



Q1 2015 Earnings Conference Call Wednesday, May 6, 2015

PARTICIPANTS

Corporate Participants

Shep Dunlap – Vice President, Investor Relations, Motorola Solutions, Inc.

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

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

Mark Moon – Executive Vice President & President, Sales and Product Operations, Motorola Solutions, Inc.

Bob Schassler – Executive Vice President, Solutions & Services, Motorola Solutions, Inc.

Other Participants

Tim Long – Analyst, BMO Capital Markets (United States)

Ehud A. Gelblum – Analyst, Citigroup Global Markets, Inc. (Broker)

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

Rod B. Hall – Analyst, JPMorgan Securities LLC

Tavis C. McCourt – Analyst, Raymond James & Associates, Inc.

Simona K. Jankowski – Analyst, Goldman Sachs & Co.

Fahad Najam – Research Associate, Cowen and Company, LLC

Dominic Ruccella – Research Associate, Northcoast Research Partners LLC

Michael E. Genovese – Analyst, MKM Partners LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and thank you for holding. Welcome to the Motorola Solutions First Quarter 2015 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 open for your questions following the presentation.

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

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Shep Dunlap, Vice President, Investor Relations

Thanks, and good morning. Welcome to our 2015 First Quarter Earnings Call. With me today are Greg Brown, Chairman and CEO; Gino Bonanotte, Executive Vice President and CFO; Mark Moon, Executive Vice President and President, Sales and Product Operations; and Bob Schassler, Executive Vice President, Solutions and Services. Greg and Gino will review our results along with commentary, and Mark and Bob 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 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 this morning's earnings news release and the comments made during this call, and the Risk Factors section of our 2014 annual report on 10-K and other Motorola Solutions reports and filings with the SEC. We do not undertake any duty to update any forward-looking statement.

I'll now turn it over to Greg.

Gregory Q. Brown, Chairman & Chief Executive Officer

Thanks, Shep. Good morning, and thanks for joining us today. I'd like to make a few opening comments about the first quarter and the business overall before Gino takes us through the results and the outlook. First, Q1 was a solid quarter for us. Revenue was flat, although when adjusting for currency, the business grew 3% with growth in all regions except Latin America. Additionally, we posted double-digit profitability growth with a 24% increase in non-GAAP operating earnings and a 36% increase in non-GAAP earnings per share.

Second, I'm very pleased with another excellent quarter of growth in North America, which grew 6% on strong product sales. Overall, our business continues to show signs of improvement, including our backlog position at the end of the quarter, which grew 8%.

And third, we continue to drive future growth through important investments in innovation, and we're driving an increasingly-efficient cost base that positions us well for improved leverage and stronger cash generation.

I'll now turn the call over to Gino to provide additional details on Q1 results and our outlook.

Gino A. Bonanotte, Executive Vice President and Chief Financial Officer

Thank you, Greg. Good morning, everyone. First quarter revenue was \$1.2 billion, flat versus Q1 of 2014, up 3% in constant currency. Additionally, ending backlog was up \$442 million or 8% versus last year, and up 1% versus Q4, inclusive of a \$149 million unfavorable FX adjustment to backlog in Q1. GAAP operating earnings were \$119 million. Non-GAAP operating earnings were \$156 million or 12.8% of sales, a 250 basis point improvement from the year ago quarter. GAAP EPS from continuing operations was \$0.40 per share compared to \$0.33 in the first quarter of 2014. Non-GAAP EPS grew 36% year-over-year primarily driven by our cost-savings initiatives. For the remainder of the call, we will reference non-GAAP financial results, including those in our outlook, unless otherwise noted.

Turning to the Product segment, Q1 sales were \$758 million, up 1% versus the prior year and up 3% in constant-currency terms. Growth was driven by strong demand in North America for our P25 and PCR product lines. Q1 Product segment operating income was \$90 million, up \$38 million to 11.9% of sales versus the prior-year quarter, driven by our cost-reduction actions. Product segment backlog ended the quarter at \$1.2 billion, up \$132 million versus last year and up \$43 million sequentially, reflecting the fourth consecutive quarter of increase. The year-over-year increase was driven primarily by Asia Pac and the Middle East, while we also saw an increase in North America. As expected, we saw a decrease in Europe related to the continuing deployment of the Norway system.

Turning to Services, Q1 Services revenue was \$465 million, down 2% as expected. iDEN and integration services declined, while key growth areas of managed services and lifecycle support services were slightly up compared to last year. Excluding both iDEN and the impact of FX, our Services business grew 3%. Services operating income was \$66 million, down \$8 million to 14.2% of revenue, driven primarily by lower iDEN sales and a lower gross margin in integration services. As we stated in our Q4 call, we expect lower service gross margin in the first half of 2015. We continue to expect a return to the mid 30% gross margin range for the second half of the year. Services backlog is \$4.6 billion, up \$310 million or 7% versus last year, and flat sequentially despite a \$145 million foreign exchange adjustment in Q1.

Moving to operating expenses, total company operating expenses from continuing operations were \$396 million, down \$60 million or 13% from the year ago quarter, driven primarily by continued cost reduction activities, as well as some benefit due to pension expense and a stronger dollar. Our largest decline came in G&A, while we also drove reductions in sales and marketing and R&D. As of the end of Q1, we are on a run rate to deliver savings of \$150 million to \$ 175 million versus 2014. We are well positioned to deliver solid operating leverage as we move throughout the year.

Other income and expense in Q1 was \$37 million compared to \$18 million in the year ago quarter. Our Q1 effective tax rate was 29%. We continue to expect full year 2015 effective tax rate to be approximately 33%. We also continue to expect our cash tax rate to remain at approximately 15% through 2019.

Turning to cash flow. Cash flow from operations in the first quarter was \$151 million, an increase of \$139 million year-over-year. The improvement in cash generation was driven primarily by working capital improvements, specifically accounts receivable. We ended Q1 in a net debt position of \$43 million. In Q1, we repurchased \$653 million of stock at an average price of \$66.12, while paying out \$75 million in dividends.

Now, turning to our outlook. We expect total company sales for Q2 to decline 3% to 5%, which includes approximately \$45 million in year-over-year currency impact. This outlook also includes approximately \$20 million in headwinds in the second quarter related to the temporary delay of the LA-RICS Public Safety LTE deployment. We expect non-GAAP EPS between \$0.51 and \$0.56. Factoring in Q1 results, our first half expectations remain unchanged.

Moving to the full year, our revenue outlook remains unchanged. We continue to expect full year 2015 sales to be flat to down 2%, which translates to 1% to 3% growth in constant currency terms. We now expect full year non-GAAP EPS of \$3.20 to \$3.40 a share.

I'll now turn it back to Greg.

Gregory Q. Brown, Chairman & Chief Executive Officer

Thanks, Gino. I'm encouraged by our Q1 results. North America was a particular bright spot which grew 6% on strong product sales. North America has posted two consecutive strong quarters of growth, and we believe the region will return to growth for the full year. Backlog is up in this region over \$500 million on a year-over-year basis.

Moving to the other regions, the Europe and Africa region declined 11% in Q1 due to currency. Adjusting for currency, the region posted 1% growth. Asia Pac saw a 5% sales decline in Q1 or flat excluding currency. Order activity here has been healthy, and aged backlog in Asia Pac is higher than the second half of last year.

Our Middle East business, while smaller, is growing quickly, with a large rise in backlog, both year-over-year and sequentially, as the large Public Safety LTE win we mentioned last quarter added over \$200 million to the backlog position.

Latin America had a challenging quarter due to a strong prior year compare, along with a significant decline in iDEN, as expected. Additionally, there's also a number of countries there that are facing difficult macroeconomic conditions, which is tempering our expectations in the region for the full year.

Turning to segment highlights and initiatives, in our Product segment, we're making progress across and against our growth initiatives of driving system upgrades, software enablement, monetizing product enhancements and new product introductions. In the quarter, we earned new business from customers upgrading aged systems, and purchasing additional software features and functionality. We also delivered more core innovation within our Product portfolio with a specific customer-driven solution such as the APX8000, a P25 portable radio featuring integrated Wi-Fi and quad band radio all in one device.

The Wi-Fi capability enables more efficient radio management for our customers, with a faster broadband connection for software feature and firmware updates. Additionally, this breakthrough technology enables four radio bands in one device, and allows our public safety customers to communicate across borders and between systems using a single device that further improves interoperability. From an R&D perspective, the APX8000 incorporates our newest platform development approach that will be fully leveraged on future models in order to minimize cost and drive simplification.

Another portfolio enhancement this quarter includes TETRA radio innovations specific to mission critical demands. Our new devices have improved ruggedness, coverage, audio and enhanced security features that better serve the specific needs of our public safety customers. In addition to new and improved device innovation, our North America P25 infrastructure now incorporates WAVE technology, which enables the convergence of LMR and LTE access from any device via an IP connection.

Our customers are responding to these growth drivers through strategic wins such as the Norway project utilizing WAVE technology to enable secure approved users, the ability to monitor and utilize specific talk groups while outside the country or network; the \$135 million South Australia network that's a major upgrade of an existing system with new features and functionality; the \$46 million win with Hamilton County, Ohio that's an upgrade of their existing system with integrated voice and data capabilities that not only improves their network today, but enables continuous upgrades to new features and functionality via software updates going forward.

Our Services segment revenue was down slightly this quarter due to currency pressure, iDEN and integration services declines. However, we posted increases in the areas of lifecycle support services, managed services and Smart Public Safety solutions. Lifecycle wins include a \$32 million award with Hamilton County, Ohio for a multi-year hardware and software maintenance agreement on top of the \$14 million hardware and system upgrade. It also includes a multi-year hardware and software agreement with the City of Columbus, Georgia for \$7.2 million, plus \$5.8 million for a multiyear PremierOne CAD maintenance agreement. Both of these support agreements are on top off a \$6 million order for conventional equipment.

Our managed services business earned several notable wins, including \$62 million for a multiyear managed services contract that was a part of the South Australia Government Radio Network deal, and we also won multiyear managed services deals worth \$9 million in Brazil and \$8 million in Iraq. Finally, our Smart Public Safety Solutions business was bolstered with the acquisitions of Emergency CallWorks and PublicEngines. Both companies are leading providers of software-based solutions, solidifying our offerings in command and control, and next generation 9-1-1 call centers and intelligence-led policing solutions.

Key wins include a \$6 million command and control contract with a country in Africa, \$3 million to expand the city of Chicago's video surveillance system, and several CAD and next-generation 9-1-1 wins, leveraging our new Emergency CallWorks portfolio.

So let me close with a few thoughts. First, Q1 was a solid start to the year in terms of sales momentum and ending backlog position. We performed particularly well in both North America and the Middle East. Second, we continue to make excellent progress driving further operational efficiencies, while also improving speed and execution. We feel confident about delivering on our cost targets and will keep applying the proper rigor to size the business appropriately for the long term. And finally, we continue to aggressively return capital to shareholders. We bought back \$653 million of stock and paid \$75 million of dividends in Q1. We've returned over \$2 billion to shareholders just in the past two quarters alone, and we've now moved into a net debt position. And that said, we remain focused on further improving the efficiency of our balance sheet.

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

Shep Dunlap, Vice President-Investor Relations

Thanks, Greg. Before we begin taking questions, I would like to remind callers to limit themselves to one question and a follow-up so we can accommodate as many people as possible.

Operator, would you please remind our callers on the line how to ask a question?

QUESTION AND ANSWER SECTION

Operator: Thank you. And we can take our first question from Tim Long with BMO Capital. Please go ahead.

<Q – Tim Long – BMO Capital Markets (United States)>: Thank you. Two questions for me. First, on the revenue side, obviously, backlog looks strong two quarters in a row here even, ex-ing out the currency. It looks like the second half implies pretty flat year-over-year. So just wondering why that's not a little bit stronger. Is there something in the aging of the backlog or something that maybe makes us feel better about heading into next year? And then secondly, on the gross margin side, I get in the quarter that services was a little bit of a drag. Just curious on the Product side, that was down a little bit as well. Just curious, are there any measures you can take to match the strong performance you're having on the OpEx side and maybe get some more efficiencies out of the gross margin line on Products? Thank you.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Good morning, Tim. This is Gino. I'll start with the gross margin question specifically in Product. The impact of currency is really what we're seeing from a Product gross margin perspective. It's about 50 basis points on gross margin. Actually, it's a bit larger than that, offset by strong North America Product sales. And we continue to explore and work different options to minimize, certainly, the impact of FX, as we've done in OpEx. With respect to the backlog position, nothing's really changed in the aging. It is a little bit different expectation of the in-year orders versus backlog orders for the remainder of the year, but there is no change in aging – any appreciable change in the aging of backlog.

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

Operator: And our next question will come from Ehud Gelblum with Citi. Please go ahead. Your line is open.

<Q – Ehud Gelblum – Citigroup Global Markets, Inc. (Broker)>: Thanks, guys. Appreciate it. Very strong, stable results. A couple questions. First of all, at what point do you expect to [ph] lap (18:36) Norway? And x-Norway, is Europe stable or still declining? And is it – once we get past – I assume by the end of this year, we'll certainly be past the initial decline in Norway, does Europe start growing? And then one of your competitors, Harris, obviously is having some issues. A lot of that is share gains by you guys. I'm assuming most of that is North America. Is there any way you can parse out how much of the strength you see in North America is share gains from Harris versus how much is underlying market growth? And then lastly, a comment on LTE. Obviously, LTE has had a rough quarter, both at LA-RICS and at FirstNet. What are your thoughts?

We saw the guidance, the \$20 million in headwinds from LA in Q2, but what are your thoughts on the \$100 million for this year and for next year? And just kind of just walk us through the – your long-term thoughts on LTE. What are the different directions that can go in, both kind of in a normal bull case but also in a bear case? What could happen if LTE and FirstNet really doesn't get off the ground? What does that scenario look like for the next couple of years then for your business? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: So, Hoody, a couple of things. Let's start with – I'll start with Harris. Yes, I think clearly that the 4% growth in Q4 led by Jack Molloy and his team, as well as the 6% in Q1, really strong performance. Now, we don't expect North America to grow for the full year at those levels. But that said, there's no question we are taking market share from them. I don't know the exact bifurcation of share gain versus overall market lift. What I would say is though, as per my previous comments, I thought that narrow banding would largely be behind us by the first half of this year. I would say that, that's still true given not only the North America growth performance, but the device performance specifically within North America. That's first.

Second, LTE. Despite the LA-RICS delay and the \$20 million headwind in Q2 and the down scoping of that project for the full year, I remind you that we have three projects, large ones, that generate probably 90% plus of the LTE revenue. Even with the headwinds in LA, and we're pleased that, that suspension's been lifted, we're looking forward to completing a successful system. We still believe, Hoody, we can do approximately \$100 million in Public Safety LTE revenue this year because there's other puts and takes from the other projects. And in the main, we still feel pretty good about the full year and our earlier projections.

Last in terms of LTE, we're focused on completing the awards that have been made, as we mentioned at the financial analyst meeting. We're still engaged with some customers in the Middle East, customers in Latin America, customers in Asia Pac. And we will continue to pace here in the U.S. to the pace of FirstNet. The draft RFP is out. It's still unclear what final configuration or business model will result in FirstNet, but we continue to work closely with them, and we'd certainly have a number of options that we're planning for, contingent upon how ultimately, Public Safety LTE gets rolled out in the U.S. So I think we're well prepared from a variety of different options standpoint, and we're still in a good position. And by the way, with the investments we made, we have the best portfolio, and I believe at least a two-year head start versus our competitors.

<A – Mark Moon – Motorola Solutions, Inc.>: Just to tag on to that, and then I'll speak to your question about Norway, Hoody. The other thing to point out on those three large deployments that Greg mentioned, quite honestly, even the smaller trials that we've got going, they're primarily infrastructure today. So when you think about future growth, you also got to think about they're clearly going to add devices, applications, additional services. So that's also why it was important for LA-RICS, although descope, to get back started so that we can demonstrate the capabilities, and that will lead to some future growth of those kinds of items as we move forward.

On Norway, clearly, the biggest burn-off, if you will, of the Norway revenue will happen in the second half, as we indicated earlier, then we'll see more of a reasonable trend. Obviously, that will put pressure on EA even for next year because we've had a strong first half in Norway this year. With that being said, though, just like this first quarter, we had growth in constant currency terms. So EA still continues to perform strong. We are eating out of backlog as we expected to be, but really because of Norway. We're still working on a number of large deals. Our funnel and customer activity is still pretty healthy. So I do see, as we go into 2016 and beyond, we will backfill behind Norway and begin to move back towards growth.

<Q – Ehud Gelblum – Citigroup Global Markets, Inc. (Broker)>: That's very helpful. I appreciate that. Thanks

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

<A – Shep Dunlap – Motorola Solutions, Inc.>: Next question.

Operator: And our next question comes from Pierre Ferragu with Bernstein. Please go ahead.

<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>: Hey. Thank you very much for taking my question. I'd actually like to talk a bit more about LTE because I get the feeling there has been a bit of concern, especially in the last 24 hours, in the investment community about how LTE spending and the ramp-up of LTE could affect LMR spending on – in your plan base. So I think it would be very useful to have your perspective on how LTE gets integrated with LMR, and if there is a risk of LTE, at some point, replacing LMR infrastructure, and is – a ramp-up in spending in LTE could hurt spending in LMR. So your perspective on that point would be very, very helpful, I think.

<A – Greg Brown – Motorola Solutions, Inc.>: So, Pierre, we – just to be clear, we absolutely view Public Safety LTE as additive, not substitutional to LMR, first and foremost. Our view is unchanged from that perspective. I mean, I can only tell you what customers are telling us and what they're doing, both domestically and internationally. And they continue to buy LMR. By the way, North America being a great example, referenced 4% in Q4, 6% in Q1. The Middle East is another good example. And in the three large projects of Public Safety LTE, they are all either have bought or are in the process of buying brand new LMR systems with multiyear services contract as well. So, look, I know there's a lot of noise about this, but at the end of the day, I feel very good about our position and investments in technology, and specifically, Pierre, mission critical voice and mission critical data communications.

Customers are buying both LMR and Public Safety LTE. Backlog are at the highest levels I can remember. And remember, that includes multiyear services showing the staying power and longevity of our solutions and our platforms. So I know there's a lot of noise and misinformation, I just don't see it. I see LMR and our core platforms having a long installed life. And I see Public Safety LTE as being additive and eventually interoperable, so you have broadband data interoperable with narrow band voice. Many countries in Europe continue to buy country-wide TETRA systems. Some of those are also looking at LTE solutions.

So I look at it as an overlay. And when you look at the work done in the standards community, and people use labels like mission critical, but there's mission critical voice and then there's mission critical voice for public safety. And you get into a whole host of different attributes in the first layer of the 3GPP standards, the second layer of the 3GPP standards, and then the actual network deployment components that are necessary for power generation and redundancy, and the device-device communications in case the site goes down. I think it's a space we know well, and I think we know both LMR and LTE well. We absolutely view them as additive, and we view them as contributing to a very solid growth story for us going forward.

<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>: Thanks. That's very useful clarification. And I think it's a very important message to clarify, as you say, the noise we heard recently on that. Thanks for that.

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

Operator: And we'll take our next question from Rod Hall with JPMorgan. Please go ahead.

<Q – Rod Hall – JPMorgan Securities LLC>: Yeah, hi, guys. Thanks for the question, and good earnings. So I wanted to dig a little bit more into the Services line, well, I guess from a couple of angles, but it's really the same question, which is you guys are talking about the gross margin improving in the second half. I assume that, that's because the mix of installation services is reducing. But I just wanted to ask you guys if you could give us any indication what the proportion of maintenance services – or I'm sorry, of installation services in the current Services line is, so we can kind of think about how that gross margin might progress. And then the same thing from a different angle. I'm looking at your backlog, and the last two quarters, this big jump in Services backlog. I wonder, do you expect that backlog in Services to wind down in the second half? Or can you just talk about how that backlog is built up and how you expect it to move in the second half of the year? Thanks.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Sure, Rod. This is Gino. We'll start with Services. So the – as we talked about in the last call, Services gross margin, we expect to be pressured in the first half, returning to normal growth rates in the second half. And it's really a mix within integration services, not to integration services, the projects that are deploying in the first half of the year. And the question on how much of our Services number is integration services, about 40%, 45%.

<Q – Rod Hall – JPMorgan Securities LLC>: Okay. And, Gino, do you expect – what do you think that proportion will be in the second half?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: I think the proportion will be very similar. It will be within that 40% to 45% range. Again, it's the mix within integration services, not to integration services.

<Q – Rod Hall – JPMorgan Securities LLC>: Okay. Thanks. And then on the backlog for the Services backlog, what do you think that is going to look like as we move to the second half of the year?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: We don't outlook backlog, but I will say that the backlog, Services backlog does include a large number of multi-year service agreements. So I would not expect that backlog to be peeling off in the second half of the year substantially.

<Q – Rod Hall – JPMorgan Securities LLC>: Do you think – or should we expect the growth to continue or do you think it more or less kind of remains stable through the year?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: I'm not going to comment on outlook that backlog, but I will say there – you should not expect any major movement in the Services backlog down in the second half of the year.

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

<A – Greg Brown – Motorola Solutions, Inc.>: And just, Rod, one other just question about overall backlog. From an aging standpoint, total backlog, now this is both Product and Services, it's slightly better than last year. It's about \$50 million at this point better than last year for aged backlog for the remainder of 2015 all in.

Operator: And we can take our next question from Tavis McCourt with Raymond James. Please go ahead.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Hey, guys. Thanks for taking my question. Gino, a couple of quick guidance questions to dig into gross margin again. Last year, I think gross margin kind of ticked up sequentially each quarter pretty steadily. Is that the pattern you would expect from just a lower base in Q1, or is there kind of a specific quarter that there would be a bigger uplift? And then on operating cost, can you kind of repeat what the OpEx guidance is for the year? Is it \$150 million to \$175 million decline non-GAAP versus non-GAAP 2014, or I think there was a mention of a run rate number? I just want to make sure I was clear on what that OpEx guidance was.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Sure. So I'll start with the gross margin question, Tavis. Gross margin, it's really first half to second half, although we do expect to see a slight improvement in the second quarter over the first quarter. But it's largely a first half to second half improvement. With respect to operating expenses, the guidance is down \$150 million to \$175 million versus 2014 full year. The run rate comment was meant to articulate that we are currently at the run rate. Exiting Q1, we are on that run rate to deliver savings of \$150 million to \$175 million.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Got it. And then kind of a bigger picture question for you, Greg, you made an acquisition or two in the quarter, some venture capital investments. And I guess give us a sense of how broad you would like the solution set over the next couple of years and how you get there from kind of primarily a radio business to something that might be kind of a fuller solution set selling into your core customers.

<A – Greg Brown – Motorola Solutions, Inc.>: I think that from an acquisition standpoint, they – the general philosophy would be that they would be in line with the core business of what we do. Primarily, I think as you dimensionalized where we are today as a pure play, I think potentially things around the managed services area or the Smart Public Safety area might afford themselves to round out our portfolio, because we're building the end-to-end infrastructure and device solution. We have it on narrow band LMR. We also have it on a broadband Public Safety LTE. So things that would extend from a situational awareness standpoint to potentially the command and control room, and analytics that would allow the movement of content around software and services. So in general, from a macro standpoint, I'd say software and managed services would seem to be appealing to us. We feel very good about the core radio position and the enhancement of the technology portfolio on that side. But we'll continue to be very surgical in what we do.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: And when we hear about a lot of demand for body cameras right now, is that something that you guys benefit from at all from a retail relationship, or is that generally a different purchase order from the purchase monitors?

<A – Greg Brown – Motorola Solutions, Inc.>: So we do have a product around body cameras that we're in the market with today. I think that the whole push on situational awareness and the heightened awareness around video is a net positive beyond body cameras, by the way. I think there's other ways that we would be able to and could potentially capture video aside from just an auxiliary camera. But I think we believe the real value there is in the processing of video, the dissemination and aggregation of it, the analytics of it, the sharing of it. Because it's a ton of information that's going to be piling into these command centers, and with first responders at the site, how do you move it between the two? How do you extract it? How do you provide decision support? How do you do evidence tagging? So I think we're burning more cycles. We have hardware solutions and we'll continue to do that, but we think the real value of body worn video or this preponderance and importance of video is in the software movement and analytics of it.

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

Operator: We'll take our next question from Simona Jankowski with Goldman Sachs. Please go ahead.

<Q – Simona Jankowski – Goldman Sachs & Co.>: Hi. Thanks very much. I wanted to follow up on your comment on the North America improvement. Can you just expand a little bit on the visibility you have into that, in particular your aged backlog for this year as it pertains to that? And then I think you referenced the mix of devices versus the infrastructure in the quarter. Can you just comment on how that compares to what you've seen in recent quarters?

<A – Mark Moon – Motorola Solutions, Inc.>: So, Simona, this is Mark Moon. So when we think about North America, Greg talked about we were pleased with Q4 and Q1. By the way, coming out of that, our backlog position is better. A big piece of that backlog position improvement is in multi-year services, which is also good for future upgrades in what we do, but our Product backlog is also up, and the backlog aged in the year is actually stronger than it was at this point last year. So we're seeing the improvement that we thought we would see in North America. When you look at North America in general, overall, state and local spend and revenues are up. IT spend is up. Federal seems to be returning to a little bit more normal predictability for us. We were up slightly last year. As I talked to you about in the last call, while we were down slightly in first quarter, we still have got some good orders and we're building backlog, and we think we'll have modest growth for the full year. So we have good visibility, good activity throughout North America. I mean, we are encouraged by the activity we're seeing from customers in North America.

<Q – Simona Jankowski – Goldman Sachs & Co.>: And on the mix of devices and infrastructure?

<A – Greg Brown – Motorola Solutions, Inc.>: I think in Q1, the growth primarily was device-driven, which I think reflects our commentary around narrow banding as purchasing kind of returns to more normalized states.

<Q – Simona Jankowski – Goldman Sachs & Co.>: Okay. That's helpful. And then just lastly, for an update on the capital structure, do you see any additional capacity now to add debt from here?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, from a capital structure standpoint, what I'd say is obviously, we've been very aggressive in returning capital. We've returned \$3.1 billion over the last 11 months. Almost all of the proceeds from the Zebra transaction have been returned to shareholders. We did \$2.1 billion just in the last two quarters. We – I like the fact that the share base has contracted 39% in just over three years. So I think we've been good stewards of capital, and we purchased \$650 million back at \$66-and-change. At today's levels, we absolutely see the stock is even more attractive today. So I think there'll be opportunities for us to pursue that moving forward. And we're in a net debt position, and we said we would move to that position. We're pleased that coming out of Q1, we're in it. So I think our balance sheet has a lot of flexibility that affords us options moving forward.

<Q – Simona Jankowski – Goldman Sachs & Co.>: Great. Thank you.

Operator: We'll take our next question from Paul Silverstein with Cowen & Company. Please go head.

<Q – Fahad Najam – Cowen and Company, LLC>: Hi. This is Fahad Najam in for Paul. I had a couple of questions. One, on your OpEx for the year, are there any benefits from the FX headwinds that you've indicated on your revenue line? Is the OpEx upside being driven positively by the FX?

<A – Greg Brown – Motorola Solutions, Inc.>: So we did – just to remind you, we did \$200 million – over \$200 million of expense reduction last year, and we're run rating to \$150 million to \$175 million this year. While we clearly have a benefit from FX, the overwhelming majority of those reductions are non-FX. I'd say 75% roughly are reductions, 25% is being the beneficiary of FX. We're getting after the cost, and with the opportunity as a pure play company, we're restructuring, reconfiguring, eliminating bureaucracies and

redundancies, and duplications and footprint, and I'm really proud of the team and we'll continue to move forward on that.

<Q– Fahad Najam – Cowen and Company, LLC>: All right. And then secondly, regarding this St. Louis Police Department when – since you indicated real-time intelligence solution that you sold, can you elaborate more on these next-gen growth driver businesses that you're involved in? How does that pipeline for those kind of projects look for you?

<A – Bob Schassler – Motorola Solutions, Inc.>: Yeah, this is Bob Schassler. We implemented our Real Time Crime Center in St. Louis, which, as we've talked about in the past, it's about a \$5 billion SAM spend for us, and we've got probably about 12 new deals that we've actually signed in the first quarter. And the reception by customers really continues to be positive. As Greg talked a little bit about, the video analytics, body worn cameras is really part of that overall solution.

<Q – Fahad Najam – Cowen and Company, LLC>: So in terms of, like, sales from video analytics, and if I'm not mistaken, you also provide some storage solutions as well? Or is that...

<A – Bob Schassler – Motorola Solutions, Inc.>: That's right. It's really our overall Smart Public Safety solutions, so storage, video analytics, our PublicEngines acquisition is part of that, data analytics as well.

<A – Greg Brown – Motorola Solutions, Inc.>: I think it's fair to say, obviously, that's relatively small today. What's important, though, is customers, many would like to do business with one provider. So while there's a variety of different products, to the extent we, if we have the land mobile radio system and we can extend the relationship, the sales resources, the technical people and the command center, and do in hardware and/or software and potentially storage, it's a logical extension of what we do that I think generally will help our growth profile.

<A – Bob Schassler – Motorola Solutions, Inc.>: The only other comment I'd have is that these are really software-based solutions recurring revenue models, so they go on for five years to ten years, and it's really part of our overall Public Safety LTE solution combined with our Smart Public Safety Solutions, as we've said, are very complementary to one another.

<Q – Fahad Najam – Cowen and Company, LLC>: Got it. Thank you so much.

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

<Q – Dominic Ruccella – Northcoast Research Partners LLC>: Hey, guys. Thanks for taking my call. This is Dominic sitting in for Keith. Noticing on the – given Q2 guidance and what was reported in Q1, did you guys see any business shifts from the second quarter, happen to come in a little earlier for you guys and impact your first quarter?

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

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

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yes. First half is unchanged to our prior expectations. Q1 performed a little bit better, but the first half remains unchanged.

<Q – Dominic Ruccella – Northcoast Research Partners LLC>: Okay. All right. And then are you guys seeing any impact on demand from FX coming from internationally?

<A – Mark Moon – Motorola Solutions, Inc.>: This is Mark, Dominic. We really are not. I mean, so far as we look at the piece, we've made some slight price adjustments in certain places. But in general, we're not seeing any competitive disadvantages. Certainly, the economic pressures in Latin America are putting tension on price power for them to purchase. But as far as competitive pressures on pricing, we're not really seeing any.

<Q – Dominic Ruccella – Northcoast Research Partners LLC>: Okay. All right. That's it for me. Thank you.

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

Operator: We'll take our next question from Michael Genovese with MKM Partners. Please go ahead.

<Q – Michael Genovese – MKM Partners LLC>: Yeah, thank you very much. You guys recently published an SEC document where you had some language in there about a long-term potential shift from Products to Services, and therefore, lower gross margins over time. So we saw some evidence of that in this quarter, but you're not talking about it on the call as a long-term trend. So how much should we be thinking about that as a long-term trend versus just adding another risk factor and covering your bases in an SEC document?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Well, I mean, we – it's indicative of the backlog position we're in. We've signed multiple multi-year agreements and Services backlog has been growing, so the comment just indicated that there will be a movement to Services. It'll make up more of our revenue, and the Services margin, although operating margin is very, very similar, Services margin is a little bit lower than our Product margin. That was the entire comment.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, I mean, at the end of the day, we think this is a good thing. It's a favorable trend. Having a higher mix of multi-year services is good. Having annuity based revenue is good. Having a long-term relationship with the customer is good because we still, irrespective of the mix, which I think is what we just are formally acknowledging over time as a future trend, we think that's a very positive thing to enable and further cement the relationships we have with our customers domestically and internationally. Having said all that, we still think that we can, with a lower cost structure, improve operating leverage, and from an operating margin standpoint, maintain or increase the operating margins and cash generation that's associated with the profile of the business in aggregate.

<Q – Michael Genovese – MKM Partners LLC>: So just to follow up there, so you're not saying that there's a fundamental outlook change in the Product business, the expectations there are on track with your previous expectations, or is there a change in the Product outlook? I'm just a little bit unclear on that point.

<A – Greg Brown – Motorola Solutions, Inc.>: No. Just to clarify, as Gino said, Product margins are generally comparable. We expect them to remain comparable for the balance of the year. Gross margin pressures, Services-oriented, as expected, in Q1 and Q2, i.e., first half, i.e., largely driven by Norway and some large products. We expect the Services gross margin to increase in the second half and generally normalize in the mid 30s%.

<Q – Michael Genovese – MKM Partners LLC>: Thanks very much.

<A – Mark Moon – Motorola Solutions, Inc.>: And then I think just to tag on just one quick second, what we have said, and Greg just said, is product profile really unchanged, but we expect our Services business to grow faster than our Product business in general. And so that would lead to this longer term trend. It's not necessarily something you're going to see in the next two quarters, three quarters or four quarters, but over time, that would be the case.

<Q – Michael Genovese – MKM Partners LLC>: Okay. I appreciate the explanation. Thanks.

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

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

Shep Dunlap, Vice President-Investor Relations

Thanks. As mentioned at the outset, we made a number of forward-looking statements during the call. This includes outlooks on sales, gross margins, EPS, OpEx, EBITDA, other income expense and operating cash flow, as well as effective – and cash tax rates, the impact of currency, Public Safety LTE and LMR, regional growth, acquisitions, capital return and buybacks, as well as backlog.

Thanks for joining us, and we'll talk to you 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. Have a wonderful day.