've got very good double-digit growth in Enterprise, single digit growth in Government and really will be high single digits to low double-digit growth for the full year in China.

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

**Operator**: We'll go next to Kulbinder Garcha with Credit Suisse. Please go ahead.

**<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>**: Hi. A question for Greg. I have just one on basically visibility and growth. It looks like this year you're not going to grow both your core businesses organically. I know there's lots of reasons with difficult comps in Government. You had some issues in Enterprise up until now it looks like. But could you just speak about the visibility into next year that you have? Is this a business that could go back to its long-term growth range in 2014? What are the puts and takes around it, especially considering it looks like the public safety LTE revenue opportunity if anything is probably a 2015 issue completely now or would you agree with that or disagree? Anything you are thinking about visibility and the business being able to go to even a mid-single digit growth rate at some point? Many thanks.

**<A – Greg Brown – Motorola Solutions, Inc.>**: So, Kulbinder, kind of when you look at our business in composite obviously we're guiding to approximately flat for the full year. If you look at the Enterprise business as I mentioned I'm pleased with the fact that it's grown for the first time in several quarters. Psion's been a good acquisition that helps on that front and extend the product portfolio on the enterprise mobile computing side. Backlog is up. And I'm not going to get into the composition of growth expectations for 2014. That's something that we'll dimensionalize in January. But it is certainly fair to say that we expect the firm in total to grow in 2014.

I'm really pleased with where we are in Government coming off of a record level last year; backlog position, margin position, product portfolio position. We do expect the Government business to return to growth in Q4. And to your point on LTE, while it's been elongated in the U.S., we're really well-positioned given the infrastructure device and software that we expect to deploy for interoperable public safety broadband, working very closely with FirstNet and also internationally.

We've mentioned the fact that LTE is not just a domestic opportunity. I think the Middle East in particular will be the most likely countries that deploy or begin to deploy in 2014. We will have an expectation for some revenue contribution in LTE in 2014. Too early to tell you what that will be. We'll update that in January.

But as rugged a year as it's been, I think we're really well positioned because we've made investments in the product portfolio, the business in total will return to growth. We've taken the tough decisions to size it appropriately and demonstrate that irrespective of top line growth, we can perform on the operating margin and operating leverage lever and I think that I'm looking forward to a better year in 2014.

**<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>:** Thank you.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Thanks, Kulbinder.

**Operator:** And we'll go next to Andrew Spinola with Wells Fargo. Please go ahead.

**<Q – Andrew Spinola – Wells Fargo Securities LLC>:** Thanks. On that same topic, for 2014, when I think about your 19% operating margin guidance for the year, how do you think about the opportunity on cost cuts still in front of you, given the actions that you've already taken?

**<A – Greg Brown – Motorola Solutions, Inc.>:** Well, I think that we've done a lot of cost reductions to date and activities have been launched throughout the year to reflect a more muted demand environment. I always believe that we should always look to size the organization appropriately. So I don't think of cost cutting as an event. I think it's in the ongoing DNA to operate more effectively and efficiently and drive increased productivity of the firm and I think we've demonstrated that.

That said I believe that the easiest path forward and the most likely path to be approximately 19% will be in the top-line growth since a lot of the chopping of wood on the expense side is more in the rearview mirror. That's my view.

**<Q – Andrew Spinola – Wells Fargo Securities LLC>:** Got it. And then just one follow up. I think, Greg, in your prepared remarks, you made the comment that the Enterprise business was down 4% including iDEN and Psion. And in the press releases, it said that Enterprise was down 5% excluding Psion. So I guess that implies that the iDEN business is actually up year-over-year in Q3. And I was just wondering were there any sort of maybe one-time payments related to the shutoff of the Sprint network? And then I think you've made comments recently that it would be \$75 million next year. So I'm wondering when we should see that step down?

**<A – Greg Brown – Motorola Solutions, Inc.>:** So just a couple of things and you mentioned it. iDEN will be about \$185 million this year. We do expect it to be approximately \$75 million in 2014. Enterprise grew 2% all-in for Q3. But without-without, without iDEN and without Psion, it's down 4%, negative 4%. That's still on an apples-to-apples basis without-without an improved trajectory over the previous several quarters on the Enterprise side.

**<Q – Andrew Spinola – Wells Fargo Securities LLC>:** Thanks.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Thank you.

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

**<Q – Brian Modoff – Deutsche Bank Securities, Inc.>:** Oh, thank you. So can we talk a little about a couple of things, FirstNet – we were at the FirstNet event in Washington a couple of weeks ago and it

was certainly notable, Alcatel-Lucent and Nokia Siemens in terms of their vocalness in wanting to participate in that effort. Can you talk a little bit about your view on FirstNet in terms of timing? How do you see the competitive environment? Do you see it more nationally awarded versus local, which is I think your preference?

**<A – Greg Brown – Motorola Solutions, Inc.>**: So first of all, we continue to work really closely with FirstNet. In particular, in the last several months, I think we've had very good traction and engagement. Mark Hacker, who runs our global government affairs organization, who happens also to be the general counsel, has been the lead executive over the last several months as the point of contact with FirstNet, and I think he's done a hell of a good job. I've stayed very closely in touch with Sam Ginn as well.

And more tactically, in the short term, we're working closely with FirstNet to see if there's a path forward on BayRICS, which was an early BTOP award winner and where some of the network has been built out, as well as Mississippi, which is also an early BTOP recipient and where over two-thirds of the network has been complete.

So we're looking for ways, Motorola Solutions and FirstNet, working very closely together, to see if we can complete and get positioned, terms and conditions and a set of, basically conditions that complete BayRICS and the State of Mississippi. We remain engaged outside the U.S., particularly in the Middle East on a couple of fronts. I think from a competitive standpoint, Brian, we're as good as positioned as we've ever been. I think it's actually stronger than it was a year ago, given the investments we've made in infrastructure, software and, in my prepared remarks, examples of refreshing the LEX 700 and the VML vehicular modem on Verizon.

Ericsson's been a fantastic partner, where we have about seven or eight years left in that agreement. We're taking their base station, so not investing in it in the Wireless LAN component. We're hardening it and integrating it interoperably in an end-to-end solution for a private public partnership around LTE, and Verizon's been a very good partner on the commercial side from a carrier standpoint in the U.S. So I think NSN and Alcatel-Lucent will do their thing and I respect both firms but I feel very good about where we are.

**<Q – Brian Modoff – Deutsche Bank Securities, Inc.>**: And then briefly on – if you're looking at Q4 on the Enterprise side, how do you see the business ex-Psion and ex-iDEN in terms of sequential growth?

**<A – Greg Brown – Motorola Solutions, Inc.>**: I think we see it slightly down in Q4 where commensurately we see Government returning to growth in about the mid single-digit range for Q4.

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

**<A – Greg Brown – Motorola Solutions, Inc.>**: Thanks, Brian.

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

**<Q – Keith Housum – Northcoast Research Partners LLC>**: Good morning, gentlemen. A question for you on the Enterprise segment. I notice as I look at the press release that there was no significant wins in the U.S. Do I attribute that to the overall market conditions in the U.S. or is there still hesitancy with some of your large customers waiting on the operating system issue from Windows? And will the U.S. see more of a headwind with that than perhaps other geographies?

**<A – Greg Brown – Motorola Solutions, Inc.>**: Yeah, I think the Enterprise results reflect what we've talked about with a combination of customers deferring, large purchases or chunking up bigger orders into smaller orders so I think the results are consistent with the environment that we described. And I don't know if you want to add anything, Mark?

**<A – Mark Moon – Motorola Solutions, Inc.>**: Yeah, I think, Keith, we've have been talking about the delayed large projects. Run rate has been fairly consistent and that's still proven to be the case. I would also say we talked about some notable wins even in the WLAN business and some of the major retailers in the U.S. also do not like to be mentioned in releases as well. So it's good activity, good pilot activity that's going on but no doubt particularly in the U.S. more than any other region large deployments are continuing to be pushed later into this year and on into next year.

**<Q – Keith Housum – Northcoast Research Partners LLC>**: Okay. Great. I appreciate it. And changing gears, I guess slightly over to the federal side, you guys noted weakness in the federal side in the quarter. Would you think it was related in part to the upcoming budget issues that happened in October? Or was there something else weighing there and perhaps was some of that potential revenue pushed off the RFPs and such?

**<A – Greg Brown – Motorola Solutions, Inc.>**: I think, and Mark can jump in as well, I think it was related to the budget standoff and the 16-day government shutdown. There was definitely a change in the month of September. We saw significantly lower normal orders in RFP activity in September and we did not see the typical ramp that corresponds with the federal fiscal year end close, which was basically the end of Q3. So we saw basically \$100 million reduction in our second half of the year forecast that's reflected in our approximately flat full year guidance. Definitely a change. And the federal business is down pretty sharply from this year compared to last year.

**<Q – Keith Housum – Northcoast Research Partners LLC>**: Did that business just not materialize, I mean, or is it deferred, you think?

**<A – Greg Brown – Motorola Solutions, Inc.>**: My view is it largely will not materialize.

**<Q – Keith Housum – Northcoast Research Partners LLC>**: Okay.

**<A – Greg Brown – Motorola Solutions, Inc.>**: So we'll adjust accordingly. I don't think it's deferred in something that we can close in Q4 or Q1. I basically think it's largely gone.

**<Q – Keith Housum – Northcoast Research Partners LLC>**: Okay. Thank you.

**<A – Greg Brown – Motorola Solutions, Inc.>**: Yep. No problem.

**Operator**: And we'll go next to Peter Misek with Jefferies. Please go ahead.

**<Q – Peter Misek – Jefferies LLC>**: Thank you. Just a clarification question firstly on working capital. Obviously in your slide you give a range but if we look at the amount that AP increased and the amount that inventory and AR increased, can you help us understand how we should think of working capital management sort of on a longer-term basis? If I look at your intensity on a bunch of metrics basis, it seems elevated so I'd love a clarification there. And then can you give us an update on your net cash position as it relates to guidance you gave us that you wanted to go to the net debt position in terms of capital redeployment? Thank you.

**<A – Gino Bonanotte – Motorola Solutions, Inc.>**: All right. Thanks, Peter. Thanks for the question. This is Gino. With respect to working capital, as I mentioned, we've been digging into all the components of working capital, have instituted many actions, many of which have not borne fruit yet in Q3 but if I were to break them up individually, inventory remains on track. We're pleased with our performance around inventory at around nine turns. DPO we clearly saw degradation in Q2. We have implemented several action plans around DPO based on timing of payments and terms for customers that have or, I'm sorry,

vendors that have multiple terms and we believe that by the end of Q4, inventory and DPO will be similar to year ending 2012.

AR, there are couple of things that are happening in AR. The Q3 AR has been impacted. It kind of gets back to the discussion we had on POC. There are several billings that occurred in Q3 for payment in Q4 on some large milestone projects in POC that drove a couple days in the DSO calculation for Q3. But we expect in our \$800 million, we expect DSO and have action plans in place to get our DSO to be approximately flat year-over-year. So working capital from a CCC perspective, working capital approximately flat to last year. With respect to net debt position, we continue to be on track to get to a net debt position in 2014.

**<Q – Peter Misek – Jefferies LLC>:** Any change in terms of the absolute level of net debt that you guys are forecasting or targeting?

**<A – Gino Bonanotte – Motorola Solutions, Inc.>:** No.

**<Q – Peter Misek – Jefferies LLC>:** Great. Thank you very much guys.

**<A – Shep Dunlap – Motorola Solutions, Inc.>:** Operator, we'll take our last question.

**Operator:** And our last question comes from Tim Long with BMO Capital Markets. Please go ahead.

**<Q – Tim Long – BMO Capital Markets (United States)>:** Thank you. Two of them here. Just to follow that up on the net cash. Could you talk a little bit, sorry, about the capital return? Any change or slowdown required in the buyback heading into next year as you get into the net debt position? And then secondly, Greg, back to the Government, you did I think highlight that Europe was pretty strong in the quarter. Maybe give us a little sense as to why you think that was and how sustainable you think that could be as we look into next year? Thank you.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Tim, thanks. On capital allocation, no change of strategy or view. I think that we clearly believe it's front and center and critical as a key component to drive shareholder return. You've seen the levels of buyback for Q1, Q2, Q3 so far. I think at this point they are reasonable reference points for how we think about share repurchase. In terms of Europe, Mark, I don't know your view?

**<A – Mark Moon – Motorola Solutions, Inc.>:** Yep. Europe – and actually Europe and Africa, which is the region but has been very strong for us all year. In fact year-to-date we're actually double-digit growth in Government and we're expecting double-digit growth in Q4 in Government as well so the Government business continues to remain very, very strong and as the Enterprise businesses we talked about has returned as well. So we're not seeing the dips like we saw in North America. I think it would be probably unrealistic to think that that double-digit government growth would continue on but with that into next year, but we'll give you that further guidance.

The important thing to note is that large projects are happening even in Europe itself Norway, German MOI, big countries were getting very good growth and in Northern Africa we've made really, really good traction with a couple of large projects and we're continuing to invest throughout Africa for future growth. So the European team, I'm very pleased with how they've performed, where we're positioned. Our backlog position even as you talk about strong growth for Q4. We actually have secured the four or five big projects, they're in backlog to achieve that growth. So making really good headway not only on recognizing revenue, but continuing to hold backlog relatively stable as we're going through this strong growth period. So I think we continue to see good signs for Europe.

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

**Greg Brown, Chairman & Chief Executive Officer**

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Thanks, Tim. So I would just say in closing, I want to thank, in particular, all of the associates worldwide of Motorola Solutions. It's been a challenging year in a tough environment but I think the team has worked closely together. And people around the globe have performed well. I think that moving forward, we are very clear and committed to returning the firm to growth. We're committed to improving operating leverage going forward. And we will continue to take steps to drive superior shareholder return. So a decent Q3. We're looking for a better 2014. I appreciate everybody dialing in and we'll talk soon.

**Shep Dunlap, Vice President, Investor Relations**

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Thanks, Greg. 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](http://motorolasolutions.com) Investor Relations site. Audio replay, together with a copy of today's slides, will also be available on the site shortly after the conclusion of this call.

As mentioned at the outset, during this call we made a number of forward-looking statements within the meaning of applicable federal securities laws. Such forward-looking statements include, but are not limited to, comments and answers related to the following: future sales growth, including by business, region and product; operating expense and operating margins; EPS outlook; the amount of other income expense; future tax rates and tax benefits as a result of our new holding company structure; operating cash flow; share repurchases and dividends; the impacts of migration of customers from analog to digital; timing impact of new products and solution introductions, including OS transitions; recovery of our Enterprise business; management of our cost structure, working capital and resulting savings; demand trends for our businesses and products; activity within FirstNet; and our net debt position.

Because forward-looking statements involve risks and uncertainties, Motorola Solutions' actual results could differ materially from those stated in these forward-looking statements. Information about the factors that could cause and, in some cases, have caused such differences can be found in this morning's press release on pages 8 through 12 and Item 1-A of our 2012 Annual Report on Form 10-K and in Motorola Solutions' other SEC filings. Thanks, and we look forward to speaking with all of you again 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](http://www.motorolasolutions.com/investor). We thank you for your participation and ask that you please disconnect your lines at this time. Have a wonderful day.