MOTOROLA SOLUTIONS

Q3 2015 Earnings Conference Call
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PARTICIPANTS

Motorola Solutions, Inc. Corporate Participants

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

Other Participants

Kulbinder S. Garcha – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Ashwin X. Kesireddy – Associate Analyst, JPMorgan Securities LLC
Tim Long – Analyst, BMO Capital Markets (United States)
Simona K. Jankowski – Analyst, Goldman Sachs & Co.
Pierre C. Ferragu – Analyst, Sanford C. Bernstein & Co. LLC
Fahed Najam – Associate Analyst, Cowen & Company, LLC
Mike Koban – Associate Analyst, Raymond James & Associates, Inc.
Keith M. Housum – Analyst, Northcoast Research Partners LLC
Andrew DeGasperi – Analyst, Macquarie Capital (USA), Inc.
Ben J. Bollin – Analyst, Cleveland Research Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and thank you for holding. Welcome to the Motorola Solutions Third Quarter 2015 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 web address is www.motorolasolutions.com/investor.

At this time, all participants have been placed in a listen-only mode and the line will be open for your questions following the presentation.

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

Shep Dunlap, Vice President, Investor Relations

Thank you, and good morning. Welcome to our 2015 third quarter earnings call. With me today are Greg Brown, Chairman and CEO; Gino Bonanotte, Executive Vice President and CFO; Mark Moon, Executive Vice President and President of Sales; and Bruce Brda, Executive Vice President, Systems and Products. Greg and Gino will review our results along with commentary, and Mark and Bruce will join for the Q&A portion.

We have posted an earnings presentation and news release at motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliations for your reference. A number of forward-looking statements will be made during this presentation and during the Q&A portion of the call. These statements are based on current expectations and assumptions that are subject to a variety of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Information about factors that could cause such differences can be found in this morning's earnings news release and the comments made during this conference call in the risk factors section of our Q3 2015 report on Form 10-Q and our 2014 Annual Report on Form 10-K and other reports and filings with the SEC. We do not undertake any duty to update any forward-looking statements.

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

Greg Brown, Chairman & Chief Executive Officer

Thanks, Shep, and good morning. And thanks for joining us today. I'd like to make a few opening comments about the third quarter and the overall business before Gino takes us through the results and outlook.

First, Q3 was another solid quarter. The core business remains resilient in several areas. North America sales grew 5%, the fourth consecutive quarter of growth. And as expected, Asia Pac returned to growth with a very strong quarter while the Middle East continues to expand robustly. Second, our operating discipline and cost initiatives are delivering excellent results. During the quarter, we generated 13% growth in operating earnings and 32% growth in earnings per share. And we're now on track for approximately $200 million in OpEx savings for the full year 2015.

And finally, our focus on investments in managed and support services, smart public safety and public safety LTE continued to gain momentum. Our managed and support services business grew solidly in constant currency. Our recent acquisition of Emergency CallWorks for Next Generation 9-1-1 is performing better than expected, and we're hosting new public safety LTE trials in every region in the world. We're encouraged about the growth opportunities these areas represent, and we'll continue to pursue new initiatives in these areas.

I'll now turn the call over to Gino to provide additional details on Q3 results and outlook before returning to provide some closing thoughts.

Gino Bonanotte, Executive Vice President & Chief Financial Officer

Thanks, Greg. Third quarter revenue was $1.4 billion, down 1% versus the prior year quarter. On a constant currency basis, sales grew 3%. Backlog is up $681 million versus last year. GAAP operating earnings were $231 million, while non-GAAP operating earnings were $292 million. These non-GAAP earnings are 21% of sales, representing a 250-basis-point improvement from the year ago quarter. GAAP EPS from continuing operations was $0.63 compared to $0.27 in the third quarter of 2014. Non-GAAP EPS from continuing operations was $0.82, which represents a 32% year-over-year increase. This growth was driven by our ongoing cost reduction and simplification initiatives as well as reduced share count. For the remainder of the call, we will reference non-GAAP financial results including those in our outlook unless otherwise noted.

Products segment Q3 sales were $925 million which is flat versus the prior year, but up 3% when adjusting for currency impact. Q3 products segment operating income was $221 million or 24% of sales, up $46 million versus the prior year quarter driven primarily by our cost reduction. Products segment backlog ended the quarter at $1.3 billion, up $171 million versus last year and up $65 million sequentially, reflecting the sixth consecutive quarterly increase. This increase was driven by North America.

Q3 Services revenue was $497 million down 3%. Excluding the impact of currency and iDEN, the Services business grew 3%. Services operating income was $71 million or 14% of revenue. Lower sales volume and systems integration margin related to a few large projects, were partially offset by lower OpEx. Gross margin in managed and support services, as well as smart public safety, were up. Services backlog is $4.6 billion, up $509 million versus last year and down $69 million sequentially, inclusive of a $60 million currency revaluation, customers continued to sign long-term Services contracts to upgrade, maintain and manage their networks.

Total company operating expenses from continuing operations were $396 million, down $39 million or 9% from the year ago quarter, driven primarily by continued cost reduction activity, including the expansion of lower cost shared service centers that have benefited from a stronger dollar. We now expect full-year OpEx to be about $1.58 billion, a $200 million reduction from the prior year. Other income and expense in Q3 was $34 million compared to $29 million in the year-ago quarter. Our Q3 effective tax rate was approximately 35%. We expect the full year 2015 effective tax rate to be approximately 33%. We also continue to expect our cash tax rate to remain at approximately 15% through 2019.

Cash flow from operations in the third quarter was $300 million, an increase of $415 million versus last year. Free cash flow was $250 million. The improvement in cash generation was primarily driven by lower pension payments and improved earnings. We remain on track for approximately $1 billion of operating cash flow and $800 million of free cash flow for the full year. We repurchased $2.1 billion of stock and paid out $70 million in dividends during the quarter. This resulted in a net debt position of $2.2 billion at the end of Q3.

Moving to regional results, North America revenue grew 5% ahead of expectations once again, under-pinned by strong Product and Services growth. We posted solid growth in both state and local, as well as U.S. federal business. Underlying demand remained solid for our products and services, and the pipeline and backlog remain healthy.

Latin America was down on challenging macroeconomic conditions, the impact of a stronger dollar and continued iDEN declines. While these variables were assumed in our prior outlook, the 22% decline was more than expected. The continuing rise of the dollar, particularly in the second half of the year, is having a more pronounced translation impact in Brazil and transactional impact in countries where U.S. dollar-denominated sales have resulted in large double-digit price increases to our customers.

The Europe and Africa region was down 23%; the region declined due to FX, the Norway implementation wind-down, and weakness in Eastern Europe. Moving to Asia Pac, the business returned to growth in the quarter, posting an increase of 14%, and was up 24% in constant currency terms. We expect growth in Q4 due to healthy backlog growth and a strong pipeline. Finally, the Middle East region again grew strong double digits and backlog is up over 100% versus the year-ago quarter to approximately $400 million.

I'd also like to share some brief segment highlights. The Products segment growth of 3% in constant currency was driven primarily by North America and Asia Pac. We also delivered meaningful profitability expansion in this segment, improving operating margins by 500 basis points. We continue to innovate, drive down costs and simplify our business processes. Some of the Q3 product highlights include launching our Digital Evidence Management Solution, which combines our secured cloud-based CommandCentral Vault software with voice communication, body-worn video, voice recording, and emergency alerts delivered in one compact device.

The recent APX 8000 digital radio launch has far exceeded initial expectations for new product revenue. This quad band device includes advanced Wi-Fi and Bluetooth functionality which acts as a personal area network and serves as a platform for future APX devices. Additionally, we remain on track for a 40% SKU reduction by year end, furthering our drive for simplification.

The Services segment grew 2% in constant currency and was up 3% when excluding iDEN and FX. Focus areas of managed and support services and smart public safety were up in constant currency. Our recent acquisition of Emergency CallWorks, which is a converged solution for Next Generation 911 call taking that can be deployed in the cloud or on premise, continues to outperform our expectations, including several Tier 1 customer wins.

Our Public Safety LTE business continues to gain momentum. In addition to the two international deployments and the LA-RICS deployment, we also have multiple large trials ongoing with international police forces, testing and utilizing our unique public safety LTE solution. This includes interoperability between LTE and LMR networks enabled by our WAVE technology, third-party mobile applications, and broadband devices.

Now turning to our outlook, we expect total company sales for Q4 to decline 6% to 8%, or down 3% to 5% including the impact of currency. The weakness in Q4 is driven by incremental currency headwinds, which we now expect to be approximately $65 million, and further macroeconomic weakness in Latin America and Eastern Europe. We now expect full year revenue to be down approximately 3% or up 1% in constant currency. We expect non-GAAP EPS of between $1.45 and $1.50 for Q4 and $3.20 to $3.25 for the full year.

I'd now like to turn the call back over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thanks, Gino. Let me close with a few thoughts. First, Q3 was another solid quarter relative to our sales and earnings expectations as we performed well on a number of measures: revenue growth in North America, revenue growth in Asia Pac, and revenue growth in the Middle East. That said, we saw increased softness and economic uncertainty in both Latin America and Eastern Europe which are tempering our views of Q4.

Second, our execution around cost savings and capital return continues to demonstrate strong results. We're on track for OpEx reductions of about $200 million this year, and we're planning on $125 million more in OpEx reductions for next year. We purchased over $2 billion of our shares during Q3, which now brings us to a reduction of nearly half of our share count just over the past four years. Based on these efforts, we expect to see sizable free cash flow per share expansion as we move into 2016 and beyond.

And finally, we're seeing progress in our investments in innovation. Strong initial revenues associated with the launch of the new flagship APX 8000 digital radio as well as the Digital Evidence Management Solution, which combines our secure cloud-based CommandCentral software with voice communications, body-worn video and voice recording, all-in-one device. This is an embodiment of the way we think about innovation in bringing together devices, software and services in a streamlined solution that meets the needs and use cases of our customer base.

I'll now turn it back over to Shep.

Shep Dunlap, Vice President-Investor Relations

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

QUESTION AND ANSWER SECTION

Operator: And we'll take our first question from Kulbinder Garcha with Credit Suisse. Please go ahead.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Thanks. My question is for Greg. I mean, in terms of what's tempering the cautiousness for the fourth quarter, revenue guidance in particular, Greg, just versus three months ago, can you maybe break down in order of importance what the drivers are, because I looked at the exposures you have to South America and Eastern Europe, and they are not massive in terms of the overall revenues. And also the currency moves have also been happening a fair amount in the first half as well. So just versus three months ago, can you speak about what's changed, and then also on the – there was a mention there of price increases. Is that quite broad-based where you guys have been hit by currency over the last year? Or is that quite a minor impact? If you could just clarify that, that would be great.

<A – Greg Brown – Motorola Solutions, Inc.>: So Kulbinder. So the way we think about this, is we've seen incremental pressure in the second half of this year. I actually mentioned this at the Bernstein conference in September. We started to see pressure in Latin America and Eastern Europe in the August-September timeframe. What's happened is it's become more pronounced. I would dimensionalize it the following way. Think of it as approximately $100 million of incremental net pressure in the second half. I'd say $30 million of that is foreign exchange, Kulbinder, $50 million is further deterioration in Latin America.

Remember 80% of our revenues in Latin America are U.S.-denominated and about $20 million is further deterioration in Europe, Eastern Europe, where all of our sales are U.S.-denominated. Now some of this was mitigated in Q3 by the over performance and strong performance in both North America and Asia Pac, but that's how we dimensionalize and see the pressures in the second half of the year. I think to your point around pricing, where we are U.S.-denominated and we've had that kind of pressure, we're seeing more of a price disparity with some of our portfolio. But in Q3 and Q4, we're taking action to adjust accordingly. But that's what's happened over the second half.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: And then maybe just on the operating cost. The OpEx reduction for next year, is that a new kind of program, or is that always envisaged? I've kind of lost count?

<A – Greg Brown – Motorola Solutions, Inc.>: That is a new reduction of $125 million for next year. The $200 million, it just represents the continued progress and solid execution that we announced. There's nothing new about it. It's more of a continuation around platforming, moving from high cost to low cost, eliminating duplication and redundancies, efficiencies around the SKU reduction that Brda is leading on product simplification. But it's manifesting it very well, and the $125 million reductions for next year are off of the full year OpEx base this year, so more efficiencies and more effectiveness.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Thank you. Very clear, thanks.

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

Operator: We will take our next question from Rod Hall with JPMorgan.

<Q – Ashwin Kesireddy – JPMorgan Securities LLC>: Yeah, Hi. Thanks for taking my question. This is Ashwin on behalf of Rod. Could you comment on your growth expectations for 2016? Maybe walk us through some of the drivers that could get you back on growth path for next year?

<A – Greg Brown – Motorola Solutions, Inc.>: Sure, Ashwin. Well, first of all I think it's important that our view of this business being a low-to-mid single-digit growth business in a normalized environment remains unchanged. I remind you that we talked about some specifics about next year. Norway revenue, as the largest project in our company's history winds down, $80 million of lower revenue in 2016 versus 2015. The good news to that is it's a very, very low margin revenue. So, that's the good news associated with that. The second headwind is the $40 million of iDEN as expected, next year in 2016 over this year. And as of today, from a spot rate FX standpoint, we probably have about $40 million of additional FX in next year.

Now when you put all those ingredients into the blender, that results in probably about $60 million of pressure in Q1. We're not going to guide, Ashwin, on the full year until next quarter's call but I think it is important to note that North America, we do expect to grow in 2016 at comparable levels to 2015 as they've been building backlog and executing strongly and consistently throughout 2015.

<Q – Ashwin Kesireddy – JPMorgan Securities LLC>: Thank you. If I may have a follow-up, honestly...

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

<Q – Ashwin Kesireddy – JPMorgan Securities LLC>: ...I don't think I heard any target for next year, or reiteration of the $100 million for this year. Could you just clarify that? Apologies if I missed that.

<A – Greg Brown – Motorola Solutions, Inc.>: You mean on the cost reduction?

<Q – Ashwin Kesireddy – JPMorgan Securities LLC>: No. On LTE revenue for 2015 and 2016.

<A – Greg Brown – Motorola Solutions, Inc.>: Got you. So, we still expect to achieve our approximate $100 million in Public Safety LTE revenues for this year. Lot of good work by Bob Schassler and the team on LA-RICS specifically as that project completes this year. We haven't guided specifically on a number for public safety LTE revenues in 2016, but it's fair to say, Ashwin, we expect it to grow next year as we continue some work on LA-RICS but also build out the larger implementations in the two Middle East countries that we're working on.

<Q – Ashwin Kesireddy – JPMorgan Securities LLC>: Great. Thank you.

Operator: We'll take our next question from Tim Long with BMO Capital Markets.

<Q – Tim Long – BMO Capital Markets (United States)>: Thank you. Can we just get an update on the investment from Silver Lake last quarter? If you can give us an update on some of those initiatives that that investment was going to be seeding around partnerships, investments, acquisitions; maybe just give us a sense what's going on with that. And then I had a follow-up.

<A – Greg Brown – Motorola Solutions, Inc.>: Sure, Tim. The engagement with Silver Lake's been great. They have operationally connected into the business in a pretty seamless way with folks. We're working on a number of work streams. I would categorize them in the consistent areas that I outlined when we first did the deal. I would say that we're partnering around managed and support services as well as smart public safety and specifically some of the software areas.

There's also an initiative we're launching with them around cost of goods or what I would call above gross margin, both product and services. So operationally they've interconnected very well with the management team here on a number of work streams. In terms of inorganic, they'll work with us closely as we evaluate things that make sense or may make sense in adjacent areas that we would feel are compelling and accretive. But so far so good. Early days, but very pleased with their engagement.

<Q – Tim Long – BMO Capital Markets (United States)>: Okay. Thanks, Greg. And then, Gino, just to follow-up on the gross margin line, and I think you mentioned the SKU reduction. We've been seeing the gross margin slide lower the last few years here. Could you just talk a little bit about whether it's SKU reduction or what else can help reverse that trend we've seen in gross margins? Thanks.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Sure, Tim. The gross margin pressure we've seen this year is primarily related to large systems integration projects, a couple of projects whose margin is lower than our overall margin. If we look at margin across products, it's comparable in the main to prior periods as well as services, Managed and Support services, Smart Public Safety, those margins remain healthy. We expect gross margins to improve over time as the projects, large projects, roll off by the end of this year. And we also, as importantly, perhaps more importantly, expect operating margin improvement as we expand our services portfolio and services business.

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

Operator: And we'll take our next question from Simona Jankowski with Goldman Sachs. Please go ahead.

<Q – Simona Jankowski – Goldman Sachs & Co.>: Hi. Thanks very much. A couple of questions. Just the first one around FirstNet with the RFP coming up here and vendor selection next year. Can you just update us on how you're positioned and what your expectations are and who you think you're up against?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, I think, Simona, we'll continue to evaluate it closely to see ultimately what requirements are codified in the final RFP targeted by the end of the year. Our operational engagement with FirstNet has gone well. Particularly, I would recognize them and thank them, both FirstNet and NTIA, as we've worked all hands on deck on the LA-RICS build out and initial network completion.

So I think that's gone well. They're outlining a set of requirements. We had a meeting with them a few weeks ago. We stay closely connected with them as they ultimately determine both the business model, the framework for the network rollout, and we'll determine after the final RFP is let, how we participate and choose to compete. That will be a 2016 decision to determine how we respond. And I think those responses are due either Q2 or Q3 of next year.

<Q – Simona Jankowski – Goldman Sachs & Co.>: Thank you. And then on the body camera launch a couple of weeks ago, can you just help us think through how meaningful that could be from a revenue perspective for the company. In particular, how much of that is incremental versus substitutive to your existing camera resales? And how big is the opportunity potentially for adjacent software or infrastructure sales kind of around and in support of the cameras themselves?

<A – Greg Brown – Motorola Solutions, Inc.>: So, Simona, I think of it as an incremental opportunity and I say that because even though we sell or resell a body camera today, I think sales have been pretty muted and not very meaningful. This is exactly the way we have thought about innovation in that we're less interested in competing in commodity hardware. We're more interested in a value-add, differentiation integrated solution. So we took the back-end around content management, the cloud-based solution around CommandCentral Vault obviously in a secure communication's model where we're integrating it all into a speaker mic.

First responders have too much on their belt and too much on their body. So a consolidated, integrated, encrypted superior solution in our view was the way to go. Software, services and all integrated in one device. So we feel good about it and I view it largely as incremental. I think the addressable market I would characterize as maybe $250 million of $300 million. And that's more restricted looking at the addressable market size of the body worn camera. But I do think it also lends itself to your point into potential adjacencies around software as a service. That product will be shipping in a matter of months, so we'll update you accordingly. But we feel very good about that product roll-out.

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

<u>Operator</u>: We'll take our next question from Pierre Ferragu with Bernstein.

<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>: Hey. Thank you for taking my questions. Just sharing a thought on your guidance for Q4. So the number you put out is a bit below what your full year guidance was implying and slightly below where expectations were. But looking at it sequentially, it's at the end of the day your fourth quarter that looks very reasonable. And when I look at the last couple of years, you've had like a strong seasonality into the year and like a very strong Q4. And that was a fairly new seasonal pattern. So my question is does that mean that this very strong Q4 patterns, the general pattern that we've seen in the last couple of years was kind of due to very temporary effects? And going forward we should expect more like normal seasonality followed by [indiscernible] in the coming years?

<A – Greg Brown – Motorola Solutions, Inc.>: I think to your point that when you look at suspending Q4 for a minute and looking at second half, it's generally close to the guidance that we gave, normalized for foreign exchange. I mean said another way, we still expect growth for the full year in constant currency. And the EPS is within the range we gave at the beginning of the year and just recently a quarter ago, although obviously now we're targeting it toward the lower end of that. I think. Pierre, you'll still see generally normal seasonality of the business that's reflective along traditional linearity.

If I take North America specifically, even though we're not anticipating growth for North America in Q4, in part to your point, that's on a very strong comp a year ago and North America is performing exactly as we expected, actually so is Asia Pac, but North America for the full year 2015 it's actually performed stronger than we expected for the first three quarters. They are growing backlog and building backlog along the way and as I mentioned, North America which is 65% or 70% of our revenue, we expect to grow in 2016 at comparable levels to 2015. They are executing very strong and very consistently with Jack Molloy and his team.

<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>: Great. Thank you.

<u>Operator</u>: We'll take our next question from Paul Silverstein with Cowen. Please go ahead.

<Q>- Fahad Najam – Cowen & Company>: Hi. This is Fahad in for Paul. I apologize, I have a few questions. So first off on the OpEx reduction, what portion of the OpEx upside was driven by favorable FX tailwinds?

<A – Greg Brown – Motorola Solutions, Inc.>: Of the $200 million for this year, about $80 million is favorable FX, which is a good guy, a tailwind. But commensurately, incentives are an $80 million headwind, so they kind of offset each other, Fahad, on the FX. We're taking $200 million of real cost out of the business this year.

<Q>- Fahad Najam – Cowen & Company>: Got it. So looking at 1Q 2016 where hopefully FX is somewhat more stable, do you still foresee this $80 million of a tailwind or does that go away?

<A – Greg Brown – Motorola Solutions, Inc.>: No, I think FX is an issue for us given year-on-year comps. As I mentioned, the spot rate as of this week, it's $40 million of incremental. I think that manifests itself more in Q1 and Q2 of next year and then should normalize based on spot rates today. But having said that, we're taking another $125 million of costs out in 2016 irrespective of fluctuations of FX.

<Q>- Fahad Najam – Cowen & Company>: Got it. Thank you. Then on your share buyback, can you help us understand your share buyback for 4Q and for 1Q 2016? How should we be looking at that?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, Gino mentioned last call that we were targeting approximately $3.5 billion of repurchase for the full year 2015. That's unchanged. We obviously executed on the tender and took a big chunk of shares out this past quarter. I think going forward as the balance sheet's been normalized, I think you should think about capital return along the lines of the framework that we've outlined of operating cash flow, which is 50% repurchase or M&A, 30% dividend, 20% CapEx is a framework of the way you should think about it, given the fact that we've normalized the balance sheet with the tender and have achieved net debt.

<Q>- Fahad Najam – Cowen & Company>: Okay. Now going back to a macro view, looking at your strength in Middle East, and looking at the falling oil prices, do you see that as a headwind going into 2016? Do think that will change the buying patterns of your customers there and elsewhere which are predominantly based on oil imports – exports, sorry?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, I think for sure that's what's tempered our view of Q4. I don't necessarily see that changing going into 2016. So we will be guarded and measured, and we'll update you on 2016. As it relates to kind of a region specifically for us, we talked about North America and the color around 2016. Gino mentioned we have robust backlog in the Middle East.

So even though there's pressure on oil price reductions largely in that region, we've got healthy backlog and very good visibility, I think, into 2016 for that region. Latin America we don't see changing anytime soon. So I think our views will remain tempered exiting Q4 and into 2016. And Europe, I would dimensionalize around the Eastern Europe issue that we highlighted. And the only other thing worth mentioning specific to us, of course, is the Norway wind down on revenue. But that's kind of how we see it going forward.

<Q>- Fahad Najam – Cowen & Company>: Okay. And lastly, looking at some of these integrated video solutions that you sold, can you give us an idea in terms of like the number of opportunities, deal pipelines that are in the foreseeable future in your pipeline? Just to kind of give us a sense on how we should be seeing these opportunities maturing over the next year.

<A – Greg Brown – Motorola Solutions, Inc.>: I think, actually, Fahad, I think it'll be better to update you a quarter from now since we just made the announcement and the product rolls out in the next 60 days. What I will tell you is the initial feedback with the Chiefs Conference here in Chicago was strong. It was strong because they like an integrated device, they like the fact that it has content management for crisp extraction on evidentiary and storage requirements, and they like that it's consolidating and thinking about and sensitive to what a first responder carries on his or her chest or belt. So I think it's a little premature to kind of signal the pipeline and the quantification of it. We'll update you in a quarter, but the initial feedback and engagement has been very good. And we're in conversations with a number of customers right now.

<Q>- Fahad Najam – Cowen & Company>: If I could follow up on that. So who are the purchasing decision makers? Are these the sheriffs, the police office units? Or are these CIOs that are traditionally not the people that you've sold into? Is the buying pattern for these solutions different from your traditional channels that you sold into?

<A – Greg Brown – Motorola Solutions, Inc.>: I think it's both. I think it's the traditional communications group as well as IT. The IT and CIO are becoming more and more involved with the procurement of public safety given the complexity of these IP networks, the sophistication of software. And that's a good thing because our engagement, as we think about North America in particular, we've had our direct sales force talking smart public safety, talking about managed services, talking about the command center, talking about Next Generation 9-1-1. So it's not an unnatural extension, it's a logical extension given our distribution and go-to-market strategy.

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

Operator: And we'll go next to Mike Koban with Raymond James. Please go ahead.

<Q – Mike Koban – Raymond James & Associates, Inc.>: Hey, guys. Thanks for taking my question. Quite a few of them have actually been answered, so what I have left is really just kind of housekeeping. I was just wondering if you guys would – I know you've said it. I think I missed the number, but would you please repeat the backlog number that you guys have for this year?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: The backlog number as of the end of Q3?

<Q – Mike Koban – Raymond James & Associates, Inc.>: Yes, yes. Excuse me. Yeah, that's correct.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: $6 billion, and the growth year-over-year was 13% or $680 million.

<Q – Mike Koban – Raymond James & Associates, Inc.>: Excellent.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Growth in the Products segment for the sixth straight quarter, and Services growth was basically flat including a $60 million FX adjustment.

<Q – Mike Koban – Raymond James & Associates, Inc.>: Thank you. And then did you provide any, or would you provide any free cash flow expectations for the full year of 2015?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: For 2015, we said we remain at free cash flow of approximately $800 million, and operating cash flow of approximately $1 billion.

<Q – Mike Koban – Raymond James & Associates, Inc.>: Okay. Great. That's all I needed. Thank you.

Operator: We'll take our next question from Keith Housum with Northcoast Research.

<Q – Keith Housum – Northcoast Research Partners LLC>: Good morning guys. Thanks for taking my question. As it relates to the gross margin improvement in Products, as I look at it, outside of fourth quarter, it's probably one of your best quarters in a while. Do we look at that percent of roughly 57%, is that roughly sustainable over the next several quarters? Is that a new level we should be thinking about?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: I think you need to look at the composition of Q3 and the performance of North America and specifically some of the products in North America. We mentioned the APX 8000 launch and the market reception to the APX 8000 launch. So the profile in Q3, the mix, skewed a bit to North America and skewed a bit to full-featured products.

<Q – Keith Housum – Northcoast Research Partners LLC>: Got it. I appreciate that color. Okay. And then as we look – follow up question for you on Eastern Europe. As you looked at what developed over the quarter, I guess if you could provide a bit more color on the pressure in Eastern Europe and expectations of that perhaps beyond just the fourth quarter?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Clearly, currency continued – the ruble continued to devalue, 90% year over year, incremental 30% in the second half of the year. So we saw a continuing pressure. Greg mentioned that in Eastern Europe we're predominantly USD- based, so we're seeing some pricing pressures, particularly at the low end. And we expect that to continue based on macroeconomic conditions. We mentioned oil. There was a question around oil as well as political turmoil right now in Russia. So we expect that to continue into 2016.

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

<u>Operator</u>: And we'll take our next question from Andrew DeGasperi with Macquarie Capital.

<Q – Andrew DeGasperi – Macquarie Capital (USA), Inc.>: Thanks for taking my question. Just quickly, in Asia Pac really good results. I was wondering if you could maybe break it down by region where was your strongest area? Thanks.

<A – Mark Moon – Motorola Solutions, Inc.>: Actually, we have performed very consistently in Asia Pac throughout the year. We exited last year with good backlog and good visibility to pipeline. We talked about still being down year-over-year in the first half, but returning to growth in the third quarter and fourth quarter, which is exactly what we've done. And that's really despite some FX pressure in Australia, probably about $35 million, and about $50 million of FX pressure throughout the region.

In terms of the overall region, we've actually performed fairly consistently throughout the region. We think about it, and we talked about it in the past, the region being China, Australia and kind of the rest of Asia as kind of the composition. That's continued to be pretty much the case. We've had some declines as you know in Australia; again, they've been facing the FX pressures. China has continued to perform as expected for us, so we were pleased with that. And for the full year we think we will meet our expectations, actually grow slightly in actual dollars and grow low double digits in constant currency, so pleased with the execution throughout Asia.

<Q – Andrew DeGasperi – Macquarie Capital (USA), Inc.>: Great. Thanks.

<u>Operator</u>: We'll take our next question from Ben Bollin with Cleveland Research.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Good morning. Thanks for taking my question. I wanted to go back to the cost of goods initiative. In the past you've talked a little bit about some platform strategies, warehousing, OEM strategies, and now you're talking a little bit about Silver Lake and what they might be able to help you with. Can you tell us what you've achieved thus far? What do you think is left? And what that can do to the broader business?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, and I'll have Bruce jump in on this too, but I think that the SKU reduction work has gone exceptionally well, we've talked about we're on track to reduce our SKUs by about 40%. I think the platforming of the systems and product business led by Brda has gone very well to achieve economies of scale in cost of goods.

When we think of the cost of goods initiative, or call it above gross margin, I think the engagement with Silver Lake and work will yield higher benefit on Services, above gross margin than necessarily Product above gross margin. And as we think about the deployment of Services people we think about their utilization, their load-balancing, their productivity, software and system and IT tools that we use to track the Services organization, that are more sophisticated and capable today for MSI than even 18 months ago with utilizing software like Flexera and others around feature functionality and service deployment. So I kind of look at that engagement with Silver Lake more yielding services above gross margin efficiencies than necessarily product cost of goods itself, because of a lot of the work that we've done already.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Follow-up. Last year in the 10-K, when you did report the backlog. I believe the percentage that was expected to be recognized in the next 12 months was 33%. I think that was up from 32% the year prior. Can you talk to how that percentage has trended during the first three quarters of the year, if it's been to expectations, if you've seen any big deviations in that percentage? Thanks.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Trending to expectations, haven't seen any deviations. And we will update you at the end of the year on our aging and expectations for 2016.

<A – Mark Moon – Motorola Solutions, Inc.>: Yeah I think the stronger performance in North America through the first three quarters was really sales in the quarter that were orders converted to revenue in the quarter. Our backlog aging has performed really as we've expected.

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

Operator: It appears we have no further questions. I will return the floor back to Mr. Shep Dunlap, Vice President of Investor Relations for any additional or closing remarks.

Shep Dunlap, Vice President-Investor Relations

Thanks. As mentioned at the outset, we've made a number of forward-looking statements during the call, including outlook related to sales, EPS, cost, operating leverage, cash flow both operating and free cash flow and gross margins, as well as effective and cash tax rates, currency and growth by region and product, as well as capital return and share repurchase and public safety LTE revenues. That's it. Thanks. We look forward to speaking with all of you soon.

Operator

And ladies and gentlemen, this does conclude today's teleconference. A replay of this call will be available over the Internet in approximately three hours. The website address is www.motorolasolutions.com/investor. We thank you for your participation and ask that you please disconnect your lines at this time. Have a wonderful day.