



Q4 2017 Earnings Conference Call Thursday, February 1, 2018

PARTICIPANTS

Motorola Solutions Executive Participants

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

Other Participants

George C. Notter – Analyst, Jefferies LLC
Timothy Patrick Long – Analyst, BMO Capital Markets (United States)
Vijay Bhagavath – Analyst, Deutsche Bank Securities, Inc.
Keith Housum – Analyst, Northcoast Research Partners LLC
Stanley Kovler – Analyst, Citigroup Global Markets, Inc.
Andrew DeGasperi – Analyst, Macquarie Capital (USA), Inc.
Paul J. Silverstein – Analyst, Cowen and Company, 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' Fourth 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

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

We've posted an earnings presentation and news release at motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliations for your reference. During the call, we reference non-GAAP financial results including those in our outlook unless otherwise noted. A number of forward-looking statements will be made during this presentation and during the Q&A portion of the call.

These statements are based on current expectations and assumptions that are subject to a variety of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Information about factors that could cause such differences can be found in today's earnings news release and the comments made during this conference call in the Risk Factors section of our 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.

With that, I'll turn it over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thanks, Chris. Good afternoon, and thanks for joining us today. I'd like to share a few thoughts about the overall business before Gino takes us through the results and the outlook. First, Q4 was an outstanding quarter, capping a very strong year. We grew Q4 revenue 4%, driving higher earnings and cash flow on the continued strength, our land-mobile radio solutions led by North America. We see continued demand across both our government and commercial customers around the world reflected in our recent results and our record backlog.

Second, 2017 was a record year for sales, operating earnings, cash flow and backlog, demonstrating the earnings power of our land-mobile radio platforms. In addition to growing the full-year revenue 6% with growth in every region, we grew operating earnings 9%, grew EPS 11% and we grew operating cash flow 16%.

Finally, I'm very pleased with our competitive position moving forward. I expect our LMR platform business to provide continued growth while also driving additional Managed Services expansion and further differentiating our command center software strategy.

So, now I'd like to turn the call over to Gino to provide additional details on Q4 results and outlook before returning to provide some final thoughts.

Gino Bonanotte, Executive Vice President and Chief Financial Officer

Thank you, Greg. Q4 results include revenue of \$2 billion, up 4% from last year and organic revenue up 2%. GAAP operating earnings were \$511 million, up \$108 million from last year. Non-GAAP operating earnings were \$576 million, up \$35 million or 6% from the year ago quarter, and operating margins were 29.4% of sales, up 70 basis points from last year.

GAAP earnings per share, was a loss of \$3.56 compared to earnings of \$1.43 in the year-ago quarter. The loss reflects one-time charges of \$874 million related to recent U.S. tax reform. The charges are primarily two items: \$471 million related to the valuation allowance on foreign tax credits; and \$366 million related to the remeasurement of U.S. deferred tax assets at a lower rate.

Non-GAAP EPS was \$2.10, up 3% from last year. Ending backlog was \$9.6 billion, up \$1.2 billion from last year. Products segment backlog was up \$382 million, or 25% and Services segment backlog was up \$860 million, or 13%. For the full-year, revenue grew 6% with growth in every region and organic revenue grew 3%.

Products segment revenue grew 3%, led by higher North America system sales and growth in commercial products. Services revenue grew 9% with Managed and Support Services growth in every region. Operating earnings were \$1.6 billion, up \$125 million or 9% compared to 2016. Earnings per share grew 11% to \$5.46 and operating cash flow was \$1.3 billion, up \$181 million from last year.

Moving to Products segment results for Q4. Q4 Products sales were \$1.23 billion, up 1% versus the prior year, driven by growth in North America LMR systems and global commercial products. Q4 Products operating income was \$425 million, or 34.5% of sales, up 130 basis points from last year, driven by higher sales and lower OpEx.

Products backlog ended the quarter at \$1.9 billion, up \$382 million, or 25% from last year. This is the 13th consecutive quarter of year-over-year growth. Sequentially, backlog was up \$140 million, or 8%. The year-over-year and sequential backlog growth was driven by North America and EMEA.

Q4 Services revenue was \$724 million, up 10% from last year with growth in every region. Managed and Support Services grew 17% inclusive of \$32 million from acquisitions. Services operating income was \$151 million, or 20.9% of revenue, up 50 basis points from last year on higher sales and mix to Managed and Support Services, partially offset by OpEx from acquisitions. Services backlog ended at \$7.7 billion, up \$860 million from last year, inclusive of Airwave runoff. Sequentially, Services backlog is up \$567 million, or 8% on continued strong demand in North America, EMEA and Asia-Pac.

Total OpEx in Q4 was \$397 million, down \$11 million, or 3% from the year ago quarter, inclusive of \$15 million from acquisitions. For the full year, operating expenses were \$1.49 billion, inclusive of \$45 million of OpEx from acquisitions.

Other income and expense in Q4 was \$46 million compared to \$41 million in the year-ago quarter. The Q4 effective tax rate was 32.8% compared to 30.7% in the year-ago quarter, resulting in \$11 million of higher tax expense. The full year 2017 effective tax rate was 31%.

Q4 operating cash flow was \$761 million, an increase of \$248 million from last year, driven by higher operating earnings as well as improved working capital. Free cash flow was \$740 million, up \$287 million.

We ended Q4 with \$1.3 billion in cash. And during the quarter, we repurchased \$125 million of stock at an average price of \$91.95 and paid dividends of \$76 million. Capital allocation in 2017 was \$1.3 billion. This included \$298 million of acquisitions, \$370 million of dividends, \$227 million of CapEx, and \$483 million of share repurchases at an average price of \$85.32. In total, our share repurchase program has retired 53% of our shares at an average cost of \$58.59.

Finally, in Q1 of 2018, we are planning a debt-funded \$500 million pension contribution that takes advantage of the recent tax legislation. This funding pushes any further cash contributions to our U.S. pension plan until minimally 2024, likely beyond. In addition, this planned contribution drove the 2017 tax deduction at 35% versus 21%, providing an NPV of approximately \$60 million.

Turning to our outlook, we expect Q1 revenue growth of approximately 7% and organic growth of 5%, including approximately \$40 million from currency tailwinds. Non-GAAP EPS is expected to be between \$0.83 and \$0.88. This assumes current exchange rates and an average diluted share count of approximately 169 million shares.

For the full year, we expect revenue growth of approximately 5% with organic growth of approximately 4.5% with currency tailwinds of approximately \$130 million. Non-GAAP EPS is expected to be in the range of \$6.50 to \$6.65.

The outlook does not include the pending Airbus PlantCML or Avigilon acquisitions. Airbus PlantCML is expected to close in Q1 and Avigilon is expected to close in Q2.

Full-year operating expenses are expected to be down again by approximately \$20 million from 2017, inclusive of \$20 million of OpEx from completed acquisitions and inclusive of \$30 million in higher OpEx from currency headwinds. We expect the full-year 2018 effective tax rate to be approximately 25% and our cash tax rate to remain at approximately 15% for 2018 and 2019. 2018 operating cash flow is expected to be approximately \$1.4 billion, excluding the \$500 million debt-funded pension contribution previously mentioned.

Moving to regional results. The Americas grew 6% in Q4 and 7% for the full year. This broad-based growth was driven by P25 systems, multi-year Managed and Support Services and commercial products. Backlog is up \$915 million from last year with double-digit growth in both Products and Services year-over-year as customers continue to invest in their LMR solutions.

EMEA declined 2% in Q4 on the completion of a large LTE implementation in the prior year. For 2017, EMEA was up 5% on growth in Products and Services and backlog is up \$131 million versus last year. Asia-Pac grew 1% for the quarter and 1% for the year, driven by growth in both Products and Services. Backlog is up \$195 million primarily on Services growth.

I'd also like to share some brief segment highlights. First, in our Products segment during Q4, we were awarded a \$290 million contract for an LMR system in a Middle Eastern country that recently deployed a private public safety LTE system. This significant investment in LMR is the latest example of customers further validating that LTE and LMR are complementary technologies. We also won several large LMR deals in North America during the quarter, including a \$76 million P25 order for the city of Dallas, a \$53 million P25 order for the city of Los Angeles, and a \$39 million P25 order for the city of Toronto.

In our Services segment, we continued to see demand by our customers for multi-year support contracts for their LMR systems. A few notable Q4 awards include a \$197 million seven-year Managed Services contract extension for the Melbourne Metropolitan Radio Network in Australia; a \$40 million five-year Managed Services contract in Victoria, Australia; and an \$18 million seven-year Managed Services contract with Dow Chemical.

I'd also like to mention a few full-year operational highlights. During 2017, we launched 85 new products while reducing our device SKUs by 55%. We also launched new or expanded services offering across devices, commercial infrastructure, and LTE. We completed the acquisition of Kodiak Networks, adding a carrier integrated cellular push-to-talk solution for mobile operators around the world. We signed the FirstNet partnership agreement with AT&T to provide software applications, devices and services for public safety customers on the FirstNet network. And finally, we completed the acquisition of Interexport, a provider of Managed Services for communications systems to public safety and commercial users in Chile.

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

Greg Brown, Chairman & Chief Executive Officer

And thanks, Gino. And let me just close with a few thoughts. First, I'm very, very proud of the 2017 results we posted as a direct result of our employees' dedication and focus and efforts in delivering unmatched

technology and unmatched service to our global customers, many of whom put their lives on the line every single day.

Second, I'm especially pleased with our momentum moving forward. Our record backlog reflects the continued strong demand for LMR, led by North America, and we're making continued progress in growing our software and Services business as well.

And finally, we announced today a definitive agreement to acquire Avigilon, a leader in advanced video surveillance and analytics. Adding Avigilon's end-to-end video capabilities and analytics for our commercial and public safety customers provide not only another key workflow stream to our solutions offering but it also significantly expands the total addressable market that we serve today, paving the way for additional future growth. The management team here remains acutely focused on continuing to grow this firm profitably and for the long term.

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

Chris Kutsor, Vice President, Investor Relations

Thanks, 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 the callers 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 George Notter with Jefferies. Please go ahead.

<Q – George Notter – Jefferies LLC>: Hey, guys, thanks very much. Great to see the terrific results here. I guess I was curious about the bigger spending environment around public safety LMR. I guess I'm thinking more about the United States. It seems like state and local tax receipts have to be very, very strong. I assume that's a good tailwind for your business. I want to ask about federal tax receipts also. We've got tax reform. I guess I'm imagining the tax receipts will be lower going forward. But can you just talk about the environment and how it's changing the tax reform for your LMR business? Thanks.

<A – Jack Molloy – Motorola Solutions, Inc.>: Hi, George. It's Jack. So I guess first of all, from a state and local perspective, you're spot on. I think what you've seen, I'll reference the fact that North America grew in 2015, 2016 and 2017 both in terms of revenue and backlog. I think that's testament to the strength of the demand drivers in public safety in state and local.

From a federal perspective, similar story. We had a great year in 2016, and frankly, we slightly beat that slightly in 2017. The demand drivers right now in the federal government are really twofold. We have a defense team. We're seeing continued spending in the defense around military base communications. That's been a strong story and then what we look at domestically here both from a law enforcement and a border patrol perspective, again, the demand and a lot of what the Trump administration is doing in terms of planning. Those things have looked to be beneficial for us as well. We enter 2018, frankly, in federal in a better backlog position than we did in 2017.

<Q – George Notter – Jefferies LLC>: Got it. Great. Thank you very much.

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

<Q – Tim Long – BMO Capital Markets (United States)>: Thank you. Yeah. A question and a clarification. First, on – Greg, if you could just touch on FirstNet. I think, last time, you were talking \$40 million to \$60 million of revenues. This year, obviously, all the states opted in and AT&T seems to be talking pretty aggressively about deployment. So just talk to us a little bit about what changes over the last few months have meant as far as your outlook for that business for the year. And then secondly, maybe for Gino, just looking at the full-year guidance, seems to imply gross margin down a little bit this year. Could you just talk a little bit about the gross margin outlook and what might be potentially pushing that lower? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: So, thanks for the questions. In terms of FirstNet, our role hasn't changed. We're still going to provide mission-critical software applications and LMR interoperability and services. But to your point, right now the starter pistol has been fired and it's all about subscriber load. So we are pleased that all 56 states and territories opted in, but now it's game on.

Our current planning actually for this year on FirstNet revenues are about \$20 million to \$40 million. I wouldn't over-interpret that one way or the other. In fact, I hope it's above that. But just from a prudent planning standpoint, I wanted to set those goalposts as more reflective of where we are today. We just don't know what we don't know. The partnership with AT&T continues to work well and go well, but that's our expectation from a FirstNet standpoint at this point in time.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Hey, Tim. It's Gino. On gross margins, gross margins, our expectation of 2018 gross margins are flat comparable to 2017. And in 2017, we had

comparable gross margins in both the Products and Services segment versus the prior year and the margin reduction for MSI in total was simply a result of the mix to Services, and we talked about the gross margin profile in Services, which include systems integration to be slightly less than product. So, we see 2018 margins comparable to 2017.

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

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

Operator: Our next question comes from Vijay Bhagavath with Deutsche Bank. Please go ahead.

<Q – Vijay Bhagavath – Deutsche Bank Securities, Inc.>: Thanks. Yeah. Hi, Greg, Gino.

<A – Greg Brown – Motorola Solutions, Inc.>: How are you?

<Q – Vijay Bhagavath – Deutsche Bank Securities, Inc.>: Yeah. Hi. So my question is around – Greg, when you talk to your top customers and your sales teams, what is it telling you in terms of spending intentions at fed, state, local agencies for this year versus last year? And then, what priorities are your customers assigning to software command control versus devices and networks? And then quickly, these events this year, like the Olympics, the World Cup Soccer, would these be incremental opportunities for you in public safety? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Just on the third point, I think that the opportunities in the events that you outlined are incorporated already into our guidance for fiscal 2018. One of the things, and we referenced this last time that with the natural disasters, the hurricanes, the fires in California, I also think, continually reinforced and remind the absolute, always-on, reliable criticality, without substitution of Land Mobile Radio systems. But Jack mentioned a little bit about state and local demand and federal demand just a few minutes ago. And I think we see it continue to be strong. And Bruce, on the command center, maybe you want to mention a few things on that front.

<A – Bruce Brda – Motorola Solutions, Inc.>: Sure. Thanks, Vijay. If you think about the command center software applications, 9-1-1, CAD, records, dispatch and then analytics around it, currently, we built out that portfolio through acquisition or organically and we're really going through the hard work now of integrating that into a single suite.

We have seen very good progress on cross-sell activities. I'll note between Spillman and ECW as an example, they serve the same size, Tier 2, Tier 3 marketplace. We've seen great progress on cross-sell, and we're beginning to see early suite sale accomplishments as well. So, we're really pleased with the progress that we're making. More work to do. But so far, it's really working well.

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

<Q – Keith Housum – Northcoast Research Partners LLC>: Good afternoon, guys. Thanks for taking my question. Mind if I just drill down more into the acquisition you guys announced today with Avigilon in terms of like the current customer overlap that you guys have together, and is this taking you to new markets? And why do you guys maybe make this acquisition versus your current technology? So, can you just provide some more color along those lines, that'd be great?

<A – Greg Brown – Motorola Solutions, Inc.>: Sure, Keith. So taking a step back, the strategic rationale on this is – and we're pretty enthusiastic is, first of all, video surveillance and analytics is

growing. It's growing rapidly. Second, the total addressable market is in well in excess of \$10 billion or \$11 billion, and then some. And third, video continues to be a growing proponent, a growing requirement of public safety customers and critical infrastructure customers that want a solution and would like Motorola to provide it.

The thing that's especially attractive to me is this is not a commodity business. As you've seen the other actions that we've taken with the portfolio over time, I'm not interested in commodity businesses. I'm not interested in commodity margins. I like a market leader with an end-to-end platform orientation and we believe this end-to-end video surveillance suite of cameras, analytics, video management and video storage is particularly strong.

Now we're – as Gino said earlier, it's EPS-neutral and it's not included in our 2018 guidance. But Avigilon is a public company on the Canadian exchange and you can go back and kind of look at their revenue growth and the kind of execution they've had.

The other thing I'd say is there's a lot of point solutions in this business. We're an end-to-end platform choice and we believe we have a distinct advantage, or we will have, when we close this acquisition around faster deployment than competitive products. And the thing especially I love is the channel synergies.

So, this can fit very neatly and nicely and we can take this portfolio into global public safety because they've been enterprise-centric to-date largely. We can take it into U.S. Military. We can take it into U.S. federal. We can take it into our large direct sales force that serve enterprises in the commercial markets. So, it's got very attractive channel synergies.

And lastly, quite frankly, much like mission-critical communications, I think there is a growing aversion to having a Chinese provider do critical video surveillance and security. And I think that trend will lend itself well to us as well.

<Q – Keith Housum – Northcoast Research Partners LLC>: Great. Appreciate the color of that. I'll jump back in the queue.

Operator: Thank you. Our next question comes from Stanley Kovler with Citi Research. Please go ahead.

<Q – Stan Kovler – Citigroup Global Markets, Inc.>: Hi, and thanks for taking my question, everyone. I just wanted to ask you guys about, just the trends in the backlog and how we should think about conversions, you've been adding a lot to the backlog recently? Can you help us understand what the aging of that is, and how that will hit the Services line on the revenue side going forward? And I have a follow-up.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Okay, great. Stanley, this is Gino. So the backlog increase, let's first start with 2018 aging entering into 2018. We're better aged than we were a year ago, 12 months ago. The duration, I think you're getting after the duration of backlog, the duration on the Products backlog hasn't changed. I think you can go back and track that duration to revenue and it's been consistent for the past several years.

On the Services side, the duration is a little bit longer as we continue to sign multi-year agreements. I referenced seven and five-year agreements, in some cases, 15-year Services agreement and the duration, clearly, of that backlog is a bit longer.

<Q – Stan Kovler – Citigroup Global Markets, Inc.>: Got it. Thank you. And as a follow-up, I just wanted to ask you on the Avigilon acquisition. Looking back at their margin structure, especially the operating margins, they have much faster revenue growth but lower margins. How should we think about folding that business into your model? Is the revenue growth essentially offsetting margin from gross profit dollar contribution standpoint, or are there OpEx synergies as well in them? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: So I think it's too early to comment on how to think about it from a model perspective. We'll update you after the close, but I do think that – by the way, we expect to run this business self-contained as a separate subsidiary inside of Motorola Solutions. So we're very pleased with the structure of the organization, the talent quality, the patent portfolio, the distribution channels and we want to be very mindful that I think appropriately managed going forward, this will continue on a very successful track that they've demonstrated of execution. I think this is about building an end-to-end platform, adding another leg to the stool for public safety over existing distribution channels and brand by Motorola Solutions and giving them more scale to accelerate their growth.

<Q – Stan Kovler – Citigroup Global Markets, Inc.>: Got it. Thank you. That's helpful.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Hey, Stanley. This is Gino. I'll just reiterate something Greg said a few minutes ago. The expectation of Avigilon from an EPS prospective in 2018 would be a push. It is a push as well for the PlantCML business. We expect both Plant and Avigilon to be accretive 2019 and beyond.

<Q – Stan Kovler – Citigroup Global Markets, Inc.>: Got it.

Operator: Thank you. Our next question comes from Andrew DeGasperi with Macquarie. Please go ahead.

<Q – Andrew DeGasperi – Macquarie Capital (USA), Inc.>: Thank you. First, Greg, maybe could you comment on ESN? We've been hearing there's some additional delays in building out in rural areas? And then Gino, maybe kind of Avigilon quickly, I noticed that the breakdown of revenues geographically seems to be showing a slowdown in the U.S. but growing very fast in Europe and Asia. Do you see the opportunity essentially a turnaround in the U.S. business while also benefiting from those other tailwinds? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: On ESN, I don't really have any current update at this point in time. I'm just simply saying we worked really closely with the U.K. Home Office, particularly in Q4, as they go through some of their planning and regeneration of timeline. I think that, quite frankly, I thought the relationship has strengthened in the last several months. I was out in London either late November and December. We've had dedicated teams working very closely together and I think it'd be more appropriate to let them announce any kind of changes to their schedule. What I would tell you is that we are not planning on in our 2018 guidance any material revenue contribution from ESN.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: And Andrew, this is Gino on growth, and we'll clearly give you more details at the FAM and certainly after close. But the only thing I'd point you to is their compounded annual growth rate of 37%. Greg mentioned the TAM, 37% from 2012 through 2016. Greg mentioned the TAM. You can see the revenue number. So aside from just ups and downs, we absolutely see continued growth in the Americas and I think in conjunction with our distribution organization, we see growth in revenue synergies frankly in the rest of the world. We're very excited about the acquisition.

<Q – Andrew DeGasperi – Macquarie Capital (USA), Inc.>: Great. Thanks.

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

Operator: Our next question comes from Paul Silverstein with Cowen and Company. Please go ahead.

<Q – Paul Silverstein – Cowen and Company, LLC>: Thanks very much, appreciated. Greg and Gino, can you remind us prior to the CAD 100-plus million a quarter you're going to get from Avigilon, yeah, I trust video today is a fairly small piece, but surveillance and analytics in total, what is that organic revenue today?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah. I think the proxy, what we've said from a software perspective, command perspective, what we said publicly is approximately \$300 million. Now, I wouldn't disaggregate it further to video. That is the total number for the software business but that's currently where we are from a software perspective, at least in the command center. We have really – the only camera business we have right now is the body-worn business which is a relatively small percentage of our revenue.

<Q – Paul Silverstein – Cowen and Company, LLC>: I don't know if this is the right way to look at, but from a cursory look at the numbers, it looks like Avigilon doesn't break out hardware from software. They do one number. Any insight you can share with us in terms of that revenue stream you're going to be bringing on? How much of that is software versus the body cams?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah. I think Paul, it's a little bit early for that. We'll give more detail at FAM and when we close, and we will disaggregate it a bit more.

<Q – Paul Silverstein – Cowen and Company, LLC>: One last question, if I may. It seems to be going so well. In terms of the greatest variables, levers for better or worse, as you look at 2018 and beyond, I trust it's on the revenue line. You've done such a good job with OpEx. It sounds like gross margin. There's not a lot of room either way. If, in fact, it is revenue, what would be the variables that could drive significant upside or downside, the most prominent ones?

<A – Greg Brown – Motorola Solutions, Inc.>: I would answer it this way. I mean I think we're pretty prudent to begin with, in the way we guide the firm in Q1 and an annualized basis. So, you never can tell of course, but I think we've pretty effectively risk-adjusted our thinking around Q1 and the full-year both from a revenue standpoint and an EPS standpoint. I'm particularly comforted by the performance of the record backlog and the composition of the aged backlog that Gino referenced being higher going into 2018 than 2017.

The environment is strong right now. Geopolitically, we grew in every region and it looks like we have the opportunity to grow in every region again. And we're anchored by North America, which continually performs very strongly.

Second, I think I really like the performance in the low-end LMR business or what we also referred to as the commercial markets group. I think Molloy's team and Brda's Products team have performed exceptionally well there, and we're executing quite well.

I mean we've made changes on people. We've moved more front-facing bag-carrying quota-carrying people to the front lines. We continue to prudently manage OpEx. And we're, I think, doing a better job globally around our channel management. Now, that's not meant to be a commercial because there's a lot more work to do, but I think the foundation of growth, the durability of earnings, the visibility we have on the business positions us quite well for 2018.

<Q – Paul Silverstein – Cowen and Company, LLC>: Appreciate it.

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

<Q – Ben Bollin – Cleveland Research Co. LLC>: Yes, good evening, everyone. Thanks for taking my question.

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

<Q – Ben Bollin – Cleveland Research Co. LLC>: The first one, there's been some references to the better positioning of the aged backlog. I know in the K, you'll give us percentage of Product and Service backlog you expect to recognize. Can you give us that percentage now?

And then, my follow-on, I know the company – it sounds like you've implemented a number of dedicated sales initiatives in the commercial end-market, pursuing specific verticals. Could you take us through a little bit of what you've done? And if you feel like there's more opportunity, where you could do that in other verticals or if you're seeing additional verticals come online beyond oil and gas and heavy industry, things like that? Thank you.

<A – Jack Molloy – Motorola Solutions, Inc.>: Ben, I'll take – this is Jack. I'll take the second half of the question related to commercial markets. I'll answer it by saying, when I previously led the North American business, I came in, in 2015 and we had all of \$7 million in total backlog in that market. We had a small skunkworks team. I believe it was less than 10 people. They were appointed just really at oil and gas market which, as you know, is highly cyclical.

Subsequent to that, we built a team that's gone after the utility market, which has been our highest-performing market in commercial in the last two years in North America. A year ago, we scaled into transportation logistics, in manufacturing. And we've got a sizable team and really – then really focused at the Fortune kind of 300 level. We think that's where we played most. And we've also got an incredible force multiplier in terms of our channel, and they have done an outstanding job in covering the small/midsized business for us in North America.

Now, pivot to internationally, we've just stood up a commercial markets team, enterprise selling team in the Europe and the Middle East as well. Again, oil, large manufacturing and the couriers there is the target. And so to your point, moving from just an oil and gas practice into really a multi-manufacturing environment, where really Bruce's portfolio scales quite well. So, I think feel pretty good about the coverage that we've built. And I think Gino, there was a question...

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yes. Ben, this is Gino. We're really not in a position to disclose any elements of the K right now. But I wouldn't suspect you'll see anything surprising in the K. As I said, we're in a better aged backlog position and that extends to both Products and Services.

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

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

Operator: Thank you. We'll go back to George Notter with Jefferies. Please go ahead.

<Q – George Notter – Jefferies LLC>: Hi, guy. Thanks a lot for letting me follow-up. I guess I want to ask about the Managed Services initiative. Certainly, it's very interesting for you guys in that it expends

the TAM around your LMR business. I saw that it was up 17% this year. Can you just talk about some of the moving parts inside that initiative, what are customers saying, what's receptivity look like, how does the pitch kind of work for them? Thanks a lot.

<A – Jack Molloy – Motorola Solutions, Inc.>: George, it's Jack. So good question, by the way. Kelly Mark leads our global Managed and Support Service business. I think Kelly has done a great job. So, here's really – there's really an inflection point in the market, and we've seen this exist in the last, kind of, call it, five to six years.

Historically, a good deal of our customers maintained their own network, and think about these are labor union employees. They come at a pretty significant cost to the employee base. It was really an analog world. We supplied our own parts, essentially – essentially supplied all the parts around systems.

The world through P25 is pivoted to really IP-based networks, a lot of third-party components which has driven the sophistication and, frankly, the complexity of the networks, which has opened the door for us because they're so – they're quite sophisticated to maintain.

The other part of it is this whole thing about having 24-hour – 24/7 maintenance and, more importantly, potentially looking to move on to state-wide network off to just having regional controller network which has really opened the door for Managed Services as well. We've invested NOCs around the world, Network Operations Centers.

And so really, frankly, it's been a long slog in terms of North America and it's been an organic story. But around the world, we've also gone out, as Greg and Gino has outlined, and acquired operators as well. But all in, every region grows, every region for Managed and Support Center will not only grow but, as we've kind of said before, grow in the mid to high-single digits.

<Q – George Notter – Jefferies LLC>: Okay, great. And can you tell me what percentage of the Services business that might account for it now, just out of curiosity?

<A – Jack Molloy – Motorola Solutions, Inc.>: 40%. Approximately 40% to 45%.

<Q – George Notter – Jefferies LLC>: Great. Thanks very much.

<A – Greg Brown – Motorola Solutions, Inc.>: I think we'll take one more question, operator.

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

<Q – Keith Housum – Northcoast Research Partners LLC>: Thanks guys for the follow-up. Just a little housekeeping here. In terms of the share repurchase program that you guys have, obviously, some cash needs at the pension contribution and the Avigilon acquisition, is there any thoughts in terms of what your share repurchase activity will be in FY 2018?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. As we've said – good question, Keith. As now that we've kind of normalized the balance sheet, the capital allocation framework as we've suggested would be 50% of cash flow used for either share repurchase or M&A. Given that we plan to close PlantCML in Q1 and Avigilon, sometime in Q2, we are using cash on hand as well as short-term debt to fund the Avigilon acquisition. So as a result, our plan on share repurchase is very little in 2018. Probably about \$75 million this year and that's just to cover dilution but the remaining capital will be deployed – the remaining cash will be deployed to close those acquisitions.

<Q – Keith Housum – Northcoast Research Partners LLC>: Great. Makes sense. And if I could sneak in one more here. R&D popped up here in the fourth quarter. Any way to think about that going forward? Or is there a more opportunity to invest in R&D this quarter versus what you expect for 2018?

<A – Greg Brown – Motorola Solutions, Inc.>: I wouldn't interpret it one thing or another. Really it's probably really more just opportunistic, although, overall from an OpEx standpoint, as Gino mentioned earlier, we expect to drive OpEx down even further in 2018, and that's inclusive of acquisitions that have been completed already, which has \$20 million of OpEx that comes with it. And it includes the \$30 million headwind from foreign exchange. So, we will continue to do what we need to do surgically but impactfully around OpEx.

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

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

<A – Jack Molloy – Motorola Solutions, Inc.>: George, one point of correction. Managed and Support Services is a part of the overall composition of Services. It's not 45%. It's actually 65% or two-thirds of that revenue.

Operator: Thank you. I will now 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.

Thank you. Let me just add a quick reminder of our upcoming financial Analyst Day, February 27, in Chicago. Information about it can be found on our Investor Relations website. So with that, thank you, and good night.

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.