

Motorola Solutions, Inc.  
Presentation at  
Sanford C. Bernstein Strategic Decisions Conference  
May 29, 2015

**PARTICIPANTS**

**Motorola Solutions Executive Participants**

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**Gregory Q. Brown** – Chairman & Chief Executive Officer

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**Pierre C. Ferragu** – Analyst, Sanford C. Bernstein & Co. LLC

**MANAGEMENT DISCUSSION SECTION**

**Pierre C. Ferragu, Analyst, Sanford C. Bernstein & Co. LLC**

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Hi, everybody. Thank you for joining. So, I'm Pierre Ferragu, I cover Telecom Equipment and Data Networking at Bernstein. And I'm here with Greg Brown, the Chief Executive Officer of Motorola Solutions; and thank you, Greg, for coming here.

**Gregory Q. Brown, Chairman & Chief Executive Officer**

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Sure. My pleasure.

**Pierre C. Ferragu, Analyst, Sanford C. Bernstein & Co. LLC**

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And like a good habit we have to catch up once a year here in New York. And so, we'll have like a very informal Q&A session today. I have a very, very long list of questions to Greg, of course, as you can imagine. You guys can write down your question as well on your – on small question card. They will be brought in and I'll insert them in the flow as much as I can.

**QUESTION AND ANSWER SECTION**

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: Greg, maybe just as an introduction, you know that this is a generalist conference, maybe a lot people in the room are not that familiar with Motorola Solutions, so if you could give us a brief overview of who you are as a company, that would be great.

**<A – Greg Brown – Motorola Solutions, Inc.>**: So, first of all, thanks for coming. We dimensionalize Motorola Solutions, call it, approximately \$6 billion in revenue. Last year, we were – we think of it in terms of product and services; \$3.8 billion of product, \$2.1 billion of services. And what we do is we're the worldwide leader in public safety and mission-critical communications.

So, in the U.S., domestically, internationally, 70% of the business roughly is government public safety; about 30% is enterprise or commercial customers. So, think public safety and governments on the 70%, and then the 30% think critical infrastructure, transportation, transit, oil, gas, utilities. We continue to make progress. We exited last year selling the enterprise business to Zebra Technologies, it was the mobile computing business, also known as Symbol.

I led its acquisition eight years ago. And eight years later, we sold it for the same – pretty much what we bought it for net of cash. And did so because we believe and I believe this is the best business in Motorola. So, you're familiar with our history, set-top boxes, smartphone, cell phone, network infrastructure, but no business has the characteristics like this business.

So, we're progressing well. And, Pierre, when I think about kind of the way to maximize the value, I think about top line growth, operating leverage, and cash flow generation. And North America has done well more recently and grew 4% in Q4, 6% in Q1. In Q1, in total, the company grew 3% from a constant currency standpoint; that's good. Backlog was up, very healthy, \$440 million in Q1, or 8%; \$130 million out of product, the rest arrived in multiyear service contracts, which we like.

And I think generally speaking, the U.S. is doing better, state local budgets are improved, even the federal spending in this category is modestly better, and we've made a number of organizational changes, leadership changes. We continue to drive the culture change in the organization, which I think is very important, given the fact that we are the remaining Motorola, almost 88 years old, and we continue to drive on constant change. So, I think we're progressing well, there is always more work to do, but I like the trajectory we're on.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: Okay. So, public safety, public safety infrastructure. So, it's mostly radio technology. Could you maybe describe typically what kind of infrastructure you have operating today in the U.S. and maybe you can touch on very briefly on how these things differ in other regions as well, just to give like a very tangible aspect of actually your products?

**<A – Greg Brown – Motorola Solutions, Inc.>**: So, the primary public safety platforms that we sell are ASTRO, or also known as P25, which is North American-centric; and TETRA, which is internationally or more European.

Here in the States, I think the trends are pretty good for the P25 business and for North America in general. Jack Molloy is a new leader. He's been in the business for about 14 or 15 months, running North America. He's made a number of leadership changes, in addition to dedicating an organization around commercial markets, our enterprise customers here in North America, to sell infrastructure to critical infrastructure non-public safety clients.

And internationally, we see continued strong drivers as well. Now, remember, we have about 12,000 systems installed around the world. Half of them are analog, many of them are aged. So, if I think about the drivers here in North America, I think of continually the high prioritization of public safety to begin with. I think more recent events in Ferguson and Baltimore and others, even further highlight the criticality and importance of having modernized public safety infrastructure and interoperable communications.

I see the trends internationally, we typically sell countrywide systems. And I think that has been progressing well, given the growth – significant growth in backlog as well, particularly in Asia and the Middle East. The Middle East, as you might imagine, is a region that prioritizes and puts the utmost importance on public safety. I think even more recent events over the last year, two or three, highlight that even more. So, we're growing strong double digits in Middle East, Pierre, we've broken it out as a region. So, we operate the business along five regions: North America, Europe-Africa, Latin America, Asia-Pac, and the Middle East. And we continually see high need for critical information interoperable public safety infrastructure.

Our backlog exited last year at \$5.8 billion, which is a record high for this business. We haven't had backlog as high as we ever had it with that \$5.8 billion, which I think is also a good trend.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: Very good. And so, you said it's public safety infrastructure to local authorities in the U.S., more at a national level – outside of the U.S., who like TETRA and P25 are global standard in terms of technology. Who else is involved? Who are your competitors? Who do you see around you in that public safety world?

**<A – Greg Brown – Motorola Solutions, Inc.>**: So, primary competitor in North America is Harris Corporation; and we've had, I think, pretty good success competing against them. We have taken market share from them in the last, I think, 12 to 18 months. And we've had a number of win-backs, but they're our primary ASTRO, or P25, competitor in North America.

Internationally, our primary competitor on the TETRA side is Airbus and Sepura. Airbus recently announced several months ago that they plan to exit the business. They're the company that bought, several years ago, the Nokia PMR assets. So, we think the opportunity they operate, Pierre, both TETRA and TETRA pole. TETRA pole is a closed proprietary public safety standard and we clearly see, internationally, the move toward open standards with TETRA. So, you can interchange infrastructure and subscriber devices. So, I think the fact that Airbus has announced by themselves that they plan to exit the business is also a favorable trend for us, in terms of opportunity.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: And in terms of scale and size, how big are these players compared to Motorola Solutions? What's the order of magnitude?

**<A – Greg Brown – Motorola Solutions, Inc.>**: So, I think, I dimensionalize Harris in trailing 12 months revenue. In this space, at about \$430 million or \$444 million a year in revenue, I think the useful proxy or comparison number for us is our North American revenue, which is \$3.6 billion or \$3.7 billion. So, we obviously have huge scale advantages in size. We have advantages in R&D. We have advantages in go-to-market and given the way public safety is acquired and procured in North America, you go city-to-city, municipality, county, state, and for sure, one of the strongest advantages that we bring as Motorola Solutions is our go-to-market distribution, not just in terms bodies and sales incentive, bag-carrying people, but the long-standing domain expertise and relationships they have at the local and state level. So, we think it's a good advantage, very good advantage.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: And on the technology front, so how does your technology differentiate? What are like the selling points when you speak to public safety officials about what your technology can deliver that your competitors can't deliver despite the fact that your environment [*indiscernible word*] and standardized?

**<A – Greg Brown – Motorola Solutions, Inc.>**: Well, no one has 70 years of experience in public safety. We literally invented and created the market as part of Motorola several decades ago. Nobody has the patent portfolio that we do. And all the necessary ingredients that go into not just push-to-talk, but mission-critical push-to-talk, latency, network design, encryption, and what we sell, Pierre, are platforms. So, we sell end-to-end systems, infrastructure, subscriber devices, and systems embedded software and applications that provision that end-to-end system, whether it'd be P25 or TETRA.

So, I think the distinct – nobody has the width and breadth of our product portfolio. I think our quality, our domain expertise, our depth of technical understanding and more and more of our engineers are now embedded software engineers. So the ability for us to provision and develop a system software that's unique to a customer, whether it's NYPD or the City of Chicago, or Dallas, or LA, and with the domain expertise, isn't just the putting and provisioning of hardware, it's customize these systems to the individual application set that each one of these individual cities and municipalities have.

So, there is no – no one customer has identical features. We customize along with best-in-breed hardware and product portfolio to optimize the performance of the network, and no one has the services capabilities that we have in land mobile radio as well in terms of break-fix, software upgrades, managed services capabilities, and we see the services opportunity as the significant growth one for us.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: Maybe you could talk about the depth of services, what kind of – maybe before we get into services, if you look at like the full life cycle of one of your clients, how is that working? So you sell infrastructures first and there is like a recurring product revenue around devices and then, you have a service element as well, maybe if you can describe typically how all that play out?

**<A – Greg Brown – Motorola Solutions, Inc.>**: Well, on the positive side, when we sell these systems, they're typically 10-, 12-, 13-, 15-year experiences, where we grow with the customer. So we sell a requisite infrastructure and then we put devices to fill that network. And then, we sell maintenance contracts around that with services attached to the infrastructure and devices; we up-sell them with software maintenance contracts. It wasn't until just recently where we will – we've typically provided all features to all customers, but now with better IT systems and enabling infrastructure on our part, we can sell varying degrees of software user and software maintenance agreements to different customers where different things are important.

So, infrastructure, devices, and then as we put this in, agencies are added to it, users are added to it, fire, police, ambulance, different agencies are expanded in the capacity of it; and we refresh the technology, both hardware, software, and maintenance. So typically, these relationships are large, long, multiyear relationships that are sticky to Motorola Solutions.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: And if we take the specific case of devices for instance, so is there an element of stickiness there as well? So once you have the infrastructure, you have the first set of devices, is there like a huge...

**<A – Greg Brown – Motorola Solutions, Inc.>**: There is.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: ...like, follow-on win rate in your business?

**<A – Greg Brown – Motorola Solutions, Inc.>**: Well, we're continually – so we have a tiered portfolio of devices, depending upon what the first responder need is, but we also continue to upgrade and expand on new devices. We just announced an APX 8000 radio, quad-band radio, Wi-Fi, more spectrally efficient, more data capacity through it.

So, as we sell these systems in this infrastructure, the customer chooses a portfolio of different tiered subscriber devices. And we're continually adding features to different devices that allow and incent these customers to upgrade accordingly. The other key dimension to our devices is we have a level of backward compatibility.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: Yes.

**<A – Greg Brown – Motorola Solutions, Inc.>**: So, as a new radio comes on to the market, we protect and ensure the legacy or backward compatible applications, usually on Motorola infrastructure, so they don't sacrifice or have to forgo any applications that are customized to them. That's very important and a conscious feature development that we have on our subscriber devices.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: That's very clear. And I say, it sounds like a very good position to be in. So now, as you said, you invented that market maybe eight years ago or so and it's a fairly mature market where you have a very high level of penetration, especially in the U.S. and if I'm not wrong, if we look at your gross profile, maybe over the last 10 or even more years, it's between 4% and 5% value, like, revenue growth over the years. So, could you take us through how you understand that growth? So, what are the drivers of, like, this expanding – slowly expanding market and how you see growth for the next five years and what makes you confident about what you expect in terms of growth trend?

**<A – Greg Brown – Motorola Solutions, Inc.>**: Yeah. I still see this business as a, generally, a low to mid-single digit business, largely organically derived for the foreseeable future. I mean, that's what we project in terms of kind of the long-term growth rate of the business. We grew 3% in Q1 from a constant currency standpoint and our full-year guidance contemplates growth of 1% to 3% in aggregate for constant currency as Narrowbanding is more behind us. We also have Norway, which is a big contract that contracts in the second half of this year. We have iDEN services. iDEN was about \$110 million in revenue for us last year; it will be down, Pierre, roughly \$20 million to \$25 million this year. So, I'm kind of giving you the disaggregated ingredients into our revenue growth profile.

But when I think about why I'm confident in our ability to do it, public safety is more critical today than it's ever been, not just in the United States, but in emerging markets and developing countries, and I think that there's a number of proof points where we could see that. For sure, in some of the recent developments here in the U.S., in the Middle East, there is another theater that's a more obvious point to point to. I don't think it's accidental that two of the three largest Public Safety LTE awards are in Middle East countries.

So, I think the product and services business continues to refresh with aged systems, continues to extend with maintenance attach rates that we can improve on, continues to extend by monetizing and customizing software features on that infrastructure that you talked about, of those 12,000 systems that are installed.

I also believe, Pierre, that managed services represents another nice opportunity that's incremental, where customers depending upon where they are, are asking us more and more to consider taking over the operations of the network. So, we sell that infrastructure. We sell those devices. We have them on a particular software release. But as we talked about the scale advantages we have against our two primary competitors both in North America and internationally, as we use those efficiencies, as we take advantages, take advantage of the economies of scale, we'll be in a position to operate some of these networks on behalf of customers, some here in North America and some internationally. So those are all positive growth drivers and then beyond that is Public Safety LTE and I think there's a lot of – we'll talk about this, but there's a lot of misinformation with Public Safety LTE.

Remember LMR, land mobile radio, the interoperable P25, TETRA networks that we sell, these platforms provision end-to-end secure encrypted mission-critical voice, mission-critical voice. Public Safety LTE is about interoperable data and video. These Public Safety LTE networks are additive to the LMR, networks that are deployed.

In Los Angeles, they're building a new LMR system awarded to us in addition to a new Public Safety LTE system. In both countries, in the Mid-East, they are building new Public Safety LTE systems, and the – one country is expanding their LMR system from us and the other will be bidding the end of this year or Q1 a brand new LMR system.

So, I think there is a huge misunderstanding of what private networks do and what cellular networks do. You all know what happens to your cellular network in an emergency. You know how it's generally designed and in peak loads, you may have difficulty making a call, let alone exchanging video files.

In the private world, there is going to be LMR networks for a long, long time. P25 or TETRA and in the private network world for Public Safety, there will be Public Safety LTE networks: Los Angeles, Harris County, the two countries in the Middle East. And that is an additive to our growth calculation in low to mid-single digits and lastly, smart public safety. And smart public safety, or intelligent-led policing, is an embryonic opportunity for us to marry the incident management, robbery, murder, disaster, with the information in situational awareness that's aggregated in the command center.

So, in more command centers, they're being challenged with how to manage, dissect, store, extract, and disseminate information, social media, video analytics; and that is a whole new area that I think you'll see us spend more cycles on that it's a logical extended adjacency in the provisioning of public safety with situational awareness in incident management, where we have unique domain expertise. We have unique relationships. We have a unique platform, by which to provision applications both on the LMR platform and for things that are more unique, with broadband speeds on Public Safety LTE. So, all of those different things, as well as the continued importance in technology refresh, I think lend itself to a solid low to mid-single digit position for a foreseeable period of time.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: Okay. And getting back to what you said about this year, your guidance and taking into account specific situation in Norway, of course, like the strength of the dollar which is a headwind for you guys outside – in many places outside of the U.S. Am I right thinking today, business – underlying business drivers are about back to normal when we think about this low to mid-single digits kind of growth trend?

**<A – Greg Brown – Motorola Solutions, Inc.>**: I think from a North America standpoint, the answer is yes. And remember, we, for those of you that are familiar, we suffered from Narrowbanding, while we benefited from Narrowbanding in 2011 and 2012, which was a U.S. regulatory mandate; that accelerated device purchases in 2011 and 2012, but depressed subscriber device purchases in 2013 and 2014.

But when you normalize the growth run rate to your earlier point, it's a 4% plus or minus business. And when I look at North American indicators and see growth in North America with Narrowbanding largely behind us at 4%, growth in North America in Q1 of 6%, backlog up in North America, and market share being expanded in North America, it certainly feels like a more normalized run rate, which is a good benefit and an advantage for us to have; that'll generate more cash and put us in an improved competitive position to continue to reinvest capital in the business in either R&D or continue to return capital to the shareholders where we've done that, returning almost \$8.5 billion in about four years, while contracting the share base 39%. So, I think capital return and capital allocation remain a high priority for us, as well as long-term growth; and I think that in North America, things are clearly performing much better.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: Okay. One last question on your – like understanding your growth dynamics. So, you mentioned half your installed base today is digital in LMR. So, when did this migration to digital start? And so, how much more headroom do we have in this migration?

**<A – Greg Brown – Motorola Solutions, Inc.>**: I think there is a lot more migration to digital that will occur. It started several years ago. I mean, some of our networks are 15, 18, 20-years old, plus they're very highly reliable. They're obviously designed and built and delivered with the quality and reliability that our customers expect and demand from Motorola, which I would argue is second to none.

So I think we have the most reliable product, the broadest portfolio, and I think there's a lot more headroom, not just from analog to digital, but the ability to sell additional features. By the way, on analog or digital, Pierre, even analog in New York, NYPD still runs an analog network but we still sell additional features on top of this analog network and new subscriber devices. So, a lot of opportunity for us to continue to grow.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: So, what really drives the decision to migrate from analog to digital? Is it like right timing in terms of budget and...

**<A – Greg Brown – Motorola Solutions, Inc.>**: Timing, budget, funding, spectrum, but there is a lot – the only thing I would say is there is a lot of feature functionality and growth in analog...

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: Analog as well.

**<A – Greg Brown – Motorola Solutions, Inc.>**: ...that we can provision. So, I wouldn't want you to think about analog has to go to digital for us to take advantage of future growth. I think we can grow both.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: Okay. That's great. So, you gave us a very good initial overview on Public Safety LTE and course that's – well, actually maybe before we come to Public Safety LTE, why don't we spend some time talking about your business model like your economic model today as it stands, how you make money, your capital allocation strategy or philosophy.

So gross margin in the, like, high 40%...

**<A – Greg Brown – Motorola Solutions, Inc.>**: High-40%s, right.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: ...range. Very good operating leverage. You are taking out at the moment about \$300 million of cost – of your cost base -- relative reinvestment needs in the business in terms of use of – use of your cash from operations? Could you take us through, at the high level, your economic model? And then I have a couple of questions on how we should think about...

**<A – Greg Brown – Motorola Solutions, Inc.>**: So we're very – obviously, we're most focused on growth. And North America being the lead anchor tenant returning to growth and they've done very well in the past few quarters, and I like the trends there. From an operating leverage standpoint, we've taken – we took \$205 million cost out last year. We've said that we would take \$150 million to \$175 million this year. And if you take our below gross margin cost structure, so not above gross margin, but BGM structure, at \$175 million of reduction this year, we will have reduced by the end of this year \$525 million of cost out of the business from a \$2.1 billion-plus cost base three years ago.

And the business is actually better. That's very important. The business is better. It's more simple. We had 175 P&Ls, now we have three. We're going to reduce SKUs by about 40% by the end of this year. So, as Motorola has made decisions around portfolio and strategy, the simplification, the operational simplification, the lower fixed cost structure and the leverage that supported on top of that is very powerful.

In Q1, we grew operating margin 250 basis points from 10.3% to 12.8%. So, the leverage is there. I think there's more we can do on cost, and at the same token, we invest more in R&D than pretty much all of our competitors in the core business combined. So, we still get the economies of scale. We have the best product portfolio we have ever had. We're reinvesting R&D spend on some of the new growth areas in the adjacent markets. So, I think the leverage opportunities are pretty substantial.

And commensurately, if you can keep CapEx at a normalized run rate, which it has been historically for us about \$170 million a year; keep the fixed growth cost structure under control, which we believe we can, then growth on the top line, whatever that growth rate would be, flows right through in a nice operating leverage model. And we believe we can continue to expand both operating margin, EBITDA margin, and free cash flow; and simultaneously, if the share base contracts further, then free cash flow per share gets more favorable as well. So, we know it's execution and continual singles and doubles, if you will, the use a baseball metaphor; but that's what we're focused on, operationally, strategically, financially, from a leverage standpoint, and a cash generation standpoint, improving the profile of the business.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: You mentioned reducing the share count. On that front, how do you – how would you describe your ambition in terms of financial leverage, where you are today? How much headroom do you think you have? How like in particular, the condition of your pension...

**<A – Greg Brown – Motorola Solutions, Inc.>**: Well I think...

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: ...has evolved over the last...

**<A – Greg Brown – Motorola Solutions, Inc.>**: It's a great question. I think we're in a very good position now with more flexibility. We derisked our pension last year, took \$4.2 billion and derisked it. We don't have any cash contribution required for a pension for the next five or six years. The pension expense therefore, embedded in the P&L is relatively modest, which is a favorable trend. Our effective cash tax rate is 15% for the next five years or so. And, Pierre, we've talked about needing about \$800 million to \$1 billion to run the business, we exited Q4 with about \$3.4 billion in cash; so – and we exited Q1 in a net debt position. So, we clearly have room and firepower to do more, and I think we'll take advantage of that.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: Okay. That's great. So you've mentioned your OpEx. We understand your use of cash. One thing that we haven't discussed that much into the past is actually your gross margin. So, you guys used to be like in the very high 40%s, very low 50%s. You're slightly below now. If you can take us through like changes in the mix that led to that? And then, given your position in the market, and like the underlying quality – the quality of the underlying of your business, how do you think about gross margin in the long run? Is going to get improved by basically being able to take costs down faster than pricing, or how much or so might change because the business mix is changing?

**<A – Greg Brown – Motorola Solutions, Inc.>**: So, you're right, Pierre, our gross margin profile is generally high 40%s. I think that over time and a shift – a gradual shift towards services, that might moderate a bit. But having said that, I don't think that will at all will be the expense of operating margin or EBITDA margin, because I think we have the opportunity to expand both of those.

I think that some of the shift more recently on gross margins has been more infrastructure-centric sales. And as we've talked about, I think that the Norway project has created some gross margin headwinds that will continue for the balance of the year. But on a normalized basis, I think you're right to think of us in terms of high-40%s; and from a quality and pricing power standpoint, to generally stay in that range.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: Okay. So, it would be too optimistic to think you could actually over time, increase the trends?

**<A – Greg Brown – Motorola Solutions, Inc.>** Yeah. I wouldn't say it's necessarily too optimistic, because...

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>** The question this time is not mine.

**<A – Greg Brown – Motorola Solutions, Inc.>** Yeah. No, we would look – look, we'll look at everything. But I think from the way I think about it, I think that the – I focus on getting more yield with top line growth and cost structure management. Although, I would say that we've done a very good job on the below gross margin cost structure, but I do agree that there are some opportunities for us in above gross margin. But I would think more in terms, Pierre, those actions as preserving the gross margin structure as opposed to necessarily raising it.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>** Okay. That's very clear. I have like a further two question on your growth profile. So, do you have any way to measure the difference between growth coming from your existing base of business and how much is still coming from new installations as we stand today, I would assume a large majority comes from your base but do you have any quantified view on that?

**<A – Greg Brown – Motorola Solutions, Inc.>** I think the overwhelming majority of business comes from existing customers and technology refresh, upgrading the features, additional software, and new and refresh devices. When we think of the long-term growth profile of being low to mid-single digits, we think of the product and services category as being generally consistent in the low to the mid or on the lower end of that contribution with double digit growth coming from Public Safety LTE and double-digit growth coming from the command center and some of the newer adjacencies in Smart Public Safety.

But the even in the core product and service group for attach rates, software features, upgrading, refreshing both analog and digital, I think there'll be healthy opportunities for us growth this relatively consistent.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>** Okay. So you still have like maybe a low single digit growth in your legacy product and then the other chunk of growth comes from new product like LTE...

**<A – Greg Brown – Motorola Solutions, Inc.>** Yeah. And even in the core though, it could be – the core could be low to mid as well.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>** Okay. And then, something – a question I hear very often. So, we – like, investors for instance when we hear a company talking about moving to services, moving to subscription to more like recurring revenues. There is always the question about, is that going to affect growth? So, if you move from selling \$100 a product to actually charging \$20 a year for five years to replace a product by a service contract, is there a risk on your gross profile, and I think it would be good to clarify that. You mentioned managed services is like an additional opportunity. Is there a shift of your business model from product to services or is services just an additional opportunity?

**<A – Greg Brown – Motorola Solutions, Inc.>** More the later, and it's a good clarification. So, I'm not suggesting any business model change of any materiality at all. And as we pursue these incremental opportunities on managed services and additional adjacency areas, I'm not suggesting that it would compromise or compress the growth rates I just described. I think it's ingredients that feed into that.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>** Okay. That's very clear. Great. Okay, so I think we should now move into LTE.

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

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: So, you've given us a good introduction, why – so state of the technology today, so there is one last project in California, you mentioned three – two or three projects in – two in the Middle East.

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

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: Is that it? Anything else ongoing at the moment?

**<A – Greg Brown – Motorola Solutions, Inc.>**: So, for the most part, we're focused on building up those three awards. The three largest awards made worldwide. It's also worth noting, Pierre, that they're largely infrastructure awards. And so, not all of the life cycle award that we talk about are reflected in our backlog. That's one.

And second, we expect additional orders over time as devices attach to the network that are not calculated in the numbers that I give and have given around a "\$100 million" order with a country in the Middle East and a \$220 million life cycle award with another country in the Middle East. So, that is our primary focus: deliver, deploy, and optimize those three awards. And then have devices attach to it, so we can expand revenue even more.

I think we'll see what happens here in the States with FirstNet. We've had a very good working relationship with FirstNet. I think they've been very, by the way, helpful and constructive in Los Angeles specifically. We – for those of you that may not know, we had a delay in the project in Los Angeles, and a de-scoping, there was also some confusion around that. But even with that, that doesn't change the outlook for the full year for us. And even with that, it doesn't change the full year outlook for the expected revenues for Public Safety LTE in 2015.

But clearly in the U.S., it will be longer to develop as FirstNet ultimately decides on the network architecture. How the network is built. Can they do spectrum sharing, and how do they monetize the spectrum. What's the business model and use case. But in the meantime, we're focused on Los Angeles here in the States and the other two deployments and then attaching devices, and multiyear services to both of those customers.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: So, you mentioned FirstNet in the U.S. That's a big change for your industry where – for Public Safety LTE the way things are set up today mean that there will be more of like a federal level in terms of decision-making, in terms of deciding architectures, in terms of procurements, probably as well. So if you could maybe take us through very quickly the history, how FirstNet came to existence? What's their role? And how do you think it's going to impact the way you'll go-to-market, the way you relate to your clients, maybe also the strengths of your position in your market in the U.S.?

**<A – Greg Brown – Motorola Solutions, Inc.>**: So, a couple of things. So, FirstNet was kind of created with the legislation in 2012, the Middle Class Jobs Relief Act. And on the positive side, the legislation dedicates spectrum for public safety. 20 megahertz beachfront property in the 700 megahertz band. So spectrum is dedicated. A standard has been defined, LTE and again this is for data and video. And funding was set aside, \$7 billion, of which the first \$2 billion was freed up and triggered vis-à-vis the auction spectrum more recently; so funding, spectrum, standards. Those are all positive and where we play best is where spectrum is dedicated to public safety. It's the reason why cellular networks don't work

among other reasons for the provisioning of public safety. There are 11 or 12 countries right now, Brazil, Chile, Korea, obviously the United States, Canada where spectrum has been dedicated.

We have spent – the reason we feel confident about this is, think of in our radio business, in our LMR mission-critical voice business, we talked about the R&D spend and what we do on end-to-end systems. We've spent over \$300 million in the last five years building an end-to-end infrastructure device portfolio in anticipation of Public Safety LTE. So I don't think anybody has the product portfolio or the R&D spend that we have in combination with the go-to-market resources locally, municipal, county, and state deployed.

So, between the go-to-market, the expertise, the patent portfolio, and what we've spent, we're very well poised to build out these three networks and to add devices to them and differentiate why Motorola Solutions is unparalleled in this category, and we feel very good about that. It has taken longer than we anticipated for sure in the United States.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>:** In terms of competitive landscape...and also the technology, how is that changing your competition?

**<A – Greg Brown – Motorola Solutions, Inc.>:** So, I think it's TBD. How the network is designed, one network versus many. How it's procured. Is the spectrum shared and monetized. If it is, with who. It's very hard to distinguish and decipher. The way I would say it, Pierre, is irrespective of what comes out of FirstNet, one model or the other, I think we're very well-positioned. We're very well-positioned with go-to-market. So, of course, we have a federal sales team as well, as well as the locally deployed people on the ground, and we're very well-positioned in terms of product portfolio. So, this is the business we know very well. So, we think we're in the best position.

On the competitive dynamics, it's too early to tell. We have partnered with Ericsson, and I think we're three or four years in to a multiyear, decade-long partnership Hans Christensen, the CEO of Ericsson, and I struck a few years ago. I think they have the best-in-class wireless network infrastructure. And where we roam on a network from a private network, public safety private network, we'll deploy hardened Ericsson eNodeBs because there is no reason for me to be in the business. So, we exited the network infrastructure business.

A few years ago, we sold that business to Rajeev and Nokia Siemens at the time for \$1.1 billion. So let's focus our R&D right in our swim lane, in our power alley, for what no one I don't think can do any better than we can and where we need edge devices for eNodeB for roaming infrastructure, use Ericsson. To dimensionalize it a little bit, in one of the recent awards in the Middle East for Public Safety LTE, the one we just most recently had of the \$220 million life cycle award, probably 15%, 17% of it would be Ericsson content and the rest, Motorola.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>:** Okay. And so, this LTE content, so you have this relationship with Ericsson, is that fair to assume it's an exclusive relationship? And then, I can only think of Nokia and Alcatel-Lucent and Huawei are other players developing LTE technology in terms of infrastructure, so – or maybe Samsung to some extent, and that's about it. So, is there going to be more players doing Public Safety LTE infrastructures and P25 infrastructure or actually less?

**<A – Greg Brown – Motorola Solutions, Inc.>:** I think it remains to be seen. Alcatel-Lucent, I believe is partnered with Harris, which was a couple of year old partnership. I'm not sure Nokia has a partner, and Huawei doesn't do Public Safety LTE. By the way, neither do the other two. So, I think that – I think it's ambiguous, in terms of what is the competitive partnerships develop to be. I think with our position in public safety, as well as Ericson being the worldwide leader in wireless infrastructure and by the way,

cellular LTE not mission-critical voice-over-LTE, I think we've taken the two best companies in the world and put them together in a very powerful partnership.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: Maybe as a comparison point, how many competitors do you have in P25 infrastructure today?

**<A – Greg Brown – Motorola Solutions, Inc.>**: A handful, I mean...

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: Yes, so very small.

**<A – Greg Brown – Motorola Solutions, Inc.>**: Very small, very small, less. Yes.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: But like in Public Safety LTE, your competitor is going to be Nokia, Alcatel-Lucent, and that's it...

**<A – Greg Brown – Motorola Solutions, Inc.>**: Presumably, it will be one of those folks partnering with somebody else. I'm not sure who would it be.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: And, if they merge together, then there is going to be only one competitor in P25...

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

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: So Harris has its own technology and you have some more as well.

**<A – Greg Brown – Motorola Solutions, Inc.>**: That's right. But I think to your point, it will be – it appears to be a small finite set of competitors.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: Yes.

**<A – Greg Brown – Motorola Solutions, Inc.>**: It's not clear who it is yet...

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: Yes.

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

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: Okay. And so now, a – how does LTE impact you're like traditional land mobile radio business. I think you've described relatively clearly what's Public Safety LTE's aim for today, it's data and video services on top of voice. It's complementary and a lot of observers today are throwing out the idea that over time as it could take over mission-critical voice. And a lot of observers are also throwing out the idea that while all these organizations are actually focused on Public Safety LTE and making the spending there, they will probably lower their spending in – on their traditional infrastructure.

So from what you said earlier, so far, it's exactly the opposite which is happening. But, if you could explain maybe why do we see when an LTE network is being rolled-out actually an upgrade of the LMR network, and how do you see the two co-existing? And what are like the most important technical and economic reasons why Public Safety LTE will probably, on a reasonable time horizon, never overtake or replace an LMR infrastructure?

**<A – Greg Brown – Motorola Solutions, Inc.>**: It's a great question and it's a mystery to me why some of the misinformation remains, but there's a couple of proof points. And I think the best way is to think about it are – I don't see, I don't see LTE cannibalizing, substituting, or replacing land mobile radio. That's statement number one. Commensurately, therefore, Public Safety LTE is an additive to LMR. The proof points would be in the three largest awards in the country that I referenced earlier, they're deploying capital as we speak to both.

Number two, companies that are buying land mobile radio products and systems often do that with 5, 7, 10, 12-year, in some cases, 15-year maintenance of contracts that they're committing to with us. If there was a belief by some, by any of these customers that they didn't think that platform would have that longevity, I don't think they would deploy that capital and they certainly wouldn't commit to that multiyear annuity services revenue.

Third, again, a – so think of it this way, too. If you look at first responders in the United States, they typically have two devices: they have the radio on their belt, his or her belt; and they have a second device, a smartphone. What I'm talking about and what we're talking about, Pierre, is Public Safety LTE replacing the second device, not the radio. And even though you do "voice-over-LTE," mission-critical voice is entirely different. It's preemption versus prioritization. It's capacity, coverage, encryption, hardening. These are private networks, always on, reliable, and are designed for peak. So, if everybody pushes that magical button, you're instantly on and available to everybody. I mean, literally, milliseconds are life and death. You wouldn't use a cellular network to provision public safety.

If – could you build it, if you built it, think about every site, all of the hardening, all of the devices that would need band class 14 and 15. They would need cellular and private. They would need to roam Verizon and T-Mobile and AT&T and Sprint. You'd have a device half the size of this coffee table. So, the – and by the way, in a private network, in a public safety network, usage is zero.

Today in the United States, about 3 billion of usage on a Blackberry or an Android device or an Apple iPhone, is the opportunity for us to go pursue with second devices in addition to the radio. So, our customers are the best proof point, and they're deploying LTE right now, the ones that are in addition to land mobile radio.

The second proof point is the multiyear maintenance contracts domestically and internationally. And then, if you think about a first responder, they're not – you think a firefighter is going to go into a burning building with a Samsung Galaxy S or an iPhone? They're not. They're not for many reasons: the ergonomics, the design, the power, the wattage, the latency, the security, the encryption, and all the network elements. By the way, in the standards body, 3GPP standards, carriers are using Release 9 or Release 10, mission-critical voice, not what something that's called mission-critical but true mission-critical. In public safety, you can – you lose a site. It could be – you could have a catastrophic site collapse, and you could still do peer-to-peer emergency communications. You can't do that in a cellular network.

So economic, technical, standards, latency, security, encryption, device, ergonomics, power, you layer all these on and it's not there. So, I think part of the confusion is some of our competitors have said that LTE is chilling LMR. I absolutely don't believe that to be the case. That might be a convenient explanation for them, but we haven't seen one indication of that to be true. And I don't anticipate seeing any in the future either. So it is what it is. I think that there are people with different agendas to say certain things; I get it. We'll continue to demonstrate with building backlog, growing in North America, expanding our device portfolio, and then marrying interoperable end-to-end mission-critical public safety networks with interoperable broadband video and data. And the proof will be in the pudding.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: That's great. And maybe one last quick question on the LTE and voice-over-LTE. So you made very recently an acquisition, WAVE technology. So, there is something here but using LTE for voice, so can you explain...

**<A – Greg Brown – Motorola Solutions, Inc.>**: So WAVE technology basically, is a client that goes on a smartphone, that extends a land mobile radio network. So where we've sold it – it's a good acquisition through Twisted Pair, by the way, the CEO of that company is running our software business, Tom Guthrie. So, he's been another leadership change, an addition that's been positive.

But in the two cases that come to mind, General Motors and Toyota. So think about a plant manager that is operating an automotive plant using land mobile radio technology, and he or she may go home, but want to stay connected to the plant. They may not bring their radio because they're going to not bring their radio home where they don't have the coverage. You could put a push-to-talk client on the smartphone. It could be provisioned over Wi-Fi, 3G, or 4G and basically extend the coverage, if you will, over broadband to have a push-to-talk client connect back in to the LMR network. So that's a positive trend. I think it expands the reach of LMR. We love the acquisition, and we'll see continued deployment in commercial markets and other verticals.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: That's great. We are coming to the end of time and there are a couple of questions I haven't addressed on, going to try and rub them...

**<A – Greg Brown – Motorola Solutions, Inc.>**: Go ahead. Rapid fire if you want to fire away.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>**: Exactly. So, you've mentioned a lot of changes in your operations. The business is better today. If you could give us some, like, very like tangible examples of how the business is changing?

**<A – Greg Brown – Motorola Solutions, Inc.>**: Sure. So we've got Jack Molloy, new leader in North America. Iain Clarke just moved to Singapore a couple of months ago, and we've rebuilt the new leadership team in Asia. If I go back to when we split Motorola, 45 of our 72 Vice Presidents are newly promoted to VP. A third coming in from the outside, treasury, software, services, finance, HR, and other areas; two-thirds promoted from within as we refresh the leadership team with much better discipline and analytical rigor around these businesses remaining new MSI with monetizing and selling the enterprise business to Zebra.

We have the opportunity to rebuild fresh, much more competitive IT systems in a project called Project Greenfield. We just went – the entire company just went – left Microsoft Outlook and Office and went Google, another good cultural change. We're simplifying the business. You'll see us continue to take cost out. We're rationalizing what we do and don't do. It's a tough time, but it's an exciting time and we're literally living the transformation of the company to the next generation of what the new Motorola Solutions will be in strategy, size, culture, and financial performance. And I'm generally pleased with it, but we can always do more.

**Pierre C. Ferragu, Analyst, Sanford C. Bernstein & Co. LLC**

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And I think it's a great conclusion. Thank you...

**Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.**

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Thanks, Pierre.

**Pierre C. Ferragu, Analyst, Sanford C. Bernstein & Co. LLC**

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...very much for your time.

**Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.**

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Thanks for your invitation.