



Q2 2017 Earnings Conference Call Thursday, August 3, 2017

PARTICIPANTS

Motorola Solutions Executive Participants

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

Other Participants

Matthew Cabral – Analyst, Goldman Sachs & Co. 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.
Rod Hall – Analyst, JPMorgan Securities LLC
Kulbinder S. Garcha – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Kyle McNealy – Analyst, Jefferies LLC
Andrew C. Spinola – Analyst, Wells Fargo Securities LLC
Ben J. Bollin – Analyst, Cleveland Research Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for holding. Welcome to the Motorola Solutions Second 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, Investor Relations, Motorola Solutions, Inc.

Thank you, and good afternoon. Welcome to our 2017 second quarter earnings call. With me today are Greg Brown, Chairman and CEO; Gino Bonanotte, Executive Vice President and CFO; Bruce Brda, Executive Vice President, Products and Solutions; and Jack Molloy, Executive Vice President, Worldwide Sales and Services. Greg and Gino will review our results along with commentary, and Bruce and Jack will join for Q&A.

We've posted an earnings presentation and news release at motorolasolutions.com/investor, which are intended to supplement this call. 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, in 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 these forward-looking statements.

I'll now turn it over to Greg.

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

Thanks, Chris. Good afternoon and thank you for joining us today. I'll share a few thoughts about the overall business before Gino takes us through the results and outlook. So first, our strong Q2 results. We continued to build momentum in the second quarter, posting revenue growth of 5% and earnings per share growth of 9%. We grew in both Products and Services. We grew organically and we grew backlog, primarily driven by systems demand in North America.

Our land mobile radio business continues to lead the way as both public safety and commercial customers continue to demand "always on" private, secure, resilient and redundant mission-critical voice communications.

Second, our guidance; we're raising our full year guidance for both revenue and earnings per share based on our first half results and ongoing demand visibility. We now expect full-year revenue growth of 3% to 4% with higher earnings per share, as we continue to see strong demand across the globe for land mobile radio products and services.

And finally, our investments in software, we announced our intent to acquire Airbus DS Communications, also known as PlantCML, which strengthens our suite of command center solutions for agencies of all sizes. Our command center software will improve the way our customers operate and provide critical intelligence across public safety workflows, from first responders in the field to operations staff at the command center.

I'll now turn the call over to Gino to provide additional details on our Q2 results and outlook before returning to provide some closing thoughts.

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

Thank you, Greg. Q2 results include revenue of \$1.5 billion, up 5% versus last year. GAAP operating earnings of \$257 million, up 15% from last year. Non-GAAP operating earnings were up \$4 million to \$328 million. Operating margins were down 80 basis points to 21.9%. GAAP earnings per share were \$0.78, up 28% from \$0.61 in the year-ago quarter. Non-GAAP EPS was \$1.12, up 9% from \$1.03 last year.

Ending backlog was \$8.5 billion, up \$265 million from last year. Products backlog was up \$204 million and Services backlog was up \$61 million. Additionally, aged backlog for the remainder of the year is higher than at this point last year. For the remainder of the call, we will refer to non-GAAP financial results, including those in our outlook, unless otherwise noted.

Q2 Product sales were \$848 million, up 6% from last year, driven primarily by the Americas. We saw growth in every region, reflecting significant demand for our P25 LMR systems. Q2 Products segment operating income was \$193 million or 22.8% of sales, up 80 basis points from last year, driven by higher sales and lower OpEx.

Gross margins were down, as expected, on higher system sales as well as inefficiencies associated with implementing our new ERP system during the quarter. For the full year, we continue to expect gross margins to be comparable to last year. Products segment backlog ended the quarter at \$1.6 billion, up 15% or \$204 million from last year, driven by North America. This is the 11th consecutive quarter of year-over-year growth. Sequentially, product backlog was up \$1 million.

Turning to Services. Q2 Services revenue was \$649 million, up 3%, including \$20 million of currency headwinds associated with Airwave. Managed & Support Services grew 3% or 7% in constant currency. Services operating income was \$135 million or 20.8% of sales, down from 23.5% of sales last year.

As expected, the operating margin decline was attributable to Airwave. We continue to expect full year Services gross margins to be comparable to last year. Services backlog ended at \$6.9 billion, up \$61 million from last year, including approximately \$500 million of Airwave backlog reduction. Sequentially, Services backlog was up \$3 million.

Total OpEx was \$367 million, up \$4 million from the year-ago quarter. Excluding acquisitions, OpEx was down as expected versus last year. We continue to expect full-year OpEx to be down \$10 million to \$15 million inclusive of acquisitions. Other income and expense was \$51 million, down from \$57 million in the year-ago quarter. Net interest expense was \$51 million compared to \$54 million a year ago. The Q2 effective tax rate was 31.6%.

Turning to cash flow. Q2 operating cash flow was \$173 million, a decrease of \$119 million from last year, primarily due to working capital timing associated with the ERP implementation. Free cash flow was \$120 million, a decrease of \$81 million from last year. On a year-to-date basis, both operating cash flow and free cash flow are up compared to the first half of 2016, and we continue to expect approximately \$1.225 billion in operating cash flow for 2017.

We ended Q2 with cash of \$805 million and net debt of \$3.7 billion. During the quarter, we repurchased \$80 million of stock at an average price of \$83.59 and we paid \$77 million in dividends. We also announced our intent to acquire the Airbus PlantCML business.

Turning to our outlook; we expect Q3 sales to be up 3% to 4% versus last year and non-GAAP EPS between \$1.36 and \$1.41. As Greg mentioned, for the full year, we are raising both revenue and EPS guidance. We now expect full-year 2017 sales growth of 3% to 4% and non-GAAP EPS of \$5.20 to \$5.30. This assumes approximately 170 million fully diluted shares.

Looking at regional results; Americas revenue was up 7%, driven by strong demand for P25 Products and Services. Backlog was also up year-over-year and sequentially in Products and Services as customers continue to invest in LMR systems. EMEA was down 1% due to approximately \$20 million of UK currency headwinds, while Products was up 12%. Asia Pac was up 2% on strong product performance driven by

P25 demand in Australia. Services was down on lower systems integration, while Managed & Support Services was up.

I'd like to end with some notable highlights. During the quarter, we signed the FirstNet partnership agreement with AT&T, and we are encouraged that all states that have made a decision to-date have opted into the plan network. Additionally, during Q2, AT&T certified our LEX F10 FirstNet device, making us the only vendor with both a handheld device and a vehicular modem that is FirstNet ready.

Some key product wins include a \$43 million award for P25 devices in a major U.S. city; a \$40 million P25 system in Broward County, Florida; and a \$10 million P25 devices order in Australia.

In Services, we secured a 10-year \$160 million contract for Managed & Support Services in Canada and a \$19 million P25 system award covering three counties in Kentucky that includes a 10-year Managed & Support Services agreement.

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

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

Thanks, Gino. Let me just close with a few thoughts. First, with an excellent start to the year and continued demand visibility, we expect to grow in all regions. And we are well-positioned for strong full year performance that is now reflected in our higher revenue and EPS guidance.

Second, we continue to see customers invest in land mobile radio for the long term. North America Products revenue grew in 2015, again in 2016, and again in the first half of this year. Over that same time period, North America Products backlog has grown nearly \$400 million. This solid ongoing demand speaks to the criticality and value of our LMR platform for mission-critical communications and confirms the coexistence of LMR and LTE over the long term.

And finally, with the planned acquisition of Airbus DS, we're building what we believe is the most comprehensive command center suite in the industry, covering the critical workflows of call taking, dispatch, records management and crime analytics.

As I look into the future of public safety, I'm pleased with our position and I'm pleased with our momentum. We're leveraging our LMR systems installed base, while simultaneously building incremental and complementary platforms for the command center and public safety LTE, which together, I think provide the foundation for continued growth, cash generation, earnings expansion and shareholder return over the long term.

And I'll now turn it back over to Chris.

Chris Kutsor, Vice President, 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 others as possible. Operator, would you please remind callers on the line how to ask a question?

QUESTION AND ANSWER SECTION

Operator: The floor is now open for questions. [Operator Instructions] Thank you. Our first question is coming from Matthew Cabral with Goldman Sachs.

<Q – Matt Cabral – Goldman Sachs & Co. LLC>: Yeah. Thank you. I wanted to ask about software. Greg, you touched on this a little bit in your prepared remarks. But clearly, this has been a big focus for you over the last 6 or 12 months, organically and inorganically. So I'm just curious how you see the path forward for that business. And just thinking longer-term, how big you think it could become within the relative – within the revenue high over time?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. Thanks, Matt. So, we're obviously pleased, most recently, with the Airbus DS PlantCML applications. We like the size of the addressable market for the command center. And what's included in that, whether it's 911 call taking, CAD dispatch, real-time analytics, records management and as you pointed out, we have been steady – had a steady drumbeat of inorganic acquisitions to build out that suite.

I think as we continue to make progress for the rest of this year and into next year, we'll complete what I think is the most comprehensive suite in the industry. We had Andrew Sinclair join the firm about four months ago. We feel good about his capabilities, his expertise and what he'll build and bring to us over time.

I think what the most likely thing, Matt, we'll do is progress through the end of this year and probably do a pretty comprehensive review of the software business at our financial analyst meeting, which we anticipate will be Q1 of next year.

Taking a step back, though, as we emphasize both software and managed and support services and what that could mean to us from a recurring revenue stream, just this past quarter in Q2, 29% of our overall revenue was recurring, which is a favorable trend, and we feel good about our ability to build on it.

<Q – Matt Cabral – Goldman Sachs & Co. LLC>: Got it. And then on FirstNet, so it's been four months now since the contract was awarded and several states have opted in early. So just wondering if you can provide an update on how you see the opportunity both for next year and just thinking about a little bit longer term as well.

<A – Greg Brown – Motorola Solutions, Inc.>: Yes, feel good about the relationship with AT&T. We're pleased, as Gino mentioned in his remarks that all states have opted in. By the way, Michigan opted in just an hour ago, I think, representing the 9th state and 10th, including the U.S. Virgin Islands overall. So we have an agreement signed that was new since the last earnings call with AT&T. I think we can monetize this relationship in software and mobile apps, services, interoperability between LTE and LMR, which I mentioned I think will coexist over the long term, as well as devices.

We view the FirstNet opportunity as incremental. We don't count on any revenue this year. I mentioned a couple of months ago an estimate of about \$40 million to \$60 million for next year. I think for now, that's fine. We'll update you by the end of the year. But again, while states are opting in, there's a long way to go between now and the end of the year. And the ultimate success of FirstNet will depend on the actual penetration or loading of subscribers that switch from an existing wireless carrier over to FirstNet. And time will tell. But we feel very good about our portfolio and uniqueness in the space and the agreement with AT&T.

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

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

<Q – Tim Long – BMO Capital Markets (United States)>: Thank you. Just two, if I could here, follow on the FirstNet, Greg. Could you talk a little bit about when you can start engaging customers, so particularly for services or products that might not be a part of the AT&T deal? So in other words, when the states come in, can you guys go see them and start the process on apps or software or integrated products or devices?

And then, secondly, you talked a number of times about the LMR strength. Can you just give us a little flavor as to what you think is behind this? Is it capacity? Is it upgrades for new features? What do you think is driving it and how sustainable do you feel it's going to be?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, taking the second part first, we feel pretty good about the demand for land mobile radio. And obviously, it's pretty strong this quarter. We had an exceptionally strong Q4 of last year with Products revenue growing 9%. But as I mentioned, North America, which is two-thirds of the company's revenue, the demand has been pretty steady. 2015, 2016, the first half of this year, Product backlog, which is a reasonable indicator for visibility going forward, up about \$400 million around – from a North America perspective over the same 10 quarters and the thing that I'm particularly pleased about in Q2 is the systems demand.

So when these land mobile radio platforms or systems go in, they're going in for the long term, which you will then load with subscriber devices, which you'll then add to it with agencies and secondary and tertiary users and they typically go in with 10-year and 15-year maintenance agreements. So I think the demand has been pretty steady. I think also part of it is Molloy's team has been pretty consistent in execution.

Latin America has gone from a negative to a positive and the team down there has done a very nice job. In EMEA, under new leadership in Mark Schmidl doing a very good job, new leadership in the channel organization, changes we've made, better execution. So I think it's a combination of demand being steady and strong around the globe, led by North America from a system standpoint and strong execution from the worldwide sales team.

<A – Bruce Brda – Motorola Solutions, Inc.>: And Tim, this is Bruce Brda, maybe on your first question with respect to timing of FirstNet opportunity. We are today beginning to have discussions with customers on readying their LMR networks for LMR-LTE interoperability. So that is an opportunity we're pursuing today.

The application sales and device sales will obviously follow subscribers actually opting in, subscribing to the network and then buying devices and applications to use on the network. So in the short term or near term, it's interoperability between LMR and LTE. And then the longer term, which will follow subscriber loading, would be applications and devices.

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

Operator: Our next question comes from Tavis McCourt with Raymond James.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Hey, guys. Thanks for taking my question. First, Gino, I may have missed it in the press release, but can you repeat what the gross margin was in Services and Products for this quarter? And then, Greg, for you; just in terms of modeling for the rest of the year and into next year.

So the two outstanding acquisitions that haven't closed yet are Kodiak and Plant. I want to make sure I'm not missing any others. Is there any way to kind of size those financially for us and kind of timing on when they close? And then as a follow-up, maybe if you could give us a sense of how you view the market opportunity for 911 and command center software? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: A couple of things. PlantCML, the Airbus acquisition, we expect to close at the end of the year. So there's nothing in 2017. Kodiak, while not closed yet and not in our guidance....it's pretty insignificant to the balance of 2017. It's not material and won't move it much.

In terms of PlantCML, what I would point to is the revenue for 2016 was a little bit more than \$100 million. So that's a reasonable reference point as you incorporate that into your thinking. Overall, again, to an earlier question I had, we like this space a lot. I mean, we leverage the land mobile radio systems installed base we have. But we're also building a pretty significant software platform, which involves a variety of acquisitions and at the moment, point solutions.

I think over time, we can platform that business, integrate the software applications into a more comprehensive suite led by Andrew Sinclair. And I think the addressable market for the command center is a sizable one for us to pursue. So it makes sense for us to build that platform along with the public safety LTE platform as well.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: And Tavis, this is Gino. With respect to gross margins, in the release, we don't have the gross margin by segment. But as expected and recall during our last call, the guidance, our expectation was for gross margin to be down, driven primarily by a few things. One was Airwave FX and the purchase accounting adjustment, catch-up adjustment year-to-date in 2016. That would be obviously reflected in the Services gross margin, as well as a shift to systems in North America. Greg mentioned and I mentioned in prepared remarks, the strength of systems in North America, as well as some ERP-related – ERP implementation-related cost in Q2. So Q2 margin down approximately 160 basis points, spread across really those three issues.

And I should say, as I said in the prepared remarks, our expectation is that gross margin in both Services and Products we expect to be comparable for the full year. And through the first half, margins are comparable despite the Airwave FX headwind and purchase accounting adjustment. Margins through the first half are comparable.

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

Operator: Our next question comes from Keith Housum with Northcoast Research. Please go ahead.

<Q – Keith Housum – Northcoast Research Partners LLC>: Good afternoon, gentlemen. Just you mentioning a few moments ago, the ERP system, I guess, Gino, is there an update on the ERP system? And I guess, talk a little bit about the working capital impact from the ERP system. Is there anything full steam ahead as of right now?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yes. So we cut over in April and we experienced some typical issues, we planned for them. Inventory, specifically inventory, ended higher and a little bit in receivables. The inventory – the ending inventory was driven by some difficulties in our planning module in the ERP implementation system. And from a receivables perspective, we had some invoices that went out later and were outside of the terms and moved into Q3.

We expect the implementation to be largely complete by the end of Q3. And the implications are contemplated in our outlook. As I said in my prepared remarks, our expectation remains unchanged for operating cash flow for the full year.

<Q – Keith Housum – Northcoast Research Partners LLC>: Great. Thanks. And then just a little bit of color, if I could, on the comments you guys made regarding the \$40 million to \$60 million will be recognized for FirstNet perhaps next year, and I realize that number is a little bit soft there. But can you give us a little bit of color on what would that revenue represent? Is it a matter of just doing some general software work, or is it a per-user recognition you'll be recognizing there?

<A – Greg Brown – Motorola Solutions, Inc.>: I think it represents, at this point, an estimate for the composite total revenue. It could, to your point, include software and mobile applications. It could include Services activation. It could include the deployment of software we've developed, which interoperates and links, land mobile radio P25 with LTE networks. And of course, it could include a mix of devices, not just handhelds, but vehicular modems. So it's all of the above. It's a best guess, by the way. Most important of that is less the composition of how it comes in by product or software bucket but it assumes a certain loading level, a certain penetration level that we think is reasonable. But we'll have a better view of it in Q1.

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

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

Operator: Our next question comes from Stanley Kovler with Citi Research.

<Q – Stan Kovler – Citigroup Global Markets, Inc.>: Hi. Thanks for taking the question. I just wanted to see if you could contrast your commentary around the strength of the system side of your North America business with some press or FCC data that recently came out suggesting that the spectrum LMR licensing activity is quite low. And I have a follow-up. Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Yes, Stan. No, as I mentioned, I think the demand – I'm very pleased with our demand, both as represented in revenue and backlog, led by North America and over the past several quarters. I saw the note that you referenced around land mobile radio licensing decline, I think there's a few things to note from a clarification standpoint.

I'm not surprised by it at all, but at the same token, number one, a large number of customers are converting to P25 TDMA. That has a 2-to-1 spectral efficiency. So you'll literally need half the license than you previously would need as you move to upgrade to a more efficient P25 TDMA deployment.

In addition to that, number two, we're seeing more customers increase state-wide and region-wide deployments, taking advantage of the 700 megahertz frequency. The impact is the same. I mean, demand, if anything, continues to go up for LMR. But the actual system or license, spectrum licenses could decline because the systems are spread over new bands and they're much more spectrally efficient.

So – and I – the last thing I'd mention is I know that, that referenced a spike period of several years ago associated with narrowband. So while I think it's interesting, I do not think it's a good proxy or a correlation to use to judge the demand for our land mobile radio business, in particular, P25 because all systems are green and over a sustainable period of time and through the second half of this year.

<Q – Stan Kovler – Citigroup Global Markets, Inc.>: That's great. Thanks for the color. And my follow-up is just more around the transition, longer-term from LMR to LTE. It sounds like there could be some push-to-talk transition discussions around March 2019. And in the similar vein to what happened in the UK with kind of the timeline pushing back on the transition there, could we see some of that in the U.S. as well as people begin to dig in when the transition or the cutoff could happen?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, I think there's a couple of things to note. There's a difference between push-to-talk over cellular and mission-critical push-to-talk over cellular. I think the demand that we're seeing for land mobile radio systems and product backlog, along with these customers buying brand-new systems with a 10-year and 15-year maintenance, speaks to what they think firsthand North America led, U.S. led on the criticality, durability and longevity of land mobile radio here.

I think that you'll read and hear things about other push-to-talk solutions. The confusing thing is some people call it mission-critical push-to-talk, whether they reference it in 3GPP release 13 or 14 or now they're talking about release 15. But I don't think it changes what we're seeing, which is continued strong demand for P25 systems U.S. led.

The last thing I'd mentioned is, we now have won five of the largest public safety LTE awards in the world: Los Angeles, FirstNet as a subcontractor to AT&T, the UK, Home Office in the form of ESN, and two countries in the Middle East. And what we see in all of those cases, five out of five is continued strong investment, either upgrading or in some cases, brand-new land mobile radio, which speaks to the coexistence and the expectation by our customers that public safety LTE will be data focused and video focused, while mission-critical voice will continue to be provisioned over P25.

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

Operator: [Operator Instructions] Our next question comes from Rod Hall with JPMorgan.

<Q – Rod Hall – JPMorgan Securities LLC>: Yes. Hi, guys. Thanks for taking the question. So I wanted to ask about Managed Services and just what the drivers there were. I mean, we saw some acceleration there. I know you called out these two deals. Is that the main reason that, that was up? Or are there other things going on there? Could you just give us a little more detail?

And then, I guess, I wanted to come back to this FirstNet thing. We understand that you have unique relationships with all of these police offices and fire stations and so on, and those are not easy relationships to manage. And so you seem like you're in a pretty unique distribution position there and yet you've been repeatedly asked by us and others about whether you would have some kind of a commission generating distribution opportunity there and you keep sidestepping that question. I'm just wondering, is there sensitivity around that issue, or is it something that's not sorted out yet and there is an opportunity, but we just don't know whether it's going to develop? Or can you just give us a little bit more color on what might be going on with that specific issue? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Let's take the second one first. I'm not sure what you're referencing when you say sidestepping. We have agreements with AT&T, both on the product side and on the distribution side. They both have been signed, and we're pleased with the relationship. And we have a shoulder-to-shoulder relationship with AT&T. We feel very good about to pursue FirstNet opportunities. You're right that we have, I think, unparalleled direct sales coverage on these public safety agencies throughout the United States. I think that's a large part of why AT&T was interested in partnering with us, not just the technology and the innovation that Motorola Solutions brings, but the go-to-market expertise and the deep domain expertise and relationships that we've cultivated over the last several decades.

<Q – Rod Hall – JPMorgan Securities LLC>: I guess, let me just clarify that. I guess, maybe that's too harsh a term. But it's the economics of that relationship that we still don't really understand. It feels to us like that ought to be the biggest opportunity for you guys financially. And we don't – but, yes, from your commentary, it's not super clear to us, if that really is the case. I mean maybe we just have the wrong end of the stick on that perception. So that's what's driving that question.

<A – Greg Brown – Motorola Solutions, Inc.>: Yes, I see what you're saying. Well, I think a couple of things. The point of clarification, we're trying to provide you to kind of chalk the field is the \$40 million to \$60 million for next year. Going beyond that, I think isn't worthwhile because we have to see the traction, penetration and subscriber loading. We don't disaggregate the detail, to your point, around how we monetize software, mobile apps, services, interoperability, what we charge for competitive reasons. And a disclosure standpoint, we want to maintain our edge in what we provide and not disclose what we don't need to. But we'll competitively bid and enthusiastically go head-to-head against anybody we need to.

Well, I'm not trying to hide anything. I'm just suggesting that we're trying to give you the best estimate around revenue in the \$40 million to \$60 million without taking you through the disaggregation of each bucket, which I don't think is as meaningful. But again, I'd point to you the most important is actually the penetration and subscriber loading. And while nine states have opted in, we're waiting on 41 others. So there's still, I think, a lot of wood to chop between now and the end of the year. And I think we'll have perhaps more layers of clarity that you may like as we get into the beginning of next year.

<Q – Rod Hall – JPMorgan Securities LLC>: Okay, great. And then maybe a little more color on the Managed Services, if you have it?

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

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Sure. Rod, this is Gino. Managed & Support Services have been growing in mid-single-digits for the past eight or nine quarters. It was purposeful. The design of – including the design of products and really, what's driving that, the underlying driver is, the technology becomes more and more complicated. It becomes more and more difficult for our customers to manage their own systems, and many of them look for us to manage the systems for them. So when we talk about the TAM around Managed & Support Services, what we're referring to is managing the systems that we have deployed.

<A – Greg Brown – Motorola Solutions, Inc.>: The other nice thing about Managed & Support Services is on a constant-currency basis, it grew 7% in Q2. So we continue to believe that Managed & Support Services will grow at a faster rate than Product. And I think Kelly Mark and his team are doing a nice job on that front.

<Q – Rod Hall – JPMorgan Securities LLC>: Great. Okay. Thanks guys.

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

Operator: Our next question comes from Kulbinder Garcha with Credit Suisse.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Hi. I joined the call late so maybe this has kind of asked. But it's more – a question for Greg on the sustainability of growth from here. And I just think about a few factors, I don't think your comps are necessarily that hard and there were a number of – I'm talking about organic growth. And there your comps aren't necessarily that hard and you had a number of one-time issues and contracts rolling off last year that have now anniversaried.

You've got decent backlog, you've got the public safety LTE. What's your confidence now, Greg, of just landing in that kind of lower single-digit revenue growth rate very consistently at least for the foreseeable future, as in, I'm not talking just Q3, but into 2017 and 2018, perhaps?

And then the second question is, this was a long time ago. It may not be relevant anymore. But you once I think said that once public safety LTE hit, you might be a mid to high single-digit revenue growth company. Is that still something you think? I think I know a lot has changed since that was initially said. Is that something you think about on a long-term basis or should we not think about that for some reason?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, I think a couple of things. Let's take the second one first. We talked about low-to-mid single-digit revenue growth all in over the long term. You're right as these incremental opportunities, whether it be public safety LTE or public safety LTE and command center software, I think as they get more traction and land mobile radio continues to be pretty solid and predictable, we move – yes, we have the opportunity to move more toward the right goalpost in that regard.

How do I feel about growth overall? I feel pretty good about it referenced in the fact that we're taking the full year up to 3% to 4%. I feel good about it because it's underpinned by higher aged backlog. I feel good about it when I look at the disaggregation of the segments and some of the key metrics we look at. I feel good about organic growth on a constant-currency basis in Q2 being 4%. And we're not going to guide for 2018 yet. But again, I think the momentum we have here, as we finish the second half of the year, I feel good about our position. And I feel very good about our momentum, Kulbinder.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: And then just maybe one more, just one follow-up to that.

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

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Given the growth is happening and we all wait a long time for that. So in terms of – on the operating cost side, you did just a very good job over the years of incrementally shaving off some OpEx. Is that still possible from the basis that we're at like – I'm not talking just near-term, I'm talking about – or is they need to maybe invest in the business to pursue some more of these initiatives? Can OpEx be held flat in like a 3%, 4% top line environment or is that changing in any way?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, we're doing both. We're cutting expense and simultaneously investing, I think, where we need to. So I think that's proved to be very effective, reference the operating leverage that you have seen recently. And then, quite frankly, I think we continue to expect, OpEx will be down \$10 million to \$15 million this year. That includes all of the acquisitions. If we take a look at 2018, while we're not going to get into the specifics, I would expect OpEx, excluding acquisitions, to continue to be down slightly on the base businesses.

So I think the team continues to do things on the OpEx side and on the efficiency side, which avail themselves for us to take advantage of. By the way, we talked about the ERP implementation that we cut over in April. That would be on phase I completed here in Q3. Eventually, as we get more conversion and completion of that system, there's requisite efficiencies and IT costs and business process efficiencies that I think could be reflected over the longer term. That's in part why we invested in the ERP. So net-net, we will be down \$10 million to \$15 million this year, all in. And I think that operating leverage is expected to improve again in 2018.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Kulbinder, this is Gino. Just a couple of comments. First comment being \$700 million reduction in OpEx is a little bit more than incremental. That's the way as you described it. Greg mentioned, OpEx and OpEx associated with acquisitions. For the full year in 2017, the acquisition OpEx number is \$45 million. Inclusive of that \$45 million, our expectation is to be down \$10 million to \$15 million.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Okay, great. Thank you.

Operator: Our next question comes from George Notter with Jefferies.

<Q – Kyle McNealy – Jefferies LLC>: Hi, guys. This is Kyle here for George. Thanks for taking the question. Wondering if you can provide an update on your thoughts around Airwave and ESN in the UK over the longer term? I believe the idea was floated out to use LTE for general mission-critical communications purposes and potentially use TETRA for direct mode use cases. Wondering how that changes your view on the total opportunity in the UK over the longer term. And once the ESN gets built out and I understand that it's going to be some time until that project kind of comes to fruition. So I'd like to get your thoughts on that. Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Yes, on Airwave, we're expecting – things are going well, as expected, continue to progress. And for the full year in 2017, we're expecting Airwave revenue to be approximately \$490 million. On ESN, we continue to work closely with the UK Home Office. It's a complex project. We're working closely with EE as well, the wireless carrier provider. We're working to deploy and test the software deliverables on our end. The project has gone through some changes. It's currently slated, as stated by the customer, to start mid-2018. But we have work to do on our end and we're staying very close to both EE and Home Office.

<A – Bruce Brda – Motorola Solutions, Inc.>: And Kyle, this is Bruce Brda. With respect to direct mode, I think you're aware, LTE currently doesn't have a viable solution for direct mode. The UK Home Office has selected to go down a path of really two technologies, LTE for trunked or group communication, and then TETRA as a direct mode solution, so two technologies, two devices. We will compete for the direct mode TETRA device business at the right point in time. That opportunity hasn't surfaced yet, though.

<Q – Kyle McNealy – Jefferies LLC>: Okay, great. Thanks a lot.

Operator: Our next question comes from Andrew Spinola with Wells Fargo.

<Q – Andrew Spinola – Wells Fargo Securities LLC>: Thank you. Gino, could you possibly take a shot at giving us a sense of what the organic growth is implied in your Q3 guide for the business?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: For Q3, Andrew?

<Q – Andrew Spinola – Wells Fargo Securities LLC>: Yeah.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Or for the full year?

<Q – Andrew Spinola – Wells Fargo Securities LLC>: For Q3.

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

<Q – Andrew Spinola – Wells Fargo Securities LLC>: What I was going to say is, I am looking at the model and you've got sort of flat currency in Airwave so that – it should be kind of neutral in Q3 and you've got about \$0.5 billion of acquisitions in the last four quarter and a much stronger euro heading into Q3. So I'm wondering if your guidance for Q3 embeds organic growth for the core business or not.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: So Andrew, we'll start with the year. Certainly, for the full year, our expectation is for growth and growth in both Products and Services and organic growth. In Q3, as you said, Airwave is not the headwind that we had in Q2. But our expectation in Q3 is to grow Products and Services and grow organically as well.

<Q – Andrew Spinola – Wells Fargo Securities LLC>: If I could just ask a follow-up on that.

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

<Q – Andrew Spinola – Wells Fargo Securities LLC>: You spent about – you spent almost \$0.5 billion in the last four quarters on acquisitions. The middle point of your range is 3.5% growth, which is \$55 million of incremental revenue. I'm assuming that \$0.5 billion got you more than \$55 million. You've got a stronger euro. So how is it that you're growing organically?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: On 3% to 4% for the full year?

<Q – Andrew Spinola – Wells Fargo Securities LLC>: For Q3.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: I'm not sure. Maybe we'll go through the model and your math, Andrew. I'm not sure...

<Q – Andrew Spinola – Wells Fargo Securities LLC>: Well, the full year is easier; do you have a sense of what the acquisitions are adding to 2017?

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

<Q – Andrew Spinola – Wells Fargo Securities LLC>: Yeah.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: ...in 2017? About \$50 million, \$50 million to \$60 million for the full year.

<Q – Andrew Spinola – Wells Fargo Securities LLC>: Okay. A question for you, Greg, you mentioned, I believe, correct me if I'm wrong, you said before that all five of the LTE contracts that you've won, you've seen investments in the LMR networks at the same time. Did I hear that correctly?

<A – Greg Brown – Motorola Solutions, Inc.>: Right. We continue to see those five continue to invest in LMR?

<Q – Andrew Spinola – Wells Fargo Securities LLC>: What – since you own the Airwave network, what investments are you making in that network?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, I mean, they continue to use it. They continue to upgrade system software releases. They continue to add devices and interoperability between fire and police.

<A – Bruce Brda – Motorola Solutions, Inc.>: Yes, this is Bruce. A key add that they are making now is the ability to interoperate between LTE and TETRA. That's an enhancement that's being made at this point in time.

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

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

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

<Q – Ben Bollin – Cleveland Research Co. LLC>: Good evening. Thanks for taking my question. I wanted to start; if you could talk a little bit about the overall portfolio of software services you have available to today in public safety LTE. How big would you say the portfolio is? What type of assets do you have versus what needs to be developed? And any implications on kind of investment levels over – whatever in the next 12 months or 18 months and then I have a follow-up. Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Yes. So if you think about the command center software assets, we have our high end PremierOne product in records management complemented by Spillman, an acquisition we made last year. For real-time intelligence and analytics, we have Public Engines, a small acquisition, more nascent, but something that begins to give us traction on the analytic side. For CAD dispatch and voice, we also have our PremierOne CAD system at the high-end complemented by Spillman as well and a voice console. And for next-generation 911 call taking, we've got Emergency CallWorks for Tier 2 and tier 3 and now, the Airbus VESTA suite on the high end.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Great. The last item I had was, there seems to be a little bit of discussion out there about federal budgets specific to next year. I know that's a small percentage of the overall business. But there does seem to be some questions about the percentage of state, local and municipal funding that does come from federal grants. So I'm curious if you have any thoughts about what the environment could look like as you get into next year given some of the uncertainty And if you've had any of those discussions with customers, how they may be thinking about it? Thanks.

<A – Jack Molloy – Motorola Solutions, Inc.>: Hey, Ben, it's Jack. So, first of all, just to kind of level set. The federal government business this year will be approximately \$500 million, which was comparable to our 2016, which was up double digits. When you look at 2018, obviously, we're under a CR. But when you look at the supplemental budgets, both border patrol, customs and border patrol and DoD, are all in for incremental funding, which is good for us. I think you saw the recent announcement that we had a \$461 million part of a multivendor award in the DoD for the army. And I think so when you think about that, it does a couple of things. It tells you there's continued and sustained interest in P25.

And the second thing is just due to our sales coverage in the federal market is in these multi-vendor environments we perform very well. So we think about next year in the federal government, the budgets look to be favorable, the contractual mechanisms are favorable and we think we cover the market really well in Fed. So we're actually optimistic.

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

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Before – that was the last question. Just for clarity, Andrew, on your question, the approximately \$50 million of growth in Q3, half of it is the result of the acquisition of Spillman and Interexport, the other half is core. Remember, Plant and Kodiak are not closed yet. They are not in that number.

Operator: Thank you, gentlemen. It appears we have no further questions at this time. I will turn the floor back over to Mr. Chris Kutsor, Vice President of Investor Relations, for any additional or closing remarks.

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

That will wrap our Q2 call. Thank you 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.