



Q1 2014 Earnings Conference Call Thursday, May 1, 2014

PARTICIPANTS

Motorola Solutions, Inc. Executive Participants

Shep Dunlap – Vice President, Investor Relations
Gregory Q. Brown – Chairman & Chief Executive Officer
Gino A. Bonanotte – Executive Vice President and Chief Financial Officer
Mark F. Moon – Executive Vice President & President, Sales & Product Operations
Mark S. Hacker – Senior Vice President & General Counsel

Other Participants

Tavis C. McCourt – Analyst, Raymond James & Associates, Inc.
Pierre C. Ferragu – Analyst, Sanford C. Bernstein & Co. LLC
Simona K. Jankowski – Analyst, Goldman Sachs & Co.
Ehud A. Gelblum – Analyst, Citigroup Global Markets Inc. (Broker)
Keith M. Housum – Analyst, Northcoast Research Partners LLC
Timothy Long – Analyst, BMO Capital Markets (United States)
Peter J. Misek – Analyst, Jefferies LLC
Brian Modoff – Analyst, Deutsche Bank Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and thank you for holding. Welcome to the Motorola Solutions First 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

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

We have posted an earnings presentation and press release on motorolasolutions.com. These materials include GAAP to non-GAAP reconciliations for your reference, which we encourage you to review.

In addition, we will post historical view for the combined Government and iDEN business for the past eight quarters on our site later today.

A number of forward-looking statements will be made during this presentation. Forward-looking statements are any statements that are not historical facts. These forward-looking statements are based on the current expectations of Motorola Solutions, and we can give no assurance that any future results or events discussed in these statements will be achieved.

Any forward-looking statements represent our views only as of today and should not be relied upon as representing our views as of any subsequent date. Forward-looking statements are subject to a variety of risks and uncertainties that could cause our actual results to differ materially from the statements contained in this presentation.

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

Gregory Q. Brown, Chairman & Chief Executive Officer

Thanks, Shep and good morning and thanks for joining us today. I'd like to share a few thoughts with you relative to our overall business and specifically to the quarter.

First, following the sale of our Enterprise business, our remaining business will be positioned as a singularly focused leader in mission critical communications to public safety and commercial customers. I believe our Government business is truly differentiated with an outstanding product portfolio of vast and global installed base, R&D leadership, a great sales and partner network and people that wake up every day thinking about mission critical communications. And I'm excited about the opportunities that lie ahead of us and believe this business is positioned for solid profitable growth over the long-term.

I wanted to highlight some key points relative to the Enterprise transaction itself. First, we expect the deal to close by the end of the year or sooner generating cash proceeds of \$3.45 billion which we intend to return to shareholders in a timely manner. This transaction is effectively tax free to us and preserves our deferred tax assets. The deal will include our reported Enterprise segment with the exception of iDEN, which will remain with Motorola Solutions.

Approximately 4,500 people will transition to Zebra along with other Enterprise assets and liabilities. Approximately 100 million of stranded costs allocated to our Enterprise segment will remain with MSI following the sale. We are moving swiftly to eliminate or offset these stranded costs, and Gino will cover that in more detail in a few minutes.

Now, moving on to the quarter, there are three key points I would like to emphasize. First, sales were lower than we expected during the quarter. Approximately \$20 million of the difference is attributable to the Government business, while Enterprise made up the balance, as we originally anticipated growth in Enterprise for the quarter. As we previously indicated, aged backlog in Q1 was the primary driver for the year-on-year decline. We also saw additional weakness in overall North America market demand.

Second, we planned to reduce our cost structure to reflect both the Enterprise sale impact as well as the current business environment. While we made solid progress on taking cost and inefficiencies out of our business since we launched MSI at the beginning of 2011, we will accelerate our cost reduction actions in 2014. We have a number of opportunities that we'll look at, including reducing our real estate footprint, reducing IT complexity, reducing manufacturing costs, and improving overall supply chain efficiency.

And third and finally, the fundamentals of our Government business remain strong. Our pipeline remains robust and we continue to grow multi-year services backlog in our core business year-on-year, while posting another quarter of services growth. These factors coupled with investments in growth in such

areas as Public Safety LTE, geographic and vertical market expansion, and smart public safety have us positioned well for long-term growth.

I will now turn the call over to Gino to provide additional details on our Q1 results and then I will return to provide additional thoughts and color on the quarter.

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

Thank you, Greg. Today we reported first quarter GAAP sales of \$1.8 billion, a decrease of 9% from last year. Sales in Government declined 11%, while Enterprise sales were down 4% and less than 1% when excluding the iDEN business. Non-GAAP operating earnings were \$212 million or 12% of sales, and operating cash flow improved by \$77 million over the prior year quarter.

On a GAAP basis, net earnings were \$0.49 per share compared to \$0.68 in the year ago quarter. Non-GAAP net earnings were \$0.50 per share compared to \$0.66 per share in Q1 of last year. For the remainder of this call we will reference non-GAAP financial results unless otherwise noted.

Turning to our Government reporting segment. Government sales in Q1 were \$1.2 billion, a decrease of 11% from the prior year. The biggest driver of Q1 revenue decline was our North America business, primarily due to lower aged backlog, a challenging federal business comparison, and lower than expected subscriber orders during the quarter. And while we planned for North America government to be down in Q1 and for the year, overall market demand fell below those expectations.

Our Europe and Africa region grew due to strong TETRA product and services performance, driven by a number of large contracts. Asia-Pacific and the Middle East declined low single-digits, approximately \$4 million. And our professional and commercial radio business grew high single-digits in all regions with the exception of North America, which declined by \$39 million, reflecting overall market demand weakness.

Operating income in the Government segment was \$140 million, down \$77 million to 11.7% of revenue, driven by the impact of lower sales. Enterprise revenue excluding iDEN was down \$4 million or less than 1% to \$573 million as certain deals moved out of Q1. We remain encouraged by the continued customer engagement and momentum in our new products. Operating income in the Enterprise business was \$72 million or 12%, up from the year ago quarter. Improved gross margins and lower OpEx drove the improved earnings.

The total MSI operating expenses were \$639 million, which is down \$45 million from the year ago quarter, driven by actions taken in 2013 as well as additional actions taken in Q1. These actions include a reduction of our real estate footprint by almost 1 million square feet since the beginning of 2013. This comprises nearly 25 sites, including the sale of a portion of our headquarters in Schaumburg during Q1, which generated \$25 million in cash and also the sale of our Reynosa, Mexico manufacturing facility, which closed just a few days ago.

The Enterprise sale will provide additional opportunities for optimizing our footprint and fixed costs to align with our more focused business needs. Given the Enterprise sale, the pending Enterprise sale and current market environment, we are moving swiftly to simplify our corporate structure and reduce additional costs. As such, we plan to reduce approximately \$200 million of cost. \$100 million, which offsets the stranded costs Greg talked of, will be reduced in 2014. An incremental \$100 million will be removed over the next 18 months to 24 months. These savings will come from G&A, as well as select areas within R&D and sales and marketing.

Shifting to other income and expense, this line item was a net expense of \$19 million in the quarter, compared to a net expense of \$11 million in the year ago quarter. Our interest expense of \$25 million was partially offset by \$7 million of gains on the sale of several investments within our Ventures portfolio during the quarter. We expect this line item to be an expense of approximately \$45 million in Q2. For the remainder of the year, we continue to expect this line item to be an expense of approximately \$40 million per quarter, which is primarily driven by \$35 million of quarterly interest expense.

We expect the Q2 tax rate to be 33% to 34%. Upon the close of the Enterprise sale, we expect our ongoing effective tax rate to be 32% to 33%. Based on our current outlook, we expect our cash tax rate to be in the range of 10% to 15% for the full year 2014. As a result of the Enterprise sale, we now expect a cash tax rate of approximately 15% through 2019, an additional two years.

Moving on to cash flow, cash generated by operating activities in the first quarter was \$46 million, a \$77 million improvement from the prior year, primarily from the timing of our long-term contract milestone billings and the return of cash that was seized by the government of India related to a tax dispute in the first quarter of 2013. Partially offsetting these items, we saw an uptick in inventory at quarter-end due to lower than expected sales in both segments. We ended Q1 with \$3.1 billion in total cash and \$2.5 billion in debt.

With respect to capital return, we repurchased \$57 million or approximately 1 million shares at an average price of \$66.32 per share. This lower repurchase activity was a result of trading restrictions due to the ongoing discussions leading to the Enterprise sale announcement. In addition to repurchase activity, we paid \$79 million in dividends during the quarter. As a reminder, we have approximately \$1.7 billion remaining under our current share repurchase authorization. We have repurchased 26% of the net share count outstanding since Q3 of 2011 at an average price of \$50.13 per share.

Now turning to our outlook, we expect total company sales for Q2 to decline 5% to 8%, with non-GAAP earnings per share between \$0.58 and \$0.64. For total MSI, we expect 2014 sales to be down low single digits with operating margins of approximately 18.5%, consistent with our prior outlook. We expect Government revenues to be down 8% to 11% for the second quarter. For the full year, we expect Government sales to decline low-to-mid single digits. iDEN sales are expected to decline by \$20 million in Q2 compared to Q2 2013 and approximately \$100 million for the full year.

I'll now turn it back to Greg.

Gregory Q. Brown, Chairman & Chief Executive Officer

Thanks, Gino. Now I'd like to spend some time on the Q1 results and business units. Our Q1 ASTRO contract wins continued. Some of the large notable contracts included a \$113 million system refresh and services contract with the state of Indiana, multiple Latin America military customers worth nearly \$60 million, several Canadian first responder and city contracts in Asia police and Middle East defense departments. The wins also spanned our portfolio with wins in Phase II TDMA systems, APX radios, services, software upgrades and consoles.

In Q1, we added three new models to our industry-leading APX P25 portfolio and now have a number of product families with targeted derivatives of each product to meet customer needs. The additional radio models include new, small, value-based, ruggedized form factors as well as our dual-band P25-LTE radio that enables LMR voice and faster over-the-air data transfer.

On the systems side, we added key software and solutions enablement that includes automatic vehicle tracking, a command center application for geographic talk group management and software enablement

for migrating customer transitions from analog to digital. Our TETRA business grew double digits, driven by strong subscriber shipments and services. Our portfolio position and customer focus continue to drive current success and positive momentum for the future. In Q1, we successfully demonstrated live video streaming over Norway's non-net TETRA network using TETRA Enhanced Data Service. We also earned awards at the 2014 TETRA International for Best TETRA Innovation and Best Use of TETRA Utilities. Our global momentum in TETRA wins continued in multiple verticals such as government, corrections and railroad.

Our professional and commercial radio business declined single digits compared to the year-ago quarter, driven by lower sales in North America and reflecting lower overall market demand. We had solid single-digit growth in all other regions.

Additionally, we're continuing to demonstrate our leadership in this market with our best-in-class digital portfolio and we continue to invest for growth. For example, we acquired Twisted Pair Solutions, a recognized leader in push-to-talk over broadband applications for secure, real-time communication anywhere and on any device. And finally, we see encouraging engagement in both the government and commercial PCR businesses, winning major deals with the railroad, major automotive manufacturer, and a multi-million-dollar deal in retail.

In addition, we continue to invest for the long term in our growth areas, including public safety LTE, services, and smart public safety. In Q1, we expanded our public safety LTE portfolio with the refresh of our LEX 700 to utilize the Android operating system. Additionally, we launched the APX 7000L, a converged device, that utilizes LTE for fast data transfer on a land-mobile radio voice device, and we're seeing marketplace validation of this focus with recent wins such as the \$175 million LA-RICS contract as well as the previously announced international public safety LTE contract for \$100 million.

Additionally, we continue to grow our services business that includes traditional network management as well as expanded offerings to include managed service offerings and smart public safety solutions. In Q1 alone, we closed eight large service deals with durations as long as 20 years. Additional significant support agreements were also signed with the Public Building Commission of Chicago and the Minnesota Department of Transportation. Lastly, three European police departments selected us for multi-year life cycle services as well. These service contracts demonstrate our ability to secure various recurring revenue streams built on our mission-critical platforms and services.

Turning to the Enterprise business, which will be reported in discontinued operations beginning in Q2, the Enterprise business, excluding iDEN, declined \$4 million or approximately 1% versus Q1 of 2013. Globally, mobile computing declined single digits, offset by single-digit improvements in advanced data capture and double-digit growth in WLAN. In North America, mobile computing was down double digits due to fewer large orders and channel softness, while advanced data capture was up double digits.

Europe and Africa, was up single digits on strong mobile computing demand and growth across the portfolio. Asia-Pac/Middle East was down low double digits, primarily in Enterprise mobile computing against strong comps in Q1 of 2013 and several deals being pushed out of the quarter. The Enterprise product portfolio continues to evolve its industry-leading position with the growth of the Android portfolio. We continued to see strong demand for the Android-based TC55, and we've recently won a significant multi-million dollar order with a large U.S. retailer for nearly 4,000 units.

Additionally, the adoption of Android has been robust with strengthening partner ecosystems, supported by a significant uptick in partners going from Gingerbread to Jelly Bean and 135 Android applications now certified on our devices. The traction on other new product wins was also notable with a major contract win for 10,000 units of our SmartBadge1 to CVS. Likewise, we expanded our MP6000 rollout with a major

global retailer. And finally, our focus on transitioning our WLAN solution to a more services based model has helped drive a significant double-digit jump in WLAN revenue. Lastly, our product innovation received numerous industry awards as well, including the HC1, as an Edison Award finalist and the VC70, which was chosen for the 2013 Good Design Award and the TC55 Red Dot Award.

Now having said all that, let me close with four points on our Government business. First, even though we planned for North America to be down for the quarter and for the year, the overall market demand is lower than we expected. So as a result, I'm obviously disappointed in the recent challenges we've had in calling the business. But second, despite this environment, we gained worldwide market share in each of our major products in 2013. Third, we still believe in the long-term growth and fundamentals of this business given our pipeline and strong backlog. Our backlog is growing year-on-year, driven largely by multi-year services contracts, and we're very well positioned with recent wins in public safety LTE. And fourth and finally, our singularly focused company will enable greater operational efficiency and improved agility. We intend to streamline our corporate structure that improves our operating leverage as we return to growth. And given our excess capital, the pending Enterprise transaction and operating cash flow potential, the opportunity still remains for a healthy return of capital.

I'll now turn it back over to Shep before we open it up for questions.

Shep Dunlap, Vice President, Investor Relations

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is coming from Tavis McCourt with Raymond James. Your line is open.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Hey, guys. I guess my two questions are, you expected North America government business to be down this year. What was the rationale for the expectation? It looks like your biggest competitor in North America is also seeing double-digit declines. Is there something inherent in the market right now that's causing this weakness, whether it's a pause in front of LTE, or are we still coming off narrowband? I'm just trying to understand why it doesn't seem to be an MSI issue. It seems to be an industry issue. And then secondly, just a clarification, on the full-year guidance, is the full year guidance including Enterprise? Or is that with Enterprise as a disco op? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Tavis, thanks. On the first question, I think it's primarily a North America government issue, and I think we underestimated the overhanging impact from narrowbanding. I think that we're still very well positioned for the long-term fundamentals, but to your point, I think it's more of an industry issue. I don't think it's a structural issue. I think it's a temporary issue given the narrowbanding, and quite frankly perhaps even iDEN Sprint network shutdown, because we had record years in 2011 and 2012 in state and local, in ASTRO subscriber and PCR, and that's really what I think it is. We still plan for North America to be down for both the quarter and the year in 2014, but knowing what we know now, I think narrowbanding had a greater impact than we originally thought. In terms of full-year guidance, I'll turn it to Gino.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Tavis, in terms of full-year guidance, the low- to mid-single digit for Government that we stated is not inclusive of iDEN. We mentioned iDEN. We before mentioned \$100 million reduction in iDEN revenue. Was that the question, Tavis?

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Let me clarify. So that low- to mid-single digit, that doesn't include the iDEN decline? That's correct?

<A – Greg Brown – Motorola Solutions, Inc.>: It does not.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: It does not.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: It does not. And then the 18.5% operating margin, is that inclusive of Enterprise or is that Government and iDEN combined or just Government?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: It's government and iDEN combined.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: But not Enterprise, great.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Well, it's actually the same number.

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

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

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Got you. Okay. Cool. Thanks.

Operator: And our next question comes from Pierre Ferragu with Bernstein. Your line is open.

<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>: Good morning. Thank you for taken my question. So, first of all, Greg, could you give us a bit more color on what happened, how things played out between late January when you guided for the first quarter and like I think a couple of months later when you realized you will have to announce numbers below your guidance?

On my rough math, you had a shortfall in revenue in 2014 in the 3%, 4% region and if you think about 80% of your business as being something on which you have a bit of clarity with your backlog. As a percentage of the 20% of revenue you had to go after in this quarter, it's quite a big number. And so any color you could give us on where like the disappointment came from and why you didn't have that much visibility on that?

And then from there, if you could tell us how you've been building up your guidance for Q2 in terms of this 20% of the business you have to go after. How confident do you feel about that? How much risk do you see on that number?

And then your full-year guidance for Government implies quite a safe second half, also, if I am not wrong in my early calculations. And so I'm just curious to understand where you get this confidence from in terms of the second half, where do you think you have better visibility? And if that's the case, why?

<A – Greg Brown – Motorola Solutions, Inc.>: So, Pierre, I'll do my best to recount. You asked a few questions. First of all, on the 80% visibility coming into a quarter, approximately 80%, that remains

unchanged. You described it well that in any one quarter we have about 20% to go get coming into a quarter. Given the size of the business of MSI that's still about \$400 million roughly per quarter.

What's different than January is we underestimated the overhang impact of narrowbanding. As a result, we had the \$20 million Government shortfall, I'm speaking to Government now, in Q1. And then we had movement in orders in Q1 and Q2 that I'll turn it over to Mark Moon for additional commentary.

I think as it relates to our Q2 guidance, it's our best estimate that we've incorporated into some of the things that we're seeing now, hence the negative 8%, the negative 11% for the Government segment itself, and then on the full year, I'll ask Mark to provide some color.

<A – Mark Moon – Motorola Solutions, Inc.>: Thanks, Greg. And I think when we talk about Q1, as we said, obviously we knew that we had the gap, we had to convert some orders in Q1 to be able to make the revenue guidance that we had provided. The piece that we had also called out was the impact of narrowbanding, which we underestimated, and Greg also briefly mentioned the Nextel shutdown, which actually led to strong growth in our PCR business the last couple of years and even in the first quarter of last year that spilled over. Gino called out that was \$39 million as well of a miss that we had underestimated.

So as a result of those things and orders not only converting in the quarter, so we were expecting to convert orders that will provide revenue in Q2 and for the rest of year. Now on re-look, we see many of those orders, approximately \$300 million in the first half, that have been pushed to the second half.

Now with that said, the pipeline and our visibility to those orders and orders in the second half is very good. In fact, we continue to have very good engagements. And our second half pipeline is over \$1 billion stronger than the first half pipeline. So when you talk to the end about what would give us confidence or risk and the comments that you made around the second half, it is really that pipeline, the fact that we've got a number of contracts that we've received in hand, a couple in particular like LA-RICS in the State of Maryland that we know have \$75 million that is not currently aged in our backlog. And as we move through the full-year, remember the second half of last year had a huge decline in federal government. We talked about \$150 million decline in the second half. It was the worst second half and the worst full year we had ever had in federal government.

Now we have budget certainty, which was approved in January which we didn't have last year. The pipeline is reflecting a ramp up from the government shutdown and some pent-up demand. So at the end of the day, we really have good visibility to what we're calling throughout the rest of the year. And from a federal perspective, we're really only assuming modest growth for the full year. Even though it will be a \$70 million increase in the second half, only very modest, less than 20% growth for the full year, again, coming off the worst year we've had.

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

Operator: Thank you. We will next go to Simona Jankowski with Goldman Sachs. Your line is open.

<Q – Simona Jankowski – Goldman Sachs & Co.>: Hi. Thanks very much. Just a couple of questions. The first one is, as I recall, for most of last year, you were seeing a higher mix shift of infrastructure sales. I think you might have said that it was a double-digit increase. And historically we see a follow-on effective higher device sales, which were in fact weak in the quarter you just reported. Can you just walk us through that dynamic a little bit? Would you still expect those follow-on device sales, and there might have been some reason for why they didn't come through but they should still come through in the rest of the year? Or there's something different about those infrastructure sales last year?

<A – Mark Moon – Motorola Solutions, Inc.>: Hey, Simona. This is Mark. We don't really see anything different about infrastructure sales. And as you talked about and the comments that we made early, was that subscribers were less than we had anticipated in the quarter. In fact, we continue to have stronger infrastructure sales which we are positive about. We also continue to have stronger multi-year services sales, which are building very strong backlog but not necessarily feeding revenue in the very short term.

When we talk about the Nextel shutdown and when we also talk about narrowbanding, which pulled a lot of new infrastructure or accelerated infrastructure into the year, that also led to some subscriber acceleration, which led to the piece that we talked about here in Q1 and Q2. As a overall result, we still expect, we believe our portfolio is in wonderful shape. We mentioned a couple new models of our industry-leading APX portfolio. We still expect subscriber growth to return as we move forward.

<Q – Simona Jankowski – Goldman Sachs & Co.>: Okay. And then my second question was on the new APX 7000L, which I think is your first converged device that handles both LTE data and LMR voice. So, that seems to be a change relative to how you initially were approaching this market with separate LMR and LTE devices. And so, I was hoping you can talk about the strategy there a little bit. And also, if you think about this device relative to an equivalent LMR-only device, what would be the like-for-like ASP lift?

<A – Mark Moon – Motorola Solutions, Inc.>: There was really no change in strategy. In fact, we've always talked about we'll continue to lead in our mission-critical voice portfolio. And as we've talked about, we believe we will also lead in public safety LTE portfolio, both in infrastructure and devices. We've often talked about the NDN portfolio and services component that we believe we'll offer that none of our other competitors will.

This first converged device, we think, is what the industry will ultimately want to go to. We know that customers, as Greg mentioned, LA-RICS earlier, will look to have devices like that that are able to both handle LMR and LTE. There will also be the need for collaborative devices, and most customers will like that, dual devices, an LMR device and a LTE-only device, which will also feed that portfolio, both with devices and with modems as we go forward.

So, all in all, it's strictly own our strategy of record. We actually, again, believe we're leading. We're excited about this new product. And the ASPs will be slightly, again, as you would think, this is complementary to having more features, more capabilities, and the ASPs will be slightly higher than what you would see in a traditional LMR or P25 device.

<Q – Simona Jankowski – Goldman Sachs & Co.>: So just to clarify, I think in the past you had talked about LTE as kind of an incremental multi-billion opportunity, which if it was an incremental device I can see how that could happen. If this is really still the same device but with more features and a slightly higher ASP, will that still support that kind of a large incremental opportunity? Or should we just think of it as more of a slight ASP mix shift effect over time but not really a multi-billion increment?

<A – Greg Brown – Motorola Solutions, Inc.>: I'll let Mark answer, but Simona, I think we still see it as an incremental multibillion-dollar opportunity over the long term, both infrastructure and subscriber devices. There are people that will keep different devices, video or data only and voice LMR; there are some that will go with converged devices; and for some with converged devices it's not just necessarily an ASP potential lift, but it could also be an event over time to upgrade subscriber radio. So it really doesn't change the way we have looked at it and we still see LTE and public safety LTE as being incremental to the land mobile radio business.

<A – Mark Moon – Motorola Solutions, Inc.>: Yes. Just complementing, I think this new announcement is another device in our overall portfolio. As you're aware, we had announced last year a LEX 700 device that was actually Microsoft based. We've now come back with a Google upgrade of that as well, or Android upgrade. We will also announce this device and there will be a series of devices. Just like we do on the LMR portfolio, we'll continue to build out that subscriber and device portfolio for public safety LTE.

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

Operator: And our next question comes from Ehud Gelblum with Citigroup. Your line is open.

<Q – Ehud Gelblum – Citigroup Global Markets Inc. (Broker)>: Hey, guys. Can you hear me?

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

<Q – Ehud Gelblum – Citigroup Global Markets Inc. (Broker)>: Awesome. Thanks. So, firstly on narrowbanding, I'm glad that you're starting to see that it probably had a little more of an impact. It did kind of end a year and a half ago, mostly in 2012, even though there was a little bit of an impact probably in 2013. When you're looking at your long term growth rate and you're basing it on historical numbers, narrowbanding obviously didn't just happen in 2012. It was something that was out there for a number of years; five, six, seven years and kept getting pushed out. So there's a chance that narrowbanding may have had an impact to your growth rate numbers for five, six years even before you split off from Motorola Mobility.

How do you get a handle on what the true underlying growth rate is to give you confidence on your long-term growth rate of 2%, 3% versus thinking that maybe all the historical numbers that you've looked at may actually not be necessarily indicative of what's going forward, putting aside LTE. And then I've got a follow up on operating margins. Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: So maybe we'll tag team it. But I think if you normalize – the way we think about it is – normalize for the record years of 2011 and 2012. And maybe even, to your point, maybe it's a little bit longer than that in anticipation. It's still, from a last seven years or a last 10 years, the average historical compounded annual growth rate is about 4%, 4.5%. But forgetting the rear-view mirror, looking forward, we still believe the long-term fundamentals remain sound, we still believe that mission-critical communications remains an utmost priority, we still look at the multibillion-dollar installed base internationally as an addressable market opportunity to upgrade.

We've talked about the fact that there's about 10,000 plus systems, 16% more than 10 years old. When you look at the PCR radio business and that base, 35 million or 40 million PCR radios worldwide, 90% analog, 10% digital. There's the opportunities for growth, our geographical and vertical market expansion in our core mission-critical business. As we provide more long-term services contract and lock a customer up for the long term, it protects the customer base, it allows for technology refresh, it allows for more long-term annuity revenue streams.

And then lastly is public safety LTE, which we believe as earlier stated is incremental. The U.S. and other countries are taking a business model that dedicates or allocates the spectrum, which is the model we believe is appropriate that will allow for public safety LTE infrastructure and incremental subscriber demand on top of that. So that's what we believe, not just historically, but we believe in the longer term growth drivers to get this to a low- to mid-single digit business.

<Q – Ehud Gelblum – Citigroup Global Markets Inc. (Broker)>: So, you think it's about – mid-single is about two or three?

<A – Greg Brown – Motorola Solutions, Inc.>: I don't want to be that precise. Given some of the recent challenges we've had, I'd just say low-to-mid.

<Q – Ehud Gelblum – Citigroup Global Markets Inc. (Broker)>: Okay. On operating margin, if you just look historically at the pattern, Enterprise in 2010 and 2011 had a higher operating margin than Government did, primarily because iDEN items was in that mix. 2012, Government took over and was higher in terms of margin, more profitability and same with 2013. It looks like from, Gino, your comments that both Enterprise and Government will have the same 18.5% operating margin this year. When you say that, I'm not 100% sure from the prior question where you're putting that corporate overhead, the \$100 million? Is that in the Government when you said they both have 18.5%? Is that...

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yes. So, Ehud, just so I'm clear, when we talked about 18.5%, we talked about approximately 18.5% for total MSI and approximately 18.5% for remainco. In remainco, in Government, the stranded costs are in Government. The \$100 million of actions to offset those stranded costs that we'll execute on in 2014 are predominantly Government segment actions.

<Q – Ehud Gelblum – Citigroup Global Markets Inc. (Broker)>: So then the \$100 million additional in the next 12 months to 18 months on roughly a \$6 billion remainco total gives you another 150 basis points, assuming no revenue growth of operating margin expansion. Are we to assume that going forward that as revenue grows, therefore – so is that \$100 million taking your OpEx from now and taking the \$100 million out, and that's your OpEx number? Or is OpEx going to grow from revenue growth, and then \$100 million off of what it would have been otherwise? Because if you grow 3%, you'll grow the top line \$100 million and you'll expand operating margin that way in which case we could do 200 basis points to 300 basis points of operating margin expansion. Please help us understand what happens to OpEx as revenue grows, I guess, vis-à-vis the \$100 million OpEx coming in?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Clearly as revenue grows, there's opportunity for operating leverage. The commentary around cost reduction was the \$200 million, if you think about it in terms of remainco, \$200 million is approximately a 10% BGM reduction on remainco. Obviously with revenue growth, we have the opportunity for operating margin expansion.

<Q – Ehud Gelblum – Citigroup Global Markets Inc. (Broker)>: On the current OpEx level, though, can you handle 3% revenue growth? Or will operating expenses have to grow with a 3% top line, let's say separate from that.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Without getting into modeling 2015 and 2016, there may be slight OpEx increases, but we believe that we will be able to expand operating margin and we'll have operating leverage when we return to growth.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, Ehud, as Gino said, \$100 million is to be taken out. The target is to take it out this year. There's another \$100 million beyond that. We're targeting about \$200 million. By the way, there could be more than that. If there is, we'll pursue that accordingly, but it's a below gross margin target. And Gino's right, there could be some uptick as the business returns to growth. But our goal is to size the business to a lower fixed cost model and a cost basis that's a reflection of more of a pure play simplified corporate structure. Since we are the remainco business that spun off Mobility, which is mobile devices and set-top boxes, we monetized the network business and sold it to Nokia Siemens. We are doing what we think we're very excited about the Enterprise transaction to Zebra. We've had good customer feedback on putting those assets together for a pretty compelling end-to-end Enterprise Mobility play. We're simply saying that while we've taken action, there's room for more in the

areas that we've talked about: real estate, IT, supply chain, G&A. And we're going to size the business as a reflection of our more simplified structure. And this is the time to do that.

<Q – Ehud Gelblum – Citigroup Global Markets Inc. (Broker)>: Great. Appreciate it. Thanks guys.

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

Operator: And our next question comes from Keith Housum with Northcoast Research. Your line is open.

<Q – Keith Housum – Northcoast Research Partners LLC>: Thanks guys. I appreciate the opportunity to ask question. I guess the first question on gross margins. Gross margins were down for the quarter. Hoping you can give me a little bit of color on that. I'm assuming a little bit's probably due to just the lower volume. But yet IT services are down significantly, I guess, quarter-over-quarter. Is it Government related, Enterprise related, just any color you can offer there?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Sure. With respect to gross margin, it's really a function of – we're not seeing ASP erosion in the Government segment within any specific products. So it's a function of higher infrastructure and deployment services versus subscribers, as well as higher TETRA volumes versus ASTRO, and service is growing faster than the overall business which has an impact on gross margin but with a similar OE profile. As well, the impact of a lower iDEN number impacts the gross margin percentage as well.

<Q – Keith Housum – Northcoast Research Partners LLC>: Got you. So in general, is TETRA have a lower gross margin than ASTRO?

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

<Q – Keith Housum – Northcoast Research Partners LLC>: Okay. Got it. And then next question, I guess, is more on competitive threats going forward, and perhaps I don't understand the acquisition of Twisted Pair Solutions and what they do so much. But can you speak, I guess, on competitive threat or is there competitive threat with public safety forces who perhaps don't need the mission-critical device that have used one historically say like a police chief or a fire chief. Is there a threat of those guys using a consumer device where previously they perhaps did not? Is that a concern going forward?

<A – Greg Brown – Motorola Solutions, Inc.>: I think if you look at those type of executives in policing as you just kind of described, most of them are carrying dual devices today. They carry a radio, they also carry a cell phone. So primarily when you think about the Twisted Pair acquisition, it really wasn't targeted at that executive level of public safety, even though it could be. But take a similar example in the commercial space where you have a plant manager that may not want to carry a radio, that carries a cell phone, but may want to make from that cell phone a push-to-talk call back to folks within the plant or within the manufacturing facility. That Twisted Pair combined with our MOTOTRBO Anywhere gives that capability. So that could also be applied to an executive within public safety, and as we look at the Twisted Pair technology, we certainly are also leveraging that capability and technology as we move in our Public Safety LTE direction. But all in all, mission-critical voice is still a constant, it's still a priority, and throughout the world, public safety still is moving and continuing to see the importance of mission-critical voice.

<A – Mark Moon – Motorola Solutions, Inc.>: Just one additional item, Keith, is probably the closest substitute to mission-critical voice that was available, has been available historically, was really the Nextel, the iDEN technology in terms of setup time, in terms of one-to-many groups. And through the

Nextel period, we saw growth in mission-critical voice. So we believe that mission-critical voice continues to be very important and from a substitution perspective, there's nothing available that really shares the attributes in terms of a hardened network, call setup time, one-to-many that we offer in our voice.

<Q – Keith Housum – Northcoast Research Partners LLC>: So if I understand correctly from what you're saying, it's not as though you have to write off those, I guess, unique individuals who perhaps have previously had a radio, they can now use a consumer device like a phone with a software solution? You're saying that's not necessarily a threat to the overall sale of devices?

<A – Greg Brown – Motorola Solutions, Inc.>: As a matter of fact I think it's an opportunity to combine, as Mark said, someone who traditionally perhaps would not interact with a fleet, with an LMR fleet, to have the ability on their device to talk to a plant manager that leaves the plant or anyone who leaves the coverage area would have the ability to interface on an LMR network.

<A – Mark Moon – Motorola Solutions, Inc.>: So there's a lot of conversations, Keith, about over-the-top push-to-talk, exactly what you're just describing. And where we're seeing that application, if it's getting any traction, is in the commercial space. We're seeing almost zero traction in mission-critical voice because of the attributes that Gino described.

<Q – Keith Housum – Northcoast Research Partners LLC>: Got it. All right. I appreciate it, guys. Thank you.

Operator: And our next question comes from Tim Long with BMO Capital Markets. Your line is open.

<Q – Tim Long – BMO Capital Markets (United States)>: Thank you. One for Gino and one for Greg. Gino, you talked a little bit about the gross margin in the quarter. Understanding mix going forward that that will change around, but it sounds like some of Greg's initial comments talked about supply chain manufacturing costs, some efficiencies to be gained more on the gross margin line. So just talk to us a little bit about, mix aside, what type of benefits we could see from some of the more gross margin-focused actions. And then Greg, this is certainly at least the second year in a row where we're seeing pretty back-end loading of the year. So, do you think that's the trend or that's the norm from now on and maybe you have to plan the business accordingly? Or do you think it's just a coincidence that it's been two in a row where we've gotten off to pretty weak starts in the year? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Well, let me do the second one and then Gino will talk gross margin. I think they're different. I think if we look at last year, the challenge we had was the unprecedented second half drop of our Federal business. We've never seen it decline to levels in 10 years plus, on the second half of last year. This is a Government business comment. And that being, of course, the no budget and the government shutdown which hasn't happened in about 20 years. That was a unique pressure point on the Government business in the second half. And then last year, of course, we had the Enterprise business and the cyclical nature of that and trying to call its recovery. I think this is different. I think about this Government business, and this is more of a narrowbanding, we believe, overhang. So I think the causes are necessarily different last year and this year. And I wouldn't necessarily conclude Tim that it's a trend longer-term. We're just trying to comment on what we see this year, and I think the factors are a little bit different this year than last.

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

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Tim, on gross margin, we talked about Q1 and we talked about some of the differences between products and products versus services and the impact in Q1. Going back to Greg's comments on additional opportunities, we're around this idea of becoming

singularly focused on one segment and reducing our structure and reducing fixed costs. An example of that would be, I mentioned the Reynosa, Mexico manufacturing facility that we have that we've sold – just announced a few days ago. So we believe there are opportunities within IT to reduce complexity and simplify within our real estate footprint, manufacturing footprint to reduce complexity and simplify, that will lead to a lower breakeven and a better cost profile.

I mentioned the million square foot reduction since the beginning of 2013, I think it's instructive to note that since the spin, we've had a 5 million square foot reduction, about 40% of our total square footage from spin to now has been reduced, as well as 40 sites have been closed since that timeframe. So that work will continue, and it will continue at an accelerated pace given the new MSI profile.

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

Operator: And our next question comes from Peter Misek with Jefferies. Your line is open.

<Q – Peter Misek – Jefferies LLC>: Good morning. Maybe go back to the long-term growth rate and try and tackle it a different way. Maybe you can give us a sense for the install base of physical equipment and infrastructure domestically, any kind of rough age you can give us on that, and maybe how that relates to LTE and FirstNet? And then I had a question on cash return.

<A – Mark Moon – Motorola Solutions, Inc.>: So when you think about the age of the infrastructure, I think Greg might have mentioned it, but about 60% of the infrastructure that's deployed is over 10 years old, so relatively aging. 90% of the devices that are out there today are still analog have not moved to digital; as you know, the new technology is moving all to digital. So the install base that is there is certainly in a position to be churned. And, given our portfolio, we think there are capabilities that will also, besides just aging, push for some of that churn because of new features, new functionality, new capabilities that are now available in our portfolio and through digital technology.

As far as the LTE piece of that, what we're seeing today is no impact on the traditional mission-critical technologies from LTE. In fact, LA-RICS is a wonderful example where they just procured in a similar time the LTE network and a mission-critical P25 network. The customer that's in Europe that we described a quarter ago for \$100 million also is deploying a mission-critical P25 technology. So the capabilities of each are different. One is about big data and being able to have video and situational awareness, the other is primarily about mission-critical voice and the other features and capabilities that we've talked about for many years.

<Q – Peter Misek – Jefferies LLC>: Any way you could give us a size of that install base that is, you said, over 60% of the install base is 10-plus years old. Anyway that we could sort of size that install base?

<A – Mark Moon – Motorola Solutions, Inc.>: It's several billion. I would leave it at several billion. We'll try to give some more color I think as we go forward.

<Q – Peter Misek – Jefferies LLC>: Because I think if you step back and you try and get a sense for that size, how much longer they could extend that life, what the savings are by moving to some of the newer mission-critical voice and then by layering in the advantages of LTE, maybe that can help us get a sense for whether that long term growth rate you've put out there is really easily achievable or a stretch goal.

Just in terms of cash return, obviously you're hoping the Enterprise deal is going to close here sooner rather than later. Maybe you can articulate how you're thinking of splitting up that cash return? Is it a bulk in terms of share repurchase and should we think of a tender offer for your shares as a way of using that

cash up appropriately? Or are you going to hold it on your balance sheet and divvy it up over time in dividends and share repurchases and small acquisitions? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: So Peter, I think as we stated in the call a couple of weeks ago, the intent is to return the proceeds of the transaction in a timely manner. We haven't articulated and we'll continue to work through exactly what form that takes and we'll update you on that soon. But it is not our intent to hold that cash on the balance sheet.

<Q – Peter Misek – Jefferies LLC>: So you would anticipate that shortly after the close of the Enterprise transaction, there would be a capital return event?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. We'll return it in a timely manner and we'll update you when the time is appropriate.

<Q – Peter Misek – Jefferies LLC>: Perfect. Thank you, guys.

Operator: And our next question comes from Rod Hall with JPMorgan. Your line is open. Rod Hall, your line is open.

And we will now move to Brian Modoff with Deutsche Bank. Your line is open.

<Q – Brian Modoff – Deutsche Bank Securities, Inc.>: Good morning, guys. Just one question, really. Can you give us an update on FirstNet? Where you see that? Are we still looking early next year for an impact on that? Just any color you could provide would be appreciated? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: I think we continue to work pretty closely with FirstNet and we're successful in working with them and the customer for LA-RICS. We continue to stay closely engaged with them. Mark Hacker is our lead general counsel and one of the key operating executive interface points into the FirstNet group, and I'll have Mark maybe make a little additional commentary on where we are as well.

<A – Mark Hacker – Motorola Solutions, Inc.>: So as Greg indicated, I think they continued to move down a path from their original plans to deploy this nationwide network. Their current announced intent is to release additional RFPs towards the end of the year which would say the response would move into next year, so it would probably be later in the next year for real activities to take place. I'll let FirstNet speak to the timing, but that's just extrapolating from their announced RFPs, a response and evaluation from those RFPs and then the direction they would move from that point.

<Q – Brian Modoff – Deutsche Bank Securities, Inc.>: So we're looking at more of a 2016 timeframe for when we really start to see the ramp in that business?

<A – Mark Hacker – Motorola Solutions, Inc.>: Yeah. Again, I think when we think of LTE, we've talked about both FirstNet, but also internationally. So we've talked about the real ramp being in the latter part of next year and into 2016. I think FirstNet will fall into that same equation.

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

Operator: And this does conclude the question-and-answer session. I'd now like to 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

Thanks. I just want to remind everyone the details outlining the 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 the site shortly after the conclusion of this call.

As we mentioned at the outset, during this call we made a number of forward-looking statements. Within the meaning of applicable federal securities law, such forward-looking statements include, but are not limited to comments and answers relating to the following topics: long term growth and profitability of Government, sales of our Enterprise business including timing or return of proceeds, cost reductions and their impact, outlook relating to sales, EPS, operating margins, OpEx and gross margin, amount of other income expense, amount of quarterly interest expense, future tax rates, share repurchase and dividends, timing and impact of new products, solutions and services introductions including public safety LTE, timing of orders' and contracts' impact on future revenue.

Because forward-looking statements involve risks and uncertainties, MSI 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 the morning's press release on pages 10 through 21 on Item 1-A, of our 2013 Annual Report, Form 10-K, and in our other SEC filings. Thanks, and we'll be looking forward to speaking with you soon.

Operator: Ladies and gentlemen, this does conclude today's teleconference. A replay of this 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.