MOTOROLA SOLUTIONS

Q3 2024 Earnings Conference Call
Thursday, November 7, 2024

PARTICIPANTS

Motorola Solutions, Inc. Executive Participants

Tim Yocum – Vice President, Investor Relations
Greg Brown – Chairman & Chief Executive Officer
Jason J. Winkler – Executive Vice President & Chief Financial Officer
Jack Molloy – Executive Vice President & Chief Operating Officer
Mahesh Saptharishi – Executive Vice President & Chief Technology Officer

Other Participants

Ben Bollin – Analyst, Cleveland Research Co. LLC
Adam Tindle, Analyst, Raymond James & Associates, Inc.
Joseph Cardoso – Analyst, JP Morgan Securities LLC
Alyssa Shreves – Research Associate, Barclays Capital, Inc.
Brenden Rogers – Research Associate, Jefferies LLC
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MOTOROLA SOLUTIONS, INC. MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for holding. Welcome to the Motorola Solutions Third Quarter 2024 Earnings Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time.

The presentation material and additional financial tables are posted on the Motorola Solutions Investor Relations website. In addition, a webcast replay of this call will be available on our website within three hours after the conclusion of this call. The website address is www.motorolasolutions.com/investor.

[Operator Instructions]

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

Tim Yocum, Vice President, Investor Relations

Good afternoon. Welcome to our 2024 third quarter earnings call. With me today are Greg Brown, Chairman and CEO; Jason Winkler, Executive Vice President and CFO; Jack Molloy, Executive Vice President and COO; and Mahesh Saptharishi, Executive Vice President and CTO. Greg and Jason will review our results along with commentary, and Jack and Mahesh will join for Q&A.

We've posted an earnings presentation and news release at motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliations for your reference. And during the call, we reference non-GAAP financial results, including those in our outlook, unless otherwise noted.

A number of forward-looking statements will be made during this presentation and during the Q&A portion of the call. These statements are based on current expectations and assumptions that are subject to a variety of risks and uncertainties. Actual results could differ materially from these forward-looking statements.

Information about factors that could cause such differences can be found in today's earnings news release and the comments made during this conference call in the Risk Factors section of our 2023 Annual Report on Form 10-K or any Quarterly Report on Form 10-Q and in our other reports and filings with the SEC. We do not undertake any duty to update any forward-looking statements.

And with that, I'll turn it over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thanks, Tim, and good afternoon, and thanks for joining us today. I'm going to share a few thoughts before Jason takes you through our results and outlook.

First, Q3 was another outstanding quarter with record Q3 revenue and earnings per share that exceeded our guidance. Revenue was up 9% in the quarter, highlighted by 11% growth in Products & SI, and 7% growth in Software & Services, inclusive of the U.K. home office revenue reduction.

We also expanded operating margins year-over-year for the ninth consecutive quarter, increased earnings per share by 17%, and generated record Q3 operating cash flow of over $750 million.

Second, demand for our solutions remains robust as we achieved record Q3 orders in all three of our technologies. In LMR, we continue to see customers investing for the long-term with many choosing us to provide software upgrades and value-added services on their networks via multiyear agreements, as well as upgrading their devices to our latest APX NEXT family of radios.

And in our Video and Command Center technologies, the powerful integration of our software applications across our ecosystem is driving strong demand and contributing to record ending backlog in Software & Services.

And finally, based on our Q3 results and the strong momentum we see across the business we're again raising our estimates for revenue, earnings per share and cash flow for the full year.

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

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

Thank you, Greg. Revenue for the quarter grew 9% and was above our guidance with growth in both segments, both regions and all three technologies.

Acquisitions added $36 million during the quarter, while FX headwinds were $4 million. GAAP operating earnings were $711 million, or 25.5% of sales, up from 25% in the year ago quarter. Non-GAAP operating earnings were $830 million, up 12% from the year ago quarter, and non-GAAP operating margin was 29.7%, up 70 basis points, driven by higher sales, favorable mix and lower direct material costs, partially offset by the Airwave Charge Control, higher expenses related to investments in Video and higher employee incentives.

GAAP earnings per share was $3.29, up from $2.70 in the year ago quarter. Non-GAAP EPS was $3.74, up 17% from

$3.19 last year. The growth in EPS was driven by higher sales, favorable mix and a lower effective tax rate. OpEx in Q3 was $617 million, up $66 million versus last year, primarily due to continued investments in Video and higher employee incentives.

Turning to our cash flow. Q3 operating cash flow was $759 million, up $45 million versus last year, and free cash flow was $702 million, up $53 million. The increase in year-over-year cash flow was primarily driven by higher earnings.

For the full year, we are again raising our operating cash flow guide. We now expect full year operating cash flow of approximately $2.3 billion, up from our previous guide of $2.25 billion. Capital allocation in Q3 included $164 million in cash dividends, $31 million in share repurchases, and $57 million in CapEx.

Additionally, we closed and funded two acquisitions that we announced on our previous earnings call for $223 million, settled $313 million of 4% senior notes that were due within the quarter, and subsequent to quarter-end, we acquired 3tc, an international provider of command center software solutions for $22 million.

Moving to our segment results. In the Products & SI segment, sales were up 11% versus last year, driven primarily by growth in LMR. Revenue from acquisitions in the quarter was $11 million, while FX headwinds were $1 million.

Operating earnings were $522 million, or 29.3% of sales, up from 26.1% in the prior year, driven by higher sales, favorable mix and lower direct material costs. Some notable Q3 wins and achievements in this segment include an $88 million P25 system and device order for a customer in North Africa, a $31 million P25 system for a U.S. state local customer, a $31 million P25 system for a county in Wisconsin, a $25 million P25 system expansion order for Tennessee's statewide network, a $23 million P25 device order for a U.S. federal customer, and a $4 million fixed video order for a U.S. federal customer.

In Software & Services revenue was up 7% compared to last year. And when excluding the U.K. home office revenue grew 13% with growth in all three technologies. Revenue from acquisitions was $25 million in the quarter and FX headwinds were $3 million. Operating earnings in this segment were $308 million, or 30.6% of sales, down from 34% last year due to the impact of the Airwave Charge Control.

Some notable Q3 highlights in the segment of S&S include a $30 million Command Center order for the state of Utah, an $18 million mobile video for São Paulo State Government, in Brazil, and a $24 million Command Center order for Maricopa County Sheriff's Office, which is a significant win, highlighting the demand for our new recurring license model. The solution purchased included our CAD and Records platform as well as numerous cloud-connected capabilities, including the Rave suite.

We also were awarded three large LMR contract renewals during the quarter, $191 million from the U.S. Navy, over $100 million for South Carolina statewide network, and $84 million for a federal law enforcement agency. Less than $30 million of these $375 million of contracts is in our Q3 ending backlog with the remainder to be recorded ratably over the term of the contracts.

Looking at regional results next. North America Q3 revenue was $2 billion, up 13% on growth in all three technologies. International Q3 revenue was $783 million, up 1% versus last year, driven by growth in all three technologies offset by the U.K. Home Office revenue reduction. Excluding the U.K. Home Office, our international revenue grew high single-digits.

Moving to our backlog. Ending backlog for Q3 was $14.1 billion, down $178 million, or 1% versus last year due to strong LMR shipments and revenue recognition for the U.K. Home Office, partially offset by multiyear software and service agreements and favorable FX. Sequentially, backlog was up $135 million, or 1%, driven by strong growth in multiyear service and software contracts in North America and favorable FX, partially offset by strong LMR shipments and revenue recognition for the U.K. Home Office.

In the Products & SI segment, backlog decreased $712 million versus last year and $151 million sequentially, driven by strong LMR shipments. In Software & Services, backlog increased $534 million compared to last year, and $286 million sequentially, driven by strong demand for multiyear software and services contracts, favorable FX, partially offset by revenue recognition for the U.K. Home Office.

Turning next to our outlook. For the full year, we now expect revenue growth of 8.25%, up from our prior guidance of approximately 8% and we expect non-GAAP earnings per share between $13.63 per share and $13.68 per share, up from our prior guidance of $13.22 per share to $13.30 per share. This full year outlook assumes a weighted average diluted share count of approximately 171 million shares and an effective tax rate of approximately 22.5%. Additionally, we now expect full year OpEx of approximately $2.4 billion, driven by higher employee incentives aligned to our performance, increased legal spend inclusive of the CMA appeal process and acquisitions.

And finally, before turning the call back to Greg, I would like to share a couple insights on our segments. The strong demand we're seeing for our technologies and our performance is reflected in both of our segments. In Products & SI, the improved supply chain environment has helped us expand margins while normalizing supplier lead times have enabled us to improve our customer delivery times.

And in S&S, we've grown double-digits year-to-date, excluding the impact of the U.K. Home Office headwinds, which began in August of last year. In LMR, our customers continue to choose us as a trusted partner to invest in their networks through long-term multiyear agreements. And in Video and Command Center, cloud solutions continue to grow at a faster pace than on-prem and the investments we've made in the portfolio position us well for this to continue.

Finally, our strong cash generation liquidity profile, together with a net debt-to-EBITDA ratio of 1.4, gives us significant flexibility in our capital allocation strategy.

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

Greg Brown, Chairman & Chief Executive Officer

Thanks, Jason. Let me end with a few thoughts. First, I'm really pleased with how we continue to execute. During the quarter, we generated strong revenue growth in both segments, expanded operating margins by 70 basis points, grew EPS by 17%, generated over $750 million of operating cash flow, and we achieved record Q3 orders in all three technologies.

Second, as customers continue to invest in leading-edge technologies, our solutions integrating voice, video and data across public safety and enterprise workflows are becoming increasingly more important to them. Adoption of our Command Center and Video applications that leverage cloud and AI continues to accelerate, which in turn is driving higher recurring revenue in those respective technologies. And in LMR, we're also seeing strong adoption for the broadband-enabled applications on our APX NEXT family of radios.

Many of these new applications were on display last month at the annual IACP Conference in Boston and the customer feedback from the event has been overwhelmingly positive.

And finally, as we look to close out another record year, I feel really good about the business, and our opportunities for continued growth. The prioritization of safety and security remains robust. We're continuing to add value for our customers through new offerings. Our end markets remain resilient, and our strong balance sheet with the lowest net debt-to-EBITDA ratio in almost a decade positions us well for organic and inorganic investments to drive long-term shareholder value.

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

Tim Yocum, Vice President, Investor Relations

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

QUESTION AND ANSWER SECTION

Operator: The floor is now open for questions. [Operator Instructions] The first question is from Ben Bollin with Cleveland Research. Your line is unmuted. Please ask your question.

Ben Bollin
Analyst, Cleveland Research Co. LLC

Good afternoon, everyone. Thanks for taking the question. Greg, if I recall, I think in prior years, at the end of 3Q, you've given some thoughts into subsequent to forward year. You shared some thoughts, big picture on funding and growth overall. Curious if you have any more granularity about how you're thinking about 2025 as we're going into it and any individual perspectives within LMR, surveillance Command Center within that? And then I just have a follow-up.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yes, Ben, thanks for the question. You're right. I think, look, as we sit here in November, I think the color I would give you looking forward to next year is revenue growth of, I'd say, 5% to 6% as we sit here today. That's a prudent view. But that's our current thinking. I think that as it relates to this year, supply chain lead times normalized faster, which is a good thing, which drove a strong 2024. Demand remains strong. As I mentioned just now in comments with both Jason and I, I'm particularly pleased, really pleased that we had record Q3 orders in all three technologies.

And as we think about kind of exiting this year into next year, we now expect total backlog to be up versus a quarter ago when we said comparable to slightly up. And while we won't dimensionalize the individual technologies and we'll give you more color in February, I would expect – obviously, we expect revenue growth in both S&S and Products.

High level, I see Software & Services growing about 2x Products & SI for 2025. But I like the overall backlog position, which we now expect to be up, love the record orders position exiting Q3. And if anything, I feel better today than I was a quarter ago, obviously, both about the full year 2024 and the momentum heading into next year and we'll give you the details in February.

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

And Greg, I'd add that, we expect operating margin expansion as well within S&S. Next year in 2025, we'll have the financial comparability of this year having had the Airwave price control relative to next year. So, the S&S segment will have a clean comp. And we'll continue to do what it's done, which is grow and grow operating leverage.

And then secondly, within – even within products, while this year in 2024, we had a $70 million benefit for lower semiconductor or PPV relief, we'll have about $20 million and the tail end of it into next year, which should also help operating margins as well.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

That's right. So, Ben, high level, 5% to 6% next year sitting here in November, Software & Service is growing about 2x product. And as Jason just appropriately added, we expect continued operating margin expansion and expected cash flow growth with a much smaller PPV contribution in 2025. Thanks for the question.

Ben Bollin
Analyst, Cleveland Research Co. LLC

That's great. One follow-up for me would be, where are your thoughts – where we stand today on mix of recurring revenue and how you feel about that going forward? That's it for me. Thank you.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yes. As you know, we talk about Software & Services as kind of a proxy for recurring revenue. That's kind of why I mentioned our thinking about 2025 with the U.K. Home Office financially from a comp standpoint, pretty much being normalized through the comparable previous periods. We now expect S&S to grow about 2x product. We also see continued adoption on cloud, particularly around Video. And we also see more cloud adoption on Command Center. We think both those trends are favorable. So recurring revenue is healthy and then re-occurring revenue around device refresh and multiyear service is strong as well.

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

And the backlog that supports the recurring nature of that business within S&S is at record levels and continues to grow.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Exactly.

Ben Bollin
Analyst, Cleveland Research Co. LLC

Thanks, guys. Have a great night.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thank you, Ben.

Operator: Our next question comes from Adam Tindle with Raymond James. Your line is unmuted. Please ask your question.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Okay. Thanks. Good afternoon, Greg. I just wanted to ask now that we're post-election, I think there's been some confusion from investors on rhetoric regarding potentially reducing public sector spending and the potential impact to MSI. I'm just recalling the last Trump regime was actually fairly helpful to state and local and your core customer base. But it might be a good opportunity to clear the air here. I'm sure you reviewed potential impacts from a variety of outcomes, just expected results and impact on your business from the election, understanding it will be a dynamic situation. And I have a follow-up.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yes. First, I think that state and local budgets remain very healthy and strong as Jack could opine on if he wants to jump in. As I talked about, the end user markets are strong, 70% North America is our revenue composition, 75% public safety government. So, we are optimistic in terms of that perspective. From a Trump administration, I think it's positive that thematically, he has been consistent in prioritizing public safety and looking to mitigate crime in large cities and also stem the tide of an open border on immigration, which would require probably head count and technology deployment to help on both those fronts.

The administration's referred to tariffs, high level. I remind you that we're pretty unique as it relates to China specifically. We have de minimis revenue exposure to China less than 1% and minimal exposure to them from an end market perspective. And with the Trump administration, we like the fact that there looks like there's certainty now of continuity of corporate tax rate continuity and continuation, which allows a predictable environment, which is always good, I think, from a capital allocation standpoint. And the last thing I'd say is, thematically, I think it will be a more favorable M&A environment versus the current administration. So, all ingredients into the mix with this administration, coupled with the continuity of robust state and local budgets, I think is positive.

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

The only thing I'd add just on that, Adam, is, as you know, state and local budgets have essentially been funded and it's been a tailwind in terms of inflation. Income tax has been benefited. And we've seen income tax coffers drive up. Property taxes have gone up, and that's been beneficial to state and local government.

And then sales tax. Revenues are up, which means budgets are up. So, the revenues are in good order, as Greg articulated, the prioritization on our spending is in good order. And I think as we said, the last administration, we had good years between 2016 and 2020 as well.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thanks, Adam.

Operator: Our next question will come from Joseph Cardoso with JPMorgan. Your line is open. Please ask your question.

Joseph Cardoso
Analyst, JP Morgan Securities LLC

Hi, good afternoon or good evening, gents. Just apologies, I have been jumping on a couple calls this evening. But maybe just one question for me, and maybe you already had this asked, but curious if you could flush out any color if it wasn't already asked. Can you just provide an update on where you're expecting the backlog to exit this year from last quarter, I think you said to slightly up? And maybe more specifically, curious if you could flush out any color on contribution from product and services. And maybe more specifically on the product side, how are you thinking about the drivers from a portfolio perspective there, just given the easing of the supply chain you're seeing and the drawdown in the backlog you're seeing today? Thanks for the question, guys.

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

Thanks for the question. So yes, on the last call, we indicated that by year's end this year, we would have expected backlog – total backlog to be comparable to slightly up. As we update you on this call with the strong Q3 orders we had with records in all three technologies, we now expect that the total backlog for the company ending this year will be up. And it will be up from last year's record levels.

So, the indicators around backlog continue to be strong, supported by the sales funnel and the work that the team is doing in a strong demand environment. In terms of its composition, it's largely consistent with what it's been.

And backlog is an important part of how we plan for any one given year. I mentioned earlier, S&S is at record levels and continues to grow. And product backlog remains healthy at over $4 billion as well. So, we're on track to end the year up from last year.

Joseph Cardoso
Analyst, JP Morgan Securities LLC

Thanks. Appreciate the color guys.

Operator: Our next question will come from Tim Long with Barclays. Your line is open. Please ask your question.

Alyssa Shreves
Research Associate, Barclays Capital, Inc.

Hi, this is Alyssa Shreves on for Tim Long. I just had – just two quick questions. Gross margins were, I think, a record for this quarter. How should we kind of think about gross margins now moving forward, kind of giving supply chain normalization, you have APX NEXT product cycle. Is there kind of anything we should be aware of in terms of Q4 and kind of moving into next year? And then I have a follow-up.

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

Alyssa, I would point to the fact that the PPV $70 million of relief is largely behind us in Q3 ending. So – and next year, I mentioned on the color that it's pretty small. It's around $20 million. The margin profile but for those items continues to be positive in terms of a mix variable. And with the advent of some of our newer APX NEXT devices, and we're early, early stage on the conversion to those, we would expect continued opportunities for favorable mix. And then complemented by the backlog or the OpEx update that we gave, thinking about operating margins continuing to grow. We will have a bit higher OpEx this year. The biggest driver of that is our incentive structure is aligned to our now higher performance.

Alyssa Shreves
Research Associate, Barclays Capital, Inc.

That's helpful. And then just a quick follow-up. You noticed some nice federal wins in Products and SI this quarter. Can you kind of dimensionalize how large is the federal business now? Thank you so much.

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

Last year, it was around $900 million. It's growing this year. And I'll remind everybody that the $900 million is distributed across two components: DoD and then, of course, DHS, law enforcement, civil and the like. But Jack, if you want to talk, you had a strong close to the federal business in Q3, that's in part what drove our Q3 over performance.

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

Yes. We did. I think a strong close highlighted by a couple of the services orders but also a strong device refresh. We continue to get uptake from APX to APX NEXT customers. The other thing we're really excited about is we begin shipping the D Series, which gives us another refresh cycle from an infrastructure standpoint as well. So, opportunities there, as well as the federal – U.S. federal government has been a growth engine for us from a video security standpoint. Very good quarter. The last thing I'd leave you with is that the way the schedule is aligned is we got off to a good start to Q4 with the federal government in terms of new orders as well.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yes. The other nice thing, Alyssa is, I think Joe Balchune, who works for Molloy has done a great job. As Jason mentioned, we're – we expect it to be over $900 million in revenue this year. The other nice thing, and I'll call it out to what we just talked about earlier.

There's two orders comprised in federal for the U.S. Navy and U.S. law enforcement that are about $275 million, of which less than $20 million to $30 million are even recorded in backlog based on the way we record backlog and kind of amortize it over a period of time that's reflected more of the way the projects are funded. So, in addition to the strength in federal, over $900 million, the strong close, the strong order activity, I think it's even better in that some of these recent large orders, 90% of them are not reflected in backlog given the way we record it.

Alyssa Shreves
Research Associate, Barclays Capital, Inc.

That's helpful. Thank you so much.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Sure.

Operator: Our next question will come from George Notter with Jefferies. Your line is open. Please ask your question.

Brenden Rogers
Research Associate, Jefferies, LLC.

Hey, guys, this is Brenden Rogers on for George. Thanks for taking my question. I wanted some color around the video business for next year. I think you guys had cited the $40 million headwind for 2024. Any idea if that's going to grow for next year as customers continue to shift to the cloud? Thanks.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

I think it's too early to tell. I think we'll give you that color in February. We're focused – the video business has done really well. We're pleased with the width and breadth of our portfolio, both fixed and mobile, prem, on-prem and cloud. We did talk about the $40 million headwind, which actually, I think, is favorable because it dimensionalizes customers' acceleration towards cloud and capitalizing on what we have there. But that's really all the detail we'd give you at this point in terms of 2025. Having said that, we're on track and expect to meet the full year guidance we gave on video for this year for 2024, which is another good thing.

Brenden Rogers
Research Associate, Jefferies, LLC.

Awesome. And then just one more for me. Last quarter, you guys talked about 25% of shipments coming from APX NEXT. Is that still the right way to think about it? Or is this continued mix shift – is there any upside there from the last couple of quarters of strength? Thanks.

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

You're right. Last quarter, we did talk about how our devices business was – about 25% of it was coming a little less from APX NEXT. That's largely still the case in Q3. And as we look forward, with only 25% of the devices we're shipping today of that variety, there's a long opportunity ahead of us for continuing to deliver those devices to customers.

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

Yes. And I think that's just – Jason hit it. I think that just speaks to this is a multiyear horizon of an opportunity for us. That's really with the 25%. You'll continue to see opportunities. We just reviewed it with the team as we look through 2025, 2026, we'll start to see a continued shift in momentum into APX NEXT.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Internationally, Jack?

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

Yes, internationally, we launched the MXP660. Think of that as the TETRA APX NEXT, if you will. And we'll start to see a pickup in that. We're already seeing orders, but we'll see a pickup in that in 2025.

Brenden Rogers
Research Associate, Jefferies, LLC.

Thank you.

Operator: Our next question comes from Amit Daryanani from Evercore. Your line is open. Please ask your question.

Amit Daryanani
Analyst, Evercore ISI

Thanks a lot. Good afternoon, everyone. I have two as well. I guess, first off on the video product line item, I think your product revenues in video were down like 3% year-over-year. Can you just talk about kind of what drove the decline? Because one of your peers, I think, reported recently and their number was – they reported up double- digits in that segment. So, I'm just trying to reconcile the difference. Is it mostly just regions or markets? Or maybe just talk about what drove the decline in the video side. Thank you.

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

Yes. So, I think the question was specific to video products. I want to first of all highlight the fact that our expectations for the full year for video security remain unchanged. Part of that – part of the dynamic here is higher software attachment rate. And think about that our H6A, which is our AI-related camera, the ACC8, we're seeing more software attachment as well with Pelco-Elevate, the cloud analytics platform there.

This is, I think, just a little bit of a trend that we're seeing reflective in the momentum to the cloud. The last thing I'd highlight is, within video security, there's also a mobile security reported in our numbers. And last year, we had a 24% growth in terms of mobile video products, which presented from a product standpoint, a little bit of a lumpy comp that we're measured against.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yes. So Amit, I think…

Amit Daryanani
Analyst, Evercore ISI

Got it.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

...Jack's right, higher software content, the 24% component previous base comp. And then as we said, aggressive adoption of cloud, I think Mahesh, we view favorably.

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

That's right. And on the mobile video aspect that Jack highlighted, 60% of our customers today are as a service. And that's a big part of this as well.

Amit Daryanani
Analyst, Evercore ISI

Perfect. That's really helpful. And then Greg, when you were talking about just things post election, you sort of talked about a more favorable M&A environment, I think, in your answer. I'd love to understand, as you think about 2025 and maybe even beyond that. This capital allocation, do you change fundamentally under a different administration versus what you've had before. And how do you sort of think about M&A going forward versus what you've done in the past? I'm really wondering like are there larger deals that you are perhaps hesitant to do because you thought you're going to get them through the finish line that you might be more open to do now? Let me just understand how this cap allocation, M&A appetite change under a different administration. Thank you.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

It's a good question, but I was describing more the M&A environment from a macro standpoint. I don't think it changes per se for us. Even though we've only done a couple of deals, I will tell you, we and I have been as engaged on M&A this year as ever before. The funnel is robust. The opportunities are numerable. And as you know, the capital allocation framework, 55%, 30%, 15%, 55% of operating cash flow is always available in a normalized way to either do share repo or inorganic acquisition. We've been in a number of conversations, and I think the environment is healthy. My commentary around the Trump administration was more around the leadership in the FTC and the overall climate, I don't think it changes much for us this year versus next year in the sense that I think the M&A environment is attractive.

The reasons we haven't gotten some things done I think are – because we want to not just do the right thing, but do it the right way, make sure we are getting something that can generate long-term value, has cultural compatibility. We can deliver on the synergies. We minimize technical debt. We can integrate it into the architecture. It's flexible around cloud adoption. We can retain talent. We can add talent. But we've invested over $6 billion of inorganic acquisition over the last nine years.

And as I mentioned, I think the opportunities are significant, and I'm optimistic about that. And coupled with what Jason mentioned, right, our balance sheet also is in – as good a shape as it's been in a long time with net debt-to- EBITDA and the ratio being as good as it's been in about 10 years.

So I think the dry powder, the opportunities, the engagements are very good. I think the environment is good for us today, and I think it will be as good, maybe incrementally more favorable tomorrow.

Amit Daryanani
Analyst, Evercore ISI

Thank you very much.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thank you.

Operator: Our next question comes from Rodney McFall with Northcoast Research. Your line is open. Please ask your question.

Rodney McFall
Research Associate, Northcoast Research Partners, LLC

Hey, guys. Thanks for taking my question. Just a quick one on the recent acquisition of 3tc. I don't believe this is your first U.K. control room software acquisition. So just curious, what does this provide for you? And how does this work with your prior acquisitions? Thanks.

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

Rodney, the control room solutions that we sell in the U.K. is growing for us. 3tc is part of that. There are two components to it, one is called integrated call control systems, and the other part is CAD, and CAD is what 3tc provides. And we have actually been selling 3tc as an integrated part of our control room solutions for a while. And this acquisition just enables us to bring that in-house, improve our margins and also give us the right platform for growth going forward.

Rodney McFall
Research Associate, Northcoast Research Partners, LLC

Got it. Thanks for that. I guess just a quick follow-up. Just curious on Command Center adoption in the U.S. What's the penetration rate there? And what is the barrier to growing that business faster? And maybe just some color on how that business is going internationally? Thanks.

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

So this – we are now number one both in CAD and Records in North America. Cloud is starting to catch on. Maricopa County Sheriff's office deal that Jason mentioned is, I think, a key part of what we're seeing both in terms of more customers preferring a recurring revenue model, a subscription model and adding on SaaS solutions on top of it. Overall, over 60% of our customers today have at least one cloud attached component, and that's continuing to grow. And we expect to see a full 9% growth this year for Command Center.

Rodney McFall
Research Associate, Northcoast Research Partners, LLC

Got you. Thanks for taking my questions.

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

So just to add on market share. I mean the market is growing less than that. I think the Command Center outlook for the year is 10%, Q3 was 9%. But we're – in those numbers, we're taking shares. The market is not growing at those rates. So positive with the cloud investments.

Operator: Our next question comes from Tomer Zilberman from Bank of America. Your line is open. Please ask your question.

Tomer Zilberman
Analyst, BofA Securities, Inc.

Hey, guys. Thank you for the question. Maybe going back to some of the earlier backlog questions that were asked. When you think about – and maybe I'm getting ahead of myself here, but when you think about the 2025 guide for 5% to 6% growth, where do you think the – what do you think the product backlog contribution is if we assume that we get to maybe a $4 billion level this year, will this go back to your historical $3 billion level. And how does that impact your thoughts around the LMR growth rate? Do you think that we still sustain that mid to high single-digit growth rate going into next year?

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

So we do expect LMR to grow. It's premature to dimensionalize. We talked about total backlog. We now expect it to grow up year-over-year. That's a good thing. Product backlog remains healthy. Even sequentially, it's still north of $4 billion. I think the record orders in all three technologies, although in this case in the context of your question, LMR, record orders is another favorable indication. So too early to give you that dimensionalization. But I feel good about the momentum of the business, the segment momentum of the business and the technology momentum of the business. And maybe that gives you a little bit more granularity. It may not fully scratch the itch, but that's the best I can give you, but we'll update you in February.

Tomer Zilberman
Analyst, BofA Securities, Inc.

Sure. No worries. And maybe asking another question, shifting gears a bit. You've talked before about getting more aggressive on subscription sales. And if I'm not mistaken, I think you've informed your sales force to try and sell everything now as a subscription. Just wanted to talk about how that's going. Any changes in the go-to-market that you're making to enable that? I believe you put the Rave CEO as Head of Subscription Sales. So just any commentary you can give on trends you see there?

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yeah. Just to clarify, Tomer, we're not pushing "everything as a subscription". What I would tell you, if you think about SaaS or cloud, I mean, we talked about video and Avigilon Alta, growing it exponentially faster than prem video. We like that trend.

We talked about Command Center, just a few minutes ago, which we've always offered as a hybrid solution, which I think is really good because it allows customers to evolve at their pace. And we see and Mahesh just talked about increased adoption around Command Center cloud, things – yes like Rave, but also things like call handling.

And we also talked about even though APX NEXT family of devices shipped is less than 25%, I love the fact that a lot of those APX NEXT family shipments come with the broadband adoption of applications. We love that, a) it's recurring revenue; b) it's sticky and c) it provides connective tissue with those critical applications in the APX NEXT device that communicate and interoperate with the Command Center and the integrated workflow applications that Mahesh is building.

So we didn't wave a wand and said, force everything SaaS. We meet our customers where they are. Video recurring and cloud is growing fast, a number faster as a multiple than prem. Love the adoption of Command Center, love the APX NEXT application broadband apps uptick and adoption rate, we think those trends are favorable.

Tomer Zilberman
Analyst, BofA Securities, Inc.

Got it. Thank you so much.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thanks, Tomer.

<u>Operator</u>: [Operator Instructions] Our next question comes from Meta Marshall with Morgan Stanley. Your line is now open. Please ask your question.

Meta A. Marshall
Analyst, Morgan Stanley & Co. LLC

Great. Thanks. You guys noted strong traction with the MXP660 earlier in the call kind of ramping in 2025. But just any way to kind of contextualize that versus some of the ramps we've seen throughout the APX NEXT portfolio? And then just as a second question, any kind of change to how you guys are viewing kind of resolution of kind of the U.K. Home Office Airwave type situations? Thanks.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yeah. Meta, in terms of the MXP660, I think the horse just left the starting gate and is kind of coming through the first turn a little bit. So a little too early to kind of extrapolate or give you any kind of predictive traction. We love the fact that it's an available option in European markets now that capitalize on broadband, both for LMR and 4G integrated into one device that gives you enhanced location broadband applications over-the-air software reprogramming and roaming on an LMR TETRA and/or 4G network. So we love all the available features that that brings, but it's still early.

In terms of the U.K., there's a hearing next Monday, Tuesday in the U.K. on our multiyear challenge to the CMA and the CAT ruling. Really nothing to report. The hearing will take place Monday, Tuesday. After that, they'll reach some decision. My expectation is a decision either by the end of the year or early 2025 that would give us a little more color that in turn, we would, of course share with you transparently. But it's the long winding road of challenging what we think is an unlawful action that was taken on a contract, a binding multiyear agreement that we had with the U.K. Home Office. So stay tuned.

Meta A. Marshall
Analyst, Morgan Stanley & Co. LLC

Great. Thanks.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thanks, Meta.

Operator: Our next question comes from Bryce Sandberg with William Blair. Your line is open. Please ask your question.

Bryce Sandberg
Research Associate, William Blair & Co. LLC

Hey, everyone. Good afternoon and thanks for the question. Another one on M&A. As you look out at the market, are there any particular product or market areas that you're focusing on or they look particularly attractive? Or is it kind of broad-based across the portfolio?

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

I think it's primarily around video software and services that we focus on from a product standpoint or a more – less product, more category. I think it's an active funnel. We've had engagements with multiple companies of varying sizes. But those are kind of the lanes that we continue to pursue and our conversations are around video software services.

Bryce Sandberg
Research Associate, William Blair & Co. LLC

Great. Thank you.

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thanks, Bryce.

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

Greg Brown
Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yeah, thanks. I just, first of all, want to thank all the employees of Motorola Solutions, and particularly our sales and support teams for driving record Q3 orders. The other thing I would be remiss in not recognizing especially this past quarter after severe hurricanes of Helene and Milton that were devastating. I'm proud of our people. I'm proud of our channel partners that worked tirelessly and around the clock to ensure that our systems were up and available as they always are in these devastating natural disasters. I appreciate all of their hard work.

And then lastly, I would just say I'm encouraged as we are sitting here in November with what the rest of the year holds and the momentum I see into next year, our vibrant end markets. We expect the year to close with total backlog up off of record levels, and I'm encouraged by the continued high demand and the active engagements around the globe. I appreciate all the Motorola employees, channel partners and everybody that does their part in having to spend a great quarter and us continuing our momentum. I really appreciate it.

Operator: This does conclude today's teleconference. A replay of this call will be available over the internet within three hours. The website address is www.motorolasolutions.com/investor. We thank you for participation and ask that you please disconnect your lines at this time.
