



## Q2 2018 Earnings Conference Call Thursday, August 2, 2018

### **PARTICIPANTS**

#### **Motorola Solutions Executive Participants**

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**Chris Kutsor** – Vice President, Investor Relations  
**Greg Brown** – Chairman and Chief Executive Officer  
**Gino Bonanotte** – Executive Vice President & Chief Financial Officer  
**Bruce Brda** – Executive Vice President, Products & Solutions  
**Jack Molloy** – Executive Vice President, Worldwide Sales & Services

#### **Other Participants**

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**Walter Piecyk** – Analyst, BTIG LLC  
**Vijay Bhagavath** – Analyst, Deutsche Bank Securities, Inc.  
**Timothy Patrick Long** – Analyst, BMO Capital Markets (United States)  
**Paul Silverstein** – Analyst, Cowen and Company, LLC  
**Kyle McNealy** – Analyst, Jefferies LLC  
**Adam Tindle** – Analyst, Raymond James & Associates, Inc.  
**Ben J. Bollin** – Analyst, Cleveland Research Co. LLC  
**Jim Suva** – Analyst, Citigroup Global Markets, Inc.  
**William Fitzsimmons** – Analyst, Morningstar, Inc. (Research)  
**Paul Coster** – Analyst, JPMorgan Securities LLC  
**Keith Housum** – Analyst, Northcoast Research Partners LLC  
**Sami Badri** – Analyst, Credit Suisse Securities (USA) LLC

### **MANAGEMENT DISCUSSION SECTION**

**Operator:** Good afternoon and thank you for holding. Welcome to the Motorola Solutions' Second Quarter 2018 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 made available approximately three hours after the conclusion of this call over the Internet. The website address is [www.motorolasolutions.com/investor](http://www.motorolasolutions.com/investor).

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

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

#### **Chris Kutsor, Vice President, Investor Relations**

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Thank you, and good afternoon. Welcome to our 2018 second quarter earnings call. With me today are Greg Brown, Chairman and CEO; Gino Bonanotte, Executive Vice President and CFO; Bruce Brda, Executive Vice President, Products & Solutions; and Jack Molloy, Executive Vice President, Worldwide Sales & Services. Greg and Gino will review our results along with commentary, and Bruce and Jack will join for Q&A.

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

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

Information about factors that could cause such differences can be found in today's earnings news release and the comments made during this conference call in the Risk Factors section of our 2017 Annual Report on Form 10-K and in our other reports and filings with the SEC. We do not undertake any duty to update any forward-looking statement.

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

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

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Thanks, Chris. Good afternoon, and thanks for joining us today. I'll share a few thoughts about the overall business before Gino takes us through the results and the outlook.

First, Q2 was another outstanding quarter of revenue growth and cash generation. We grew 18% with organic growth of 6%, led by another very strong performance in the Americas. Additionally, we generated \$425 million of operating cash during the quarter.

Second, our outlook. We're raising both, revenue and EPS guidance for the full year, including \$40 million of unfavorable currency impact since our last update. And finally, we ended the quarter with backlog of \$9.4 billion, up 11% from last year, which is our highest backlog ever posted at the end of a second quarter. This strong backlog position coupled with our Avigilon acquisition provides excellent momentum for the remainder of 2018 and beyond.

And now, I'll turn the call over to Gino to provide additional operational details on Q2 results and outlook before returning for a few – some closing thoughts.

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

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Thank you, Greg. First, let me briefly cover the change in our segment reporting. The new segments are Products and Systems Integration, and Services and Software. The change consists of moving Systems Integration from our former Services segment into the newly presented Products and Systems Integration segment and moving Software from our former Products segment into the new Services and Software segment.

Services and Software is comprised primarily of recurring revenue. This includes Managed & Support Services, public safety and enterprise command center software, video software and unified communications applications such as our Kodiak and WAVE solutions. A reconciliation of the reporting segment changes can be found in the 8-K filing.

Moving to results. Q2 revenue was \$1.8 billion, up 18% from last year, including \$154 million of revenue from acquisitions and \$24 million of revenue related to the adoption of accounting standard ASC 606.

Organic revenue, which excludes acquisitions and the accounting changes, was up 6%, including \$26 million of favorable FX. Organic revenue in constant currency was up 4%. GAAP operating earnings were \$273 million, up \$12 million from last year. Non-GAAP operating earnings were \$378 million, up \$62 million or 20% from the year ago quarter. And operating margin was 21.5% of sales, up 40 basis points from last year.

GAAP earnings per share were \$1.05, up 35% from \$0.78 last year. Non-GAAP EPS was \$1.46, up 30% from \$1.12 last year. Ending backlog was \$9.4 billion, up \$919 million from last year. Products and Systems Integration backlog was up \$367 million or 13%, and Services and Software backlog was up \$552 million or 10%. Q2 Products and Systems Integration sales were \$1.2 billion, up \$142 million or 14%, including \$115 million from acquisitions and ASC 606. Avigilon and LMR growth in the Americas drove the increase.

Q2 Products and Systems Integration segment operating income was \$226 million or 19% of sales, down 50 basis points from last year on higher OpEx related to acquisitions, partially offset by higher gross margins. Products and Systems Integration segment backlog ended the quarter at \$3.1 billion, up \$367 million or 13% from last year, driven by the Americas and EMEA. Sequentially, Products and SI backlog was up \$5 million, inclusive of approximately \$20 million of unfavorable currency adjustments.

Turning to Services and Software. Q2 Services and Software revenue was \$571 million, up \$121 million or 27% from last year with growth in every region. This includes \$57 million from acquisitions. Services and Software operating income was \$152 million or 26.6% of sales, up 170 basis points from last year, driven by higher sales and gross margin, partially offset by higher OpEx related to the acquisitions and our organic R&D investments in the software platform.

We expect margins to improve in 2019 and beyond in both Services and Software. Services and Software backlog ended at \$6.3 billion, up \$552 million or 10% from last year, driven by the Americas and Asia Pac. Sequentially, Services and Software backlog is down approximately 3% or \$200 million, which includes a \$170 million unfavorable FX adjustment and \$138 million of Airwave revenue recognition.

Total OpEx in Q2 was \$463 million, up \$85 million from the year ago quarter, driven by acquisitions and ASC 606. For the full year, we continue to expect OpEx of approximately \$1.8 billion versus \$1.5 billion last year, driven by OpEx related to acquisitions and the adoption of ASC 606. Other income and expense was \$44 million, compared to \$39 million in the year ago quarter. Net interest expense was \$58 million, compared to \$51 million a year ago. And the Q2 effective tax rate was 25%.

Turning to cash flow. Q2 operating cash flow was \$425 million, up from \$173 million last year. The increase is a result of improved working capital and higher earnings. Free cash flow was \$384 million. Capital expenditures were lower by \$12 million compared with last year as a result of lower IT spend related to the ERP implementation completed last year. Normalized for pension, we expect approximately \$1.4 billion in operating cash flow for the year.

During Q2, we repaid \$100 million of the outstanding balance on our revolving credit facility ahead of schedule. This leaves an outstanding balance of \$300 million, which we expect to repay by the end of the year. Additionally, during the second quarter, we used \$40 million to pay off and close the revolver assumed in the Avigilon acquisition and we paid dividends of \$84 million.

Turning to outlook. We expect Q3 sales to be up approximately 13% with EPS between \$1.67 and \$1.72 based on 173 million fully diluted shares. For the full year, we are raising our revenue and EPS guidance, including \$40 million in unfavorable currency impact since our last guidance.

We now expect revenue growth of approximately 14.5%, up from approximately 14%. And we now expect EPS in the range of \$6.79 to \$6.89, up from our prior guidance of \$6.70 to \$6.85. This full year outlook

assumes a weighted average diluted share count of approximately 172 million shares and an effective tax rate of approximately 25%.

Looking at regional results. Americas revenue was up 21%, inclusive of \$115 million from acquisitions. The Americas' growth was driven by strong demand for LMR products and services, as well as video surveillance. Q2 backlog is up approximately \$800 million year-over-year.

EMEA revenue was up 15% across both segments, driven primarily by acquisitions and FX. Backlog was up in Products and Systems Integration and down in Services and Software, driven by FX and Airwave revenue recognition.

In Asia Pac, revenue was up 4%, driven primarily by favorable FX rates. Backlog was up approximately \$200 million compared to last year. Finally, I'd like to end with some notable highlights. In our Products and Systems Integration segment, we were awarded a \$71 million P25 system upgrade in Northern Africa; a \$35 million P25 expansion for the New South Wales Telco Authority in Australia; a \$15 million P25 system replacement for Flagler County, Florida; and a \$495 million five-year IDIQ contract with the U.S. Army to provide P25 devices, accessories and services.

In our Services and Software segment, we were awarded a \$50 million multi-year support agreement for a large county wide system in the U.S.; a \$41 million command center upgrade in Asia, including a 10-year services agreement; and a \$16 million multi-year managed services renewal in Chile. These awards are additional proof points of the long-term critical value that our LMR platform provides customers around the world.

I would now like to turn the call back over to Greg.

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

Thanks, Gino. Let me close with a few final thoughts. First, our Q2 results were outstanding. The 6% organic growth and record Q2 ending backlog were driven by the continued demand for our LMR platforms, which now total approximately 13,000 systems worldwide. Second, the Avigilon acquisition is exceeding our expectations with Q2 growth in the high-teens and is supported by a growing addressable market that's now approximately \$12 billion, excluding China. Additionally, I'm encouraged by our progress in bringing Avigilon into new routes to market with our government direct sales team and our existing MSI channel partners, many of which historically sold competitive video products.

And finally, our Services and Software segment has been an area of significant focus. We've expanded our services installed base and we're building the only end-to-end public safety command center platform in the industry. I expect Services and Software to continue to grow at a faster rate than Products and Systems Integration. The Services and Software segment is now basically – it's effectively a proxy for recurring revenue going forward. And finally, I expect to drive meaningful operating margin expansion in this segment in 2019 and beyond.

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

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### **Chris Kutsor, Vice President, Investor Relations**

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

## **QUESTION AND ANSWER SECTION**

**Operator:** The floor is now open for questions. [Operator Instructions] Our first question is coming from Walter Piecyk of BTIG.

**<Q – Walter Piecyk – BTIG LLC>:** Thanks. Two questions. Just can you size the Hytera ban in terms of, if they can't sell in the market, what you think that provides in terms of incremental revenue? And then also – well, hold on. Excuse me, and then also could you talk about any opportunities that are out there to buy new service businesses that are out there in terms of driving incremental recurring revenue? Thank you.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Yeah, Walter, how are you doing? As it relates to Hytera, first of all, we're very pleased with the progress on Hytera. We won a court ruling in the ITC in July and we recently won a ruling in Germany and in Mannheim federal court for patent infringement. As you probably know, just a few weeks ago, less than 10 days ago, we filed an additional copyright infringement lawsuit, which basically is effectively than copying source codes. So, we will hold them accountable. We will do whatever we need to do to protect our IP and we feel very good about the progress we're making. We haven't sized to your specific question the potential upside.

It's worth noting there's nothing in 2018 that's been modeled as potential upside and ultimately what's decided. We also have a pending lawsuit in Düsseldorf, where our General Counsel, Mark Hacker, is there now. And we have a lawsuit against them in Australia. What I will say is our PCR business, which is where we compete with them head to head, is growing robustly. I think Molloy's team domestically and internationally continue to take ground and maybe that's a byproduct of that. I don't know but that's my view on Hytera.

In terms of acquisitions, we'll continue to keep an eye out on the services' side and the video side. You've probably heard me refer to we're always looking for "mini Airwaves". There might be one or two that materialize this year, hard to say, but we're always looking given our scale economies and what we've done under Kelly Mark to see if we can add more for expanded earnings and operating margin. So, we'll continue to evaluate accordingly.

**Operator:** Our next question comes from Vijay Bhagavath of Deutsche Bank.

**<Q – Vijay Bhagavath – Deutsche Bank Securities, Inc.>:** Yeah, thanks. Hey, good afternoon. Yeah, hi, Greg, Gino. Two questions quickly. One would be on constant currency organic growth rate, if you could comment on that for this year? And then a quick follow on would be Avigilon, the strategic asset, Gino, any update on that in terms of how is it ramping here in the U.S. market? Thanks.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Yeah, Vijay. On organic growth constant currency, our view remains unchanged for the full year. We've talked about it being about 4% for the full year. Actually, given where we are through the strong first half and our guidance contemplated in the second half, it's probably slightly higher than that on an annual basis for organic growth constant currency. So, we feel pretty good with that. And that's in the face of growing backlog, so I think that that combination is a good one.

**<Q – Vijay Bhagavath – Deutsche Bank Securities, Inc.>:** Perfect. And a quick Avigilon update?

**<A – Greg Brown – Motorola Solutions, Inc.>:** Yeah. I mean I'll let Jack – Avigilon is going ahead of our business plan, internally ahead of our expectations. I think Jack and team have done a very good job. It's all about getting them new routes to market. They have a world-class product, 800 plus patents, a great patent portfolio. And the combination gives them exposure to state and local public safety,

expanded commercial markets. The federal business, which I think could be quite substantial, probably our largest opportunity at least in the near term. And I think it's going well.

**<A – Jack Molloy – Motorola Solutions, Inc.>**: Yeah, Greg. I think the only thing I'd follow on to that is the thing, Vijay, we've been most impressed with their speed of product deliverables. I mean they came out with anomaly detection here in the last 60 days. There's more to follow, so good news there. And I think as Greg said, our fundamental role is to bring them scale, to bring them coverage not only in North America as Greg said with the federal, state, and local business, but as we look to our international distribution partners, our international sales teams in places like the UK, bring them incremental scale in terms of routes to market. And that's really been the full focus here in the last 90 days.

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

**<Q – Tim Long – BMO Capital Markets (United States)>**: Thank you. Two questions if I could. First, just on the backlog and revenue visibility. Greg, obviously, it's up a good bit. We are looking at a little bit lower year-over-year growth rate next quarter than what we've seen. And so, is there anything in there about kind of timing or, Gino, of that backlog of note, and just maybe if you could just talk a little bit about kind of that visibility into the second half and into the next year?

And then just on the follow-up on the margin front, it sounds like you're expecting a good margin move in the Software and Services business. Could you talk a little bit about what you're expecting or any opportunities on the Products and Systems Integration side? Thank you.

**<A – Greg Brown – Motorola Solutions, Inc.>**: Yeah. Tim, first of all, on Q3 guidance, it's very important to note that the majority of the unfavorable FX is in Q3, number one. Number two, most importantly, the U.S. Federal close falls in Q4 this year, not Q3. So, I think a better way that's more informative to look at the firm is the second half and the first half and not Q3 specifically given the federal close is going to fall in Q4 for us.

On Services and Software, as Gino and I have already mentioned, I think that there's a meaningful operating margin improvement in 2019 and beyond. I think – we're looking for something more like 30% operating margins or close to 30% operating margins for 2019. And I don't think there's any reason to stop there on that segment. And on the Products' side, we'll continually work on that front too.

**<A – Gino Bonanotte – Motorola Solutions, Inc.>**: And Tim, we certainly expect comparable gross margins in 2018 versus the prior year, and we expect that to continue.

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

**Operator**: Our next question comes from Paul Silverstein of Cowen and Company.

**<Q – Paul Silverstein – Cowen and Company, LLC>**: Hey, Greg and Gino. If you've already addressed this, I apologize. I'm juggling calls tonight. But first off, Gino, the statement you just made about gross margin. You all previously referenced that you've turned your focus or turning your focus to gross margin and driving uplifts similar with what you've done with driving down your OpEx to revenue and that you've had multiple levers there.

So my question to you is relative to your – the statement you just made, what is the opportunity both from a timing magnitude standpoint and the qualitative drivers? And then if you're – again if you've already said it, I apologize, but I was hoping you could give an update on UK Airwave and ESN?

**<A – Greg Brown – Motorola Solutions, Inc.>**: Yeah. On the first one, I mentioned focusing on Services and Software driving towards significant operating margin expansion, kind of, as a marker for 2019

getting closer to 30% operating margins. I think to your point, Paul, that will come out of a combination of AGM, above gross margin, and OpEx. But our belief is that the opportunity, probably in that segment, is more on the gross margin side.

As it relates to Airwave, we continue to make, I think, good progress. We still anticipate agreement by the end of the quarter. I think it's worth noting that we're now negotiating both Airwave and ESN agreements in tandem. And while term and conditions are still fluid, our view and my view is unchanged. I think Airwave will stay – be in place many, many years beyond 2020. And ESN is now looking to be more like a standards-based Kodiak solution.

And I think both those developments are good for us. And I think at the end of the day, the UK Home Office solution between those two will look more and more like FirstNet here in the States. I think at the end of the day there's a few ingredients in the blender if you will that we'll take under consideration, there's political, there's practical, there's financial, and we'll evaluate all of those with the customer to make sure that we ensure the best agreement for our company.

**<Q – Paul Silverstein – Cowen and Company, LLC>**: Great. Appreciate it. Thank you.

**Operator**: Our next question comes from George Notter of Jefferies.

**<Q – Kyle McNealy – Jefferies LLC>**: Hi, guys. Thanks a lot. This is Kyle on for George. A quick one on Avigilon, you mentioned previously that Avigilon was mostly product in your previous segment categories. Now that you're pulling software out of that and I guess Avigilon might have had some integration as well, how do you expect Avigilon to split between the two new segments? I guess another way to ask that is, how much of Avigilon is coming from software as a percentage of sales?

**<A – Gino Bonanotte – Motorola Solutions, Inc.>**: Yeah, Kyle. It's Gino. In rough terms, about 20% of Avigilon is software.

**<Q – Kyle McNealy – Jefferies LLC>**: Yeah. Okay. Great. And then – sorry. And then...

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

**<Q – Kyle McNealy – Jefferies LLC>**: They recently launched a cloud subscription service in March. I'm wondering if there's anything you could add in terms of any traction initially that they're getting with that or I guess do you see it being incremental to the hardware only sales motions that they had previously, or is it going to replace something that they're already doing? Any additional color on that would be great.

**<A – Jack Molloy – Motorola Solutions, Inc.>**: Yeah, Kyle. So – this is Jack. So, they've announced Avigilon Blue, which you referenced is a cloud-based solution. Early days, we've had success obviously starting to sign-up customers. I think the interesting thing with Avigilon Blue is we actually believe it will open up new opportunities into the small- and medium-sized business. So not – think of it not as cannibalistic to their existing business, but actually customer expansion in terms of its opportunity and what we can deliver.

**<Q – Kyle McNealy – Jefferies LLC>**: Okay. Great. Awesome. And one last one for me, on your Services and Software segment and the margin improvement that you're getting there, just curious if you can add anything in terms of what's driving that? Is that scale in the managed services business? Is it a greater mix of software pricing activity, a combination of all those things? Anything else you can add would be great.

**<A – Greg Brown – Motorola Solutions, Inc.>**: Yeah. I think it's a couple of things. Mainly, Andrew Sinclair has talked about. He mentioned this at the Financial Analyst Meeting that while we're the only

ones building an end-to-end platform there, we have the opportunity to build an integrated suite. And as a result of different acquisitions we've made, we've had some duplicative R&D. And we have at the end of the day platform that comprehensive solution. As he does that over the next 12 to 24 months, I think there's margin improvement associated with that.

The second is what you mentioned. I think there's continued scale opportunities on the services' side not only in back office delivery as we optimize and add additional managed services contracts, but I think we can and will do a better job more efficiently on field deployment as well. So, those are the biggest opportunities that present themselves, and Jack and Kelly and Andrew and Bruce have identified those and are beginning to work those now.

**Operator:** Our next question comes from Adam Tindle of Raymond James.

**<Q – Adam Tindle – Raymond James & Associates, Inc.>:** Okay. Thanks and good evening. Greg, you mentioned kind of building a recurring revenue stream on that new segment line. And I just wanted to know do you have a recurring revenue target mix? And how much do you think that you need mix from that to get to that 30% operating margin that you were talking about for 2019?

**<A – Greg Brown – Motorola Solutions, Inc.>:** We don't have a target. Obviously, we'd like to see it grow. But quite frankly, both segments are important and we anticipate growth in both segments continually. My assumption around operating margin improvement in – let's just take 2019, doesn't necessarily assume any dramatic difference in contribution of the 32%. I think we can get after its existing stream now and get better flow through on the P&L.

**<Q – Adam Tindle – Raymond James & Associates, Inc.>:** Got it. Okay. That's helpful. And, Gino, I just wanted to check in on cash flow guidance for the year. I think you need about \$1 billion in operating cash flow in the second half in order to hit the previously stated guidance and it'd be more than 100% of net income conversion. Can you maybe just reaffirm, does that cash flow guidance still stand and then talk about the buckets that help with those assumptions? Thank you.

**<A – Gino Bonanotte – Motorola Solutions, Inc.>:** Yeah, Adam. It certainly still stands. We feel incrementally better about the \$1.4B. And historically that's been our conversion to over 100% of net income.

**Operator:** Our next question comes from Ben Bollin of Cleveland Research Company.

**<Q – Ben Bollin – Cleveland Research Co. LLC>:** Hi, good evening. Thanks for taking my question. I wanted to follow-up. When you look at surveillance and NextGen 9-1-1 today, those opportunities, could you talk a little bit about how you see the budget availability for those projects and initiatives right now? And then if it's not there, when you do talk to a customer and they decide to make the decision to move forward, can you walk us through the process of approximately times for that start to translate to revenue as they work through deriving the funding and getting that funding realized?

**<A – Jack Molloy – Motorola Solutions, Inc.>:** Ben, this is Jack. First of all, good question. There's two things. One of the reasons we've made the acquisitions in the command center and the organic R&D investments we've made is because we looked at that as being a distinct and additive funding stream to our customers. We didn't necessarily play in the 9-1-1 funding space before. So, as you start to drill that down on any particular project, typically these command center 9-1-1, radio console, computer-aided dispatch are around two years' selling cycle.

Typically, they would sometimes they'll write it homegrown. Oftentimes they'll hire a consultant. They'll put it out for RFP. They'll down select into maybe two, sometimes three vendors, at which time we'll go through a demonstration. After the demonstration, there's typically anytime – anywhere between a three-

to six-month process whereby they make an award decision, negotiate a contract and then have to take it to a county board. So all in, you're typically looking at a two-year sales cycle, but the important thing for us was it was incremental to government capital budgets. It's 9-1-1 money, which was new money that we had no ability to compete for in the past.

**<Q – Ben Bollin – Cleveland Research Co. LLC>:** Okay. And then, on another item, we're going on maybe six or seven years removed from the sweet spot of the narrow-banding initiative. And I'm curious if you've seen any layering effects for some of those customers who are starting to come back to the table with refreshed behavior on handhelds or anything else if you feel like you're starting to see some of those customers coming back to the table? Thanks.

**<A – Jack Molloy – Motorola Solutions, Inc.>:** Ben, we are – I mean, I think that typically if we look at it, it was early 2010, 2011, 2012. I mean, it was really a three to four year kind of period where different customers depending on their planning made investments. So, we think there are – we think there's opportunities. And obviously through our Know Your Customer and data-driven sales initiatives we've run, we've been in front of those customers. The thing that the sales teams also excited for is as Bruce and his team have made investments and we've got some portfolio expansion underway, which we're actually excited about as we look into 2019.

**Operator:** Our next question comes from Jim Suva of Citi.

**<Q – Jim Suva – Citigroup Global Markets, Inc.>:** Thank you, Greg and Gino. I have one question for each of you and I'll ask them at the same time and you can take them in any order you want. Potentially, this one might be more for Greg, but there's a lot of articles out there about the FirstNet devices, the enabled devices, once they get up and running that they'll be heavily subsidized at first. Is that true? And does that impact your financial model at all? Who's the subsidy provider there on that? Or is it more that's what the media says and maybe those are test devices? How should we think about the subsidies on some of those devices?

And then my second question, which is probably more for Gino is, you had a very good Financial Analyst Day earlier in the year and a lot of the investors in buy side and sell side are getting very comfortable with your financial liquidity model. And now it appears you're making some changes for. What's really behind the model changes for your reporting structure? Are there certain things you really, really, really want to drive home to focus on in the few years? And then, are there a few things that we need to deemphasize that maybe you have historically in the past? Thank you.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Yeah, Jim. And the answer to your first question, no. What you referenced on FirstNet and subsidies doesn't affect the way we are modeling the business or thinking about FirstNet either this year or beyond. By the way, FirstNet revenue contribution was virtually zero again for us in Q2 as it was in Q1. I think that the kind of subscriber that we were looking for hasn't materialized there. That's fine. A lot of the FirstNet users that are incrementally coming on board are using commercial push to talk over cellular in the form of Kodiak, which is supplied by us.

So that's a good thing. But – and also I think even as AT&T referenced, some of the early users of FirstNet were already existing AT&T users that are switching over to a FirstNet plan. So, we don't see material growth in FirstNet to-date and our expectations for the full year in 2018 are minimal.

**<A – Gino Bonanotte – Motorola Solutions, Inc.>:** And Jim, this is Gino. With respect to the new segment reporting, really many reasons behind it, really the idea when we talked services, historically, it was a combination of Managed & Support services and Systems Integration and they're two very different things with different margin profiles and invariably with the discussion centered on Managed & Support services. So, the effort is to be clearer about the new Services and Software is overwhelmingly recurring,

clearer about our recurring revenue business versus the one-time Products and Systems Integration business and the different operating margin profile associated with each one of them.

**<Q – Jim Suva – Citigroup Global Markets, Inc.>**: Great. Thank you so much for the details and clarification. Just appreciate it.

**Operator**: Our next question comes from William Fitzsimmons of Morningstar. Mr. Fitzsimmons, you may want to check your mute switch or return to your telephone handset. Your line is open.

**<Q – William Fitzsimmons – Morningstar, Inc. (Research)>**: Good afternoon. And thanks for taking my questions. First for Gino, the new segment breakout obviously provides some good clarity into recurring revenue. If possible, could you provide any additional clarity or possibly a percentage breakdown of revenue that both Avigilon and then your public safety command center assets contributed to the top line in the quarter?

And then maybe I'll concurrently give my question to Greg. Obviously, Avigilon and your public safety command center assets continue to grow briskly. But it's almost as if the past couple of quarters and at your Analyst Day, basically assert that core LMR demand is very strong. Are there any additional insights you can kind of give us into what's helping drive that? Obviously, the economy is doing very well and Motorola continues to do well relative to competitors. But are there any additional conversations you've been having lately with your customers when you go to market? Thank you.

**<A – Greg Brown – Motorola Solutions, Inc.>**: Yeah. I think – thanks, William. I think on the overall demand, there's a combination of things. Obviously, the economy here in the U.S. and North Americas, our anchor tenant, continues to perform very well. It's not often we see synchronized global growth in each theater. I think it's a combination of things. Environmentally, the environment's good demand for Land Mobile Radio systems and people understand its criticality is high, and it's pretty high consistently.

I think there's also things internally on the management side, whether it's compensation adjustments, sales coverage, stronger indirect channels, EMEA work that was done very well by Viv Francis and Mark Schmid out there, I think execution is better. By the way, there's better products as well. And I'm talking LMR. Not just this year but some things on tap for next year. So, the inorganic growth is excellent and the organic growth is excellent. And I think we largely are either holding or taking share and the execution is pretty sound. I don't know, Jack, if you want to add anything on that?

**<A – Jack Molloy – Motorola Solutions, Inc.>**: No. I think you nailed it, Greg.

**<A – Gino Bonanotte – Motorola Solutions, Inc.>**: And, William, on the segment reporting, while, we won't dimensionalize subsegment what we have talked about the relationship between software and services within the segment if software being approximately \$400 million for the full year. And you can think about that as the starting point in the new Services and Software segment.

**<Q – William Fitzsimmons – Morningstar, Inc. (Research)>**: Perfect. Thank you both.

**Operator**: Our next question comes from Paul Coster of JPMorgan.

**<Q – Paul Coster – JPMorgan Securities LLC>**: Yes, thanks for taking my questions. Regarding Airwave, I may be missing some of the nuances here. It sounds like it's extended for many years, the same magnitude and mix moving forward as well.

**<A – Greg Brown – Motorola Solutions, Inc.>**: Well, we don't know. Ultimately, we'll see how the agreement plays out. I think the discussions with the customer remain ongoing. There could be different terms with different financial contributions that we continue to weigh back and forth with them. But our

view is completely unchanged that we think that network will be in for a very, very long time beyond 2020. And as I referenced, we made also great progress on ESN and what the customers call the re-plan or the reset, which I think will be a standards-based solution vis-à-vis Kodiak.

By the way, with that extension of Airwave, obviously, there'll be device opportunities that are contemplated. And given the fact that Airwave will be in for much longer, Jack's team has already engaged in conversations with the customer this year and I'm sure that will go into next year for device refresh because of the new understanding that Airwave will be extended.

**<Q – Paul Coster – JPMorgan Securities LLC>**: So, are we to assume that the overall economics helping much of a wash relative to what you see today? Obviously...

**<A – Greg Brown – Motorola Solutions, Inc.>**: Well, I think at the end of the day, if I were to answer that, it would really be speculative because we're still in discussion with the customer. But I would expect in the not too distant future a matter of months to be able to provide the clarity both around the term and the financial contribution associated with it. And we feel – I'd just say this, we feel very good about where we are in the planning cycle.

**<Q – Paul Coster – JPMorgan Securities LLC>**: Got it. Okay. And then just quickly on the end-to-end solution in software for the first responder market. It does sound like you've got a huge head start over everyone else in a very fragmented space. And yet in the context of the software, which is fairly modest proportion of your overall revenue, it doesn't feel like it's going to be particularly material any time soon, but am I mistaken, I mean, can you see this being 5%, 10% revenues in the next couple of years?

**<A – Bruce Brda – Motorola Solutions, Inc.>**: So, Paul, this is Bruce Brda. I'll take the question. With the footprint that we have from the assets we've either bought or built, we're in over 70% of the public safety command centers in North America. That gives us the ability as we platform to cross sell across applications. So, we think we're extremely well positioned. As you pointed out, the market is fragmented and nobody has an end-to-end suite of solutions like us. We've built a really good set of assets there. As Greg said, we expect this segment to grow at a rate faster than Products and SI, and software will be one of those contributors.

**<Q – Paul Coster – JPMorgan Securities LLC>**: Okay. Thank you.

**Operator**: Our next question comes from Keith Housum of Northcoast Research Holdings.

**<Q – Keith Housum – Northcoast Research Partners LLC>**: Good afternoon, gentlemen. A question for you here on Avigilon. Avigilon has been in your portfolio now for several months. And you guys have high-teens growth as you guys mentioned. Just want to know, are you starting to see some of the synergies that you expected or is it still too early and this is true just organic growth from the company that you acquired?

**<A – Jack Molloy – Motorola Solutions, Inc.>**: Keith, we are. I think we are seeing some revenue synergies. I'd caution the one thing as we talked about laid out in the front and even when we first made the acquisition, we felt like our biggest synergy was going to be in the U.S. Federal Government and it's the U.S. state, local governments. And I'd just mind you the sales cycle on those things, as I just noted, is minimally a 12 month kind of sales cycle.

And so work done, pipeline being built. By the way, incremental sales investment that we think was needed subject matter expertise in public safety, it's underway. So that's the first thing. The second thing was our North America channel. We got a, obviously, have a very strong and proud channel, many of which carry competitive video solutions.

So, we're not working with those channel partners, obviously, to go and bring Avigilon into their portfolio. And obviously with the loyal relationship that we've had with those, we actually are starting to see not only some opportunities but some deals that have been closed, that are Enterprise like deals that will close a little quicker than the larger government solutions that we're working on.

**<Q – Keith Housum – Northcoast Research Partners LLC>:** Okay, great. And then it looks like your two largest competitors obviously are Chinese based. And it looks like they're going to be blocked from being able to do business government infrastructures and obviously OEM a lot of other guys out there. Is there a way to quantify or think about the opportunity you guys may have from those guys being excluded from being able to sell to the government and other key bodies?

**<A – Greg Brown – Motorola Solutions, Inc.>:** Yeah. Well, I mean, there is – as you referenced the Authorization Act was approved by the House and Senate, it's awaiting the President's signature. It's clearly a positive. But I think the most important is the country and the governments doing the right thing from a national security and intellectual property protection standpoint. There's companies that are named specifically in there. We haven't modeled anything this year or next year, but I am heartened and pleased that the government is taking these steps. And I think there'll be procurement guidelines and grant prohibitions around how Chinese electronic companies are purchased and/or deployed and what they're eligible for from a grant standpoint that's in the NDAA that I think is positive for us. But most importantly, I think from a national security standpoint, the country is doing the right thing.

**Operator:** Our next question comes from Sami Badri of Credit Suisse.

**<Q – Sami Badri – Credit Suisse Securities (USA) LLC>:** Hi. Thank you. The first question I have is you did mention a little bit about command center a little bit earlier, but what I really wanted to know is now that you've entered this market and you're further expanding...And I know you have some discipline and some knowledge regarding your customers, et cetera. But I really want to know is like how are you measuring uptake? And when should we really start to see statistics on specifically this dynamic? And is there any competition coming up that you are potentially facing in the market for this service?

**<A – Bruce Brda – Motorola Solutions, Inc.>:** Yeah. This is Bruce. I'll take the question. I'm sure Jack will jump in. This market is extremely fragmented. I think that was mentioned earlier. And with the assets we've bought and built, we have a complete suite. Nobody else comes close to what we have done. In the short term, cross sell between those applications is the short-term opportunity. And that's really being led by the integration that we're doing between the individual applications that adds incremental value to the customers.

Jack, I'll see if you want to add anything?

**<A – Jack Molloy – Motorola Solutions, Inc.>:** Yeah. So, Sami, it's really we kind of looked at is we had a multitude of products in the command center. We've now moved to where we're selling coupled solutions. And we've had very good success, particularly with the Emergency CallWorks and the Spillman acquisition that are really kind of mid-tier cities. And we've had in the 20's where we've gone in and sold those things as coupled solutions in the U.S. alone.

As Bruce and team start to build that into a platform, that's where we start to have multiple opportunities within given years within the same customer. So, it's really an evolution for us in the command center, but I think we've got the right focus, resource, and we've seen early wins, particularly with the acquisitions as I laid out with Emergency CallWorks and Spillman.

**<Q – Sami Badri – Credit Suisse Securities (USA) LLC>:** Got it. Thank you. And then just – so, it clearly looks like you have control over this part of the market. And when customers are not upgrading or

not opting into this service, what is the rationale? Is it budget? Is it head count? Is it skill? Like what exactly is the bottleneck and adoption for specifically this service?

**<A – Bruce Brda – Motorola Solutions, Inc.>**: Could you clarify when you say that service? Do you mean Support and Managed Services or our command center applications?

**<Q – Sami Badri – Credit Suisse Securities (USA) LLC>**: Command center applications?

**<A – Bruce Brda – Motorola Solutions, Inc.>**: Yeah. Each of the individual applications call taking, CAD, records and councils, have typically been refreshed at different cycles in the past, which is really I think plays into our hand. So, as long as we're in with one and we're in with one in more than 70% of the PSAPs across the U.S., we have the ability as the refresh cycles for the individual applications come due to participate. And those I don't think there's any hindrance in those refresh cycles. It's not a funding issue. It's just an evolution or cycle that we have to let pass to be able to participate for the upgrades sleeve-by-sleeve in the command center.

**<Q – Sami Badri – Credit Suisse Securities (USA) LLC>**: Got it. Thank you.

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

**Chris Kutsor, Vice President-Investor Relations, Motorola Solutions, Inc.**

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No further comments. Thank you all for your time.

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