



Q2 2014 Earnings Conference Call Tuesday, August 5, 2014

PARTICIPANTS

Corporate Participants

Shep Dunlap – Vice President, Investor Relations, Motorola Solutions, Inc.
Gregory Q. Brown – Chairman & Chief Executive Officer, Motorola Solutions, Inc.
Gino A. Bonanotte – Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.
Mark F. Moon – EVP, President-Sales & Product Operations, Motorola Solutions, Inc.

Other Participants

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

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and thank you for holding. Welcome to the Motorola Solutions Second Quarter 2014 Earnings Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time. The presentation material and additional financial tables are currently posted on the Motorola Solutions Investor Relations website. In addition, a replay of this call will be available approximately three hours after the conclusion of this call over the Internet. The website address is www.motorolasolutions.com/investor. At this time, all participants have been placed in a listen-only mode and the line will be open for your questions following the presentation.

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

Shep Dunlap, Vice President, Investor Relations

Thank you, and good morning. I'd like to welcome you to our conference call to discuss our financial and operating results for the fiscal 2014 second quarter. With me this morning are Greg Brown, Chairman and CEO; Gino Bonanotte, Executive Vice President and CFO; Mark Moon, Executive Vice President and President of Sales and Product Operations; and Bob Schassler, Executive Vice President, Global Solutions and Services. Greg and Gino will review our results along with commentary and Mark and Bob will join for the Q&A portion of the call. We have posted an earnings presentation and press release at www.motorolasolutions.com/investor.

These materials include GAAP to non-GAAP reconciliations for your reference, which we encourage you to review. I would also like to remind everyone that as a result of the divestiture of our Enterprise business announced on April 15, 2014, the Enterprise business other than iDEN is reflected as discontinued operations for both the current quarter and prior periods. All financials cited reflect the

company's remaining business with its new reporting segments, Product, and Services. The majority of iDEN results are reflected in the Services segment. In addition to the financial results summarized in the press release and end of this call, you can find additional information including full year information in our Form 10-Q, which will be filed later today. I would also remind you that we posted historical results for new MSI last week which are available on our website.

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

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

Gregory Q. Brown, Chairman & Chief Executive Officer

Good morning, and thanks, Shep. Thanks for joining us on our call today. As I think about the business and reflect on the quarter, there are three key themes that I'd like to cover. First, although down for the quarter, sales performance was in line with our expectations. We continue to see soft demand in North America state and local government which we believe is largely a result of the narrowband impact from prior years. Despite this market pause, we do expect strong second-half sales given our improved pipeline and visibility of customer engagements that Mark will make comments on later in the call. Second, we're making excellent progress on our cost reduction target of \$200 million-plus, and today, we're increasing that target to approximately \$300 million by the end of 2015.

There's no better time than now to transform this company into a more nimble and flexible organization that can move faster and more efficiently to deliver the right results for our customers and partners and shareholders. This is not just about cutting costs. It's also about removing complexity. And it's also about redeploying some of the savings to make targeted investments and initiatives that will yield future growth. And finally, we remain focused and committed to closing our recently announced sale of the Enterprise business. Our teams continue to make progress on a number of work streams to position that business for a smooth and seamless transition.

I'll now turn the call over to Gino to provide additional details on Q2 results and our outlook, and then will return to provide additional thoughts and color on the quarter.

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

Thank you, Greg. Good morning. We reported revenue for the second quarter of 2014 of \$1.4 billion, a decrease of 7% from last year. GAAP operating earnings were \$138 million or 9.9% of sales. Non-GAAP operating earnings were \$201 million or 14.4% of sales, and operating cash flow was \$118 million, an improvement of \$140 million over the prior-year quarter. On a GAAP basis, earnings from continuing operations were \$0.30 per share compared to \$0.81 per share in the second quarter of 2013. Non-GAAP net earnings from continuing operations were \$0.47 per share compared to \$0.94 in the year-ago quarter. That \$0.47 difference was driven by the benefit from the formation of our international holding company in 2013. For the remainder of this call, we will reference non-GAAP financial results unless otherwise noted.

Product sales in the quarter were \$887 million, a decrease of 10% from the prior year. The biggest driver of the Q2 revenue decline was lower state and local sales in our North America region, which declined double digits year-over-year. Recall that state and local sales grew on average at double-digit rates over the prior three-year period, which we believe is largely a reflection of the impact from narrowbanding activity over the past several years. Europe and Africa as well as Latin America grew double digits with solid performance across most product lines. Asia Pacific turned in sales that were approximately \$22 million lower year-on-year primarily due to declines in Australia and China. Operating income in the Product segment was \$133 million, down approximately \$21 million to 15% of revenue driven primarily by the impact of lower sales.

Turning to our Services segment, Service sales in Q2 were \$506 million, a decrease of 1% from the prior year. This segment posted growth of 2% for the quarter when normalizing for iDEN. Approximately two-thirds of iDEN sales are in the Services segment. We saw solid single-digit growth in both managed services and integration services for the quarter. When excluding iDEN, all regions posted growth in Services, with the exception of Asia Pacific, Middle East, which was down slightly.

Operating income in the Services segment was \$68 million, down approximately \$26 million to 13.4% of revenue, driven primarily by lower iDEN sales. In addition, timing around certain of our largest long-term multi-year services projects unfavorably impacted gross margin by approximately \$20 million in the quarter versus a favorable impact in the year ago quarter. We expect that we will continue to see Services gross margin average in the mid-30%, which is generally consistent with past performance.

Total MSI operating expenses from continuing operations were \$462 million, down \$49 million from the year ago quarter driven by cost reduction initiatives during the second half of 2013 as well as additional actions taken in the first half of this year. Another contributing factor to lower OpEx was lower incentive pay compensation expense during the quarter. Overall, we are down approximately \$75 million in OpEx when comparing the first half of 2014 with the same period in 2013.

We spoke with you last quarter regarding our plans to sharpen our focus on cost reduction and reduce operating expenses by \$200 million over 18 months to 24 months, inclusive of \$100 million this year. As Greg just mentioned, we are now expanding and accelerating those efforts to achieve approximately \$300 million of cost savings by the end of next year. We now expect that overall 2014 OpEx will be down nearly \$150 million due primarily to lower incentive pay. This \$300 million comes off the baseline of approximately \$2 billion of OpEx for 2013, moving us to approximately \$1.7 billion for 2015.

I'm encouraged by the work to date as we take a clean-sheet approach to our structure, eliminating non-value-added work and simplifying processes across all aspects of the business, including G&A and R&D and sales and marketing. Some examples of areas where we've made progress during this past quarter include streamlining G&A functions, work force rebalancing primarily in the engineering function, work force reductions, including the Vice-President level and continued site consolidation across all regions. We will continue to keep you updated with respect to our progress on cost as we move through the year.

Shifting to other income and expense, this line item was a net expense of \$40 million compared to a net expense of \$35 million in the year ago quarter. Interest expense was \$29 million, and we incurred losses of another \$4 million related to our investment portfolio during the quarter.

We expect this line item to be comparable to this quarter for Q3 and Q4, primarily driven by quarterly interest expense. With respect to taxes, our effective tax rate was 25% for the quarter, driven by benefits associated with a tax reserve and undistributed foreign earnings. We expect our Q3 and Q4 effective tax

rate to be approximately 33%. We still expect our cash tax rate to be in the range of 10% to 15% for the full year 2014 and a cash tax rate of approximately 15% through 2019.

Turning to cash flow, cash generated by operating activities in the second quarter was \$118 million, a \$140 million improvement from the prior year primarily from improved collections and other improvement in certain working capital accounts. For the year, we expect operating cash flow from continuing operations of approximately \$550 million. This outlook reflects the Enterprise transaction, increased restructuring costs, along with one-time items, and our current outlook. We ended Q2 with \$2.9 billion in total cash and \$2.5 billion in debt.

With respect to capital return in Q2, we repurchased \$416 million or approximately 6.2 million shares at an average price of \$66.96 per share. Subsequent to quarter-end, we also increased our quarterly cash dividend by 10% from \$0.31 to \$0.34 per share. We have approximately \$1.3 billion remaining under our current share repurchase authorization. Since the program's inception in the third quarter of 2011, we have reduced the net share count by 27% at an average price of \$51.11 per share.

I'd now like to make a few comments on our Enterprise business, which is reflected in discontinuing operations. Enterprise revenues were \$560 million for the quarter, a decline of \$50 million over the prior year. The sales decline reflects some supply chain and IT execution issues related to transitioning business processes. Additionally, we saw weaker demand in Asia in the former Psion business. Excluding Psion, Europe and Africa and Latin America, both posted growth in the quarter, while North America was down slightly. The company believes that supply chain modifications implemented in Q2 will benefit the business as it transitions to Zebra. Year-over-year backlog is up, and in July, order activity has been robust including several Android wins.

Now turning to our outlook, we expect sales for Q3 to decline 7% to 9%. We expect non-GAAP earnings per share from continuing operations to be between \$0.35 and \$0.41. As a reminder, Q3 2013 included a \$0.35 benefit from the formation of our international holding company. For the full year, we continue to expect sales to decline low-to-mid single-digits excluding the decline in iDEN.

I'll now turn it back to Greg.

Gregory Q. Brown, Chairman & Chief Executive Officer

Thanks, Gino. Now, I'd like to provide some additional color on our outlook and the Q2 results for the Product and Services segments. Despite the expected revenue decline in North America this quarter, our Products segment grew double digits in Europe and Africa and Latin America. And our Services segment grew modestly on a worldwide basis when excluding iDEN. Moving forward, the North America market is expected to recover in the second half of this year.

Drilling deeper into our Products segment, our ASTRO P25 products performed as expected and are well positioned for the future given the breadth and depth of our portfolio. Some key Q2 ASTRO wins include multiple North America state and local wins of over \$10 million each, multimillion dollar contracts with the U.S. Armed Forces, two select Asia-Pac first responder agencies, totaling \$15 million, and a notable \$23 million contract in Latin America with the Ecuador Ministry of Interior. We also had success beyond public safety with key wins and expanded verticals including energy, petro chem, and education.

Our TETRA product line continued its growth this quarter and built on its solid foundation with key wins around the world. These include a major government system in Europe for over \$17 million, a \$6 million system with the Middle East railroad, and a \$15 million order in Asia. These awards include public safety

as well as other verticals in oil and gas, transportation, and others, which follow on from our launch of a higher tier portfolio of TETRA radios at the end of 2013 that are proving popular with a diverse range of customers.

Our recent Professional & Commercial Radio, or PCR, wins continue to span multiple sectors, including U.S. automotive manufacturers, airlines, education, and industrials. We continue to innovate across our PCR portfolio having just launched the new C-Series commercial digital radios in China.

And finally, our public safety LTE leadership continues in the marketplace with customer activities increasing around the world driven by the breadth of our Products and Services portfolio. Our international engagement continues to grow, and our progress in the U.S. with LA-RICS continues as we're proceeding with the first phase of the LA-RICS project worth approximately \$50 million in revenue in the second half of this year.

On the Products side, we announced the enhancement of our existing handset portfolio with the ruggedized LEX 755 Mission Critical Handheld for international customers and the VML750 Vehicle Modem for U.S. customers as we continue to invest in the public safety LTE market.

Turning to Services, our Services segment is healthy with significant contract wins around the globe and across our portfolio. We continue to see positive trends towards our Lifecycle Management and support offerings. In Q2 these included maintenance and Lifecycle services contracts for \$19 million with Montgomery County, Maryland, and a \$19 million software upgrade with Butler County, Ohio. Internationally we are in several multimillion-dollar countrywide services agreements in Europe and Africa, including the Netherlands MOI while also winning several large contracts in APME, covering the railway and a five-year network management contract with Queensland Gas for over \$8 million.

We also have achieved some notable execution milestones in Q2; including the final acceptance of the \$115 million 48 site P25 Phase II TDMA communication system, serving 15,000 first responders for the City of Houston Public Safety Communications Network. Additionally, we and our local partner, Telstra, achieved commercial acceptance for the upcoming G20 Finance Summit in September and the G20 Leaders Summit in November. This is the first major milestone of this multistage P25 project.

Another area of focus is our smart public safety solutions, where our services offerings are leading the market with targeted solutions such as our newly announced Intelligent Data Portal. This innovative solution is network agnostic, working across LMR technologies and/or LTE networks to provide our customers with technology that is second nature, enabling them to focus on the job at hand. The solution is a software subscription model similar to a mobile app store, enabling our customers to access many types of applications and tailored services very specific to their needs in the field. We will continue to drive customer focused services to meet and exceed the evolving needs of public safety.

Now having said all that, let me close with a few final thoughts on the business. First, overall market demand in North America was down in the first half, but we do expect it to show improvement for the second half of the year. Second, we're pleased with the launch of our standalone Services segment and the Services business represents approximately one-third of our overall sales and is gaining traction. You will see us continue to emphasize this business as we drive initiatives around managed and lifecycle services as well as services related to public safety LTE. And finally, our team is fully committed to simplification and growth. We're focused on execution, cash generation, earnings growth, improving our culture and closing the Enterprise transaction with Zebra. We're making good progress on the path to approximately \$300 million in cost reductions as we take a clean sheet of paper approach to simplifying our processes and organization. And our team has several initiatives underway that we believe will drive future growth.

I'll now turn it over to Shep and then we'll start the Q&A.

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 to accommodate as many participants as possible. Operator, could you please remind our callers on the line how they can ask a question?

QUESTION AND ANSWER SECTION

Operator: Absolutely. Thank you. Our first question is coming from Tavis McCourt of Raymond James.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Hi, guys. Thanks for taking my question. The first one is a clarification on the \$1.7 billion of operating cost level. Is that a full-year 2015 number or an estimate of where you'll exit 2015? And then secondly, obviously you guys must be expecting a much better trend in Q4 this year. And aside from the \$50 million revenue rec on LA-RICS, what else in terms of large deals should we be thinking about in terms of driving that?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Okay. This is Gino. I'll take the first part of the question. The \$1.7 billion in OpEx for 2015 is the full-year OpEx for 2015, not the exiting run rate.

<A – Mark Moon – Motorola Solutions, Inc.>: Tavis, I'll talk about Q4. This is Mark. Really the Q4 and second half and Q4 story is exactly the same that we talked about on the Q1 earnings call. We knew when we provided second quarter guidance that we had to have a strong second half. We also talked about the aged backlog that was going to require new orders to come into fruition throughout Q3 and the early part of Q4. We are in that same position. In fact, we talked about the pipeline being over a \$1 billion stronger in the second half than the first half. That pipeline has actually improved since our last earnings call. Visibility and the strength of that pipeline continues to improve.

As you know, second quarter was slightly better than our expectations, and as we go into third quarter, we also believe that we will get additional orders that will build backlog as we enter into fourth quarter. So I would remind you the other thing about kind of Q4. At the surface, the number that we're expecting from Q4 is very similar to last year. And in fact, we gave this kind of expectation last year and we executed on it. Our visibility to the pipeline is actually better this year than last year. We also have a couple of things working for us as we go into that. The comparable to our Federal business, as you know, which was down \$150 million last year, is much better this year, so we expect growth in Federal.

The iDEN decline will primarily be completed in the first nine months, so we won't see any of that in Q4. The other thing is as we think about the overall business and what we've got to do from an orders perspective, we can see our way clear to exactly what large customers we've got to execute on. And as you mentioned, projects like LA-RICS, Libya, some additional revenues for large projects that are also already under contract, but not yet logged like the State of Maryland will help build revenue in Q4. So, all in all, we're still in the same position but actually with better visibility than we came in three months ago.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Okay. Thanks a lot.

Operator: Our next question comes from Simona Jankowski of Goldman Sachs.

<Q – Simona Jankowski – Goldman Sachs & Co.>: Hi. Thank you very much. Greg, I think in your prepared remarks you talked about the impact from the difficult comps relative to narrowbanding in the last few years. And I think that's pretty well understood. But I was curious if you also think that there is some pause or confusion ahead of LTE deployments, which is a factor that one of your competitors cited. And then just from a record-keeping perspective, if you can update us on what iDEN revenues were in the quarter and your expectations for next quarter for iDEN. Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Well, on iDEN I know that the reduction in iDEN, Simona, in Q3 is about \$25 million in Q3. Second is we do not see a chilling effect of LTE chilling LMR purchases. We do not see that. I recognize that there are some that believe that's the case. We have not seen any material evidence of that at all. We remain on the perspective that the down revenue in the first nine months of this year is more the overhang of narrowbanding and to some degree the shutdown of the iDEN network in Sprint. And in terms of the iDEN decline in the first half of the year...

<A – Gino Bonanotte – Motorola Solutions, Inc.>: The iDEN decline in Q2 specifically was \$18 million compared to the \$25 million that you stated for Q3.

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

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

Operator: Our next question comes from Ehud Gelblum of Citigroup.

<Q – Ehud Gelblum – Citigroup Global Markets Inc. (Broker)>: Thanks. Give me one second. Let me figure out my phone. Okay. I got it. Can you hear me all right?

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

<Q – Ehud Gelblum – Citigroup Global Markets Inc. (Broker)>: Okay. That was not as easy as it sounded. Couple questions. First of all, if I'm doing the math right on your top line guidance for next quarter, at the midpoint I get [ph] \$13.95 million (25:07) which is roughly flat with this quarter, but EPS guidance of \$0.35 to \$0.41 seems far below the \$0.47 this quarter. So I'm guessing the mechanics. I'm guessing part of that is the tax rate. I'm wondering if it's all the tax rate or if there are other things that we should be taking into account, operating income and other things like that, or is it pretty much all the tax rate?

And then you said Q2 obviously was better than you expected. Can you give us a sense as to what was better? Was it just regionally? Was subscriber better – subscriber units? Was infrastructure better? And do you think that any of that was pulled forward or was that an indication of strength returning to some of the regions?

And then if you can just kind of quickly as a follow-up to last question, LA-RICS was a perfect example of a place that's actually spending a lot on LTE in LA. If you can give us a sense as to what LA as a city or municipality are doing on the LMR side right now just as a show point as to what happens to LMR spending when LTE gets underway that would be great? Thanks.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Ehud, this is Gino. I'll take the first part of the question. It is primarily tax that's driving the difference. Margin and OpEx fairly consistent quarter over quarter. I will remind you that in OpEx last year in Q3 we had a year-to-date adjustment for incentive pay, so it's approximately flat quarter-over-quarter, up slightly actually in Q3 year-over-year. But it's primarily driven by tax. And Mark?

<A – Mark Moon – Motorola Solutions, Inc.>: Yes, Ehud, the second quarter performance, as we said, slightly better than what the original guidance was, really driven by North America which was a good thing. We had said that we needed to turn orders in North America. That was really the case. Primarily infrastructure and services where we are exiting Q2 with about \$40 million of aged backlog in the second half of product, which means we'll turn quicker. So that was really the reference to a little bit stronger in Q2. The other regions performed primarily as expected.

If you think about the other question that you asked around LA-RICS, which is a wonderful example of what Greg said, when we do not see a chilling effect of LTE. LA-RICS, as you know, we just mentioned that we're in the midst of implementing their public safety LTE network of which approximately \$50 million of revenue will be in the second half and a big continued ramp in next year to implement that full system. At the same time, we're also in the midst of implementing a brand new LMR contract. So for the City of LA, LA County, all the independent cities, they're in the midst of upgrading to a P25 mission critical voice system as well.

So we're seeing that both here domestically and internationally where we had talked about implementing our LTE system. They're also implementing a new voice system. So we do not see them as being one or the other. I think they're actually complementary around voice and data.

<Q – Ehud Gelblum – Citigroup Global Markets Inc. (Broker)>: Thanks. And when you gave guidance at the end of Q1 and into the second half of the year being stronger, did you expect at the time Q3 to be flat and Q4 to be as strong as you're looking at it now or do you expect it to be a little more even between the two quarters?

<A – Mark Moon – Motorola Solutions, Inc.>: Yes. And that was the comment I had made. We really are in the same place we were at that point of guidance. We expected to be able to execute on Q2, which we did. We knew that Q3 would still not be as strong as we expected and we had a huge ramp in Q4, obviously pulling in orders into Q3 so that we exit Q3 with additional backlog, which we believe that we will – will be important, but we're really in the same position that we thought we were in at the end of Q1.

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

<A – Mark Moon – Motorola Solutions, Inc.>: Thank you.

Operator: Our next question comes from Kulbinder Garcha of Credit Suisse.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Thanks. As we get beyond the fourth quarter and look forward, is there any reason that you see why we couldn't go back to at least long-term growth rates in that business based upon your order backlog or everything else? I take the point that there's been various issues this year in terms of comparisons, narrowbanding, pull forward of spend, all those things. I'm just trying to think as we go forward now, you have the LTE opportunity, you're coming up with both the easier compares or is there a prolonged impact of anything else we should take into account on budgets? Thanks.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: So it's a little bit tough to hear your question, Kulbinder. Can I ask you to maybe speak up a little bit?

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Sorry, yes.

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

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: So my question was, as we get beyond this period now going to Q4 and beyond, my question is do you still stand by the Government business or the core business, if you like, can grow in the mid-single digits? Are the drivers in place there potentially for 2015 and beyond? I'm trying consider various things this year that have weighed upon and distracted from what was a fairly healthily growing business and narrowbanding and everything else. Are all those kind of more or less behind us after Q3 do you think?

<A – Greg Brown – Motorola Solutions, Inc.>: So I think the answer is yes that we still stand behind this business, this core business to grow low- to mid-single digits. I think there are a number of things that will turn our way over time. Obviously, one is the year-over-year comps.

Second is greater revenue density and contribution from public safety LTE. We mentioned \$50 million of revenue in the second half of the year. That will grow nicely into next year with contracts that are in the hand that we have to then turn and complete. I think the narrowbanding will largely be behind us by the end of this year, and I also think that the product portfolio, some of the newer products and quite frankly the emphasis on services with Bob Schassler here around life cycle services, managed services, software maintenance agreements, and some of the things that Moon's doing around geographic and vertical market expansion; growth, Kulbinder, in areas beyond just public safety, and we've seen some of that already that as we have moved to a pure play company, focused only on mission-critical communications, investing in the channel, redeploying and improving sales coverage and some international theaters, emphasizing North America commercial markets like some of the other verticals of oil and gas, manufacturing, I think will pay off.

So we believe that this business can grow about low- to mid-single digits. We have the product portfolio and the backlog position and the commitment around innovation to continue to distinguish ourselves going forward.

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

Operator: Our next question comes from Pierre Ferragu of Bernstein.

<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>: Hey, thank you for taking my question. So, first of all, an additional clarification on your cost-cutting program. So could you, Greg, tell us what happened to those last three months that led you to decide to step up your ambition from \$200 million to \$300 million? What's the additional opportunities you saw?

<A – Greg Brown – Motorola Solutions, Inc.>: So we've launched a pretty comprehensive effort led by one of our executives, Michael Annes, that we call 'simplify and grow.' And as Gino referenced, we're taking a clean sheet of paper look at the company and say, we don't look at what Motorola was. We look at what we need to be – sites, footprint, manufacturing, R&D, shared services, G&A. And as we dig into this, Pierre, further, we see other savings that can accrue to us so that we can turn around and invest and grow the company more sustainably going forward. With \$75 million of savings already recorded in the first half through Q2, that's what caused us primarily to increase the \$100 million target this year to approximately \$150 million of this year.

Now I'll remind you that a chunk of that is incentive pay benefits, but having said that, we'll still go after incremental G&A and other cost reductions worldwide that we think will be prudent, and quite frankly, strengthen our competitiveness. So that's why we continue to dig deeper and see more efficiencies that are available to us and we're going to capitalize on those and then reinvest surgically so capital is allocated and deployed in a way that makes the most sense for the shareholder.

Operator: Our next question comes from Tim Long of BMO Capital.

<Q – Tim Long – BMO Capital Markets (United States)>: Thank you. Two questions, if I could. Greg, maybe just drill down a little bit more on some of the other vertical opportunities. Just curious as to what you think the timing of some of those investments and focus will be? Are those types of revenue opportunities that we could see as meaningful in 2015, or do you think it's got a little bit longer tail than that?

And then secondly, maybe Gino, a lot of good moves on the OpEx side there. Could you talk a little bit about some maybe incremental gross margin opportunities going forward, maybe, both on the product and service side? That would be great. Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: On the other verticals, Tim, my commentary was really more around North America, although there is some internationally as well. I thought maybe, Mark, you can drill a little bit deeper into some of the verticals that we've seen with Molloy and McNulty.

<A – Mark Moon – Motorola Solutions, Inc.>: Yes, so from an international basis, we've always been much more diverse in the split between public safety and additional verticals. In North America, we've been primarily focused on the North America government business. One of the things we did with this new MSI and the divestiture of our Enterprise business was created a new go-to-market team and a new focus within Jack Molloy's team in North America to really say how do we get after the other commercial customers here? We want to continue to leverage our government customers, but we need to get broader in North America, and we're seeing immediate success both in the automotive manufacturing, we've had good success in several of those. Energy, if you think about petrochem, we've had couple of big wins there. We think, even as you think about the Fortune 500 that we primarily were calling all on with our Enterprise sales team, but yet has applicability to our government or our products portfolio for Remainco, I think it's going to be a good opportunity for us to further expand into these other verticals as we go forward.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: And, Tim, from a gross margin perspective, it's instructive to start a little bit and talk about Q2 gross margin. So the Q2 gross margin was impacted primarily by services and within services there were two large items; one, the decline in iDEN and the second an unfavorable adjustment to a large project in Q2.

With respect to margins going forward, we clearly see improvement in the second half, and that's driven largely by revenue, by a much larger second half, and particularly the mix that we expect to see towards North America. So that margin profile will improve. Also it's important to note that ASPs are holding through this period, so the gross margin contraction that we're seeing is really a mix to services and volume related. So we expect to see margin improvement in the second half as we mix back to a more normalized revenue structure as well as product offerings in services in general as we increase software features and as we increase the number of our customers that are under our software maintenance agreement.

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

Operator: Our next question comes from Rod Hall of JPMorgan.

<Q – Rod Hall – JPMorgan Securities LLC>: Yes, hey, guys. Can you hear me okay?

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

<Q – Rod Hall – JPMorgan Securities LLC>: Just a couple of questions. One, I wanted to see if you guys could talk about your backlog as it stands right now. I think you said \$40 million of aged backlog addition, but what's the total backlog number exiting Q2? And then could you talk to us a little bit about how you expect backlog to continue through the second half of the year and how you might exit the year in terms of backlog?

The other thing I wanted to see if you could talk a little bit about, I just want to clarify an answer maybe, Greg, I think that you said – you had said to a previous question, which was it sounded like you thought back in Q1 that consensus numbers in Q3 and Q4 were kind of mismodeled. Is that correct? Do you think that the Street had numbers just too high for Q3 and not high enough for Q4? Can you just clarify that that's what you guys are saying that if you looked at your internal model, the Street was just mismodeling numbers on revenue? And that's it. Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Well, let me take the last one first. No, I didn't make comments on the Street's models. I think it was a question where Moon said a few minutes ago that he thought that we were to Ehud's question that Q3 and Q4 were generally in the second half, from our perspective, expected to where we thought it would be. So product backlog was up to your earlier question, product backlog was up \$42 million exiting Q2. And we expect to exit Q3 with product backlog to grow pretty substantially. At the end of the day, as Mark described, this is about order visibility and converting those orders within Q3 and Q4, but clearly we would expect product backlog to increase exiting Q3.

Operator: Our next question comes from Andrew Spinola of Wells Fargo.

<Q – Andrew Spinola – Wells Fargo Securities LLC>: Thank you. Could you put the second quarter enterprise results in some context? Specifically how much of the decline, the 8% decline was sort of related to one-time issues versus normalized revenue growth? And maybe even more specifically, could you attribute the declines to some of the – how it broke out between Asia, Psion, and supply chain?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Okay. This is Gino. I'll take the first part of that question and maybe ask Mark to comment on the second part of it. As far as the makeup of the \$50 million year-over-year contraction, it's approximately 50% related to execution supply chain and IT issues specific to business process improvements that we made in Q2 and about half of it demand related, specifically in APME. Also important as we noted that July is off to a good start with robust orders and several wins in Android. And Mark, if you want to comment on the demand side.

<A – Mark Moon – Motorola Solutions, Inc.>: Yeah, from a demand perspective, it was really demand in Asia and more specifically, Andrew, it was demand in China. I would remind you that last year in China, we actually had very strong double digit growth in Enterprise, so coming from that perspective. This year, though, throughout the year we've seen a decline in China in the Enterprise space throughout. Now with that said, the good news is the rest of the regions continued to perform really as expected, and we still anticipate growth for full year in all the other regions, North America, Latin America, Europe, and Africa.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: And just one more note, Andrew. The improvements, the changes in Q2 are behind us, and they impacted Q2 and we don't expect them to recur.

<Q – Andrew Spinola – Wells Fargo Securities LLC>: So no impact to Q3 from the changes?

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

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

Operator: Our final question comes from Keith Housum from Northcoast Research.

<Q – Keith Housum – Northcoast Research Partners LLC>: Great. Thanks for taking my call. If I can just expand on Andrew, a little bit. Some of the weakness in Asia, do you think any of that pressure is coming from the threat from consumer devices? Or is that just from a macroeconomic development?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: So, Keith, from an Enterprise perspective, I think it's really mostly macroeconomic environment. Obviously the competitor base in Asia is a little bit different. While we see our traditional competitors, you see a lot more low-tier competitors as well. And I think overall the macroeconomics are impacting almost all businesses in Asia. When we think about our existing or the new Motorola Solutions, I would say the Asia market has really been slower to recover or return to growth than we expected, but it's primarily two issues. It's China and it's Australia this year. And when you think about China, what you just said from a, if you will, new business perspective, it's really the localization pressures that we still have. There's a new standard in China called PDT.

Fortunately for us, we were admitted to the PDT alliance last month, so we expect to successfully compete in that business as we go forward, but we had been shut out prior to that. In Australia, it's a little different. It's really around the economy, the pressure FX-wise against the dollar, as well as the declining minerals and energy market, the mining industry which has been a boom the last few years. In Australia our business is always over-indexed, and this year we're down 25%. And we're down almost 10% in China through the half. Now, the rest of Asia is actually up. So, again, we're making good progress. And in Australia in particular, we also have several large projects that we expected to get earlier in the year, that we expect now to receive orders for before the end of the year, almost \$200 million, and that business then will exit as we go forward. So Enterprise all in all is responding well throughout the world, it's responding well in Asia, China in particular has been the issue.

<Q – Keith Housum – Northcoast Research Partners LLC>: Got you. And then just overall, it sounds like you have some optimism for growth for the year. Can you speak to the backlog and where it stands now versus where it was, I guess, this time last year?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: So from our new MSI, we were in the worst backlog position.

<A – Greg Brown – Motorola Solutions, Inc.>: I think he's asking Enterprise.

<Q – Keith Housum – Northcoast Research Partners LLC>: Yeah, it's Enterprise. I'm sorry.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Oh, I'm sorry.

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

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah, enterprise backlog is up. Product backlog very specifically is up, significantly.

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

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

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

Shep Dunlap, Vice President-Investor Relations

Thank you. I want to remind everyone the details outlining highlighted items, our GAAP to non-GAAP P&L reconciliations and other financial information can be found on our website. An audio replay together with a copy of today's slides will also be available on this site shortly after the conclusion of this call. As mentioned at the outset, during this call we made a number of forward-looking statements within the meaning of applicable federal securities laws.

Such forward-looking statements include, but are not limited to, our comments and answers relating to the following topics: growth and profitability of Products and Services segments including by region; sale of our Enterprise business including timing or return of proceeds; cost reduction targets and their impact; outlook relating to operating cash flow, sales, EPS, margins, OpEx and backlog; the amount of other income and expense; future tax rates; share repurchases and dividends; the timing and impact of new product solutions; services introductions including public safety LTE. 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 10 through 21 on Item 1-A for 2013, our report on Form 10-K on page 31 in Part 2, Item 1A of our Quarterly Report on Form 10-Q for the period ended March 29, 2014, and other SEC filings.

Thanks, and we'll talk to you soon.

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