



Q4 2016 Earnings Conference Call Thursday, February 2, 2017

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

Other Participants

Pierre C. Ferragu – Analyst, Sanford C. Bernstein & Co. LLC
Matthew Cabral – Analyst, Goldman Sachs & Co.
Tavis C. McCourt – Analyst, Raymond James & Associates, Inc.
Timothy Patrick Long – Analyst, BMO Capital Markets (United States)
Kulbinder S. Garcha – Analyst, Credit Suisse Securities (USA) LLC
Keith Housum – Analyst, Northcoast Research Partners LLC
George C. Notter – Analyst, Jefferies LLC
Ashwin X. Kesireddy – Analyst, JPMorgan Securities LLC
Stanley Kovler – Analyst, Citi Investment Research (U.S.)
Paul Silverstein – Analyst, Cowen & Co. LLC
Vijay Bhagavath – Analyst, Deutsche Bank Securities, Inc.
Andrew DeGasperi – Analyst, Macquarie Capital (USA), Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for holding. Welcome to the Motorola Solutions Fourth Quarter 2016 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 2016 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 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 for the Q&A portion of the call.

We have posted an earnings presentation and news release at motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliation 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 2015 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 now 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 solid year. For the quarter, we grew revenue by 12%, including 4% organically. Additionally, we grew revenue in every region. Our Products segment revenue grew 9%, led by continuing strength in North America and reflecting the durability of our core LMR business.

Second, 2016 was a pivotal year for us as we returned to growth. We strengthened our competitive position and grew revenues 6%, while ending the year with a record backlog position and our Services segment grew 18% to \$2.4 billion, with Services now comprising 40% of our business.

And lastly, I'm very confident in our position going forward. Since the split six years ago, MSI's annual total shareholder return has averaged over 20% a year. We've strengthened our product portfolio, dramatically reduced our cost profile, normalized the balance sheet, reduced our share count by 52%, refreshed our board and senior leadership team and completed four key software and services-based acquisitions just this past year.

So with that baseline, I believe we're set up well for success going forward. As I think about 2017 and beyond, we remain fully committed to revenue growth, earnings growth, and continued cash flow improvement.

I'll now turn the call over to Gino to provide additional details on Q4 results and outlook before returning to provide some closing thoughts.

Gino Bonanotte, Executive Vice President & Chief Financial Officer

Thank you, Greg. Q4 results include revenue of \$1.9 billion, up 12% from last year, including Airwave revenue of \$124 million. The strong results were driven by growth in every region, 9% growth in Products and 18% growth in Services. GAAP operating earnings were \$403 million. Non-GAAP operating earnings were \$541 million, or 29% of sales, representing an improvement of 150 basis points from the year ago quarter.

GAAP earnings per share from continuing operations were \$1.43 compared to a \$1.56 in the year ago quarter. Non-GAAP EPS was \$2.03 a share, up from a \$1.58 in the year ago quarter, a 28% year-over-

year increase. Ending backlog is up \$1.9 billion from last year and \$234 million sequentially. The \$1.9 billion increase versus last year was driven by \$1.25 billion from Airwave, \$300 million from organic Managed and Support Services and \$300 million from Products.

For the remainder of the call, we will reference non-GAAP financial results, including those in our outlook, unless otherwise noted. For the full year, revenue grew 6%, including \$462 million of Airwave revenue. Revenue excluding Airwave declined 2% on weakness in Latin America and parts of Europe in the first half, while both North America and Asia Pac grew for the full year. Managed and Support Services grew 49% in the full year and 5% excluding Airwave.

Operating earnings were \$1.4 billion, up \$261 million, or 22% compared to the previous year. Earnings per share grew 48% to \$4.92. Free cash flow was \$894 million, up \$48 million.

Moving to the Products segment, Q4 Products sales were \$1.23 billion, up 9% from the prior year, driven by growth in every region. Q4 Products operating income was \$407 million, or 33% of sales, up 300 basis points from last year, driven by higher sales. Products backlog ended the quarter at \$1.5 billion, up approximately \$300 million from last year, primarily on continued strength in North America. Sequentially, backlog was up \$102 million, also driven by strong order volume in North America.

Q4 Services revenue was \$657 million, up 18%, including \$124 million of Airwave. Excluding Airwave, Managed and Support Services grew 5%. Services operating income was \$134 million, or 20% of revenue. Operating margins were down year-on-year due to higher integration costs associated with the completion of the Norway implementation phase as well as higher incentive costs for the 2016 backlog performance.

Services backlog ended at \$6.9 billion, up \$1.6 billion from last year. Of the \$1.6 billion increase, Airwave was \$1.25 billion, and organic Managed and Support Services was up \$300 million, driven primarily by North America. Sequentially, Services backlog is up \$133 million, driven by North America and Latin America, and it includes a \$250 million adjustment primarily due to the British pound.

Moving to operating expenses, total OpEx in Q4 was \$408 million, up \$22 million from the year ago quarter, driven primarily by M&A expenses and higher incentives associated with our 2016 record backlog performance. It's important to note that from a run-rate perspective, we achieved our 2016 target and remain on track for structural reductions to OpEx.

For the year, we reduced operating expenses by approximately \$80 million. Other income and expense in Q4 was \$41 million compared to \$51 million in the year ago quarter. The Q4 effective tax rate was 31%, and for the full year 2016, the effective tax rate was also 31%.

Moving to cash and capital allocation, Q4 operating cash flow was \$513 million, an increase of \$98 million from last year, driven by higher revenue and EBITDA. Free cash flow was \$453 million, up \$82 million. We ended Q4 in a net debt position of \$3.4 billion.

During the quarter, we repurchased \$114 million of stock, paid out \$68 million in dividends and repaid the term loan related to the Airwave acquisition. We also invested \$246 million in software solutions with the acquisitions of Spillman Technologies, Gridstone and Cyfas. Capital return for 2016 was \$2.4 billion. This is comprised of acquisitions of \$1.3 billion, share buybacks of \$842 million at an average price of \$70.28 and dividends of \$280 million.

Turning to our outlook, we expect Q1 sales growth of 3% to 5% and EPS between \$0.52 and \$0.57. This outlook reflects approximately \$50 million of incremental Airwave revenue versus the year ago quarter

and an average diluted share count of approximately 170 million shares, and it's based on current FX rates.

For the full year 2017, we expect revenue growth of 1% to 2% and EPS of \$5.05 to \$5.20. We expect operating cash flow to grow by approximately \$50 million to \$1.225 billion and free cash flow to be approximately \$950 million. This outlook is based on current foreign exchange rates and assumes Airwave revenue to be approximately flat from the prior year due entirely to currency.

Moving to regional results, North America grew 3% in Q4 and 2% for the full year, with approximately equal growth in both Products and Services. Backlog is up significantly in both Products and Services year-over-year and sequentially. Latin America revenue grew 21% in Q4 driven by Products. For the year, Latin America declined 20% on macroeconomic headwinds in the first half as well as expected iDEN declines. Ending backlog is up double-digits both year-over-year and sequentially, driven by large projects in Q4.

EMEA grew 45% in Q4 inclusive of Airwave and was up 1% organically. For the year, EMEA grew 33% including Airwave, excluding Airwave EMEA declined 15%, driven primarily by approximately \$100 million of lower Norway revenue associated with the completion of the implementation phase of the nationwide contract. Asia Pac revenue grew 15% for the quarter and 3% for the year, driven by the Products segment.

Finally, I'd like to end with some notable segment highlights. The Products segment's strong results reflect our continued focus on innovation, cost efficiency and execution. A few examples of this innovation and investment include targeted acquisitions, including Spillman Technologies and Gridstone, which strengthened our software offerings for public safety.

The release of new P25 and TETRA devices that provide advanced features and functionality, including Bluetooth 4.0, Wi-Fi and enhanced location services that enable future software and services opportunities.

Norway and Sweden conducted their first major cross-border emergency response exercise supported by our software that enables fully interoperable multi-vendor radio communications. This land mobile radio cross-border collaboration is spurring additional interests from neighboring countries and illustrates the power of our LMR communications platform.

Also, I want to mention some notable wins. A \$140 million P25 system deployment for the Washington Metro Area Transit Authority, enabling seamless communication both above and below ground. \$60 million to upgrade and maintain the citywide P25 system for the Metro Area of San Francisco and \$40 million to upgrade a P25 system that expands coverage and enables interoperable communications unifying eight cities in Argentina.

In the Services segment, we continue to grow our Managed and Support Services business around the world. Q4 multi-year service awards include wins in Texas, South Carolina, California, the United Kingdom, Argentina, China, and Latvia. Deals such as these help drive our Services backlog growth of nearly \$300 million or 7% excluding Airwave.

We expect our momentum in the Managed and Support Services business to continue as our customers choose Motorola expertise to help them navigate their fast-changing technology options at a predictable cost.

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

Greg Brown, Chairman & Chief Executive Officer

Thanks, Gino. Let me just close with a few brief thoughts. 2016 was a strong year of execution and growth, especially considering the macroeconomic headwinds in Latin America and parts of Europe earlier in the year.

For a little additional perspective, it's worth noting that North America grew each of the past two years and six of the last eight quarters, Asia Pac grew the past two years and EMEA returned to growth this year as well, all of which I think confirms the durability and longevity of our LMR platform.

So while I'm pleased with our results, we'll continue to drive the business for improved operating leverage and revenue growth in 2017, and I expect our record backlog position entering this year to support our growth going forward.

I'll now turn it back over to Chris.

Chris Kutsor - Vice President, Investor Relations

Thank you, Greg. Before we begin taking questions, I'd like to remind callers to please limit themselves to one question and a follow-up to accommodate as many participants as possible. Operator, would you please remind our 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 Pierre Ferragu with Bernstein. Please go ahead.

<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>: Hi. Thank you for taking my question. I'm looking at 2017. I just want to make sure I have the right picture here. So your guide of 1% to 2% revenue growth, if I adjust iDEN for where currency is today, I get an adjustment of maybe \$120 million to \$130 million, which means that your organic growth is somewhere between 3% and 4%. So just wanted to make sure that's the right picture.

And then if you can give us a sense of what gives you confidence in this organic growth, is that mostly Services or do you see growth in Products as well, and maybe in terms of geography? And then a quick follow-up, of course, on Q1. Your guide is below expectations and it seems like the seasonality between Q4 and Q1 is below what we've seen in recent years, so if you could explain us moving parts around that, it would be very helpful.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. Pierre, make sure I capture everything and if I don't, please follow-up. But let's talk about 2017. So, you're right. We're guiding a 1% to 2% at the top line. You correctly articulated that it incorporates a few things, right? So, iDEN is a negative headwind of \$50 million. There's an order for about – ESN for about \$25 million that with the delay of ESN gets pushed out of 2017. And the third dimension is Airwave. Now, Airwave is flat, contemplated in this guidance at about \$460 million in 2017.

As a footnote, Pierre, if we were operating with the pound at the rate that when we closed Airwave, just under a year ago, that would yield \$80 million – would have yielded \$80 million of additional top line revenue this year in 2017. So that's kind of the chalk the field on the puts and takes in 2017. We do believe organic growth will continue in 2017 and we do believe we'll grow in both Products and the Services segments, which is assumed in the overall 1% to 2% envelope for 2017.

For Q1, two points to make, right? So we look at Q1 and we look at Q4 more or less together. So, when we look – when Gino and I and Jack and Bruce, we look at Q4 and Q1 and combine those two quarters from a revenue and actually an EPS perspective, it's at or above where we thought it would be coming into Q4. So we had an exceptionally strong Q4 both on top and bottom, so I wouldn't necessarily get concerned about the linearity or the dimensions between the flow between the quarters.

The other note, Pierre, is on Q1 EPS, we have a higher tax rate and we have higher interest expense in Q1. Those two items are worth about \$0.08. So that should give you some other ingredients to help think about and dimensionalize the overall performance in Q4, Q1 and fiscal year 2017.

<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>: Excellent. Thanks, Greg. I think you've addressed everything.

Operator: Thank you. Our next question comes from Matthew Cabral with Goldman Sachs. Please go ahead.

<Q – Matt Cabral – Goldman Sachs & Co.>: Yeah, thank you. So you guys talked in this a little bit in the prepared remarks, but it looks like OpEx came in a little bit above where you're expecting for the full year. It seems like the first time that OpEx actually grew on a year-over-year basis for a while. So can you just dig in a little bit more into what drove that? And I know in the slide you said you're expecting OpEx down

year-over-year in 2017. But is there a specific number that you're willing to throw out at this point in terms of a target that you're looking to take out?

<A – Greg Brown – Motorola Solutions, Inc.>: So, Matthew, first of all, I would say that OpEx didn't come in higher – did not come in higher than expected. It came in exactly where we expected and we're achieving the run rate that we articulated previously. It's higher in Q4, primarily on M&A expenses and higher incentives accrued that are directly related to achieving a record backlog. So that's an expense I'll take all day long.

If you look at Q1 OpEx, it's up a little bit modestly, flat to slightly up. But for the full year, we expect OpEx to be down roughly \$20 million to \$25 million. By the way, that's inclusive of about \$40 million of acquisitions made. So overall, I'm very pleased with OpEx, on our run rate performance, the management team hit the targets they committed to me and we will reduce OpEx in 2017 over 2016 again and that's absorbing \$40 million of acquisitions.

<Q – Matt Cabral – Goldman Sachs & Co.>: Got it. And then on Services, it looks like there was a pretty big downtick in the operating margin just sequentially. Can you just expand a little bit more on what drove that and how should we think about the right level of profitability for that business going forward?

<A – Greg Brown – Motorola Solutions, Inc.>: I think Gino can chime in, but I think that the Services segment margin – operating margin was compressed primarily due to the completion of the Norway integration project and higher incentive accruals that were in Q4.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah. The only point I'll make that in 2016, Matt, margins were up 470 basis points to 21.6% and we talked for several quarters about the drag on Services margin related to some large implementation projects and once we completed those projects and returned to the Services margin in the mid-30%, 35%, approximately, and that's our continued expectation. Margin overall for 2017, our expectation is comparable to 2016.

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

Operator: Thank you. Our next question comes from Tavis McCourt with Raymond James. Please go ahead.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Hey. Thanks for taking my questions. Gino, I wonder if you could talk a little bit about cash flow and CapEx expectations in 2017. And then Greg, the backlog growth when you kind of make all the adjustments in 2017 was actually quite substantial, both in Product and Services. And I think you mentioned it was predominantly North America or skewed towards North America. Is this all LMR or is any of this LTE or other business lines? Thanks.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: I'll start with cash flow, Tavis. So cash flow expectation for 2017, we said up approximately \$50 million in operating cash flow to \$1.225 billion. And I will point you to the difference in cash tax rate 2016 to 2017. The 2016 cash rate was 8% and right now our view of 2017 is 15%. And CAPEX, we expect to be comparable to 2016, perhaps slightly lower, as we continue the build out of ESN as well as the ERP system deployment.

<A – Greg Brown – Motorola Solutions, Inc.>: CapEx? You covered?

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

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

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: The other was backlog.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. Aged backlog, Tavis, you're right, it was up nicely both sequentially and year-over-year. It is definitely overwhelmingly LMR and command center software. It's not LTE. Public Safety LTE for 2016 was about \$140 million, by the way for 2017 we expect it to be comparable also around \$140 million. So definitely the strength of our backlog is LMR driven and associated software around LMR.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Great. Thanks a lot.

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

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

<Q – Tim Long – BMO Capital Markets (United States)>: Thank you. Greg, following up on Public Safety LTE, obviously, we saw a push out at FirstNet. If you could just talk a little bit about planning assumptions around that and whether or not you think there's been any impact on other Public Safety LTE business in the U.S. kind of as we wait for that decision?

And then secondly, could you just talk a little bit, give us some color on the two acquisitions. I think you mentioned an OpEx impact of \$40 million. Could you talk little bit about what that could mean to the top line for 2017 and what do you think that could possibly add to the growth rate if we look out a few years? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: So, on FirstNet, Tim, nothing really new to report. We still anticipate FirstNet to be awarded by the end of Q1. We definitely view it, we have and we continue to view it as an incremental opportunity. There's no revenue at all in 2017 as you wouldn't expect that's contemplated with FirstNet. And we're still actively in the game. And we'll see how it unfolds.

I think the opportunity there for us will be or could be around broadband enabled devices, mobile apps, software services, and I think we're well positioned there, especially given the coverage in the U.S. and the domain expertise around public safety. So that's really the long and short of it. We'll see what happens over the next few months. And what was your second question?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: It was OpEx related to the two acquisitions.

<A – Greg Brown – Motorola Solutions, Inc.>: OpEx. So Spillman...

<Q – Tim Long – BMO Capital Markets (United States)>: It was more the revenue – what kind of revenue impact we could have and what it could do to growth rate?

<A – Greg Brown – Motorola Solutions, Inc.>: Yes. So the acquisitions obviously are contemplated in the guidance for full-year 2017, Spillman is about \$50 million a year. And I think that the important part of that and those acquisitions is you – we have a Services business now that's 40% of total revenue. When we take software and services, I think it's about 43% or 44%. You will see us continue to invest both organically and look opportunistically inorganically around software and services.

So the larger the LMR platform, and you saw our Products segment there, the broader the footprint. That's a greater opportunity to monetize on services, managed services, support services. We'll always

be on the lookout for acquisitions that would be Airwave-like in their attractive characteristics where we can operate and take ownership of those networks. So I'm very pleased with the strategy and the execution of it.

And also, we've talked about right going from critical communications to critical intelligence. And the critical intelligence is having a better footprint and incumbency in the command center, and Spillman hits the sweet spot among others with ECW in filling out that portfolio. So I think we're well positioned going forward.

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

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

Operator: Thank you. Our next question comes from Kulbinder Garcha with Credit Suisse. Please go ahead.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC>: Thanks. I joined the call a little bit late, but maybe you answered this. Can you just say whether you've outlined what the impact of acquisitions is in this year's revenue for the various acquisitions that have closed and year-on-year? That's one thing. So I'm trying to think about your organic growth rate.

And then the second thing is on the cost cutting side. I heard a talk about further OpEx reductions, just in – over the long term period of time, you guys have been very well in taking cost out, is there still this approach that you could grow the top line low single digits and keep OpEx flat or even continue to bring it down? Are we at the end of that kind of process? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. Kulbinder, so in the acquisitions, it's just noteworthy to talk about the two most important. Airwave is flat year-on-year at about \$460 million, that's contemplated in our guidance. And I just mentioned a few minutes earlier that Spillman, the most recent acquisition in Q4, is about \$50 million of annualized revenues. So obviously that is contemplated in our full-year guidance.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah. The only thing to add, Kulbinder, if you were late to the call, as Greg articulated earlier, we expect iDEN to be a \$50 million headwind in 2017. If you're doing the math, the puts and takes.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC>: Okay, okay.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. From an OpEx standpoint, I'm really pleased with what we've done. We achieved the organic reductions that we set out to do in the beginning of the year. And we will take OpEx down again, anticipate it to do that in 2017. Kulbinder, probably about \$20 million or \$25 million, but that includes absorbing \$40 million of acquisitions. So we continue to bring further efficiencies and higher productivity out of the footprint of the business, and leverage is positive because it flows through and as we're growing again and at a very core – at a very significant organic growth rate in Q4 of 4% and we do contemplate continued organic growth in 2017, I think we're set up well from a leverage and flow-through standpoint.

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

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

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. First question for you is more housekeeping. In your FY 2017 guidance, what's your share for repurchase assumption for the year?

<A – Greg Brown – Motorola Solutions, Inc.>: It's about 50% of operating cash flow if we look at the framework that we outlined. So, when you run the numbers on that, it's about \$600 million to be used for either share repurchase or acquisition, depending upon how we want to take opportunities that present themselves in front of the business.

The other thing, Keith, I'd say is it's a framework, not a prescription. So, as we think about it, that's kind of the guidepost or the way we think about it from this point going forward, but we'll look at opportunities as they come, and Gino and I will make the decisions accordingly. We have a very flexible balance sheet and remember this business is – the cash flow is strong. It's \$1-billion plus a year going forward, so I think we have the flexibility to do what we need to do.

<Q – Keith Housum – Northcoast Research Partners LLC>: Yeah, okay. And then more of a theoretical question for you here. I know it's kind of tough to answer, but I've got to ask it. Obviously, we've got a change in administration here, we have a new SEC head and there's some discussions of tax reform and border taxes and things of that nature. But just in general, how are you guys thinking about the change in administration, how it may impact the business?

<A – Greg Brown – Motorola Solutions, Inc.>: So early days, obviously two weeks into the President's presidency, but I'm cautiously optimistic. I think the favorable trends to us – so a few things. Corporate tax reform reduction is obviously, the prospects of that is a positive and the notion of less red tape and less regulation also is positive. But those two things apply to all businesses.

I think what's unique to us with this administration is it appears that they have a strong priority around law enforcement and security and I think those themes and trends could prove to be favorable to us. We'll see supporting us going forward. Obviously, it's very early. There's other things around trade, immigration, you know that two-thirds of our revenue is North America. If we take examples of China, which gets a lot of news and noise.

China is about 3% of our overall revenue now, it was down over 20% last year. This year, we're contemplating it to be flat to down and the management of our business there, even though it's a significant opportunity, we've thought about it in the context of the guidance we've provided you. So I think we have it sized pretty well and I'm cautiously optimistic about some of the opportunities that we may be presented with.

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

Operator: Thank you. We'll go next to George Notter from Jefferies. Please go ahead. Mr. Notter, your line...

<Q – George Notter – Jefferies LLC>: Can you hear me?

<A – Greg Brown – Motorola Solutions, Inc.>: Yes, we can hear you, George.

<Q – George Notter – Jefferies LLC>: Yeah, I'm turning off the mute here. So, great, if I can ask about Product growth, you guys are talking about organic Product growth this year, but I guess I'm curious about where you see the biggest levers in driving that organic Product growth? Is that mainly North America? I know there were some changes being made in the sales organization in terms of analytics exercises to kind of focus your selling effort. I know you guys are focused more on verticals. I think there maybe even some pricing changes. But can you just talk about the big levers on Product growth? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. Maybe Jack and I will tag team this, but I'm very pleased with where we are on it. Q4 was strong. It was lead by North America. By the way, we had a very good Q4 in PCR, or we call it Professional and Commercial Radio. So, that quarter for that line of businesses was better than several of the last quarters. So I was very pleased with the performance of Jack Molloy's team.

I think that we had growth in North America for Products sales. We also had growth in Asia Pac. I think that was commensurately offset by, obviously, the dramatic weakness macroeconomically in Latin America and the first half weakness of EMEA. But overall, I like the position that we're in and I think that – I think we'll have Products segment sales growth for 2017 and there's opportunities that are in front of us in each region.

Operator: Thank you. Our next question comes from Rod Hall with JPMorgan. Please go ahead.

<Q – Ashwin Kesireddy – JPMorgan Securities LLC>: Yeah. Hi. Thanks for taking my question. This is Ashwin on behalf of Rod. Can you comment on your visibility probably beyond Q1, do you feel more comfortable now than you were at the same point last year?

<A – Greg Brown – Motorola Solutions, Inc.>: We do. I think we've continually done a better job of managing the funnel and sizing up demand and risk adjusting, backlog as we talked about both year-over-year and sequentially is up. Aged backlog is up pretty handsomely. So I think we have as good a view as we've ever had quite frankly from a visibility standpoint into the business as we sit here today.

<Q – Ashwin Kesireddy – JPMorgan Securities LLC>: And just more specifically on the U.S., if we exclude other acquisitions, do you still anticipate to grow revenue here in the U.S.?

<A – Greg Brown – Motorola Solutions, Inc.>: Yes, we do.

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

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

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

<Q – Stan Kovler – Citi Investment Research (U.S.)>: Yeah, thank you. I wanted to just follow-up a little more on the Products segment. And I have a follow-up. So with respect to Product, I just wanted to get a better sense of where we are within the backlog as far as the aging of the backlog and some of the deals that have been there for some time, and what impact that's having on the current revenue trends in Products?

And within that, if you can also help us understand in your installed base, is it a matter of the fleet of products that your customers have that's getting old, that's driving some of the end device Product revenue?

And then the final piece of that Product question would be, I just want to better understand the software elements of Product. It sounded like when you add software to Services, it would increase to 43%, 44% of revenue. So, maybe you can just reiterate what the Product versus software mix in that overall Product pie is? Thank you very much.

<A – Greg Brown – Motorola Solutions, Inc.>: Well, okay, so let me make sure I can try to capture everything and if I don't, Stanley, follow up. But we talked about that Services which includes installation services as 40% of our business for 2016. So when you add software in of a few hundred million, it takes it to about 43%. That's a 2016 view.

I think there's a number of things that are driving demand for our business. Some of it is age of the technology and refresh it, but a lot of it is upgrading it in current releases. It's the need for newer digitally more spectrally efficient radios with more feature functionality, public safety has always remained high in the value chain of mission-critical communications, particularly in developed countries, certainly in North America. I think that continues to be a strong component of overall demand.

Things around border security, immigration, long-haul terrorism in other parts of the country all lend itself to the need for mission-critical, encrypted, secure, end-to-end, reliable, redundant always on communications, very different than a smartphone, very different than a cellular network. And in these times, I think there are a variety of things that remind people and reinforce the need to invest in land mobile radio. I think each time we put in a system, we see, Stanley, many customers still buying 10-year and 15-year maintenance contracts on these systems and platforms that are going in.

So in addition to that, the more systems that are in, people think about monetizing and upgrading from a services contract and adding other software to it. So there's a lot of different factors. It depends by region, but there's a number of drivers from a demand standpoint that I think reflected very favorably in Q4 and reflect the fact that we continue organically that this business will grow in 2017, by the way, in both segments of Product and software.

I wasn't sure I totally understood the backlog question you asked. But I would simply say that it's up. First of all, it was up in three or four regions. And it was up in Product and Services and it was up year-over-year and sequentially. And aged backlog was up very nicely. And the aged backlog increase in combination with improved process that I talked about earlier gives us higher confidence in the visibility and hitting the growth targets that we outlined for top and bottom line guidance.

<Q – Stan Kovler – Citi Investment Research (U.S.)>: Thanks. I appreciate it. Yeah, the aged backlog question was the key there, so I appreciate the detail. I also just wanted to follow up on some of the more commercial trends. If you can just walk us through globally what you have done in PCR, both in Q4 and what the outlook is in that segment of the business for 2017? Thanks a lot.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. We don't guide by that PCR segment specifically. We haven't and we don't expect to. What I would say, Stanley, though is Jack Molloy's team is executing very well. Thematically, we grew – not thematically, we did grow in all four regions in Q4. It's the best quarter I've seen in the PCR, the Professional and Commercial Radio business in several quarters. It's a combination of improving the product portfolio, better execution, new management, particularly in EMEA, Viv Francis has done a fantastic job there.

And we – I just think that the team is executing well. The portfolio is stronger than it was a year ago. And I think it's a good opportunity for us. It was a little spotty historically on execution, and historically we had a product gap or two on the very low end. I think Bruce Brda's team on portfolio and Molloy's team on sales

coverage and execution have done some significant things to solidify that business since its history in the last year or so.

<Q – Stan Kovler – Citi Investment Research (U.S.)>: Thank you.

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

<Q – Paul Silverstein – Cowen & Co. LLC>: Thanks, guys. I'll actually try to ask one question, but it's a broad one. And I did hear the responses to the previous question. So, that said, where is the biggest delta? Greg, I heard you say that visibility is the best it's ever been and you articulated the reasons, but when you think about where things could go differently from your current expectations for better or worse, what's the one or two things that could drive greater – have the most impact in terms of greater growth or coming up short?

<A – Greg Brown – Motorola Solutions, Inc.>: So, Paul, good question. I should just say that I think that we've done a much better job in the rhythm of meeting or beating expectations. And that's for a whole host of reasons, but I think it's important just to mention at the top that that remains front and center on us taking forecasting very seriously and all of us individually, collectively having every expectation to deliver on the commitments that we've outlined.

That said as context, things in the unknown in 2017 you can never predict FX. We've certainly seen that in 2016. We had Brexit that I don't think a lot of people predicted in June, July, but we were still able to hit guidance both right exactly in the midpoint of revenue for 2016 and overachieved at the high end of EPS and I think that's a credit to Gino and the finance team as the way they kind of baked in the volatility or potential variability of Airwave in fiscal 2016. But Paul, for sure, one of the unknowns is FX. I think that that's really the one that comes to mind, top of mind, I think you get into – could there be an economic downturn or a trade war? Maybe.

But again, 65% of our revenue is North America and when I look at – let's take Mexico and China, since they are the most talked about. China is 3% of our business and we're forecasting it to be flat to slightly down. Mexico is less than 1% of our business. So despite all of the chatter politically between the U.S. and Mexico, the fact of the matter is our business is very small there. If anything, I think there's opportunity there for us. But – so I think the answer to your question, the best thing is FX is the biggest wildcard and economic volatility associated with a trade war would be the other one.

<Q – Paul Silverstein – Cowen & Co. LLC>: Greg, if I may, just a clarification on the previous question. In terms of the plethora of drivers that you have, can you remind us what is the average age of, to assume there is an average of your – on the Products side. And what percentage – and I recognize it's only one of the drivers, but what percentage is at or near that end of life?

<A – Greg Brown – Motorola Solutions, Inc.>: So, Paul, I don't know the answer to that. I could tell you that there's just so many different systems. There's literally thousands of systems installed around the world. I think the last count I remember there's about 11,000 or 12,000 systems globally. They vary so wildly, I wouldn't be able to estimate an average. So I don't know the answer to that.

<Q – Paul Silverstein – Cowen & Co. LLC>: Got it. I appreciate it. Thank you.

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

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

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

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

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

<Q – Vijay Bhagavath – Deutsche Bank Securities, Inc.>: Yeah. A question and a sub-question, if I may. The question is, software and recurring revenues is an important part of your fundamental story. I'd like to get kind of state of the state, how would you view software and recurring revenues, both Product wise and also impact to model as we head into the year?

And then the sub-question would be on product mix and seasonality, now with new administration, new heads of fed agencies et cetera, do you anticipate any changes in mix, any – the seasonal variations this year in your fed business? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: In terms of annuity revenue or recurring revenue, about 25% of our 2016 revenue is recurring revenue or has the profile of recurring revenue. We love that, obviously, from a managed services and software standpoint. We're going to be very flexible on business model going forward and we'd like to accommodate customers in different ways to sell them solutions flexibly. Could be selling as a product, could be selling as a service, but we'll price flexibly to accommodate the demand requirements of our customer set.

From a seasonality standpoint, specifically with the U.S. federal business, I have to give a shout out to specifically Mark McNulty here at the U.S. Federal business that runs it. He's done a great job, he and his team. We had a very good year in 2016. Double-digit growth, above \$500 million. As we think about it this year, we're thinking about it being comparable to that number figure, probably flat to low single-digit growth coming off such a very good year in 2016.

<Q – Vijay Bhagavath – Deutsche Bank Securities, Inc.>: Perfect. Thank you.

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

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

<Q – Andrew DeGasperi – Macquarie Capital (USA), Inc.>: Thanks. Greg, first maybe can you give us like a situation maybe in the UK where ESN, let's say, gets delayed in a meaningful way. I mean, would that – should we consider that as a positive for your LMR business there? And then secondly, Gino, can you maybe explain the unfavorable currency adjustment in your backlog, it included \$215 million on a sequential basis in Q4 versus \$50 million in Q3. I know the pound obviously is a part of that, but is there any other currency that you would sort of highlight?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. In terms of ESN, it has been delayed to mid-2018. But in terms of our responsibility for ESN, we're on track. Our deliverables are progressing well against the Lot 2 requirements, which is software for apps and the data center. We remained very closely aligned with the U.K. Home Office, so I think it's good.

Now, I did mention earlier that with the delay, it's probably about \$25 million of revenue that we had hoped for in 2017 that looks like it has gotten deferred outside of that. But nonetheless, we continue to work well with the U.K. Home Office.

I think it's too early to speculate on impact on Airwave. So we'll just continue to work closely with the customer making sure obviously that Airwave performs the way it needs to and it has and I think it will continue to and from our expectation from a contract standpoint, we're very pleased with the Airwave acquisition. But we are equally cognizant of doing everything we can for the U.K. Home Office on ESN and we'll manage those interdependencies.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: And with respect to the \$215 million adjustment at the end of Q4, that was predominantly – primarily related to the pound.

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

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

Operator: Thank you. 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

No. Thank you for joining us today. We'll be – we'll talk soon.

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.