



Q3 2019 Earnings Conference Call Wednesday, October 30, 2019

PARTICIPANTS

Motorola Solutions Executive Participants

Tim Yocum – Vice President, Investor Relations
Greg Brown – Chairman & Chief Executive Officer
Gino Bonanotte – Executive Vice President & Chief Financial
Jack Molloy – Executive Vice President, Products & Sales
Kelly Mark – Executive Vice President, Services & Software

Other Participants

Tim Long – Analyst, Barclays Capital, Inc.
Adam Tindle – Analyst, Raymond James & Associates, Inc.
George C. Notter – Analyst, Jefferies LLC
Keith M. Housum – Analyst, Northcoast Research Holdings, LLC
Ben Bollin – Analyst, Cleveland Research Co. LLC
Paul Silverstein – Analyst, Cowen and Company, LLC
Brian Yun – Analyst, Deutsche Bank Securities, Inc.
Sami Badri – Analyst, Credit Suisse Securities (USA) LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to the Motorola Solutions Third Quarter 2019 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Tim Yocum, Vice President of Investor Relations. Please go ahead.

Tim Yocum, Vice President, Investor Relations

Good afternoon. Welcome to our 2019 third quarter earnings call. With me today are Greg Brown, Chairman and CEO; Gino Bonanotte, Executive Vice President and CFO; Jack Molloy, Executive Vice President, Products & Sales; and Kelly Mark, Executive Vice President, Services & Software. Greg and Gino will review our results along with commentary, and Jack and Kelly will join for Q&A. We've posted an earnings presentation and news release at motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliations for your reference. And during the call, we reference non-GAAP financial results, including those in our outlook, unless otherwise noted.

A number of forward-looking statements will be made during this presentation and during the Q&A portion of the call. These statements are based on current expectations and assumptions that are subject to a variety of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Information about factors that could cause such differences can be found in today's earnings news release, in the comments made during this conference call, in the risk factors section of our 2018 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 turn it over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thanks, Tim. Good afternoon and thanks for joining us today. I'll start off by sharing a few thoughts about the overall business, before Gino takes us through the results and the outlook. So first, Q3 was another strong quarter. We grew revenue 7%, expanded operating margins by 120 basis points, and generated \$525 million of operating cash flow, an increase of 55% versus the prior year. Additionally, we ended the quarter with our highest backlog position ever of \$11 billion, up \$1.6 billion year-over-year and up \$160 million sequentially.

Second, we continue to execute well across all platforms. Our land mobile radio business is on pace for another record year of sales and earnings led by North America. Our video security business had another strong quarter of revenue growth and is gaining traction with government customers, and our command center software business is continuing to drive revenue growth and margin expansion in our Services and Software segment. And finally, based on our Q3 results and our expectations for another solid performance in Q4, we're once again raising our earnings per share estimates for the full year 2019.

And with that, I'll now turn the call over to Gino to provide additional details on Q3 results and outlook, before returning just for some very brief closing thoughts.

Gino Bonanotte, Executive Vice President & Chief Financial Officer

Thank you, Greg. Q3 includes revenue of \$2 billion, up 7% versus last year, including \$58 million of revenue from acquisitions and currency headwinds of \$21 million. Organic revenue growth was 4%. GAAP operating earnings of \$413 million, up \$119 million, and operating margins of 20.7% of sales, compared to 15.8% in the year-ago quarter.

Non-GAAP operating earnings of \$509 million, up \$57 million, or 13%, and non-GAAP operating margins of 25.5% of sales, up 120 basis points, driven by higher sales and gross margins, partially offset by higher OpEx from acquisitions. GAAP earnings per share of \$1.51 compared to \$1.43 in the year-ago quarter. Non-GAAP EPS of \$2.04, up 5%, from \$1.94 last year on higher operating earnings, offset primarily by a higher effective tax rate. OpEx in Q3 was \$504 million, up \$40 million versus last year, primarily due to acquisitions.

Other income and expense was \$39 million compared to \$43 million in the year-ago quarter, driven primarily by a decrease in net interest expense. The Q3 effective tax rate was 23%, compared to 18% in the prior year. The year-over-year increase was driven by the recognition of a favorable return to provision adjustment in the prior year.

Turning to cash flow, Q3 operating cash flow was \$525 million compared to \$338 million in the prior year. And free cash flow was \$465 million compared with \$292 million in the prior year. The higher cash flow was primarily due to improved working capital, a settlement payment in the prior year related to a legacy business, and higher earnings.

Capital allocation for Q3 included \$271 million in cash and equity for the acquisition of WatchGuard, \$94 million in cash dividends, \$60 million of CapEx, and we paid off the \$400 million term loan used to acquire Avigilon. Additionally, we agreed to extend our strategic partnership with Silver Lake. As part of the agreement, Silver Lake agreed to make a new \$1 billion investment in Motorola Solutions and settle the outstanding \$800 million aggregate principal investment one year ahead of its maturity. The \$800 million principal was settled in cash, and the premium was settled with \$300 million in cash and 5.5 million in shares. The transaction resulted in an overall reduction to our diluted share count in the quarter.

Moving to segment results, Q3 Products and Systems Integration sales were \$1.3 billion, up \$61 million, or 5%, driven by the Americas. Revenue from acquisitions in the quarter was \$27 million, and currency headwinds were \$9 million. Operating earnings were \$300 million, or 22.2% of sales, up 80 basis points from last year on higher sales and gross margins, partially offset by higher OpEx from acquisitions.

Some notable Q3 wins in the segment include an award from Bell Mobility for the largest Canadian P25 contract in history, serving the province of Ontario; \$27 million in video security wins in education; a \$16 million P25 order from Lee County, Florida; several large awards in mobile and in-car video, including \$13 million for the city of Nashville, Tennessee and \$4 million for the Michigan State Police; and \$3 million in fixed video security wins for government customers.

Moving to the Services and Software segment, revenue was \$645 million, up \$71 million, or 12%, from last year, driven by growth in the Americas and EMEA. Revenue from acquisitions in the quarter was \$31 million, and currency headwinds were \$12 million. Operating earnings were \$209 million, or 32.4% of sales, up 170 basis points from last year, driven by higher sales and gross margin expansion. Some notable Q3 wins in the segment include a \$78 million P25 multiyear service contract with the State of Michigan, extending service through 2029; a \$58 million P25 multiyear statewide service contract in North America; an \$11 million command center software suite contract with Glendale, Arizona; and a \$4 million contract for a 911 system in Bogota, Colombia.

Looking at regional results, Americas Q3 revenue was \$1.5 billion, up 12%, driven by broad-based growth across all platforms. EMEA Q3 revenue was \$384 million, down 1%, due to large system deployments in the Middle East in the prior year and currency headwinds, partially offset by growth in Europe. And in Asia Pacific, Q3 revenue was \$158 million, down 9% or \$16 million, due to China and currency headwinds.

Ending backlog was \$11 billion, up \$1.6 billion or 17% compared to last year. Sequentially, backlog was up \$160 million, with growth in both segments. Services and Software backlog was up \$1.6 billion or 26% compared to last year. Approximately half of the increase was driven by the Americas, and half by EMEA. The EMEA growth is primarily related to the ESN and Airwave extensions. Sequentially, backlog was up \$34 million due to multiyear contracts in the Americas, partially offset by revenue recognition for ESN and Airwave. Products and SI segment backlog was down \$39 million, or 1%, compared to last year due to two large system deployments during the prior year in the Middle East and Africa, partially offset by growth of \$134 million in the Americas. Sequentially, backlog was up \$126 million, driven by the Americas.

Turning to our outlook, we expect Q4 sales to be up 5% to 5.5%, with non-GAAP EPS between \$2.75 and \$2.80. This assumes \$20 million of FX headwinds at current rates, a weighted average diluted share count of approximately 176 million shares, and an effective tax rate of approximately 25%. For the full year 2019, we now expect revenue growth of 7.25% to 7.5%, and we now expect non-GAAP EPS between \$7.77 and \$7.82, up from our prior guidance of \$7.67 to \$7.77. This full-year outlook assumes \$115 million of FX headwinds at current rates, an effective tax rate of 23.5%, and a weighted average diluted share count of approximately 176 million shares. We continue to expect full-year operating cash flow to be approximately \$1.7 billion.

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

Greg Brown, Chairman & Chief Executive Officer

Thank you, Gino. First, I'm very pleased with our Q3 results. It was another quarter of solid organic revenue growth, significant expansion of both gross margins and operating margins, strong operating cash flow generation of over \$0.5 billion, and we finished with our highest quarter ending backlog position ever. We also closed the acquisition of WatchGuard, a leader in in-car and body-worn video.

Second, 2019 is looking to be another strong year of growth. Led by North America, our LMR business is positioned for a second consecutive year of record sales, and our command center software and video security businesses continue to perform very well.

Given our year-to-date performance and ending backlog, we're positioned for another year of record revenue, earnings, and cash flow. And finally, this week at the International Association of Chiefs of Police here in Chicago, we had product introductions that spanned our entire mission-critical portfolio, including our next-generation LMR radio, APX NEXT, which is broadband-enabled for mobile apps designed specifically for first responders. And what struck me the most as I walked our booth was how the investments in our portfolio have come together, not as point products or separate acquisitions, but as a fully interconnected ecosystem, where mission-critical communications, video security and analytics, command center software and services, are operating seamlessly together. And it's the power of these integrated mission-critical solutions that has me excited when I think about our future going forward.

So now I'll turn it back over to Tim and open it up for your questions.

Tim Yocum, Vice President, Investor Relations

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Tim Long with Barclays. Please go ahead.

<Q – Tim Long – Barclays Capital, Inc.>: Thank you. Maybe just two I'll give you together, if I can, first on the video side, guys, it sounds like last quarter you were starting to see some traction in the education vertical. I see, Gino, you went over a number of video wins kind of across different platforms in the quarter. Could you just talk a little bit about growth there, and particularly with the new ban and the NDAA in effect? What are you thinking about growth for that business? And then secondly on the call center software side, seems like there's been good traction. Could you talk a little bit about the trajectory of maybe getting into more PSAPs [Public Service Answering Points] and maybe selling multiple solutions to the ones that you're currently in? And how do we think about that adding to growth for the company? Thank you.

<A – Jack Molloy – Motorola Solutions, Inc.>: Hey, Tim. Good evening. It's Jack. I'll take the first question related to video. So as we've discussed before, we expect the video business to grow 15% this year. I will tell you, Q3, the performance exceeded our expectations. Specific to education, we had \$27 million in orders in Q3. And if you remember, Q2 was typically the high point, so we're really pleased with \$27 million. We got \$1 million order from the University of South Carolina. We had not done a lot in higher ed, so again, pleased there. And then I think the last thing is the Federal Bureau of Prisons. We talked about a year, kind of a year, to take place for the federal government success, and that was well in advance of what we expected, and think of that as a platform that we'll build on.

I think all these things are empowered by two things. We made pretty significant go-to-market investments in North America. But probably more importantly, we announced the H5 camera line and the Avigilon Control Center, which are software and analytics package 7.0, focus of attention, unusual speed detection, things like that, so a lot of excitement in the market and I think you'll continue to see our momentum from there and turn it over on the second half.

<A – Kelly Mark – Motorola Solutions, Inc.>: Tim, it's Kelly. On the software part, I'll address that. First, I'll just say, we look at the business, we're very pleased with it. Our orders, our revenue, and our backlog growth are all exceeding the market growth rate. The team has done a great job showing the benefits of the suite, and the customers are definitely recognizing it. Year-to-date as we think about it, you've heard me reference in the past, percent of our orders in the command center that are suite-related, where we have sold two or more components of our software together, or where we've added on to already existing pieces of software and added to that.

As we look at it year-to-date, we're just over 25%, which is an improvement from what we've seen in the past. It's great to see some notable customer wins. You probably saw us reference a particularly large win with Glendale, Arizona, where they bought pretty much the entire suite: CAD, records, Jail, Mobility, our VaaS solution as well and integrated those together. And also, customers like we see in Latin America with Bogota in Colombia, where we added on a 911 software system in addition to what they already have in regards to CAD and records that they have. So we're seeing good traction across the board on suites and pleased with the progress we're seeing also in the development of what Andrew and team are doing there.

<Q – Tim Long – Barclays Capital, Inc.>: Okay, great. Thank you, guys.

Operator: The next question is from Adam Tindle with Raymond James. Please go ahead.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Okay. Thanks. Good afternoon. I want to start by obviously acknowledging a lot of positives to highlight here in the quarter. But, Greg, I'm going to be brave here and try to paint a narrative that I know has holes in it, but I'd just get it out there because I know you won't be shy to respond. You recently announced the new APX NEXT devices that incorporate broadband capability, FirstNet interoperability, and didn't think you were seeing much of a use case for broadband and mission-critical radios. And I know that LMR has been doing well, but product backlog is down year-over-year for the second quarter now. I know Americas is up, but video is doing well and some additional inorganic contribution. So some thought that this is an indication that perhaps broadband and FirstNet is starting to and going to continue to have an impact on the core LMR business. I think you understand the narrative that's painted there, so just want to give you an opportunity to respond to that.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, Adam, thanks for the question. I don't think the introduction of APX NEXT has anything to do with a narrative that would suggest LTE, or specifically, FirstNet, taking a more prominent role, but specifically cannibalizing LMR. As you know, Adam, we haven't seen that in the past; we still don't see that now. Backlog is up, you know that year-on-year. And sequentially – by the way, it's also worth noting that the backlog is up despite some significant FX headwinds that we didn't articulate. But with what Molloy's team is doing on LMR and the introduction of APX NEXT, which we're excited about, and maybe Jack could say a few words about the feature set, software connect and seamless roaming between LMR and LTE, actually, we believe, extends LMR. It's not an encroachment of LTE. It makes LMR, it makes APX NEXT, it makes private networks even more compelling.

And I think that's represented by the statewide upgrades that we had this year that were almost 2x the volume of previous periods. But I just don't see it that way. And I think FirstNet is complementary to LMR. Just like in the UK, ESN is complementary to Airwave. But I just don't see any cannibalization or a chilling effect. By the way, just since we're talking about FirstNet, as you know, I think, Adam, it has a de minimis impact of revenue for this year. We would see equally minimal revenue contribution from next year.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah, maybe just to piggyback on top of that, I think this is an important point. The as-a-service or the recurring revenue component of APX NEXT will actually be contracted through the customer directly to Motorola. And that will be three different things. It will be – obviously, Greg talked a little bit about the SmartConnect, the ability to extend LMR capabilities. For instance, if it was someone from the Cook County Sheriff's Office that was at a conference in Miami, they'd have capability to connect back on the network. But two of the other really important features are called SmartLocate, which essentially provides – pinged every – depending on the situation, every 3 to 15 seconds, location device of an officer, critical for officer safety. But maybe the most important and underrated thing is a feature called SmartProgramming, which will essentially take what used to take weeks or months to program radios and essentially provide an out-of-the-box experience. So really what we're doing is, to Greg's point, extending the LMR P25 network, but leveraging some of the broadband technology to do complementary technologies.

The other thing to hit on is the APX NEXT is actually a premium device. So if we think about the APX family that has quite candidly been the most successful product in the history of this company, this will be kind of the Cadillac, if you will, or the premium tier. And we should think of that as kind of taken three to five years historically when we have a new fleet, three to five years to start making – where we start seeing most of the sales pivot to APX NEXT and the next gen of those. So hopefully that answers your question.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Yeah, very helpful. And it sounds like there's some potentially attractive economic models that could be associated with it as well. Maybe just as a quick follow-up, Gino, Products and SI operating margins look like, if I'm backing into the 2019 guidance correctly, maybe towards the low end of the 22% to 23% range for 2019. And hoping to maybe just double-click on that, because I know it's perhaps not exactly like-to-like, but Products gross margin

and gross profit are up healthily, and operating margin and operating profit are lagging that growth a little bit. I know you have a number of acquisitions weighing, probably some opportunity there. So maybe just some color how we can think about operating leverage in that segment moving forward. Thank you.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Sure, Adam, yes. The guidance suggests the lower end of that 22% to 23% range. It's important to note that gross margin is above, slightly above our expectation, for the full year. So really the impact is OpEx related to the acquisition and, frankly, related to some legal expense related with – to the Hytera's IP lawsuit ongoing this year. So those are the two issues; very pleased with gross margin. It's OpEx we'll get after the acquisitions, and again, legal expense until that trial is resolved or that action's resolved, we'll continue to include that in our guidance. Very pleased with the gross margin performance.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Yeah. Thank you.

Operator: The next question is from George Notter with Jefferies. Please go ahead.

<Q – George Notter – Jefferies LLC>: Hi. Thanks a lot, guys. I guess I wanted to kind of drive towards an organic growth rate for backlog. You mentioned there was an FX impact there. I know it was pretty substantial last quarter, but I'd be curious on what that number actually was. And then WatchGuard, I would imagine also maybe gave you a bit of backlog benefit there. Also, I was wondering what kind of contribution that might have had. And then I assume the two Middle East deals from a year ago are not backlog affecting as I look at year-on-year compares.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah, that's correct. Just – so there are a couple things there to unpack. The FX adjustment that Greg mentioned was \$115 million sequential unfavorable FX adjustment, getting back to your question on the organic growth rate of backlog. So that was the extent of the adjustment. The second question...

<A – Greg Brown – Motorola Solutions, Inc.>: Was a WatchGuard question.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah, and that's really minimal backlog, George. It's kind of a run rate business with very little backlog, so not much of an impact at all to our backlog.

<Q – George Notter – Jefferies LLC>: Got it. And then I'm sorry, can you just tell me the FX impact on a year-on-year basis in backlog?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: It's \$200 million, George.

<Q – George Notter – Jefferies LLC>: Wow. Okay, so backlog organically, I think, grew nicely over 10% year-on-year. Is that roughly ballpark?

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

<Q – George Notter – Jefferies LLC>: Great. Okay. Super. Thanks a lot.

Operator: The next question is from Keith Housum with Northcoast Research. Please go ahead.

<Q – Keith Housum – Northcoast Research Holdings, LLC>: Good afternoon, guys. Hey, just want to explore a little bit the difference in the growth rates between Europe and North America. Obviously, North America has been on fire now for the past two years or so, if not a bit longer. Is the difference in the growth rates more macroeconomic-driven, or is it more based on the product portfolio you have there? And then perhaps you guys can touch on the growth or the opportunity with the video segment now with Avigilon and WatchGuard and what your opportunity is outside of the US.

<A – Jack Molloy – Motorola Solutions, Inc.>: Okay. Keith, so I think the question was really around EMEA versus North America. Yeah, North America, just from a scale – go-to-market scale, points of presence – it's obviously our strongest market. It's up – Q3 was up 7% in terms of constant currency, and I think as Greg articulated in the open, it's strength across the board. It's strength in our LMR business, strength in the command center software business, in our Services business, and obviously, we had a very good quarter in our video business.

EMEA is actually – in the third quarter we're actually up 2% in organic constant currency. So some of the things we felt are obviously the headwinds, we've had some FX headwinds there. But was just in Europe two weeks ago at our partner conference, and there's some challenges in certain countries, but I would dimensionalize Europe as still relatively steady state.

Where we're seeing the most pressure internationally is actually in Asia Pac. And to kind of put that into context, it's 8% of our overall revenue, so not very material, but at the same time, we're seeing macro – we're seeing some macro-level issues. China is very small in terms of what it means from a revenue component of our country, but within the region, we're seeing some contagions that have actually slowed some things down in certain areas. I'd also offer that when I look at the APAC business, a lot of this is on us, and meaning it's on me and our team in terms of ability to understand the process a little bit better, where we might have some macro-level issues that cause budget issues. We've got to see through those and we've got to execute better as well. But as it applies to Europe, it's not as strong as North America obviously, but it's fairly steady. APAC is really where we've seen the primary weakness as the years rolled on.

<Q – Keith Housum – Northcoast Research Holdings, LLC>: Great. And just kind of expanding on that question, can you just touch on your opportunities with Avigilon and WatchGuard outside of the US? And is that a factor helping to drive some of the growth in the US compared to the EMEA?

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah, so I think we have – and two different things. In Avigilon, we have opportunity in terms of we've got to increase the number of routes to market internationally. That's in Latin America, that's in Asia Pacific, and that's in Europe. The work is being done there to really get the product on more shelves. They were – when we acquired Avigilon, they were relatively – their focus was rightfully so in North America and we've got to bring more scale to them, both with our sales force and our distribution partners. That's the first thing.

Secondarily, WatchGuard has also been relatively a North America phenomenon. We actually picked up a body-worn camera through the Vigilant acquisition, a company based out of – who had acquired a company based out of Scotland that actually has a very nice solution internationally at a better price point. So, we're going to look at both of those options to take the body-worn camera in international, but WatchGuard is really a North America solution as it stands today.

<Q – Keith Housum – Northcoast Research Holdings, LLC>: Great. Thank you.

Operator: The next question comes from Ben Bollin with Cleveland Research. Please go ahead.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Good afternoon. Thanks for taking my question. Could you talk a little bit about the public sector sales process within command center and surveillance? Specifically, I'd be interested in your thoughts on the average duration of the process. Any generalities for how relative deal sizes would compare to like a traditional LMR deal to the same type of customer? And any high-level thoughts you have on the overall competitive landscape right now based on some of the preliminary stuff you guys are doing?

<A – Jack Molloy – Motorola Solutions, Inc.>: Absolutely, Ben, I'll start. This is Jack. And I think the first part of it is a selling process. Kelly is going to jump in to provide some color. The selling process in terms of the command center software is actually – it's actually a fairly lengthy cycle, meaning it's typically anywhere from minimal a year to two years. There's a high level because it's a 24/7, a highly intense environment, and you've got a customer base, meaning dispatchers under a high-stress environment, there's a lot of demonstrability, and particularly as they navigate software changes, there's a lot of features that maybe were legacy features that we have to kind of deal with, because it certainly affects their operating procedures in the command center. So they're typically long. And I think a credit to the inorganic and organic activity that Kelly and Andrew and team have done. Frankly, the deal sizes are getting larger. And I think as Kelly articulated, we've grown the level of suite services – the suite sales, which have contributed to that. Kelly, I think you – anything you want to add to that?

<A – Kelly Mark – Motorola Solutions, Inc.>: Yeah, just on the competitive component. Look, if you look at the external view across any number of market studies out there references market growing around a high-single-digit growth rate. And as we referenced in the past, and it has continued to play out, our Software business is growing in double digits. So we're very pleased with what we're seeing in regards to the growth of the business. I'd also add competitively, I think as you probably saw at IACP, we've made a number of announcements around some additional components of our software – command center software portfolio, very happy about what we're doing.

Also, one thing I'd highlight is the records portfolio and what we're doing there. As we all know in the command center, one of the biggest things that they deal with is just the inundation of data, pictures, video, voice that they have to handle. And that records platform that we announced is something that our customers are very excited about, because it provides them an opportunity with one records platform to be able to manage data that comes in from any variety of sources. So, it's not just managing body-worn video or 911 calls. It's being able to compose all the data that comes in to the command center and be able to manage it. So, competitively, we view that as something that is really a unique part of our software portfolio that no one else can emulate. So very pleased with what we're seeing there, and the customer receptivity and the feedback we're getting from them has been really great, and it shows in the results.

<Q – Ben Bollin – Cleveland Research Co. LLC>: And as a follow-up, looking at the broader business, you talked about some of the uncertainty, maybe some more macro in APAC. Do you have any thoughts on a broader macro perspective as it relates to commercial LMR? And then one last follow-up, Greg, any update to the broader 2021 framework discussion you provided previously? Thanks, guys.

<A – Greg Brown – Motorola Solutions, Inc.>: So there's no updates to the broader 2021, approximately 9 and 10. Remember, it wasn't guidance, it wasn't prescriptive, it was directional; my phrase is up and to the right. And it contemplates both operating the business and continued inorganic activity. From a 2020 standpoint, we're not going to guide the specifics as you would expect. That will be reserved for our February call. But as I sit here today, kind of high-level top-line revenue growth, I think about roughly 4%, which is consistent with what we said this year, consistent with what we said last year, and again, overall from a driver's standpoint across all three platforms – LMR and video security and command center software – I feel pretty good about it.

By the way, just one other dimensionalization that's worth mentioning, may seem a little tactical but worth reminding, as you all think about 2020, remember, Q1 specifically is always our lightest quarter. Q1 of this year was a record quarter that included \$40 million of federal revenue in Q1 of 2019 that we do not expect to repeat in Q1 of 2020. So high level dimensionalization, Ben is, continued solid growth, obviously a solid backlog position, no change to the 9 and 10 in 2021, and I think that Jack and Kelly and the team and quite frankly all the people at Motorola continue to do a great job, and I appreciate their efforts.

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

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

Operator: The next question is from Paul Silverstein with Cowen. Please go ahead.

<Q – Paul Silverstein – Cowen and Company, LLC>: Greg and Gino before I ask my two questions, I just want to clarify in your response to the previous question, Greg, I thought I heard you say on the one hand, you weren't giving guidance, but on the other hand, I think I heard you say 4% revenue growth for next year. Was that – the 4% that you cited – was that specific to 2020 for the year?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, I'm not being prescriptive specifically on EPS and operating cash and others, but it's just meant to signal, more or less to Ben's question, our view and our expectation of continued growth. We do expect growth, we do expect organic constant currency growth, we do expect cash flow growth, but just to give you an anchor point and a reference point, yes, as I sit here today, the kind of view of top line was about 4%, very consistent with this year, and what we said this year and what we said last year.

<Q – Paul Silverstein – Cowen and Company, LLC>: Got it. I appreciate that. So now for my two questions, one is a broad question, I apologize, it's revisiting a number of questions earlier in the call, and then a specific question. The broad question is, to the extent that video, hardware, analytics and monitoring, along with margins, have been the two – or I think certainly the two or two of the key upside opportunities and focuses for the company, can you give us any sense of the opportunity from here over the course of the next year in terms of how much more you can do in driving margin upside, as well as WatchGuard, VaaS, and Avigilon in terms of how far, how fast that revenue can grow? I recognize you addressed the things you need to do in terms of outside of the US and your go-to-market, et cetera, but any quantification you could provide. And then the specific question would be, you just referenced US Federal in passing. A number of companies this quarter have cited very strong US Federal revenue in the fiscal year-end. Can you characterize what you're seeing out of US Federal?

<A – Greg Brown – Motorola Solutions, Inc.>: Why doesn't Jack take US Federal first.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah. So US Federal, it was not only – we talked about the strength of the North America business, and you wouldn't have a good Q3 without a very strong federal quarter. But I would also offer, it's been – Mark McNulty and his Federal team have had a very good year in 2019. It's everything from devices to systems to services, and it really spans a continuum of law enforcement agencies in the Feds, civil agencies, as well as our defense bases and the communication systems we supply to them. So, proud of what the team accomplished in Q3 but really have had a very solid 2019.

<A – Greg Brown – Motorola Solutions, Inc.>: And, Paul, just overall on your question of kind of the overall business, we do expect cash flow and operating margin expansion to continue against the specifics coming on the February call. I think that's largely going to come out of Services and Software. I think Kelly and Andrew and his entire team have done a great job on platforming the business, getting efficiencies to the business, integrating the suite. The percentage of suite purchases and orders is slightly incrementally higher than what Kelly referenced earlier. We talked about an operating margin in that segment, Services and Software, on the last call of 30% to 31%. That's going to look like, more like 31% for full year 2019. Do we expect that can improve in 2020? We do. And Kelly and Andrew will provide me and all of us with the specifics on 2020.

But also what I would say is that the areas that we're playing in, video security, where we've targeted to grow 3x the market, all-in, 15% versus 5%, and as Jack referenced in Q3, we were strong in Q3. And we still believe we'll grow at 15% for 2019, and that continues. On command center software, it's performing in the high teens. And again, for now, we expect that to continue. So – and that's against the backdrop of

an addressable market of all of these businesses – land mobile radio, video security and analytics, and command center software – of an addressable market we size at about \$39 billion for 2020.

So I think there's room to run. I think Molloy and Kedzierski [John Kedzierski – Corporate Vice President of Systems and Infrastructure Products] are executing very well with the Avigilon acquisition and the other video assets, that as we aggregate and go to market in an integrated way, we'll continue that performance. And I think command center software and services, which we don't talk as much about though, that too is continuing to run very well.

So, there's opportunity, there's a sizable addressable market. You know the numbers that we're growing on command center software and video security. I think land mobile radio, including SI and services all-in, will continue to move forward. By the way, we will also consciously move more and more land mobile radio product to land mobile radio infrastructure as a service, which will improve stickiness, improve annuity revenue in that segment, and overall solidify the profile of our position competitively.

So, I feel good about where we are and how we're executing. There's always a lot more work to do, but this is a solid quarter. It's going to be, it should be, we expect it to be a record year in 2019, and then we'll update you on all the specifics with those metrics in 2020.

<Q – Paul Silverstein – Cowen and Company, LLC>: Appreciate the response. Thanks, Greg.

Operator: The next question is from Brian Yun with Deutsche Bank. Please go ahead.

<Q – Brian Yun – Deutsche Bank Securities, Inc.>: Hi. Thanks for taking the question. I wanted to follow up on the prior answer you had for a baseline of 4% revenue growth in 2020. Can you talk about the leverage there? So what do you think could drive better than expected top line? Is it an uptick in video security adoption or new product intros? And is there anything we should be aware of that could pressure revenue growth from that baseline?

<A – Greg Brown – Motorola Solutions, Inc.>: I think, look, at this point, I think it's just a prudent way to plan the business as we look at 2020. Molloy talked about North America has been great in the execution across pretty much all platforms. He talked about a little bit of international, more specifically Asia Pac, where we see budgets being pushed out. I don't think it's deals lost. Now Asia Pac is 8% of our overall revenue in 2019. And as you know, China is now about a 1.5% of revenue for us, so it's not significant. The issue though is as the China economy slows down, does it have a contagion effect in some other adjacent or neighboring theaters in the region, it may, but also, as Jack said, we, on the execution side, can do a better job in terms of forecasting specificity and understanding the budget cycles and what's available.

So I think it really is just the best way and the prudent way we think to plan the business. Video security in Q3 was stronger than our expectations. So are there areas that we could perform stronger against the view? Of course, there are, and potentially there are. But at this point, we think this is the right way to think about it and dimensionalize it, again, as I sit here today.

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

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

Operator: The next question comes from Sami Badri with Credit Suisse. Please go ahead.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Hi. Thank you. The first question has to do with Products, just SI, and I want to understand, beyond the big lumpy deals, the way you generated some of those revenues. Could you give us any idea on the type of radios that were sold? Are these

higher mix? Are you starting to see the install base refresh their products? If there is a cycle, where are we in that cycle? Or is some of the growth being driven by Avigilon products on the hardware side? Could you just unpack this a little bit more for us so we can go through it?

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah. Hey, Sami. It's Jack. Two things, so for the third quarter, what we've seen from Products and SI, it's both. Actually, to your point, Avigilon, albeit Avigilon had a very good quarter so we're going to see some of that, as we think about the LMR products that are in there, we had strength really frankly in devices. So that's APX devices, the APX family, of which we just announced kind of the next generation or the APX NEXT, and that strength in the US government, US public safety, state and local, as well as the federal government, which I just articulated, had a very good quarter. Gino, I don't know if there's anything you'd like to add to that.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah, I think you answered it, Jack. It's really, on the Products side, strength across the board in Q3. There wasn't one area that was exceptional, no large deal in there that drove the results. It was broad-based, actually across all platforms, but across all the Products segment.

<A – Jack Molloy – Motorola Solutions, Inc.>: The commercial business was actually up 3% in North America in Q3 as well, so just pretty much strength across the board.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Got it. Thank you. And then just a follow-up question regarding Avigilon and some of the more software/artificial intelligence-related capabilities that the software actually has, where are we in the integration cycle for specifically those capabilities and to the broader command center suite?

<A – Kelly Mark – Motorola Solutions, Inc.>: Sami, I'll take that. In regards to Avigilon, one of the things that we've done, we're very pleased about, is we have immediately taken the Avigilon portfolio, and to the extent our public safety customers are using Avigilon, we have already integrated it into our command center suite. So one of the products, which you probably saw us announce earlier in the year, is CommandCentral Aware. And CommandCentral Aware is a product which helps gives our customers a consolidated view in the command center of a situation, including location of officers, information related to the 911 call, any inputs around license plates. And in addition to that, if, to the extent they access Avigilon cameras, they can have that feed into the command center.

So it's not just Avigilon. We work with a lot of other video suppliers out there because it's important as being in the command center, that being kind of the central point where situations are controlled that we can interface to others. But of course, interfacing to Avigilon is something that we incorporated earlier this year. It's just one of the examples of the integration components that we've provided through the command center.

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

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Tim Yocum for any closing remarks.

Tim Yocum, Vice President, Investor Relations, Motorola Solutions, Inc.

Thanks for joining, guys, and we look forward to talking to most of you soon. Take care.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.