MOTOROLA SOLUTIONS

Q1 2017 Earnings Conference Call
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PARTICIPANTS

Motorola Solutions Executive Participants

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

Other Participants

Pierre C. Ferragu – Analyst, Sanford C. Bernstein & Co., LLC
Matthew Cabral – Analyst, Goldman Sachs & Co.
Kyle McNealy – Associate Analyst, Jefferies, LLC
Timothy Patrick Long – Analyst, BMO Capital Markets (United States)
Tavis C. McCourt – Analyst, Raymond James & Associates, Inc.
Keith Housum – Analyst, Northcoast Research Partners, LLC
Stanley Kovler – Analyst, Citigroup Global Markets, Inc.
Ashwin X. Kesireddy – Associate Analyst, JPMorgan Securities, LLC
Brian Yun – Associate Analyst, Deutsche Bank Securities, Inc.
Ben J. Bollin – Analyst, Cleveland Research Co., LLC
Andrew C. Spinola – Analyst, Wells Fargo Securities, LLC
Andrew DeGasperi – Analyst, Macquarie Capital (USA), Inc.
Gopal Mehta – Associate Analyst, Cowen & Co., LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for holding. Welcome to the Motorola Solutions First Quarter 2017 Earnings Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time.

The presentation material and additional financial tables are currently posted on the Motorola Solutions Investor Relations website. In addition, a replay of this call will be available approximately three hours after the conclusion of this call over the Internet. The website address is www.motorolasolutions.com/investor. At this time, all participants have been placed in a listen-only mode and the line will be opened for your questions following the presentation.

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

Chris Kutsor, Vice President of Investor Relations, Motorola Solutions, Inc.

Thank you, and good afternoon. Welcome to our 2017 first quarter earnings call.

With me today are Greg Brown, Chairman and CEO; Gino Bonanotte, Executive Vice President and CFO; Bruce Brda, Executive Vice President, Products and Services; and Jack Molloy, Executive Vice President, Worldwide Sales. Greg and Gino will review our results along with commentary, and Bruce and Jack will join us 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. A number of forward-looking statements will be made during this presentation and during the Q&A portion of the call. These statements are based on current expectations and assumptions that are subject to a variety of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Information about factors that could cause such differences can be found in today's earnings news release and the comments made during this conference call in the Risk Factors section of our 2016 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.

I'll now turn it over to Greg.

Greg Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

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

Look, first, Q1 was a strong quarter and an excellent start to the year. We grew revenue 7%; ended the quarter with record backlog; we significantly expanded operating margins; we grew earnings; and we generated much higher cash flow.

Second, I'm very pleased with our continued progress in Services. Our operational execution was strong, the Services segment growing double-digit this quarter including acquisitions, and we also acquired Interexport in Chile, adding a valuable managed services hub in Latin America.

From a software perspective, we announced the planned acquisition of Kodiak Networks and hired Andrew Sinclair, a seasoned software executive, to lead our software efforts. Acquiring the Interexport and Kodiak assets demonstrate our continued commitment towards more recurring software and services revenue.

And finally, we're thrilled to be part of the winning FirstNet team with AT&T. Our investments and innovation in public safety LTE include offerings of mobile applications, services, critically important LMR and LTE interoperability as well as next-generation devices. This FirstNet opportunity further validates our competitive position for both LMR and public safety LTE going forward.

I'll now turn the call over to Gino to provide additional details on Q1 results and outlook before returning to provide some closing thoughts.

Gino Bonanotte, Executive Vice President & Chief Financial Officer, Motorola Solutions, Inc.

Thank you, Greg. Q1 results include revenue of $1.3 billion, up 7% from last year. Excluding Airwave, revenue grew 3%. GAAP operating earnings of $176 million, up 76% from last year. Non-GAAP operating earnings were $224 million or 17.5% of sales, an increase of 360 basis points from the year-ago quarter. GAAP earnings per share from continuing operations were $0.45 compared to $0.10 in the first quarter of 2016. Non-GAAP EPS was $0.71 versus $0.52 in the year-ago quarter, a 37% year-over-year increase.

Ending backlog is up $129 million from last year. Product backlog is up $285 million. Services backlog is down $156 million driven by a $650 million reduction of Airwave backlog over the past 12 months.

For the remainder of the call, we'll reference non-GAAP financial results including those in our outlook, unless otherwise noted.

Q1 product sales were $703 million, up $1 million from last year. Q1 Products segment operating income was $101 million or 14.4% of sales, up 240 basis points from last year, driven by improved gross margin and lower OpEx. Products segment backlog ended the quarter at $1.6 billion, an increase of 22% or $285 million from last year, driven by North America. Sequentially, product backlog increased $38 million, marking the fifth consecutive quarter of sequential backlog growth.

Q1 Services revenue was $578 million, up 18%. Excluding Airwave, Managed and Support Services, grew 8%. Services operating income was $123 million, up $41 million from the prior year.

Operating margins were 21.3%, an increase of 470 basis points from last year, driven by higher sales and gross margin. Services backlog ended at $6.9 billion, down $156 million from last year, driven by $650 million of Airwave backlog reduction. Sequentially, Services backlog is up $61 million driven primarily by the acquisition of Interexport.

Moving to operating expenses. Total OpEx was $352 million, a decrease of $3 million from the year-ago quarter. Q1 2017 included an incremental $10 million of operating expenses related to acquisitions. Other income and expense was $59 million compared to $42 million last year.

Net interest expense was $51 million compared to $49 million a year ago. The Q1 effective tax rate was 26%.

Q1 operating cash flow was $142 million, an increase of $129 million, driven by higher earnings and a $52 million legal settlement. Free cash flow was $74 million, an increase of $112 million from last year.

We ended Q1 with cash of $829 million and net debt of $3.6 billion. During the quarter, we repurchased $178 million of stock at an average price of $80.82, paid $77 million of dividends and invested $55 million of cash in acquisitions.

Turning to our outlook. We expect Q2 sales to be up 2% to 3%, including approximately $25 million of FX headwind, primarily driven by the British pound. We expect Q2 non-GAAP EPS between $0.98 and $1.03, including $0.05 of Airwave currency headwinds. Inclusive of Q1 results, the first half of 2017 is slightly above our prior expectations.

We now expect full year 2017 sales to be at the high end of our prior range at approximately 2%, and we are raising non GAAP EPS to be in the range of $5.08 to $5.23.

Looking at regional results. America's revenue grew 3% driven by strong demand for services in both North America and Latin America. Backlog is up in both Products and Services versus last year and up sequentially, as customers continue to invest in LMR systems.

EMEA revenue increased 27%, including $58 million of incremental Airwave revenue for the full quarter. Excluding Airwave, EMEA was up 2% with growth in both Products and Services. Asia Pac was flat versus last year, with Australia continuing to be an area of strength for some of our most advanced public safety solutions.

Finally, I'll end with some notable segment highlights. In our product segment, we launched WAVE OnCloud, a new subscription-based SaaS version of our WAVE solution that makes it simple to deploy, maintain and improve workgroup communications. WAVE OnCloud customers can integrate their radio systems with broadband networks, extending their reach to mobile users across various devices and networks.

Additionally, we announced the acquisition of Kodiak Networks, a leading provider of broadband push-to-talk for commercial customers, which adds a carrier-integrated push-to-talk solution for mobile operators around the world.

We also won several notable deals that included an $80 million award from a country in Europe to upgrade and manage its nationwide TETRA network, a $34 million reward to upgrade an existing P25 network in Northern California, and two P25 wins in Argentina totaling $10 million.

In our Services segment, we acquired Interexport, a provider of managed services for communication systems to public safety and commercial users in Chile. Similar to our Airwave business, Interexport helps us deliver on our strategy to drive growth in our Managed and Support Services business. We also grew double digits in our Command Center software business, driven by the demand for our Spillman, Emergency CallWorks and PremierOne solutions.

Finally, building on our Managed Services business in Australia, we signed a significant multi-year managed services contract with the Victoria Police. This contract will allow us to administer a full spectrum of solutions including hardware, software and purpose-built applications on multiple networks.

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

Greg Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thanks, Gino, and let me just close with a few brief thoughts.

Q1 was a strong start to the year on both the top and bottom lines. We grew in the Americas and in Europe. We grew organically. We grew earnings, demonstrating our significant operating leverage and we also continue to invest in new services and software that leverage the global installed base of our durable core land mobile radios business.

Second, I'm especially pleased with our public safety LTE position going forward. In addition to being part of the FirstNet award, we've also won all four of the largest global public safety LTE awards to-date. Our commitment and investment to public safety has positioned us well.

And in closing, I'm very pleased with our Q1 performance. I like the strength of our competitive position, and I'm encouraged by our momentum going forward.

I'll now turn the call back over to Chris.

Chris Kutsor, Vice President of Investor Relations, Motorola Solutions, Inc.

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: Of course. [Operator Instructions] Our first question is coming from Pierre Ferragu with Bernstein. Please go ahead. Your line is open.

<Q – Pierre Ferragu – Sanford C. Bernstein & Co., LLC>: Hi. Thank you for taking my question. I was intrigued to hear your recent hire of Andrew Sinclair. Now you're talking about your WAVE OnCloud announcement and the Kodiak acquisition. It seems like the next-generation public safety we've been talking about over the last couple of years is becoming more tangible. Could you give us a sense of how big it is today in your business and when we will start seeing material revenues and material composition to growth coming from these new businesses, so interfacing public safety with mobile broadband and software solutions. And I have a quick follow-up on growth in Services.

<A – Greg Brown – Motorola Solutions, Inc.>: Sure. Well, look, we're especially pleased to hire Andrew from Skype, a seasoned executive. I think it's the next logical step for us as we formulate and shape a more cogent and significant software enterprise.

I think, Pierre, embedded to your question is both software and services, and are pushed toward more recurring revenues in both software and services. Exiting last year, the recurring revenues in software and services were slightly higher than 25%. It would be our desire to finish this year with something north of that. I think you see us continuing to march forward on purposeful software acquisitions, whether it be in the Command Center with Software-as-a-Service with Spillman and Emergency CallWorks, or whether it's on the managed services side, both with Airwave a year ago and now Interexport in Chile. I think we will continue our march forward on more innovation, more software and services centricity and a greater percentage of our revenues over time being more recurring.

<Q – Pierre Ferragu – Sanford C. Bernstein & Co., LLC>: Thanks, Greg. And quickly on Services. So, in the quarter, year on year, you bagged in about like $30 million of extra Services revenue, if I exclude Airwave of course. And I was wondering how much of that was actually contributed by like your recent acquisition, like you mentioned Interexport. And then just wanted to confirm like essentially this growth is coming from managed services contract mostly and not other types of services.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yes, Pierre. This is Gino. Managed services did grow year-over-year, as we said, excluding Airwave, up 8%. If we exclude Spillman and Interexport, managed and support services grew 4% in the quarter.

<Q – Pierre Ferragu – Sanford C. Bernstein & Co., LLC>: Excellent. Thank you very much.

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

Operator: We'll take our next question from Matt Cabral with Goldman Sachs. Please go ahead. Your line is open.

<Q – Matt Cabral – Goldman Sachs & Co.>: Yeah. Thank you. Just wanted to dig into your guidance for Q2. I guess revenue is up low single-digits year-over-year, but EPS is flat to down a little bit versus last year. So, I'm just curious what's driving the disconnect between the two and how we should think about the cadence of expenses as we go throughout the rest of 2017?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Sure, Matt. This is Gino. So, in Q2, we mentioned in the prepared comments that part of it is the FX impact year-over-year of Airwave. We also have a project mix within Q2 versus the prior year. The headwinds in gross margin in Q2 are temporary. The Airwave-related FX impact diminishes in Q3 and Q4. And with respect to expenses, we continue to expect OpEx to be down year-over-year. On the last call, we guided to approximately $20 million to $25 million. Now our expectation with the addition of the acquisition OpEx is for OpEx to be down about $10 million to $15 million for the full year.

<A – Greg Brown – Motorola Solutions, Inc.>: So, Matt, in Q2, our 2% to 3% revenue guidance in constant currency is 4% to 5%, and the pound difference on the EPS line is worth $0.05. The last thing I'd just point to is the comment Gino made earlier that even with that, our first half, taking into account Q1 results and our guidance for Q2 today is slightly above the expectations that we had for the first half of the year on the last call.

<Q – Matt Cabral – Goldman Sachs & Co.>: Got it. And then just on FirstNet, good to see Motorola officially now part of the contract. Just curious if you can give us a little bit more color on your role there, and just any dimensions of how to think about the size and timing of the opportunity going forward.

<A – Greg Brown – Motorola Solutions, Inc.>: Well, first of all, we're thrilled to be on the winning team with AT&T. We've worked with them extensively for the last several quarters, well in excess of a year. I'll remind you that it took a long time. The middle-class jobs relief act was passed five years ago. And I do complement the people at FirstNet and the team and Sue Swenson, because they did a hell of a job in a very complex thing to bring this to award.

We're excited because this opportunity is all incremental to our core business. When we look at what it could include, it could include software and mobile applications. It could include services. I think the most critical piece will be the interoperability with the FirstNet network to interconnect and interoperate with our installed base of land mobile radio systems throughout the U.S. And it could include next-generation devices. We don't have any revenue in 2017. We haven't loaded any in 2018 yet. I think it's a bit too early, and it would be too early to guide or speculate. But we're thrilled to be working with AT&T, and obviously we will work more closely than ever with them going forward.

<Q – Matt Cabral – Goldman Sachs & Co.>: Thank you.

Operator: We'll take our next question from George Notter with Jefferies. Please go ahead. Your line is open.

<Q>: Kyle McNealy – Jefferies, LLC>: Hi. This is Kyle in for George. I just wanted to dig in on gross margin a little bit further, particularly for the second quarter. I mean, you were higher this quarter, maybe indicating a bit lower for next quarter. I'm wondering if there's any projects that kind of shifted one quarter to the next. And then, I guess, also how much of it is implied to be a mix shift towards Services and other impacts like that? Thanks.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah, Kyle, this is Gino. The first thing we should articulate is that our expectation of gross margin for the year has not changed. And the Q2, as we described it as specific to Q2, there is no underlying trend and no change in expectation for full year margins.

<Q>: Kyle McNealy – Jefferies, LLC>: Okay. Thanks. And I guess one other point on that. I mean, you've had some larger projects over the past two years, LA-RICS, Nødnett in Norway. I wonder if you could add some color on potential device opportunities into those networks and how that may impact your product segment and margins going forward.

<A – Jack Molloy – Motorola Solutions, Inc.>: Hey, Kyle. It's Jack Molloy. So, with respect to Nødnett and LA-RICS, we have been obviously selling them devices in an ongoing manner. I will tell you just in general, as we look at North America and rest of world, our device business continues to remain very solid. And I think that's a key point.

We've invested from a go to market perspective in sales analytics. So, we've a real good sense of where legacy equipment is, and we've done a really good job in terms of analytics and getting after our legacy customer base as well as a competitive customer base to move them to APX in terms of ASTRO our next-generation TETRA devices in Europe and Asia.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. I think it's worth mentioning too. Molloy and his team had done a good job not only on devices, but in product in general, we mentioned backlog being at a record level. It's also worth noting Product backlog is up again and Product backlog is sitting at the highest level it's been in over four years. So, team executing well in addition to the strong Services growth.

<Q>: Kyle McNealy – Jefferies, LLC>: Great. And one last thing for me. With your Interexport acquisition, I'm just wondering how much revenue from that is implied in your guidance for Q2 and full year?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yes. This is Gino again, Kyle. The impact of Interexport is approximately $50 million for the full year and the non-GAAP EPS impact is approximately $0.03 for 2017.

<Q>: Kyle McNealy – Jefferies, LLC>: Okay. Great. That's it from me. Thanks, guys.

Operator: Thank you. We'll take our next question from Tim Long with BMO Capital Markets. Please go ahead. Your line is open.

<Q – Tim Long – BMO Capital Markets (United States)>: Thank you. Could you talk a little bit about what's going on in the UK? It sounds like there might have been yet more push-outs to ESN. Could you just talk a little bit about what that means for both that contract as well as the Airwave deal? So, how should we think about the way those two interact and transpire over the next few years? And then I have a follow-up after that.

<A – Bruce Brda – Motorola Solutions, Inc.>: Sure, Tim. This is Bruce Brda. Thanks for the question. Let me start by saying, we continue to hit the deliverables we have for software applications, the build-out at data centers. And in that process, we're leveraging a lot of the expertise in physical assets we acquired with the Airwave acquisition.

As you know, the Public Accounts Committee did a review, actually two reviews, two reports on the Airwave to ESN transition. And following the first report, the transition date, start of transition was moved from September of 2017 to mid-2018. The other piece of news that I would highlight is, Vodafone network that provides core ring connectivity between the cores within the Airwave network is being shutdown. At the end of Q1 2020, we're working with the Home Office to determine if there will be a gap between that time and ESN. And we're confident we can create a solution to provide longevity to the Airwave network for as long as UK Home Office needs it.

<Q – Tim Long – BMO Capital Markets (United States)>: Okay. Thank you. Then just a follow-up on FirstNet. Greg, could you talk a little bit about still a lot of questions out there about the impact that as the public safety LTE ramps and FirstNet ramps, the impact that'll have on the LMR business in the U.S. Could you just talk a little bit about the areas where you think it's fully additive and the areas where there might be some cannibalization risk, particularly on the device side? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: I think I view FirstNet as additive period for quite a long time. It's a data and video network for interoperable broadband that will interface with our narrowband mission-critical communications voice network. I think the big differences between a private network and a cellular network are things around coverage and capacity, cost and coverage. There's hardened encryption. There's so many different things that go into making a private, always on, reliable, secure, purpose-built network along with the devices that are very unique for the value proposition of public safety versus a FirstNet or a cellular type network.

I think on devices, I see a scenario where people will wear two devices on their belt, a mission-critical communications radio and a next-generation device. We're well positioned to do that. To the extent, to your point, that may evolve over time because today every first responder in the U.S. or just about everyone, police officer, and they have two devices today. They have a radio for mission-critical communications voice and they have a smartphone over a carrier network that provisions 4G broadband today.

We see that scenario replicating, in which case, that second new device is greenfield opportunity for us. If those devices merge over time and at some point in the future, we're better positioned than anybody given the domain expertise, the latency and the demand requirements around public safety to provide the integrated device. But if that happens, I see that is a long way off. So, FirstNet we see as purely incremental, Tim.

<Q – Tim Long – BMO Capital Markets (United States)>: Okay. All right. Thanks a lot. Good luck the next two days guys.

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

Operator: And we'll take our next question from Tavis McCourt with Raymond James. Please go ahead. Your line is open.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Hey, guys. Thanks for taking my questions. So, I just want to make sure I kind of understand all the puts and takes in this year. So, if I think about the guidance of up 2% that's about $120 million year-over-year. Spillman adds $50 million, Interexport adds $50 million, Airwave adds a bit. There's probably some foreign currency around the margins. So, generally kind of flattish organically. Am I missing any kind of big picture items there in that analysis?

Secondly, is Kodiak in the guidance right now? And can you talk about the materiality or lack thereof of Kodiak?

And then Gino, I forget if you gave a free cash flow guidance for the year. Obviously, Q1 was up significantly year-over-year. Maybe talk about what you expect for free cash flow in Q2 or for the full year. Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: So, Tavis, as it relates to Kodiak, it's not contemplated in the guidance. Having said that, we expect it to close Q3, Q4 and it is immaterial either way in its revenue contribution this year. I think the approximately 2% annual revenue guidance that we're providing I would consider measured and prudent. We still expect organic growth for the full year, but it's very important for us to continue the drumbeat of meet or beat quarter after quarter. So, I think that's incorporated into the full year guidance outlook.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: And Tavis, with respect to operating cash flow, the guidance for the full year was approximately $1.225 billion. We continue to expect that to be our operating cash flow number for the full year. We don't give forward guidance on the quarters as that moves around a little bit, but we continue to expect $1.225 billion for the full year.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Great. And a quick follow-up, Greg, I feel like I have a good sense of what's driving Services backlog, but on Product backlog, is that primarily infrastructure or devices or both? And what types of contracts do you end up generating meaningful Product backlog from?

<A – Greg Brown – Motorola Solutions, Inc.>: I think the product backlog is up primarily driven by devices. We've had one of our best quarters ever. In fact, I think it was our largest device quarter ever in Q4 of 2016. So, the execution by Molloy's team worldwide on devices remain strong.

Having said that, it's worth noting that networks and systems provide the catalyst for driving multi-year managed and support services growth for the long-term. So, I think our device execution has been strong. But as we sell more networks, that's really the catalyst and the foundational bedrock to provide multi-year managed and support services growth as well, and I think the team is doing a good job on both right now.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Right. Thanks very much.

Operator: We'll take our next question from Keith Housum with Northcoast Research. Please go ahead. Your line is open.

<Q – Keith Housum – Northcoast Research Partners, LLC>: Great. Thanks for taking my question. Question for you regarding FirstNet, if you could drill down a little bit further. So, do we think about the services that Motorola provide at FirstNet would be similar to what is being done… doing for the ESN?

<A – Bruce Brda– Motorola Solutions, Inc.>: In terms of the content that we could provide, I think it would be similar, software and applications and some services as well. I would also point out, as Greg mentioned earlier, interoperability between LTE and LMR is a major opportunity that is in place in the UK and we would expect to be in place in North America as well. On top of that, devices would be another area that we would expect to enjoy some business as FirstNet gets up and rolling.

<Q – Keith Housum – Northcoast Research Partners, LLC>: So, you guys are saying, "could". Is it because the contracts haven't been defined yet exactly in terms of what exactly we are doing?

<A – Greg Brown– Motorola Solutions, Inc.>: I think we're continuing to work closely with AT&T, and quite frankly, we're finalizing the individual buckets and the opportunities around each one.

<Q – Keith Housum – Northcoast Research Partners, LLC>: Okay. Got it. And then like AT&T are talking about opening up their bands to the agencies as soon as the states choose to opt in or opt out, or actually to opt in, obviously. I imagine that's not going to be a criteria for you, but it's more when the network's ready, years down the road, correct?

<A – Bruce Brda – Motorola Solutions, Inc.>: I'm not sure if I understood the question. We can provide content independent of the band that the carrier makes available to public safety. I'm not sure if I answered your question, Keith.

<Q – Keith Housum – Northcoast Research Partners, LLC>: Well, they're talking about, if state opts in by the end of the year that agencies will start using their services immediately. But to me, I understand it to be separate from when the FirstNet network is up and ready. Are these distinct events?

<A – Bruce Brda – Motorola Solutions, Inc.>: So, when the service is launched, AT&T will not have deployed Band Class 14. And they can put to use all of their consumer bands that exist today. Later, and over time, they'll build out Band Class 14 nationwide and then that band will additionally be used by public safety, additionally and primarily used by public safety, but they will have the ability to offer all bands available today to public safety as soon as the FirstNet service is launched.

<Q – Keith Housum – Northcoast Research Partners, LLC>: Okay. Great. Thanks.

Operator: We'll take our next question from Stanley Kovler with Citi Research. Please go ahead. Your line is open.

<Q – Stan Kovler – Citigroup Global Markets, Inc.>: Thank you very much. I just wanted to ask a little bit more on M&A. Could you help us understand how you're prioritizing and thinking about cash return versus M&A outside of the large acquisition that you made last year? It seems like there's been a concerted effort on some software services types of deals. Can we expect maybe an acceleration of that going forward?

And then on the most recent one that you did, Kodiak, they've worked quite a bit with AT&T on push-to-talk over cellular. So, how does it fit into your WAVE portfolio? And how should we think about that segment of the business evolving? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: From a Kodiak perspective, we've actually been thinking about this and working on it for a long period of time. Quite frankly, with having nothing to do and out of the context of FirstNet. WAVE is our current lead solution for broadband push-to-talk. Kodiak gives us a carrier-integrated, carrier-centric solution for push-to-talk over cellular for commercial customers.

Your other question was around, what was it again?

<Q – Stan Kovler – Citigroup Global Markets, Inc.>: M&A.

<A – Greg Brown – Motorola Solutions, Inc.>: M&A, I don't think anything has changed. We continue to march forward with a prioritization around software and services as we've talked about, Command Center software, managed and support services, things and areas that reinforce our platform and solution orientation. Our capital allocation framework hasn't changed.

So, I think we talked about 600 million for the full year being fungible and available for either share repurchase or M&A that we found attractive or accretive. I don't think that's changed. We did purchase $178 million of shares in Q1 at a price of $80.82 because we thought that was the sound use of capital. So, I think we continually think in terms of capital return to the shareholder as well as M&A, and we'll look to optimize that every quarter going forward.

<Q – Stan Kovler – Citigroup Global Markets, Inc.>: Thanks. And if I can just follow-up on your Product revenue growth. Last quarter, in December, you had a very significant increase in Product revenue growth year-over-year. How should we think about the growth in Products for the balance of 2017 and what the outlook is there? Thank you.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: So, there is really no change in our outlook for 2017. Again, strong backlog, strong order performance in Q1, and very solid aging for the remainder of the year versus last year. Q1 was relatively flat in Products, following Q4 at 9% growth. So, we continue to see healthy demand across all our Product categories, and really confirms the durability and longevity of LMR. That, in addition with our Services backlog, multiple year 10 to 15-year service contracts again confirm the durability of LMR.

<Q – Stan Kovler – Citigroup Global Markets, Inc.>: Thank you.

Operator: We'll take our next question from Rod Hall with JPMorgan. Your line is open. Please go ahead.

<Q – Ashwin Kesireddy – JPMorgan Securities, LLC>: Yeah. Hi. Thanks for taking my question. This is Ashwin filling in for Rod. I guess my first question is for Greg. I was wondering if you could comment on the visibility in the U.S. fiber business here. It appears like engagement levels are strong there. Can you comment on the level of visibility and any update on your U.S. growth expectations?

And my next question is on, going back to the discussion around FirstNet, it sounds like AT&T is signaling that they could start some network deployments by the end of this year maybe ramp up next year. So, when we think about opportunity for MSI, what potential lack could MSI see in some of the revenues flowing through?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. In terms of the second one first, I mean I don't want to speak for AT&T, they're the prime contractor. They'll take the lead and the pace and scope that they end up rolling out and delivering is really their decision working with the individual states. As I mentioned, we don't expect anything this year. Nothing is built into next year at the moment. I think it's steady as she goes and we have to evaluate all the activities and what ultimately happens and gets decided between now and the end of the year, how that maps into activity for 2018.

In terms of visibility, our aged backlog is higher at this point for the balance of the year than it was a year ago. I think that we've got pretty good visibility into the business. We worked with a six-quarter rolling forecast with Jack Molloy and all the field general managers. As it relates to demand in the U.S., the Americas in Q1 grew 3%. North America was 2% of that. If you were to dimensionalize the U.S. Federal business as a segment within North America, we expect it to be comparable this year over last year about $500 million, but I think the business is performing in a more balanced way, and we grew in every region in Q1. Asia Pac was flat, but we have growth in the others and it is conceivable all theatres can grow for the balance of 2017. So it's more balanced, and that's embedded in the guidance we provided.

<Q – Ashwin Kesireddy – JPMorgan Securities, LLC>: Okay, great. And Gino, I guess, could you comment on the integration services a little bit? Looks like it did grow in this quarter. Any comments there?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: On integration services specifically or managed and support services?

<Q – Ashwin Kesireddy – JPMorgan Securities, LLC>: Yeah, integration services.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Really no comment on integration services. That matches infrastructure deployments, and it kind of goes along with infrastructure deployments but no specific comments on integration services. Clearly, we're very pleased with the continued performance in managed and support services, continuing to grow mid-single digits recurring revenue, but no real commentary. Nothing really to comment on in Q1 with respect to systems integration.

<Q – Ashwin Kesireddy – JPMorgan Securities, LLC>: Great. Thank you.

Operator: We'll take our next question from Vijay Bhagavath with Deutsche Bank. Your line is open. Please go ahead.

<Q – Brian Yun – Deutsche Bank Securities, Inc.>: Hi. This is Brian on for Vijay. Thanks for taking the question. Maybe circling back to the question earlier. Could you maybe provide us some first-person demand color on the government end markets? So, maybe what you're hearing from your sales force or IT organizations at like the federal, state, local level in terms of purchasing trends for the rest of this year?

<A – Jack Molloy – Motorola Solutions, Inc.>: Okay. Sure, Brian. Hi, it's Jack. I think we'll start with just to kind of reiterate, Greg just talked about, first of all, I'll start with the federal government. I would say, first of all, as he said it's comparable to 2016, but there are some things that we're hearing from our sales team that could be beneficial. Namely, the supplemental budget that's in play right now includes additional funding for both border security and defense. So, as we think about those from a demand driver, we think that could be beneficial here as we work our way through 2017.

From a state and local perspective, Brian, we've been really pleased with the performance. Really going back to 2015, the performance has been strong. State and local budgets, particularly as they apply to public safety, and that's important because there's a stickiness to public safety funding given the crime patterns that we see throughout the U.S. right now, they remain solid. Spoke to it earlier, device business remains solid as well as infrastructure. And I think the important thing there is, infrastructure as well as the managed and support service that those sales drive. So that's also been good.

The third element, and Greg made reference to it last quarter, is the commercial markets. So, we've increased our hiring of sales head count effective, really early 2015 and that's starting to obviously yield dividends for us and think about that in terms of the utility marketplace, oil and gas marketplace, and most recently we've made incremental hires in terms of transportation logistics and manufacturing. And we've seen both of those markets in the U.S. start to yield PCR like system sales for us. So, all in, if we think about those three elements in North America, the demand drivers look very positive for us.

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

Operator: We'll take our next question from Ben Bollin with Cleveland Research. Your line is open. Please go ahead.

<Q – Ben Bollin – Cleveland Research Co., LLC>: Good evening, everyone. Thanks for taking my question. Greg, I was hoping you could start by talking a little bit about the sources of funding in budgets that are out there for LMR and if you think those same budgets and same sources of funding will be allocated to FirstNet, any risk that they're competing with one another for the same budget dollars? And then I have a follow-up.

<A – Jack Molloy – Motorola Solutions, Inc.>: Hey, Ben. It's Jack. I'll take a swing at this. So, first of all, when you think about state and local budgets and that's really what we're talking about as we start to look to FirstNet, there's two separate funding budgets actually. Typically with state and local with the systems and the devices, those are public safety operational budgets that would be kind of more deemed to be traditionally CapEx budgets, meaning every year they've got a certain amount that they buy radios with. It's not unlike that they have funding to buy Ford Explorers or anything different.

Now if you take a side piece of that, really over the course of the last 5 to 6, maybe 10 years, we've seen funding that's actually gone to fund the operational expense of data devices, and that's really the funding that'll start to come in play. And by the way, it hasn't been just AT&T. So, really AT&T, Verizon, Sprint, and to a smaller extent, T-Mobile, have really competed for that operational expense budget, the cell phone type data devices. Historically, used to be BlackBerries now moving to more iPhone, Android type devices. That budget's resident today. So, I think that budget will be what people look to move on in terms of FirstNet and getting data subscribers.

<Q – Ben Bollin – Cleveland Research Co., LLC>: Okay. And the other question is, I know you hear this a lot, but how do you think about the timing and the issues that need to be resolved for mission-critical voice over LTE to be a realistic displacement risk to LMR at some point in time? Could you talk to what issues have to be resolved, and if you have any thoughts on the timing of when it could be a realistic threat to LMR?

<A – Bruce Brda – Motorola Solutions, Inc.>: Sure. This is Bruce Brda. First of all, push-to-talk over cellular has been around for a long time and you can even go back two decades with Nextel. But with LTE-based service, the capacity has been out there in the network for four, five, six years with most carriers. There are a number of issues, though, with respect to the standards that need to continue to be enhanced to provide true mission-critical support for public safety. One that I would point out is direct mode operation. In most public safety environments at an incident scene, public safety will often switch to a direct mode operation. That doesn't exist in the LTE standards today.

So, as one example, that would need to be solved and that needs to go through standards and then ripple through the ecosystem being built into chips, being built into products and then deployed into the market. So there's quite a long process that needs to take place before you could ever get to true mission-critical public safety grade LTE for push-to-talk services.

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

Operator: And we'll take our next question from Andrew Spinola with Wells Fargo. Please go ahead. Your line is open.

<Q – Andrew Spinola – Wells Fargo Securities, LLC>: Bruce, if I could follow up on that response. Are there other ways to solve the direct mode issue than having to do it through the standards? Is it possible to carry repeaters in cars or certain other ways to solve that problem?

<A – Bruce Brda – Motorola Solutions, Inc.>: Not that have been investigated in the standards process to-date. One way that has been discussed is actually to carry two devices LMR to provide the direct mode but that doesn't really meet the objective of a replacement. It means you're going to continue to use two devices. But we participate in the standards in every aspect of the 3GPP standards especially around mission-critical operation and we're not aware of a great solution for this that will be available in the foreseeable future.

<Q – Andrew Spinola – Wells Fargo Securities, LLC>: Right. I guess what happens to the UK emergency services network? I mean they obviously would have looked at this issue. They have an initial timeframe of end of 2019 to be in service. You mentioned not having mission-critical push-to-talk available, but they're planning on being in production at that point. So, where is the disconnect there?

<A – Greg Brown – Motorola Solutions, Inc.>: I think, Andrew, that's a better question for the customer than for us. Obviously, we provide Airwave today for the 300,000-plus first responders there with 99% coverage. ESN recently, as Bruce mentioned, was delayed nine months. They continue to work through their own targets, their own issues, and quite frankly, their own internal discussions around timing and feature functionality.

In parallel to that, we're meeting all the application requirements and deliverable requirements around what's required for Motorola Solutions to deliver for ESN. So that's really up to them. We're providing Airwave. In parallel, we're meeting the milestones and deliverables for ESN. Ultimately, what they decide and when and how to deploy which or optimize whatever mix, we stand ready to serve them in whatever they determine, but that's their call.

<Q – Andrew Spinola – Wells Fargo Securities, LLC>: Yeah. I appreciate the color. One quick follow-up. Was there any acquisition revenue from the Q3, Q4 acquisitions that were in the Product segment in Q1?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: De minimis, Andrew. Very, very little.

<Q – Andrew Spinola – Wells Fargo Securities, LLC>: Got it.

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

<Q – Andrew Spinola – Wells Fargo Securities, LLC>: All right. Thank you.

Operator: And we'll take our next question from Andrew DeGasperi with Macquarie. Please go ahead. Your line is open.

<Q – Andrew DeGasperi – Macquarie Capital (USA), Inc.>: Thanks. I know most of the questions were answered, but I just had a quick one. On the litigation, just wanted to know if there's any sort of impact to your EPS as far as costs as that ramps up? And then, secondly, maybe can you let us know what your exposure to China is these days? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Well, in the HYT litigation, first of all, it's important to say that we're very confident in our case. We take really seriously the protection of our IP and protection of both the cost and the efforts around our innovation. And quite frankly, the HYT case is pretty compelling and reflects their systematic, egregious and illegal behavior. I'm especially pleased that the ITC formally launched their investigation at the end of April into HYT's unfair trade practices. We think that's appropriate. So, very confident on the merits of our position against that litigation. Yes, there's some incremental costs, but that's incorporated into both the Q2 and full year guidance that we've provided.

<Q – Andrew DeGasperi – Macquarie Capital (USA), Inc.>: And on China?

<A – Greg Brown – Motorola Solutions, Inc.>: China, I think, we expect our revenues in 2017 to be down against full China revenues in 2016, and we'll continue to manage that accordingly. China is about 3% of our revenue. And China has demonstrated a consistent and increasing preference for indigenous providers, which changes the landscape and continues to change the landscape there for us. But I think we've thought about it and we anticipate declining revenue from China that's built into our outlook.

<Q – Andrew DeGasperi – Macquarie Capital (USA), Inc.>: Understood. Thank you.

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

Operator: We'll take our next question from Gopal Mehta with Cowen & Company. Your line is open. Please go ahead.

<Q – Gopal Mehta – Cowen & Co., LLC>: Hey, guys. My question was answered. I'm good. Thank you.

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

Operator: And we have no further questions. I'll turn the floor back to Mr. Chris Kutsor, Vice President of Investor Relations, for any additional or closing remarks.

Chris Kutsor, Vice President of Investor Relations, Motorola Solutions, Inc.

No, I think we're all set. Thanks for your time.

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