



## Q4 2013 Earnings Conference Call Wednesday, January 22, 2014

### **PARTICIPANTS**

#### **Corporate Participants**

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

#### **Other Participants**

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

### **MANAGEMENT DISCUSSION SECTION**

**Operator:** Good morning and thank you for holding. Welcome to the Motorola Solutions Fourth 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).

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 your conference.

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

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Thanks and good morning. Welcome to our call to discuss fourth quarter and full year results. With me this morning are Greg Brown, Chairman and CEO; Gino Bonanotte, Executive Vice President and 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 on our website. 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 now, I would like to turn the call over to Greg.

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

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Good morning and thanks, Shep. And thanks, everybody, for joining us today. Q4 was a solid quarter for Motorola Solutions. We finished 2013 on a positive note, with growth in both businesses, improved operating margin, delivered double-digit EPS growth, built backlog and generated strong operating cash flow.

As I reflect on the year, there are a few thoughts I'd like to note. First, although revenue was flat for the year, we still expanded operating margin, delivered solid EPS growth and cash flow, and returned \$2 billion of capital to our shareholders.

Second, the Government business turned in a very solid year, demonstrating resiliency, especially off of a record year in 2012. This comes despite a challenging second half in our federal business related to the U.S. government shutdown and declines in APME.

Europe and Africa and North America state and local were growth drivers for us. We closed 2013 with a record backlog position in our Government segment, up \$450 million, and have signed some significant multi-year deals that will build a base of recurring revenue streams for future years.

Third, we continue to see encouraging trends in our Enterprise business. The business grew slightly in Q4, the second quarter of growth in a row, driven by stronger-than-expected performance in North America, continued strength in Asia and solid performance in Europe. New products are gaining traction, and our backlog in Enterprise is also up.

And finally, we sharpened our focus, proactively taking steps to improve our cost structure and improve our competitive position overall. This positions the business well for sustained operating leverage and cash generation going forward.

Now, to our results. This morning, we reported fourth quarter sales of \$2.5 billion, an increase of 3% from Q4 of last year. On a GAAP basis, net earnings from continuing operations were \$1.31 per share compared to \$1.18 in the year-ago quarter. Non-GAAP net earnings from continuing operations were \$1.67 per share compared to \$1.10 per share in Q4 of last year.

For the full year, revenues were flat at \$8.7 billion, while we increased non-GAAP operating margins by 30 basis points. For the remainder of this call, we'll reference non-GAAP financial results unless otherwise noted.

Our Government business revenues increased 4% for the quarter. We saw solid double-digit growth in infrastructure and deployment services for both ASTRO and TETRA. Government sales increased 1% for the full year, coming off of a record 12% revenue growth in 2012.

Our strong product portfolio and expanded solutions capabilities have positioned us well to take advantage of the demand drivers of the analog to digital transition, aging public safety infrastructure and expansion opportunities into verticals beyond public safety; demand drivers which continue as catalysts for future growth.

In the Enterprise business, sales were up slightly compared to the year-ago quarter and increased 1% when excluding the decline of iDEN. On a full year basis, Enterprise revenue declined 2% as we experienced cyclical weakness in the first half of the year, although we believe the trends in our core Enterprise business are demonstrating a return to growth.

And now, I'll turn the call over to Gino to discuss our results in more detail. And then, I'll return to get into more operational highlights and provide additional color on our business performance.

**Gino Bonanotte, Executive Vice President and Chief Financial Officer**

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Thanks, Greg. On our last call, I talked about managing costs and improving cash flow as two of our top priorities. In Q4, we saw encouraging results in both areas. We continue to make good progress on the cost front and our intense focus on cash flow produced strong results for Q4. We will continue to remain focused on cash and operating leverage.

Now, moving to the results. Q4 sales grew 3%, in line with our expectations. On a full year basis, revenue was flat at \$8.7 billion. Government posted strong growth of 4%, fueled by 25% growth in Europe and Africa and continued strength in North America state and local government sales. Strong results in infrastructure and deployment services were the drivers. 2013 full year Government sales grew 1% to \$6 billion while delivering solid operating margin expansion.

Q4 sales for the Enterprise business were up slightly at \$736 million. Excluding iDEN, revenues grew 1%. Both Asia and Europe turned in solid growth for the quarter. For the full year, Enterprise posted revenues of \$2.7 billion, declining 2% year-over-year.

Although it was a challenging year, we saw the trajectory of this business improve meaningfully in the second half and believe the segment can return to growth in 2014.

Turning to operating expenses. In Q4, operating expenses were \$710 million, down \$50 million from the year-ago quarter. Full year OpEx was down approximately \$120 million versus 2012. This decrease was driven by a number of structural cost improvements we implemented during the year as well as reduced variable incentives.

Operating earnings in Q4 were a record at \$519 million or 20.7% of sales, compared to \$476 million or 19.5% in Q4 of 2012.

Other income and expense was a net expense of \$22 million in quarter compared to a net expense of \$16 million in Q4 of 2012. This expense was lower than we expected due to investment gains and several other items. We continue to expect approximately \$40 million in quarterly expenses for this line item.

Our effective tax rate was 12.5% for the quarter, in line with our expectations. For 2014, we expect the effective tax rate to be between 33% and 34%.

EPS in the fourth quarter was \$1.67, which represents a 52% increase year-over-year. For the full year, EPS increased 48% to \$4.73. This EPS increase included a one-time tax benefit of \$1.25 per share associated with the implementation of our foreign holding company structure. Excluding the benefit of implementing the new structure, EPS growth was up double-digits in Q4 and 9% for the year. We provided a schedule on our website of the quarterly EPS tax benefit in 2013 for the purposes of comparing core EPS growth in 2014.

Turning to a regional view of results, North America declined 1%, driven by a mid-single digit decline in Enterprise, offset by 1% growth in Government. For the full year, North America declined 2% as a result of mid-single digit decline in Enterprise and flat Government sales. State and local was a strong performer for the region, while the federal business declined approximately \$150 million.

In Europe and Africa, revenue was up 16%, driven by a strong double-digit growth in Government along with solid results in Enterprise. Full year EA results were strong as well, with 12% growth. Significant project rollouts and continued momentum in TETRA helped drive this strength, while Enterprise also provided growth with some notable pilot projects for our new Android devices.

Asia Pacific and Middle East sales declined 1% in Q4. The region saw a continued momentum in Enterprise with double-digit growth, while Government turned in single-digit declines. APME declined 4% for the full year, with double-digit decline in Government. Enterprise grew double-digits for the year, with good results through the entire year. This region is showing good momentum, including a substantial increase in backlog, which will help it return to growth in 2014.

Latin America declined 2% for the quarter, with a decline in Enterprise and growth in Government. Latin America full year revenues declined 8%, driven by iDEN decline in Enterprise while Government posted a slight increase.

Our services business finished with a strong quarter and a terrific year. Total services grew 12% over Q4 of 2012, with double-digit growth in Enterprise and Government. On a full year basis, our services business grew 10% over last year, with mid-single digit growth in Government and double-digit growth in Enterprise.

Moving on to cash flow. Cash generated from operating activities in the quarter was outstanding at \$741 million; a quarterly record. The improvement was a result of actions we implemented to improve payables, accounts receivable and collections related to long-term contracts. For the full year, cash flow was \$944 million.

For 2014, we expect operating cash flow to be approximately \$1.1 billion. We ended the year with \$3.2 billion in total cash and \$2.5 billion in debt.

During Q4, we repurchased \$362 million of stock. For the year, we repurchased 29 million shares for a total of \$1.7 billion. In the 2.5 years since we initiated this plan, we have repurchased 105 million shares, or \$5.2 billion, at an average price of approximately \$50 a share. As a result, we have reduced our net share count by 26%.

In addition, we paid \$80 million in dividends during the quarter and \$292 million for the full year. Through Q4, we have paid \$634 million in dividends since reinstating our dividend in late 2011.

Before turning to outlook, I want to mention a few items related to pension. Our total underfunded U.S. pension balance decreased from \$2.8 billion at the end of 2012 to \$1.2 billion ending 2013. U.S. pension expense will decline from \$110 million to approximately \$80 million in 2014. The minimum cash contribution to our U.S. pension will increase by \$150 million to approximately \$300 million. The funding increase is a result of the Map-21 exclusion in 2013, allowing a lower minimum contribution last year.

Now, turning to our outlook. We expect 2014 sales to be flat to up 2%. This outlook is predicated on low-single-digit growth in Government and mid-single-digit growth in Enterprise excluding iDEN, or flat to low-single digit inclusive of a \$100 million iDEN decline.

We expect non-GAAP operating margin of approximately 18.5%. This margin outlook incorporates slightly lower year-over-year operating expenses and gross margins comparable to 2013.

In Q1, we expect sales to decline 4% to 6% year-over-year. Our outlook for non-GAAP earnings per share is \$0.46 to \$0.52 from continuing operations based on Q4 ending share count. This compares to non-GAAP EPS of \$0.66 per share in Q1 of 2013. This outlook excludes items historically highlighted in our quarterly earnings release.

Let me provide some insight into our full year and Q1 sales expectations. Our year-over-year backlog is up approximately \$500 million. This increase is driven by multi-year projects which begin to generate revenue in mid-2014 and beyond and provide long-term revenue streams.

However, the Government backlog scheduled to ship in Q1 is down approximately \$125 million from last year. As a result, we expect Q1 to be lower as a percentage of full year revenue compared to the past several years.

To sum up, we are pleased with the overall backlog position and remain confident in our position in both segments.

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

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

Gino, thanks. In Government, our sales for the quarter were \$1.8 billion, up 4% over Q4 2012. Operating earnings were a record 22.5% of sales compared to 21.8% in Q4 of last year.

Growth in the quarter in our Government business was driven by higher ASTRO and TETRA infrastructure and deployment services sales. Growth for the full year was driven by Europe and Africa and strength in our state and local business despite, as Gino mentioned, approximately \$150 million in federal sales declines that came largely in the second half of this past year.

Profitability also increased based on lower operating expenses and solid gross margins. Across the portfolio, full year ASTRO sales were up single digit and TETRA grew solid double digits. Growth in these businesses was driven this year by a double-digit increase in the sales of new system infrastructure, which is typically a leading indicator for future subscriber revenues.

Our PCR sales declined single digit, following record double-digit growth in 2012, although our results were consistent with the overall market performance. In ASTRO, this quarter marked a new release of our market-leading and standards-compliant P25 technology. We already have over 35 customers upgraded to this latest release, with 49 more in backlog scheduled for 2014 upgrades.

This latest version of ASTRO features a seamless migration path with improved serviceability and scalability. Customers investing in this next-generation system have the assurance that new radios with enhanced features remain interoperable and backward compatible with the existing equipment while preparing for future technology migrations.

During the quarter, we signed several large deals, including a number of wins at the county level, with the counties of Cobb, Georgia for \$27 million; Albany, New York for \$25 million; Waukesha and Milwaukee, Wisconsin for \$23 million; Hamilton, Indiana for \$21 million; San Bernardino, California for \$18 million; Florence, South Carolina for \$12 million; Grand Prairie, Texas for \$12 million; and Hartford, Maryland for \$11 million.

We also were awarded a \$17 million contract from the Navy to service and maintain radio systems at over 50 military installations. And the Tennessee Department of Safety, which had previously self-maintained their ASTRO system, recently contracted with us to maintain, monitor and support their network for 10 years in conjunction with their new ASTRO P25 system for a contract of \$52 million. And a recent \$24 million contract with the City of Charlotte includes upgrades of their ASTRO network with our Assurance Program to keep their software and hardware refreshed with the latest technology enhancements.

P25 is truly a global standard for mission critical communications and our ASTRO systems are now deployed in over 60 countries. We won several international deals this quarter, including the country of Latvia for \$18 million to deploy a nationwide system that replaces two legacy systems that were 15 years old.

And Royal Malaysia Police, operating one of the largest ASTRO deployments outside of the U.S., added several million dollars of new services and signed a \$25 million contract that transitions management of their network to us from a formerly self-maintained model.

We also signed awards with the Israel Fire Brigade for \$20 million and the São Paulo Military Police for several million dollars.

We're driving growth in verticals beyond public safety as well. This quarter, we secured contracts with Xcel Energy for \$26 million; Nassau County, New York Public Works for \$11 million; and the L.A. Department of Power and Water for several million dollars.

We continue to make tailored investments for expanded verticals. As an example, new features now available in 7.14 ASTRO system release include special alerts for the mining market and enhanced data for meter reading capabilities to serve the utilities market.

Our expanded PCR portfolio now includes several digital radio platforms, complete with multi-site coverage, which is being adopted by customers in energy utilities as well as manufacturing. For example, this quarter customers like Cenovus Energy in Canada and Sam Houston Electric in Texas recently chose MOTOTRBO to serve multiple sites, while Agrium, a large fertilizer company in Canada, is deploying MOTOTRBO as well.

Looking back on the year, we secured large contracts in – actually what was one of our best large deal years in our history – Los Angeles; Queensland, Australia; Libya; Tennessee; and our first international public safety LTE deal. Deployments of this size and complexity lead to long-term revenue streams over multiple-year rollouts.

We've also made progress expanding our services business and, in particular, lifecycle management contracts. These agreements provide customers with the ability to stay current on the latest software versions with routine upgrades.

In the past three years, we've gone from only a handful of these contracts to now almost 200. And this year, in ASTRO alone, we signed 39 new lifecycle management agreements, with over \$50 million in backlog growth. These contracts also tend to be long in duration. For example, 40% of the new agreements we signed this year were for 10 years.

We had one of our best years in TETRA, with strong double-digit growth driven by the continued expansion of our infrastructure footprint with this mission critical standard. Our expanded device portfolio is also being well received. As an example, our new TETRA 6750 model, the first ever camera-equipped TETRA public safety radio, is now shipping and receiving great customer feedback, including a Reader's Choice Award from a leading German professional telecommunications magazine.

This quarter, we renewed a multi-year support contract for Airwave's critical communications network, one of the largest TETRA networks in the world, delivering voice and data services to the UK's emergency services. And we signed a large multi-year public safety contract with Libya for \$187 million to provide country-wide coverage. The Royal Brunei Police Force also selected our TETRA technology for a \$6 million system in Q4.

TETRA also continues to be the technology of choice for rail transport communication systems across the globe, as demonstrated by contracts this quarter from Chongqing Metro in China and an award with St. Petersburg Metro in Russia.

The decline this year in PCR was primarily driven by lower sales in North America, a market that grew almost 20% in 2012 because of U.S. narrowbanding. We're making investments in this business to extend our leadership in the market with continued growth potential.

For example, we acquired Twisted Pair Solutions, which further extends our MOTOTRBO radio push-to-talk communication to commercial smartphone device users as well. One of the key long-term growth drivers for the PCR market is the overwhelming majority of the 40 million radios deployed in the global market that are still largely analog technology, and we are leading that transition to digital with the most comprehensive digital portfolio in the professional and commercial market.

And finally, we signed our first public safety LTE contract with a country outside the U.S. for a multi-year deployment that includes our infrastructure and devices, valued at nearly \$100 million. We're very pleased with securing our first international LTE contract and anticipate this revenue will begin in 2015.

We have a great product portfolio that positions us well on the continued migration to digital, the continuing need for interoperability, and the high critical nature and prioritization of mission critical public safety.

I should also mention that our backlog in Government is at a record level, which much of the composition of this backlog being multi-year in nature, as we execute on large contract deployments and incremental managed services opportunities.

Moving on to Enterprise. In Enterprise, our sales for the quarter were \$736 million, a slight increase. Profitability for the segment increased, driven by lower operating expenses. Operating earnings were 16.5% of sales compared to 14% in Q4 of last year. On a full year basis, the Enterprise segment declined

2%. And excluding the decline in iDEN, the Enterprise business grew 2%, with an improved trajectory in the second half of the year.

We believe the trends in Enterprise are favorable. Throughout this past year, our focus has been on operationally and financially improving the business, and the portfolio is getting stronger with investments in Android and new devices like the TC55. We're moving from trial deployments for this device and other new products to customer adoption, and we are pleased with the improved revenue traction.

On a full year basis, mobile computing grew single digits, and data capture and wireless LAN both declined single digits. Now, having said that, data capture and wireless LAN grew double digits in Q4.

As Android has emerged, we are well positioned with a truly enterprise-grade portfolio, complete with our own Motorola Extensions to enhance, integrate and secure the Android OS. We have 4 new models running on the current version of Android, and our workhorse, MC67, is available in both Windows and Android.

Additionally, several strategic accounts have begun to deploy these devices, such as Spanish Post ordering over 10,000 of our new Android-based TC55, the pocket-sized touch computer which merges the features of our traditional enterprise class mobile computer with the form factor and functionality of a smartphone.

In Q4, we won other large mobile computing deals within our transportation and logistics customer base, including a multi-million dollar order from the Italian Post. APC Overnight, the UK's largest next-day delivery network, purchased over 2,000 MC67s for their new proof-of-delivery system. And TNT Express in Europe ordered 2,600 MC67s for their needs.

In advanced data capture, Q4 growth was driven by strong sales through our distribution channels and several large direct deals. For example, Wal-Mart continues to invest with a recent order of 10,000 hand-held scanners, along with 4,000 of our first-ever bi-optic scanner, the MP6000, for use in their checkout counters, displacing the long-time incumbent in this strategic account.

We recently announced the blade, the DS4800, an innovatively designed scanner that complements the customer experience in high-end retail, with stylish ergonomics and customized bezel together with best-in-class 2D scanning.

Wireless LAN was a bright spot in Q4 and grew double-digits. Bed Bath & Beyond recently chose our WLAN solution in a managed services delivery model, which will be deployed in all of their 1,275 locations in the United States and Canada.

We also recently won a large contract with Caesars Entertainment to deploy over 45,000 access points in over 35 of their properties to deliver guest access, workforce solutions and location-based services on a secured network, with the goal of providing an incredible guest experience.

I'm encouraged by our Q4 results in Enterprise and, as we look forward to 2014, we're well positioned here competitively.

The National Retail Federation's annual showcase was just last week in New York. I met with several large customers that are excited about investments that they're making in our Enterprise products to improve customer service and capture customer demand whether it's in the store or online.



In closing, Q4 was a good finish to a challenging year. In the quarter, we grew in both segments, achieved record operating earnings of \$519 million, record operating margin of 20.7% and record quarterly operating cash flow of \$741 million. We also made numerous changes this year to become more efficient. And our 21,000 people remain focused on execution in returning this firm to growth in 2014.

The fundamental demand drivers for our business remain solid, and we continue to invest and innovate for profitable growth. And we plan to build on the momentum that we demonstrated this past quarter as we ended the year and move into 2014.

**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 a question and one follow-up so we can 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:** Absolutely. Our first question is coming from Tavis McCourt with Raymond James. Please go ahead.

**<Q – Tavis McCourt – Raymond James & Associates, Inc.>:** Hey, thanks for taking my question. First, a clarification. You mentioned you expect iDEN to be down \$100 million in 2014. Do you have the basis of what that was in 2013?

And then, secondly on the gross margins, it was down pretty meaningfully year-over-year in Q4 and I think you're calling for it flat next year. Can you talk a little bit about what is driving kind of gross margin in any particular quarter and why this quarter was kind of weaker relative to Q3 or the year-ago quarter? Thanks.

**<A – Greg Brown – Motorola Solutions, Inc.>:** So, two things. First on iDEN; iDEN was about \$185 million in 2013. We expect it to be down approximately \$100 million to \$85 million. We have very good visibility, obviously, with that business, given its contracting in pretty located base that we have a very good understanding of.

Gross margins were compressed largely due to mix, which we had higher infrastructure and deployment services in 2013. And when we talk about deployment services, we're talking really about installation and integration services, so it compressed gross margin in Q4 and that mix carries over into Q1. Although overall for the full year, we're anticipating gross margins for full year 2014 to be comparable for full year 2013.

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

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

**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. A question for Greg, just on revenue growth for the overall business. I guess in 2013, you didn't kind of hit your target range and there was a number of issues. This year, you're saying the same thing. I understand the timing of some of these things, but I guess what confidence do you have that MSI is above a mid-single-digit grower, let's say, from 2015 and beyond? What gives you that confidence in what you've previously discussed? Is the target growth rate for the company?

And then, just a clarification on the near term. So just to be clear, the Government business has a very good backlog but you guys aren't going to be converting that in the first half and that creates kind of an air pocket, hence the down revenues we'll going to see there. Is that the right way of thinking about it?

**<A – Greg Brown – Motorola Solutions, Inc.>:** Kulbinder, two things. I have much higher confidence in the business than I did several quarters ago about our ability to call it. So if I take you back a couple of quarters – and I understand when we were guiding to be approximately flat for the remainder for full 2013, there were folks that didn't think we could get there given the kind of ramp in the second half that was required and we pointed people to what we called the aged backlog being up about \$100 million in this past Q4, which ended up converting as expected and materializing in line with what we thought.

As we think about this year – and you call it an air pocket for Q1, I'll come back to that – we believe that the full year guidance comports well. Even with Q1's compression, the remaining 9 months has the

business growing at 2% to 4%. That's off of a nine-month compare on the same period of 2013 of being approximately flat.

For the full year, we expect Government to grow low-single digits and Enterprise mid-single digits without iDEN. I think we have pretty good visibility to that, and I think that we have shored up a number of processes on our ability to guide and forecast the business.

In Q1, as you referenced, Kulbinder, it's really a timing issue. And we don't manage the business, of course, by quarter; we look at the full year. I love the fact that the backlog is up in both businesses. We have very good visibility into the aged backlog composition of that, meaning the backlog to be delivered in Q1 and in fiscal 2014. We see good trends on the Enterprise business that we referenced and we're expecting Enterprise to grow in Q1.

So, I feel good about where we are as a business; the long-term contracts, multi-year contracts, that we've signed, which over time will give us even greater predictability on an annuity revenue streams. So, that's what gives me confidence as I look into 2014.

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

**Operator:** We'll go next to Simona Jankowski with Goldman Sachs. Please go ahead.

**<Q – Simona Jankowski – Goldman Sachs & Co.>:** Hi. Thanks very much. Just a follow-up to that question: How does the backlog coverage for this year compare to what you typically enter the year with? And then, I just had a clarification when you talked about the \$150 million decline in federal in the second half. Was that a bit larger than you had expected? I think you had earlier indicated \$100 million.

**<A – Greg Brown – Motorola Solutions, Inc.>:** So you're right. On the second part first, Simona, the \$150 million turned out to be higher in the second half but we still met full year guidance. And just to further extend your point, in 2014 we're not building into our overall revenue guidance some kind of significant snap-back to that federal business. We're really projecting very modest increases in the U.S. federal business.

On backlog, as we referenced, Q1 is just more of a timing issue. The remaining aged backlog for the nine-month ensuing periods is at comparable levels to 2013.

**<Q – Simona Jankowski – Goldman Sachs & Co.>:** I see. So despite the fact that backlog grew quite nicely, that's really kind of layered out over a number of years, it's not giving you any more visibility into this year than typical?

**<A – Greg Brown – Motorola Solutions, Inc.>:** That's right.

**<A – Gino Bonanotte – Motorola Solutions, Inc.>:** That's correct.

**<Q – Simona Jankowski – Goldman Sachs & Co.>:** Okay, thank you.

**<A – Greg Brown – Motorola Solutions, Inc.>:** 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. Hey, Greg. Hey, Gino. Appreciate it. So, a couple questions. First of all, have to dig a little bit more into this timing push-out in

Q1. If we can get a little more detail on that. With \$150 million fall-off in fed in the second half of the year, does this Government downdraft in Q1, this air pocket as you mentioned before, A, is that related to lower fed or is it related to LTE or anything that we can get our arms around; when did you get a sense that this was going to happen, was there something that just happened around Christmas, that you got a phone call that it wouldn't be recognized in Q1; and if you can give a sense as to what type of work that is, what types of projects; and should we be assuming that whatever you're going to get in Q1 is now pushed out to Q2, and whatever you're going to get in Q2 is now pushed out to Q3? Just trying to get also a sense as to was this lost business or was this business that literally just got pushed out and pushed everything out one quarter in advance in the future. And I then have a follow-up.

**<A – Gino Bonanotte – Motorola Solutions, Inc.>**: Hey, Ehud, thank you for the question, this is Gino. A couple of items to note. You mentioned federal, the \$150 million decline last year was predominantly in the second half. So Q1 has an element of federal to it, but it's generally across the Government segment, in state and local, federal and to some extent in other regions.

The question on visibility and when did we begin to realize that Q1 may have an air pocket in it, it was really, as you say, as we're closing the quarter – Q4 is our largest order quarter; approximately \$3 billion in orders in Q4. And as we closed the quarter, we aged those projects and those orders over the course of the project life. And that's when the Q1 issue became pronounced, that we had a scheduled delivery issue. Aged backlog, as we call it internally, became an issue.

**<A – Greg Brown – Motorola Solutions, Inc.>**: And just to add, we don't characterize it as business that's lost and it's not LTE either.

**<Q – Ehud Gelblum – Citigroup Global Markets Inc. (Broker)>**: But this was – to follow-up, this was – I'm assuming, it doesn't sound as though it was one project or one group of projects that was pushed out from the same customer. It sounds as though it was spread – it sounds like part of it was the continuation of fed, so you may had a little bit of insight ahead of time, but it sounds like just a coincidence that a large chunk of multiple projects from a lot of different places are being pushed out? Or is there some structural third reason; fear of government shutdown and obviously – I don't know, state and local, something that is making a bunch of different customers push out? I'm just trying to get a little bit of visibility into why all of a sudden and we haven't seen that before.

My other question had to do with pension. Now that your pension liability is down \$1.6 billion, what kind of dry powder does that give you for additional buybacks?

**<A – Mark Moon – Motorola Solutions, Inc.>**: Ehud, this is Mark. Let me jump on the first piece and I'll hand back to Gino for the pension liability. When we think about federal, as we talked about, we talked about the down in the last second half of \$150 million, we're also coming against a very large order in federal in Q1 of last year. So, the comparable was also tough in that particular piece.

Gino spoke about the \$3 billion of orders and how we aged the scheduled delivery of backlog here in the last couple of weeks. It was a nominal across the portfolio, different than just one customer pushing out. The mix was definitely tilted towards infrastructure and deployment services, which is longer range in just the necessity of how the project will be deployed versus larger subscriber orders.

The order flow in the last two weeks also, probably because of the holiday falling in the middle of the last two weeks, was a little less than normal. Now, overall trends are very good. So it's just those last two weeks, which also may have impacted some of the Q1 volume. But again, it really is a Q1 anomaly. We look very strong, the demand is strong. And actually in Government, both in North America and around

the world, we increased share in the year. So, order demand is good. It happens to just be a Q1 timing issue.

**<A – Gino Bonanotte – Motorola Solutions, Inc.>**: And, Ehud, on the pension liability decrease, we've stated in the past and we continued to adhere to a net debt position by 2014. We've also talked about that we're comfortable based on our ability to generate cash, comfortable running a levered model. Certainly that reduction gives us greater flexibility, but we think the adjusted leverage is still appropriate in the mid-2x range. And as we've discussed in the past, we intend to hold on to our solid investment grade rating.

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

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

**<Q – Brian Modoff – Deutsche Bank Securities, Inc.>**: Hi, guys. A couple of questions. First, I know you made some comments on this, Greg, at one of the recent tech conferences, but could you give us an update on your views of timing of LTE rollouts this year in the U.S.? It really looks like more next year, but I want your view on that in terms of how you're planning.

And then, back to an earlier question around the guidance for the year. If things go good in the following nine months after Q1 Y – better than planned, I should say – if they go worse than plan also, what would have caused that relative to your plan for the year?

**<A – Greg Brown – Motorola Solutions, Inc.>**: On LTE first, Brian – thanks for the two questions – I'll start by we're thrilled with the fact that we secured an approximately \$100 million multi-year deal, our first internationally outside the U.S. As we think about LTE revenue contribution overall for 2014, we are not planning – no more than \$50 million in 2014 total revenues. We continue to work closely with FirstNet well here in the U.S. We are working on a couple of projects and we'll see if they are successful coming to conclusion, one in particular comes to mind that we're working on that could make a decision over the next few months. We'll see.

In terms of the remainder of the year, I think we have been pretty disciplined in the guidance that we're giving and a variety of different contingency scenarios, as Gino and I work pretty closely together. For the full year, factored into the full year revenue guidance, again we think about Government being up low-single digits, Enterprise being up mid-single digits without iDEN, and that's really kind of the way we think about the balance of the year. It contemplates about 2% to 4% growth over the remaining nine months against a flat period of compare. We've taken a detailed look at backlog, so we feel pretty good about the way we're calling the year.

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

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

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

**<Q – Andrew Spinola – Wells Fargo Securities LLC>**: Thanks. I have a question about your operating expenses. If I take the guidance that you've given, say the mid-point of your revenue, the assumption that gross margin is unchanged next year and then all the put and takes around pension and bonus and other pay increases, things like that, is your operating expense base, where it is now, going to get you to the 18.5% operating margin or do you need to look to make additional cuts to get there?

**<A – Greg Brown – Motorola Solutions, Inc.>**: High level, I think that between the actions that we've taken in 2013 that result in significant annualized savings, which is a tailwind, as well as pension savings with a tailwind, and then netted against the headwind of accruing back to 100% of variable compensation, we think those actions when netted together largely get us there to approximately 18.5% against the backdrop of the revenue guidance that we've given.

**<Q – Andrew Spinola – Wells Fargo Securities LLC>**: Great. And then, Greg, the LTE win and the other possible awards that you might win this year, are any of the customers new customers to you? So, is LTE expanding your addressable market in any ways that maybe you could discuss so that we can think about your business going forward?

**<A – Greg Brown – Motorola Solutions, Inc.>**: Well, I think it expands the addressable market because it's a separate new network that's incremental to the narrowband LMR that's been deployed. In the win internationally, it's an existing customer, one that we've enjoyed a relationship with for decades. But having the fact that we have a public safety solution, infrastructure, software and integrated devices does expand the addressable market.

And in the one that I'm thinking about here domestically, who is also an existing Motorola Solutions customer, but if we were to succeed in closing that business, that too would be an expansion of the addressable market opportunity because public safety LTE and the addressable market is incremental to the public safety mission critical land mobile radio business.

**<A – Mark Moon – Motorola Solutions, Inc.>**: Andrew, just to further kind of clarify and amplify, really, what Greg said, one of the large contracts that he highlighted that we will receive this year was from L.A. Regional Interoperable Communications for a land mobile two-way radio mission critical network. LA-RICS is also a customer currently pursuing an LTE opportunity. So, that is the reference that Greg just made.

So really, this new LTE opportunity is indeed incremental because it's in addition to the multi-year mission critical network they just bought. And again, we're in negotiations with that customer and optimistic about what will come in the near future.

**<Q – Andrew Spinola – Wells Fargo Securities LLC>**: Thank you very much.

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

**<Q – Peter Misek – Jefferies LLC>**: Thank you and good morning. I guess I'm struggling a little bit as well with the margins, and I guess I have two questions. Firstly, as we look at the Enterprise performance, two quarters effectively of growth here on an adjusted basis, the business seems to have less and less to do with the Government side. The overlap, based on the work we've done, seems to be diminishing over time, not increasing. Does the thought process around maintaining ownership of that business continue, or does it make sense now – we're starting to see a stabilization to actually explore a sale?

Then on the margin side, still struggling on the operating margin guidance, on how you get there when you look at the math – mathematically the ramp throughout the year, maybe we can dive into the bridge from gross margin to operating margin just on the Government side as that Government operating margin looks, again mathematically, to be a bar that's set far lower than what we would have expected. Thanks.

**<A – Greg Brown – Motorola Solutions, Inc.>**: Peter, so on the Enterprise business – I mean we have two core businesses here in the firm. They're different, you're right, but they're also both very good businesses. Our focus has been and remains on improving the Enterprise business given some of the

difficulties and challenging periods we had over the last few quarters, and we feel pretty good about where we are with this business. It's improving operationally. It's improving on backlog, up \$50 million year-over-year. It's improving on new products, with four recently introduced Android products. The engagement, as I mentioned, with large customers at NRF was significantly in tone better than the last year or two. We've extended the Motorola Extensions vis-à-vis security device management integration on our own software that we layer on top of Android.

So I guess it's a long-winded way of saying, the Enterprise business is a good business. It's improving its position; that's been our focus. And we have a number of customers that are counting on us to deliver in Q1 and Q2 and for the remainder of the year, and that is our primary focus. And we think there can be a lot of value created by continuing to drive the improvement of that business.

**<A – Gino Bonanotte – Motorola Solutions, Inc.>**: And on gross margin, Peter, we said – we expect gross margins to be comparable to 2013. And Greg talked about the tailwind in pension, as well as reductions executed in 2013 that will be realized in annual savings in 2014.

**<Q – Peter Misek – Jefferies LLC>**: But the question I was specifically asking is on the bridge. If we're comparable at roughly, call it, 50% gross margins, given that revenues are expected to grow more than expenses, and you've walked through that, we would have expected more than an 80 basis point rise in operating margin based on your full year guidance. And I guess the bridge I'm talking about, if we assume flat to low-single digit revenue growth and if we assume low-single digit operating expense declines, we're getting something that's closer to 19% operating margins. And so, I guess that math, I'm just curious if you can give a little more color on the puts and takes on that math and whether we're thinking about this right, or how we should look at it in more detail.

**<A – Gino Bonanotte – Motorola Solutions, Inc.>**: So the...

**<A – Greg Brown – Motorola Solutions, Inc.>**: Go ahead. No, go ahead, Gino. And then, I'll throw in a few.

**<A – Gino Bonanotte – Motorola Solutions, Inc.>**: Okay. So, Peter, what we've said margins comparable to 2013, we ended 2013 at 49.3%, so margins comparable; and a reduction in OpEx gets us to the 18.5% from where we ended 2013.

**<Q – Peter Misek – Jefferies LLC>**: Okay, thank you.

**<A – Greg Brown – Motorola Solutions, Inc.>**: And the only thing I'd add is, the guidance of approximately 18.5%, and I've said this before in the past, it's not to imply necessarily a ceiling either. So, we're just trying to be prudent in our estimation given the 90 basis point improvement year-on-year. Gross margins will be comparable 2014 versus 2013. We do have lower iDEN revenues, but we also look at ASPs pretty carefully and we're comfortable with where we are on ASPs in both segments. So, that's contemplated into the approximately 18.5%.

**<Q – Peter Misek – Jefferies LLC>**: Great, thank you.

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

**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. I just wanted to dig into the LTE business. You talked about it not being a meaningful contributor this year. But looking out a few years, I

just wanted to get a sense of a few things. First, could you talk a little bit about when we think about the revenue distribution of those contracts, do you think it will be any different than ASTRO, TETRA when you look at the mix of infrastructure devices and software and services? That's number one.

And then, number two, a similar question but on margin profile. And with the margin profile, I just want to understand, given that there might be a little bit more standard-based air interfaces there, does that mean a much more competitive dynamic on the device piece of the business? Thank you.

**<A – Greg Brown – Motorola Solutions, Inc.>**: Well, I'm going to turn it over to Mark to answer part of that. But just on the last part, Tim, one of the things I think that's been very important from a competitive advantage and the way we approach this business strategically is a solutions orientation. So, regardless. P25 is an open interoperable standard as well, with many competitors on the infrastructure and device side. But given our expertise, customization of software, existing relationships, we're able to drive a very successful franchise.

LTE is also an open air interface standard, and our approach to that market is also through a solutions orientation. Infrastructure, software, devices in an end-to-end orientation; that reflects the expertise and the decades of experience we have in provisioning mission critical communications. On the LMR side, it's narrowband. On the LTE side, it's broadband. But we've been very conscious of the R&D investments we've made to try to have that system's end-to-end orientation, to have that strong solution and business model that we think will be quite successful going forward.

**<A – Mark Moon – Motorola Solutions, Inc.>**: Tim, when we think about the revenue mix, both kind of where it physically will happen, we see it being fairly well balanced between international opportunities and U.S. opportunities.

From the infrastructure subscriber question that you asked, I think it would be similar when you think about our traditional business and the mix of percentage of infrastructure equipment versus devices. But what I do believe, following up on what Greg just described as the way we see the business evolving, you will see the services component – because this will be a solutions delivery and operating some of these networks at a higher level, I think you'll see that services content continue to grow in this particular piece, just like we're seeing it grow in our other businesses today, in longer-term agreements.

So from a margin perspective, both as you think about services, infrastructure and what we see in the public safety LTE devices, I think from a gross margin perspective it will be somewhat less than what we see in our traditional business but we do believe we can maintain the same level of operating margins within that business.

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

**Operator**: We'll take our last question from Keith Housum with Northcoast Research. Please go ahead.

**<Q – Keith Housum – Northcoast Research Partners LLC>**: Great. Thanks for taking my call, guys. I want to come back to the 1Q guidance, if you guys don't mind. I know this is going to be a topic of conversation amongst investors today. I guess, Greg, you made the point before that you have higher confidence in your ability to schedule out going forward. So the question is, of course, what gives you the higher confidence?

And then, it certainly looks, if we look at historical numbers in the Government sector, this is highly unusual that you're gonna have a decrease year-over-year in that segment. I guess any other color that you can give to why that was perhaps. And I know you touched on this a number of questions on the call



here, but it still seems like something is missing here from the investor standpoint in trying to understand the lower guidance.

**<A – Greg Brown – Motorola Solutions, Inc.>**: Yeah, I would summarize it this way – and I recognize a number of questions around the topic. It's really about timing. And I don't mean to distract or take away from the realities of the Q1. It's the mix to higher infrastructure and deployment services and the way the orders flowed through. We had almost a \$3 billion order quarter in Q4. It's a huge volume that comes in. A component of it is federal that we mentioned about it earlier.

But quite frankly, I'm just not that concerned, nor is Gino. And I don't mean to blow by it. That's not at all what I'm trying to do. But we look at the business annually, we look at the backlog that's aged, we look at the engagements we're in. We're not contemplating significant LTE. And when I think about, can this business grow 2% to 4% for the ensuing nine months over a flat compare to the same period? I think it's very reasonable. And I think it's in that context that we have higher confidence.

When we come into a quarter, I've referenced, Mark and Gino have referenced, that we have approximately 80% visibility into a quarter; that too is unchanged. About 50% from backlog; 30% of what we characterize in our own vernacular as run rate, which is add-on and additional services and things with very little variability. And then, there's about 20% of the quarter that we need to go get, which is anywhere from \$350 million to \$400 million in new orders to turn and book and ship.

I think in the last several months, with Gino's arrival and I think some rigorous processes and stronger linkage between finance and Mark Moon's organization, I feel more comfortable about some steps that have been taken. I think a great example of that is the cash generation of \$741 million in Q4, which we've never had. And I will give a tip of the hat to Gino that dove into this from a working capital standpoint, receivables, payables, it's the mud-under-your-fingernails blocking-and-tackling that I'm very pleased with. So, I think we're operationally more crisp. And the overall demand drivers of the business are strong. Multi-year backlog is up. So, those are the elements that underpin our guidance and my feeling of feeling more comfortable about this business.

**<Q – Keith Housum – Northcoast Research Partners LLC>**: Okay. If I could ask a follow-up question. So it sounds like from the line of question here and your commentary, the average age of your backlog is probably increasing substantially as the multi-year rollouts – it sounds like they're extending, is that correct?

**<A – Greg Brown – Motorola Solutions, Inc.>**: That is correct, yeah.

**<Q – Keith Housum – Northcoast Research Partners LLC>**: Okay. Can you give us an idea of what the age of that backlog is, or the average age?

**<A – Greg Brown – Motorola Solutions, Inc.>**: I don't know the answer to that. I don't know.

**<Q – Keith Housum – Northcoast Research Partners LLC>**: All right. Appreciate it.

**<A – Mark Moon – Motorola Solutions, Inc.>**: Keith, I'd also say on Q1, the Q1 issue is really a North America issue. And when you think about what we've talked about with the federal government in North America and the way we've bragged over the last several number of quarters about the performance of state and local in North America, 15% growth in 2012, 9% growth this past year, it really is we're still very confident in that business but the timing of that backlog in that business is down.

The other thing, for the full year of Government, we do expect to return to growth in APME, which has been slower than expected but built great backlog. So, that will be an upswing for this year. As well as Latin America, where we had a couple of projects slip from last year into this year, we believe that will also be stronger growth. So, that will offset kind of the tough comparables that North America and EA will be fighting against this year.

**<Q – Keith Housum – Northcoast Research Partners LLC>:** Okay. But for the first quarter, it really sounds – what I'm hearing is that in the fourth quarter, your group and Gino's group really tightened up your review of that 80% visibility. And along with a combination of new orders that came in, it really caused you to re-evaluate I guess your first – or you guys never gave quarterly guidance before, but it's causing, I guess, the way the investors are seeing the first quarter, I should say.

**<A – Mark Moon – Motorola Solutions, Inc.>:** It is the late flow of the orders that we really didn't have visibility to till they came in. But again, the volume of that, it happened in fourth quarter, our largest quarter ever, almost \$3 billion of orders.

And it is – speaking to Greg's comment on confidence, we have definitely instituted much more rigorous process for the bottoms-up buildup that gives us higher confidence both in the current quarter and for the guidance we were giving for the full year.

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

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

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

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

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Thanks. I'd like to remind everyone that details outlining the highlighted items are GAAP to non-GAAP. P&L reconciliations and other financial information can be found on the website.

An audio replay, together with a copy of today's slides, will also be available shortly after this call.

As we mentioned at the outset, during the 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 relating to the following topics: outlook on operating cash flow; sales by business and region; op margin; op expense; gross margin; EPS; the amount of other income and expense; future tax rates; pension expense and cash contributions' impact to trends in our Enterprise business; impact of the migration of customers from analog to digital; timing and impact of new product, solutions and services introductions; impact of improvements to our cost structure on operating leverage and cash generation; impact of long-term contracts on future revenue.

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 pages 12 and Item 1-A of our 2012 Annual Report on Form 10K and Motorola Solutions' other SEC filings.

Thanks and we look forward to speaking with you all 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.