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Motorola Solutions, Inc.

Bruce Brda – Executive Vice President, Systems & Products

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INTRODUCTION

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

Great. Thanks everybody for joining us. Really happy today to have representing Motorola Solutions, Bruce Brda; who is Executive Vice President of Systems & Products for Motorola Solutions. And I’d like to make this as interactive as possible. So, feel free to raise your hand for questions anytime, as we speak. But I guess, to kind of level set the knowledge base here, Bruce, why don’t you give a quick overview of kind of Motorola Solutions today, size, product that you sell?

Bruce Brda, Executive Vice President, Systems & Products, Motorola Solutions, Inc.

Yes.

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

Margin structure, and then we’ll move on from there.

Bruce Brda, Executive Vice President, Systems & Products, Motorola Solutions, Inc.

So, we’re a $6 billion corporation today. It’s split roughly $4 billion in products and $2 billion in services. Over the last several years we have been very aggressive at buying back stock. We repurchased about 50% of the shares and in the last 12 months alone, we purchased about $3 billion worth of shares. We’ve also taken out about a $0.5 billion of below gross margin cost, and committed to another $0.5 billion next, I’m sorry another $125 million next year. So, we’re really well positioned from a transformation perspective to drive earnings per share growth in the future. Our portfolio, the majority of our revenue today comes from traditional land mobile radio communications. So, mission critical purpose built communications for police, fire and ambulance as well as heavy industry, oil, gas, mining, utilities those kinds of things.
QUESTION AND ANSWER SECTION

<Q – Tavis McCourt – Raymond James>: Okay. And as it relates to your product line, I guess describe the customer set and competitive set for P25, TETRA and the LTE transition that’s happening in the first responder community.

<A – Bruce Brda – Motorola Solutions>: Okay. So, portfolio is really – I’m going to hit it in three buckets, land mobile radio, LTE and Smart Public Safety Solutions. Land mobile radio, we provide three technologies under the land mobile radio umbrella. P25, which is a North American standard, but it’s deployed in about 60 countries around the world that’s really our flagship land mobile radio product. Secondly TETRA, which is a European standard, but found throughout the world. TETRA is in – deployed in about 120 countries, also purpose built for police, fire, ambulance and heavy industry. The third category under land mobile radio is PCR, professional and commercial radio. Think of that as light systems and device-to-device communication. So, really not public safety use, but industrial uses, so think of mining or manufacturing.

And then device-to-device is system-less operation. So, if you walk into an Apple store today, you’ll see associates with an ear bud and a small radio on their belt communicating with each other in the store, those are Motorola radio products. So, that’s the land mobile radio set. We lead in every technology, in every region of the world. Most of our competitors compete in one area, for example Sepura TETRA devices only. So, we’re really the only one with scale. We’re about eight times bigger than the number two player in the world.

<Q – Tavis McCourt – Raymond James>: Okay.

<A – Bruce Brda – Motorola Solutions>: LTE, is the same technology that you use today in your hands on a commercial carrier network being tailored for public safety uses. In the United States, the government has dedicated $7 billion to build out a network that’s being governed by FirstNet, a government agency and has allocated 20 megahertz of spectrum 10/10 for public safety uses.

The LTE market is in its very early stages. We have the three largest awards globally to-date, that I know of. LA-RICS, Los Angeles Regional Interoperable Communication System, and two large LTE purpose build deployments in the Middle East, which we don’t name the customers. But those are the three largest purpose build LTE networks. They provide broadband data capabilities that compliment voice capabilities provided by land mobile radio.

The third area I’ll highlight is Smart Public Safety Solutions. This is really a big investment area for us. Think of Smart Public Safety as the intelligence that sits behind the radios in the field, typically found in a command center. It’s things like next-generation 911 call taking, computer aided dispatch, records management systems that allow our customers to track incidents and track in a very detailed way, all of the voice communications as well as the response that followed.

And then, there’s additionally a big investment we’re making in intelligence-led policing, which is if you think of all of the information that’s available to public safety today, crime records, criminal records, social media, gunshot detection and harvesting that information and making it usable, so that public safety agencies can do their jobs more efficiently and more effective. Today, that used predominantly for post incident crime resolution, so figuring out, who did what after the fact. We have pushed now into mid-incidents, you can use that information in the middle of an incident to respond with more awareness. And where it’s really going is predictive, to be able to use that information to predict and ultimately prevent crime.
<Q – Tavis McCourt – Raymond James>: And, one last product question, you recently announced your first line of body-worn cameras.

<A – Bruce Brda – Motorola Solutions>: Yes.

<Q – Tavis McCourt – Raymond James>: Describe kind of that product and kind of your ambition in that sub-segment of the market.

<A – Bruce Brda – Motorola Solutions>: Sure. For us, body-worn video has been very popular since the last couple of incidents around the U.S. which has created concern about police behavior. So, when we launched our body-worn video product, we really wanted to do three things. One, have an end-to-end solution. So, camera all the way through to the backend. Number two, differentiated offer. And then, number three, find a way that we would leverage our incumbency position with public safety.

What we launched is a device called the Si500 smart interface and the numeric is 500. What that is, is a body-worn video camera and remote speaker mic combined into a single package. The camera itself has its best-in-market camera in terms of the imaging capabilities. The remote speaker mic integrated into the same device provides all of the audio advances we’ve integrated into our radios over the years. So, it’s killer audio. The fact that they’re integrated into one form factor allows the cop to carry one less thing, which is important.

The other thing you’ll notice, if you see an image of our device, it actually has a large display, forward facing display. In many countries of the world, it’s necessary to allow the person you’re videoing to know that they’re being recorded. That’s why we did it. But, it also has an android touch UI that gives us an application platform that can be used on and around the officer. So, it’s a bit of a Trojan horse strategy. The backend, we call Command Central Vault. It is a Digital Evidence Management Solution, DEMS is the acronym.

We partnered with Adobe actually to leverage their content management platform and then have tailored that to public safety needs. So secure chain of custody from the imaging on the device through the network and into storage. We can do event correlation. So, I mentioned CAD, Computer Aided Dispatch. If you type in a CAD recorder which tags date, time, location, you can incidentally pull up the video that associates with that event. FOIA request is a huge issue now, Freedom of Information Act. So, we can again put in date, time, location and pull up images that fit that request. And then, also a really elegant way to redact information from the video. If I release information publicly, I can’t show faces on it, for example. So, got a very elegant way to redact faces. So, we’ve got a killer end-to-end solution. The device itself completely differentiated, works with every radio technology, P25, TETRA, PCR.

The backend – and again the device itself is really an application platform for us going forward. And the backend although the discussion here is body-worn video can also store city safety video, images, documents. It’s really a digital evidence management solution.

<Q – Tavis McCourt – Raymond James>: And so the current solutions on the market is a separate camera and they still have to carry their Motorola radio. This one integrates those two features?

<A – Bruce Brda – Motorola Solutions>: Absolutely.

<Q – Tavis McCourt – Raymond James>: Okay. And so, there is – I wouldn’t think you guys were early to the market in this opportunity. So, there are some other players out there and there is a lot of contracts have been won already. Talk us about kind of how this market will develop? Is this something that will be
in the next three years to five years bit of a land grab? And so, do you have any ambitions around market share or revenues or anything like that.

**<A – Bruce Brda – Motorola Solutions>:** Yeah. So, we’re not first to market, but I’d say we’re not late. The U.S. market is sub 20% penetrated. The international market is far less than that. So I think we’re early enough that we can be a very meaningful player here. You’re right, now it is a bit of a land grab. So we’ll be very aggressive as we roll out our device in the first quarter of next year device and backend solution. The market we’ve sized in the U.S. at about, its small today about $50 million growing to about $250 million and we think the outside the U.S. market is about the same size. So it’s a meaningful market that we peg at about at $0.5 billion in size.

**<Q – Tavis McCourt – Raymond James>:** Are you seeing the same sense of urgency outside the U.S. for the solution as in the U.S. or is it today largely a U.S. demand?

**<A – Bruce Brda – Motorola Solutions>:** There are pockets outside the U.S., but today it’s largely U.S. Interestingly enough the device itself, we partnered with one of our good customers and international customer, Asian customer who actually helped co-design this device and that’s really where the requirement for – the ability for those being video to see the video came from.

**<Q – Tavis McCourt – Raymond James>:** Great. So I want to move on. We’ve kind of covered the big chunks of product revenue. I want to move on to services a little bit. Kind of describe the historical service portfolio at Motorola. What your ambitions are there and dovetail that into – obviously a few days ago, you announced a relatively large acquisition of a company called Airwave.

**<A – Bruce Brda – Motorola Solutions>:** Right.

**<Q – Tavis McCourt – Raymond James>:** How does that add to the services portfolio?

**<A – Bruce Brda – Motorola Solutions>:** Sure. We have roughly $2 billion in services as I said and I’ll split that $2 billion, roughly a $1 billion and $1 billion. $1 billion is integration, that goes along with the deployment of our systems networks and then in the Smart Public Safety area, the integration of our solutions into the existing customers’ back office. So integration is about a $1 billion, roughly a $1 billion in annuity revenues, derived from support services, as well as, managed services. The managed services component has been a strategic growth driver for us, for the last several years. We manage today, about 20, 22 public safety networks around the globe, many of them, very large scale.

But quite, honestly none of them is large as Airwave, which is 300 – over 300,000 users; it’s over 300 agencies on that network. So, when that asset became available for us, number one, it’s directly aligned with our strategic intent to expand into managed services. Number two; it’s a financially attractive deal for us. Number three, we acquire with that asset, a bunch of tools, systems, procedures that we can use beyond Airwave. So call centers, network operation centers, managed services toolset, and a set of applications deployed to public safety users that can go well, beyond Airwave. We’re in the final stages of bidding for the UK Home Office Lot 2. We hope to be awarded that piece of business. And if we are, then these assets would be directly leveragable there as well.

**<Q – Tavis McCourt – Raymond James>:** And are they, you talked a little bit more briefly, previously about FirstNet in the U.S. and more broadly LTE. I assume, there’ll be a lot of managed services opportunities around LTE deployment, as well. Are these assets leverageable more broadly across the globe or is it very UK-specific?
<A – Bruce Brda – Motorola Solutions>: No, they’re very leverageable across the globe. I’ll differentiate the people located in the UK, are a great asset for us to run Airwave, and then if we’re fortunate enough to be awarded Lot 2, they can contribute there. The toolset itself is global in nature, as are the applications.

<Q – Tavis McCourt – Raymond James>: Great. I guess we touched on software a little bit there, but talk about some of your – the software solutions. You might have mentioned it a little bit in your remarks about the call centers and so forth. But when you think of the R&D program at Motorola today, how much of it is hardware development versus software and how is that changing?

<A – Bruce Brda – Motorola Solutions>: Yeah. So, today about 65% of our R&D spend is on software, and that number has crept up every year. So, let me break that down a little bit. Our traditional land mobile radio solutions tend to have slightly less than that average software investment, our Smart Public Safety Solutions are exclusively software.

<Q – Tavis McCourt – Raymond James>: Right.

<A – Bruce Brda – Motorola Solutions>: So if you think about the shift we are going through, land mobile radio, it’s largely closed systems, proprietary software. Where we’re going with Smart Public Safety Solutions is a whole different world, leveraging open source, heavily leveraging cloud. And it’s really an applications play much more than it is embedded software.

So you’ll see a shift over time as we ramp-up our investment in Smart Public Safety Solutions; that percentage of software will go up year-over-year-over-year. Couple of things I’ll mention in addition; we’ve had a project within the company for the last about 18 months called Project Renew and it’s really trying to reposition our company in every way to be much more capable of selling services and software.

So there’s three pillars here. One is the internal systems and processes required to be a software company. The second is repartitioning the value. We’ve typically had a CapEx sale. We’re really moving more towards OpEx. Typically, a perpetual right-to-use software license moving more towards fixed term licenses. So we have a bunch of system work we need to do there. We need to repartition the value and the offers. And the third is ready the sales force for this initiative.

So we’re well underway there and we think this is necessary for Smart Public Safety Solutions and the other kind of new world stuff, but we have a huge opportunity to attach more software to our existing land mobile radio customers. We literally have hundreds of features that we’ve developed, I’ll call them, above standards. These are features requested and implemented at the request of an individual customer. We have huge opportunity to more broadly leverage those features and sell them to more of our customer base.

The last thing I want to mention on software, we announced a few months ago we’re moving our corporate headquarters from Schaumburg, Illinois, a suburb of Chicago into the City of Chicago, along with that move we’re going to open up an R&D center in the City of Chicago. We need to attract a different type of software developer than we had historically. So in Schaumburg, we have a tough time attracting all of the buzzwords I said, cloud, open source applications; in the city, there is a large supply of that talent. So we’ll open up an R&D center with the move to the city and start to grow a different skill set of software developers in the City of Chicago.

<Q – Tavis McCourt – Raymond James>: So everything you described, sounds like there’s a lot going on, right? Like you’re increasing software investments, there’s LTE products to be developed, there’s
managed services capabilities to be developed and grown, and your R&D budget has shrunk quite substantially in the last couple of years.

<A – Bruce Brda – Motorola Solutions>: Yeah.

<Q – Tavis McCourt – Raymond James>: So kind of run us through the dynamics that have allowed you to do that and make the case that you’re not under-investing for this opportunity.

<A – Bruce Brda – Motorola Solutions>: Sure. Up until two years ago, we organized the R&D around technology. So think of the technology pillars in our company around P25, TETRA, PCR and LTE. What we got from that was a high degree of focus and intimacy. If you are a P25 team member, you knew all the P25 customers, highly intimate with that segment than the competitors. But what it also did, it was heavily redundant. I’ll give an example. Each of those four technology teams had one or more audio labs around the world, we had seven audio labs.

We changed the structure and we went to an organization, which is all of the devices collapsed into a team, product management and engineering, all of our infrastructure, ASTRO, TETRA and PCR, LTE folded into a team, and all of our applications folded into a team. So we got significantly better leverage. Again, an example, we went from seven audio labs to two audio labs, we did the same thing with antennas, the same thing with prototype labs.

Another example would be system integration and test — we roll out software releases on a regular cadence. There’s an enormous amount of integration testing that happens end-to-end. Each technology had their own lab, very capital-intensive, and each team staffed to the peak. And that peak tended to be right before you launch the release. And ironically, we stacked up the cadence of releases on top of each other. So the peaks all aligned and the valleys all aligned.

So we smashed the teams together into a single lab. We staggered the releases and we staffed for the norm, not the spikes. So those are examples really, practical ways we took cost out without taking any hit on capacity. The other thing that we did is, we more aggressively shifted from high cost to low cost. Penang, Malaysia is our largest R&D site now. Krakow, Poland is just a bit behind that. Schaumburg would be probably third now in terms of the largest development site. So high cost to low cost. We’ve done a lot of things that allowed us to shift cost without taking out capacity. What that allowed us to do is, as we took down costs dramatically on land mobile radio, it allowed us to fund a lot of the things that I just talked about.

<Q – Tavis McCourt – Raymond James>: Right.

<A – Bruce Brda – Motorola Solutions>: And one more thing I’ll mention, what that did is it gave us the leverage or the economies of scale that we should have had all along as a market leader. Now, it’s — I mentioned support, so it’s not our TETRA device spend versus Sepura’s, it’s our, all technology device spend versus Sepura’s.

So now we’re getting the scale and the leverage that we should have previously and we’re going to take that to the next level. We’ve got three initiatives now. One, I’ve mentioned already, but common modem. So basically the radio that goes into our devices, we are developing off of a common set of hardware now and there is a couple of modules that change out for P25, for TETRA, or for PCR, but for those modules the hardware is identical.

Secondly, platforming from an electrical and mechanical perspective, electromechanical perspective will give us building blocks that we can move in and out very quickly. And then, third, I mentioned Simple
Touch UI, the touch UI on our Si500. That UI will actually migrate into our LMR portfolio as well, kind of re-envisioning the way that our users interact with the device. But with those three things which are technology agnostic, we’ll be able to launch products more quickly, more cost effectively, we’ll be able to cost reduce more quickly, more cost effectively, the factory and procurement organizations will buy material and build far more cost effectively than today. So I actually think the changes we’ve made have taken costs out, but I would argue we’re making a better product and we’re more nimble as a result.

<Q – Tavis McCourt – Raymond James>: And I guess, on that note, we talked a little bit outside, kind of your history at Motorola and kind of give us a sense of what you bring to this position given your – I think it was 26 years at Motorola in various divisions.

<A – Bruce Brda – Motorola Solutions>: So I’ve been with Motorola over 26 years, but the vast majority of it was in the carrier space. Our Cellular Infrastructure business and our Mobile Devices business. That’s about 20 years. The last role I had before joining what is now MSI is that I ran our Cellular Infrastructure business through the sale process to Nokia Siemens. So although I’m a long-term Motorolan, I’m definitely not a long-term public safety guy. I’m used to more intense competition and competitors that move faster than those – some of those that we face in the markets that we’re in. So I bring a different view to this than maybe most of the competitive set.

<Q – Tavis McCourt – Raymond James>: And so talk about how we should expect new product introductions, refreshes, kind of rates of technology innovation versus the previous five years or 10 years at Motorola?

<A – Bruce Brda – Motorola Solutions>: Yeah. Without question the market is moving faster and LTE will force that. I think what we’ve done, the steps that we’ve taken internally, structurally will allow us to move much faster. Like I said, common modem, the electromechanical platform and Simple Touch will give us just incredible flexibility.

One thing I do want to mention, land mobile radio today – generates the vast majority of our revenue and will for the foreseeable future. It is the best at the job it does, but we think there is another twist that we can do with land mobile radio that we’ve started on. Basically, the majority of all police officers in the United States have a Motorola radio on their belt. And more and more, you hear terms like Internet of Things with smart sensors, police offers are loaded with smart sensors as well.

So what we’ve done is we’ve developed an interface between these sensors and our radio. So think of heart rate detection, body temperature, respiratory rate, is the gun in the holster, out of the holster, has the gun been fired or not, is the officer up or down. So the radio acts as a hub for this information, sends it back to our networks, and then we’ve written a set of APIs that application developers can use to pull this information from our networks. Our Smart Public Safety Solutions team is one of those, quote-unquote, application developers, but third-parties can do this as well.

So picture an officer in from a command center, you know an officer is responding to an incident, he is out of his car, his heart rate is elevated, he’s on the move and his gun is drawn. You can very simply say it’s time to turn on body-worn video, it’s time to send for backup, and it’s time to scan 911 to see if there are any calls in that immediate location. Those are things that we’re doing today, but it adds a ton of value to those land mobile radio networks in a way that I think because of our market position we can do and others can’t.

<Q – Tavis McCourt – Raymond James>: Right.
<A – Bruce Brda – Motorola Solutions>: And it’s a great bridge into really broadband applications as LTE devices get deployed and officers have a broadband pipe on their body, you can start to do more, but this is a really, really solid start that adds significant value.

<Q – Tavis McCourt – Raymond James>: I want to pull the audience to make sure there is not any questions out there before I continue. Go ahead.

<Q>: [Question from the audience]

<A – Bruce Brda – Motorola Solutions>: Yeah. So today what we say – our margins for the company are roughly 50%. At an operating earnings level, our Services business and our Product business performed roughly comparable. That doesn’t mean they have the same gross margins, however. The Product business attracts the R&D spend and the Services business doesn’t.

Managed services businesses for us, that’s a significant growth area as we talked about, tend to have nice margins in our portfolio as well as in Airwave’s portfolio as well and that’s – you could reference public data there. So we don’t see an operating earnings or EBITDA shift as we mix between the businesses, we don’t anticipate anyways.

<Q>: [Question from the audience]

<A – Bruce Brda – Motorola Solutions>: We do. We do.

<Q>: [Question from the audience]

<A – Bruce Brda – Motorola Solutions>: Yeah. From a gross margin perspective, yes. Obviously software solutions have a much larger gross margin, they also have a big R&D budget, but as we go through more and more of a shift towards software, I would see the gross margins going up.

Now, there’s a lot of other moving parts in our whole business. So the gross margin of software clearly would go up, but there’s a lot of other moving parts in the business and I really – I don’t know if I can comment on the blend of all those at this point.


<Q>: [Question from the audience: What is the latest with FirstNet in the U.S.?]}

<A – Bruce Brda – Motorola Solutions>: So it’s a good question, and I’m not sure I exactly know how it will play out, because there’s been – there’s lack of clarity around how FirstNet will go. I guess, the most important point is, FirstNet is being defined and built as a data network. So we don’t think that this impacts the land mobile radio business. It’s additive, not a substitute. What we do think it does is, it is a substitute for the BYOD or agency-issued devices and carrier subscriptions that exist today whether it’d be a laptop in the vehicle or a portable device on the officer.

<Q – Tavis McCourt – Raymond James>: I want to follow-up on new product introductions. How do you make the decision between body-worn cameras you’ve developed in-house. Next-Gen 911, I think you made an acquisition, Airwave was an acquisition. So kind of talk about the processes that you have and when you see a market do we develop it internally or do we go out and make an acquisition?
<A – Bruce Brda – Motorola Solutions>: Right. We’ve made three acquisitions in recent past: Twisted Pair, Emergency CallWorks, and PublicEngines. So all three of those I would really put under the umbrella of Smart Public Safety Solutions.

<Q – Tavis McCourt – Raymond James>: Right.

<A – Bruce Brda – Motorola Solutions>: We look at capital allocation across three dimensions: buy, partner and invest. We have a ventures organization and we typically have a portfolio of about 20 companies we invest in. So it’s not just build or buy, we also have a hybrid model with invest.

I think there is no one formula by the way. What we’ve really tried to do is look at our ability to be successful organically, assets that are available that would be helpful to the portfolio direction we’re trying to go, and then hedge that, I would really say, are the more venture investments that we make. And I think we’ve made three or four investments this year. So we’re very active. And it’s in the areas where we’re really trying to grow or gain some capabilities that don’t exist organically internally.

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

Great. Well, thanks very much, Bruce. I want to thank everybody for attending and if you have any follow-up questions, I’m sure we’ll be up here for a couple of minutes. Thanks very much.

Bruce Brda, Executive Vice President, Systems & Products, Motorola Solutions, Inc.

Thank you.