



Q1 2020 Earnings Conference Call Thursday, May 7, 2020

PARTICIPANTS

Motorola Solutions Executive Participants

Tim Yocum – Vice President, Investor Relations
Greg Brown – Chairman & Chief Executive Officer
Gino Bonanotte – Executive Vice President & Chief Financial Officer
Jack Molloy – Executive Vice President, Products & Sales
Kelly Mark – Executive Vice President, Software & Services

Other Participants

Tim Long – Analyst, Barclays Capital, Inc.
Adam Tindle – Analyst, Raymond James & Associates, Inc.
George C. Notter – Analyst, Jefferies LLC
Trever Bowers – Northcoast Research Holdings, LLC
Paul Silverstein – Analyst, Cowen & Co. LLC
Ben Bollin – Analyst, Cleveland Research Co. LLC
Paul Coster – Analyst, JPMorgan Securities LLC
Walter Piecyk – Analyst, Lightshed Partners
Jim Suva – Analyst, Citigroup Global Markets, Inc.
Sami Badri – Analyst, Credit Suisse Securities (USA) LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to the First Quarter 2020 Motorola Solutions Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instruction] Please note, this event is being recorded.

I would now like to turn the conference over to Tim Yocum, Vice President of Investor Relations. Please go ahead.

Tim Yocum, Vice President, Investor Relations

Good afternoon. Welcome to our 2020 first quarter earnings call. With me today are Greg Brown, Chairman and CEO; Gino Bonanotte, Executive Vice President and CFO; Jack Molloy, Executive Vice President, Products and Sales; and Kelly Mark, Executive Vice President, Software and Services. Greg and Gino will review our results along with commentary, and Jack and Kelly will join for Q&A.

We posted an earnings presentation and news release at motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliations for your reference. And during the call, we referenced non-GAAP financial results including those in our outlook unless otherwise noted. A number of forward-looking statements will be made during this presentation and during the Q&A portion of the call. These statements are based on current expectations and assumptions that are subject to a variety of risks and uncertainties. Actual results could differ materially from these forward-looking statements.

Information about factors that could cause such differences can be found in today's earnings news release and the comments made during this conference call in the Risk Factors section of our 2019 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.

And with that, that, I'll turn it over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thanks, Tim. Good afternoon, and thanks for joining us today. I'll start off by sharing a few thoughts on the business before Gino takes us through our Q1 results and second quarter outlook. First, I'd like to start by thanking our more than 17,000 people around the world for the resilience, adaptability and unwavering commitment to our customers.

We made the decision in mid-March to have the vast majority of our workforce do their jobs remotely, and they've successfully and smoothly transitioned to their new environments. Those who needed to work on-site have shown a fearless dedication to our customers, leaving the safety of their homes to ensure that our mission-critical operation centers and customer sites remain reliable and always on.

I'd also like to say that we're deeply thankful for the actions of the public safety and health care professionals that are keeping us and our communities safe, and we're acutely aware of our responsibility to them during these unprecedented times. Because of this, our employees have gone to great lengths to continue to support them, and I could not be more proud of their efforts.

Second, despite the challenges brought on by COVID-19, we grew earnings per share by 16% during the quarter, expanded operating margins by 200 basis points and generated \$308 million of operating cash flow, an increase of 23% versus the prior year. Additionally, we continued to see strong demand for our video security solutions, highlighted by a \$28 million order from a large utility in North America, the single largest order in the history of the Avigilon business. And our Software & Services segment grew sales by 13% and expanded operating margins by 520 basis points.

And finally, while the COVID-19 pandemic has confirmed the fundamental need for our mission-critical solutions. It's also brought uncertainties surrounding its severity, impact and duration. So as a result, we made the decision to withdraw our full year guidance at this time. We'll reassess this decision at the end of the second quarter based on the information and clarity we have at that time.

And with that, I'll now turn the call over to Gino, to provide additional details on Q1 and our second quarter outlook, before returning for some closing thoughts.

Gino Bonanotte, Executive Vice President & Chief Financial Officer

Thank you, Greg. Q1 includes revenue of \$1.7 billion, flat versus a year ago, including \$48 million of revenue from acquisitions and \$7 million of currency headwinds. GAAP operating earnings of \$259 million, up \$30 million and operating margins of 15.6% of sales compared to 13.8%, in the year ago quarter.

Non-GAAP operating earnings of \$347 million, up \$32 million or 10% and non-GAAP operating margins of 21% of sales, up 200 basis points from 19%, driven by higher gross margins. GAAP earnings per share of \$1.12, compared to \$0.86 in the year ago quarter. Non-GAAP EPS of \$1.49, up 16% from \$1.28 last year, on higher operating earnings and a lower effective tax rate in the current quarter.

OpEx in Q1 was \$451 million, down \$15 million versus last year, primarily due to lower incentives and lower legal expenses, partially offset by cost related to acquisition. The Q1 effective tax rate was 15%, compared to 20% in the prior year. The year-over-year decrease was primarily due to higher excess tax benefits and share-based compensation.

Turning to cash flow, Q1 operating cash flow was \$308 million, compared with \$251 million, in the prior year and free cash flow was \$260 million, compared with \$185 million in the prior year. The year-over-year increase in cash flow was primarily due to improved working capital.

Capital allocation for the quarter included \$253 million of share repurchases, \$109 million in cash dividends, \$48 million of CapEx and \$36 million for acquisitions. Additionally, out of an abundance of caution, we made the decision to draw down \$800 million from our revolving credit facility.

We ended the quarter with \$1.7 billion in cash and have an additional \$1.4 billion of committed undrawn capacity remaining on the revolver. We've also taken numerous actions over the past several years to restructure our debt maturity profile and derisk our pension liabilities.

As a result, we have no debt maturities in 2020 or 2021, absent the revolver and no expected pension contributions until 2023. The strong liquidity position and balance sheet provides us with the capital deployment flexibility for acquisition opportunities in the future.

Moving to segment results, Q1 products and Systems Integration sales were \$993 million, down \$76 million or 7%, driven by a decline in professional and commercial radio, partially offset by strong growth in video security. Revenue from acquisitions in the quarter was \$24 million and currency headwinds were \$5 million.

Operating earnings were \$123 million or 12.4% of sales, down 140 basis points from last year, due to the lower revenue. Notable Q1 wins in the segment include a \$28 million video security award for a large utility customer in North America, of which \$10 million was recognized as revenue in Q1; over \$50 million of sales into governments across the entire video security portfolio; a \$13 million P25 order for Port of Los Angeles, California; a \$12 million P25 order for Dinwiddie County, Virginia; and, an \$8 million TETRA order for Germany's Armed Forces.

Moving to Software and Services, revenue was \$662 million, up \$74 million or 13% from last year, driven by growth in command center software and services. Revenue from acquisitions in the quarter was \$24 million and currency headwinds were \$2 million. Operating earnings were \$224 million or 33.8% of sales, up 520 basis points from last year driven by higher gross margins and improved operating leverage. Notable [ph] Q1s (9:11) in the segment include: an \$8 million P25 multiyear service contract extension with Cleveland, Ohio; a \$6 million P25 multiyear services contract in Latin America; a \$4 million command center software suite contract with Brampton, Ontario; and, a \$3 million command center software suite contract with Fort Wayne, Indiana.

Looking at regional results, during the quarter, we restructured our operations to realize more operational efficiencies, combining EMEA, Asia Pac and Latin America into one region, which is now reflected as International. Accordingly, we now report net sales in two regions, North America, which includes the United States and Canada, and International. North America Q1 revenue was \$1.1 billion, up 4%, driven by growth in video security, command center software and services, partially offset by a decline in professional and commercial radio. International Q1 revenue was \$539 million, down 7% due to a decline in professional and commercial radio, primarily in Asia Pac.

Moving to backlog, ending backlog was \$10.4 billion, up \$48 million compared to last year, inclusive of \$462 million of unfavorable currency rates. Sequentially, backlog was down \$821 million due to \$407 million of unfavorable currency rates, revenue recognition of the Airwave and ESN contracts, and typical North America order seasonality.

Software and Services backlog was up \$120 million or 2% compared to last year due to growth in North America multiyear agreements, partially offset by \$423 million of unfavorable currency rates. Sequentially, backlog was down \$604 million, primarily due to \$368 million of unfavorable currency rates and revenue recognition for ESN and Airwave.

Product and SI segment backlog was down \$72 million or 2% compared to last year, inclusive of \$39 million of unfavorable currency rates. The decline in International backlog was partially offset by growth in North America. Sequentially, backlog was down \$217 million, driven primarily by typical North America order seasonality.

Turning to our outlook, we expect Q2 sales to be down between 17% and 14%, with non-GAAP EPS between \$1.18 and \$1.27. This assumes approximately \$30 million of FX headwinds at current rates, a weighted average diluted share count of approximately 175 million shares and an effective tax rate of between 24% and 25%.

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

Greg Brown, Chairman & Chief Executive Officer

Thanks, Gino. I thought I would end with a few high-level comments regarding the full year impact COVID-19 is having on our business and how we're responding. First, while this pandemic has disrupted and delayed our engagements with some customers and will have an impact on certain parts of our business, we remain fully committed to continue investing in our growth businesses.

In command center software, we're accelerating our development to move to the cloud and recently launched our first cloud-enabled CAD customer. We also expect our Records in CAD solutions to be fully cloud enabled by the end of this year with our 911 software to follow in 2021.

In the video security business, I'm very pleased with the continued traction with our enterprise and government customers. And we'll continue to invest in our H5 camera line, analytics, cloud-based VMS solutions, and features that integrate video and land mobile radio while also expanding our sales coverage. Additionally, our durable cash flow generation and strong balance sheet put us in a unique position to be opportunistic with respect to acquisitions going forward.

Second, while this is a critical time to continue to invest, we're also taking actions in a number of other areas to reduce our operating expenses. We now expect operating expenses to be down approximately \$210 million versus 2019, which is \$150 million more than the annual decrease we discussed on our last earnings call. This additional reduction driven by lower variable compensation, lower discretionary spend in areas such as travel and contractors and third-party expenses and a reduction in real estate, should allow us to slightly expand operating margins for this year.

And finally, Motorola Solutions has been providing mission-critical solutions to customers on the front line for over 90 years and have managed through a number of crises. And I couldn't be more proud of how our people have responded to this one. Whether it's our Airwave team, enabling network coverage for temporary hospitals being built in the UK or our team helping a customer move their 911 command center operations to a backup location in days, when one of their employees tested positive for COVID.

Our teams are going to great lengths to make sure our customers' mission-critical needs are met. We entered this pandemic in a very secure position and I absolutely believe that we'll emerge an even stronger company, on the other side of it.

And now let me turn this call back over to, Tim.

Tim Yocum, Vice President of Investor Relations, Motorola Solutions, Inc.

Thank you, Greg. Before I begin taking questions, I'd like to remind callers to limit themselves to one question and one follow-up to accommodate as many participants as possible. Operator, would you please remind our callers on the line how to ask a question?

QUESTION AND ANSWER SECTION

Operator: Yes. Thank you. [Operator Instructions] Our first question comes from Tim Long with Barclays. Please go ahead.

<Q – Tim Long – Barclays Capital, Inc.>: Thank you. Yes. Maybe just for the two of them. First, maybe the quick one first. When thinking about kind of the hole in revenues in Q2 versus kind of what was probably originally expected, Gino, can you help parse out how much of that is PCR related and how much is public safety?

And then, Greg, if you could just talk a little bit about the public safety market. It seems like overall, the company is being impacted more than prior macro events in the world. So could you talk a little bit about what's different? What do you think is driving the change to the public safety market other than just logistics? Do you see any other fundamental changes here, given the macro backdrop? Thank you.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Hi, Tim, this is Gino. On the first part of the question, clearly, we've seen pressure in professional and commercial radio. Certain verticals have been significantly impacted. You could think about hospitality, transportation, specifically airlines, oil and gas, manufacturing-related to the pandemic and the shutdowns, the shelter-in-place orders. We have seen some impact on public safety as our engagements have been delayed, both in terms of site work, but also in terms of being able to talk to customers. Obviously, our customers are on the frontlines of dealing with the pandemic, and there's certainly been a delay in that engagement and the ability to talk to our customers, really frankly, beginning in mid-March, lasting through April and certainly in larger markets through May. And it's also important to note that embedded in that guidance, that we continue to expect command center software and video security to grow in Q2. But dimensionally, PCR, certain verticals, very much impacted. Public safety characterized as a move to the right based on, as you said, logistics and inability to get in front of people and get to sites.

<A – Greg Brown – Motorola Solutions, Inc.>: Yes. And Tim, I would add that even though things have been pushed to the right, we're a different company now than we were several years ago. The good news is we still expect software and services to grow this year. It could grow mid-single-digits. We'll see. But we still expect that to grow. We do expect video security to grow, command center software as part of software and services. And I actually think – look, I think the severity of Q2 isn't so much as things have changed in public safety. I actually don't think they have. I think they've been pushed. Two or three weeks in March, we effectively became locked down in major locations domestically here in the States. That lockdown has continued in May as well as April.

So I think when you look at Q2 and see the sharpness of that decline, it's really things pushing to the right than any structural or behavioral patterns that are changing in public safety. What we do is still a need to do versus a nice to do. But obviously, this situation is pretty extensive, given that it's a combination of a public health crisis as well as a dramatic economic decline in 180-plus countries all at once. So hence, I think our prudent approach at this point in time. I think the product segment for the full year will be down as things push to the right. It could be down low-double digits. Again, we'll have to see. But I think with resilient backlog and an overall strength of our position with 75 – about 75% of our business is public safety and government and 25% enterprise, I still think, we're well positioned.

<Q – Tim Long – Barclays Capital, Inc.>: Okay. Thank you, Greg.

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

Operator: Our next question comes from Adam Tindle with Raymond James. Please go ahead.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Okay. Thanks, good afternoon. Greg, I just wanted to start kind of going back to the last financial crisis, I know that the business is different but if you looked at the like-to-like basis, during that time, revenue for the full year was down somewhere around the around the mid-single-digit range.

Do you remember what it was on kind of a max pain on a quarterly basis? Is there any similarities to sort of the mid-teens decline that you're seeing in Q2? And also, maybe how quickly did it recover? What could be similar or different this time around versus that?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah I think the difference is again in – unlike last time, where we had the financial Great Recession and things recovered, what we've experienced here is a little bit like the market seizing up literally. We couldn't get in front of customers, many customers on the sales side from an engagement standpoint. And even on services and implementations, deployments were pushed out as well.

I think we're much better positioned this time. Software and Services is a little bit more than a third of our business, most of that, largely recurring long-term contracts, mission-critical in nature. If I rewind the tape last time, that was 20% or sub-20% of our overall revenue.

The other thing is, even though we're having a difficult Q2, and Jack could comment on this, but we're seeing the funnel, even though projects get pushed to the right, we've actually, just over the last few weeks and months, seen a constant replenishment of projects coming in, too.

So we just thought, given the fog and uncertainty and the uniqueness of this thing in a once in literally, a century pandemic, it was kind of prudent for us to suspend full year guidance at this time. But I think we're much better positioned. I think we still expect growth in video.

We still expect growth in command center software, the professional and commercial radio business, which is think of the radio business for commercial, has been hit hard, serving verticals like hospitality, transportation, airline, gaming and some of the things that have been hit, particularly hard. Jack, I don't know if you want to add anything?

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah, maybe just a couple of things. As we look around the globe, things are starting to open up in certain countries in Asia Pac, who was frankly, hit first. So there's potentially some signs of signs of encouragement there in terms of reengaging with customers, customers' focus moving back to technology projects.

The second thing that, I think that, all of us feel pretty proud of as a team, their ability to continuously engage virtually with the customers by way of video conference mechanisms. But also, we held a video, a virtual trade show for our video security and analytics business, because an industry event was cancelled in March.

And we actually had – we had over 30% more people that actually attended our virtual conference than would have attended the conference in person, and literally had chat rooms questions and everything from access control, school safety. And so we're encouraged by a lot of those things. We actually even see here into April, certain states' engagement starting to improve. And so it's just one of those things. Obviously, the pandemic has taken the focus of our customers, and we'll continue to work with M&A where we can to support them.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Okay. That's helpful. Maybe just as a follow-up, in the commentary on COVID-19 impact, you talked about delayed engagement and deployments with state and local customers near term, which may impact future revenue. And maybe Greg and Jack can provide some color on that statement, more specifically, are you finding that customers are now evaluating other options because there's a fear that, hey, we've long been worried about the potential cannibalization of LTE and broadband. Is that a way to save money? Are customers evaluating that in a bigger way? And is this kind of a catalyst to finally see that shift happen in a bigger way?

<A – Greg Brown – Motorola Solutions, Inc.>: No, I don't think – in fact, we see the opposite of that. During this time, we see the importance and criticality of land mobile radio versus any alleged migration or shift to LTE. I think LTE is complementary. It's a data broadband network that's an extension of LMR. Actually, our APX NEXT product that integrates broadband with land mobile radio is best positioned to take advantage of that. I know that there's been some speculation or commentary that suggests that LTE is starting to cannibalize. We see absolutely no indication of that. And if anything, maybe the opposite.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yes. So just maybe one thing to add to that. Obviously, we see that we have an LTE – public safety LTE device in the LEX L11. But more importantly, as Greg said, we have a collaborative device in terms of APX NEXT that does P25, obviously. And the focus here is in what we've seen in the pandemic and the response with public safety is fundamentally, when someone calls 911, there's a multitude of things that happen. But that puts our technology in place and there's been more strain on the networks, which really is evidence of the fact of why you need a purpose-built network. But a really good example, without getting into specifics, a major city health department procured APX NEXT devices because they needed to talk to the frontline fire and EMS people, but also wanted that backup capability when they left the city, and it was a big health department.

It was really traditionally, a secondary type customer for Motorola that bought, obviously, high-tier equipment in terms of APX NEXT. So this thing has really been a lot of what we're seeing in Q2 has really been the ability to not get the physical sites, to not engage physically with customers. And I think that's really the challenge, and we view that as being kind of short-term challenge.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Understood. Thanks for the color. Stay safe.

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

<Q – George Notter – Jefferies LLC>: Hi, guys. Thanks very much. I guess just as a follow-on to that thought. You mentioned it's an issue around just customer engagement, but what about budgets? Obviously, states are going through budgeting cycles at this point. I think, certainly, tax receipts are going to be down; municipalities and counties, similar situation. So do you see sort of an economic kind of fallout of lower tax receipts, or do you think the LMR business is more immune to that? Thanks.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yes. So, hey, George, it's Jack. A couple of things. I think it's always important – we see there's been a lot written, a lot discussed around state and local budgets. I think it's very important to decompose what those budgets mean. The reality is state and local budgets, there's a confluence of probably 5 to 6 different funding streams: federal transfer dollars, federal grant dollars, property tax, income tax, sales tax in some states, but also 911 funding, which is one of the real reasons why we've made a lot of acquisitions in the command center space; because, part and parcel, that's a different funding stream that's essentially protected.

So it's a number of those things. But I go back to one of the benefits we have of being a company that's close to 95 years old is we've gone through a number of these things after 9/11 and they're all little different; the Great Recession. But what we've seen and when we've gone back and looked at the data, it suggests that public safety gets prioritized in these things. There's other things around the margins that may get delayed, may get deferred, all those kind of things. But at the end of the day, we've even seen it as evidenced in this response to the pandemic, you need to have the best technology in the hands of those first responders. We think that gets protected.

There's always – by the way, the budget situations in state and local haven't been easy for the last number of years, and I think that's, lastly, where our sales team – as much as they have relationships and everything, we've got a very veteran team out there that's very focused at working with our customers to navigate funding plans. And they're really holistic plans that they work with our customer base.

So I think we'll come out of this with the same level of priority that public safety has always gotten, if not more, George. So I think that answers your question.

<Q – George Notter – Jefferies LLC>: Got it. Great. And then, I'll just ask one more. The NG9-1-1 opportunity seems more interesting these days. I mean, there's obviously a stimulus package that's brewing here coming from Congress and the administration. And I know in past drafts, there has been, I think, \$12-plus billion in funds that were earmarked for NG9-1-1 upgrades. And I'm not sure what this current package is going to look like, but do you

see that as an opportunity for Motorola Solutions? And how much of that – those dollars do you think could trickle down to the stuff that you guys do?

<A – Kelly Mark – Motorola Solutions, Inc.>: Hey, George, its Kelly. Absolutely, we do see that as an opportunity for us. Not just in the NG9-1-1, which is a refresh of the backbone associated with the 911 call center to help turn it into more of a broadband backbone, but it's also – there's been a lot of interest in related to cloud, as a result of this pandemic, where a lot of our customers in the past have been operating with their equipment on an on-prem basis where they operate it there; the need to be able to operate it remotely is something that's definitely been introduced as part of this pandemic.

The good news is we've already been investing in cloud and a good portion of our software was already cloud enabled. But as you heard Greg mention in our remarks, we're accelerating our investments even more in cloud based on the demand we see now. We just launched our first CAD customer in the cloud.

By the end of this year, our CAD, our Records portfolio will be completely cloud-enabled. And then, early next year will be our 911 efforts will all be cloud-enabled as well. So it does definitely drive that. And yes, we do see some of those dollars starting to flow through as folks prioritize not just NG-9-1-1, but the rest of the command center software refresh.

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

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

<Q – Trevor Bowers – Northcoast Research Holdings, LLC>: Hi. This is Trevor Bowers filling in for Keith. L3Harris' CEO recently said that LMR sales could decline by 10% this year. Do you agree with that market assessment?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, I think our view is reflected in the commentary that we gave. They are a much smaller player in the business. I think we have much more extensive installed base and contacts and annuity revenues. But as I mentioned, Q2 is very unique because, as Molloy pointed out, just the sheer logistical difficulty of customer engagement and deployment.

But do I think product revenues are likely to decline? Yes. And I think they will be on a decline that will be comparable to what we saw in the land mobile radio business, actually, in 2009. But again, that's more about delayed and deferred demand than any demand that's actually lost or goes away. And I think it will recover. And I think public safety has demonstrated over the last several years and longer, it remains at the top of the food chain. So I think they have a certain view of the market; that's their opinion. But I would maintain that I think we have a very long-standing and more thorough and comprehensive perspective.

<Q – Trevor Bowers – Northcoast Research Holdings, LLC> Great. Thank you very much.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Just one additional item on that note. It's also important to note the composition of the business. And as Greg mentioned earlier, the percentage of our business that's commercially – that's earmarked for commercial customers, the PCR business specifically, and that's where we're seeing the pressure, more specifically, is around PCR, not around, necessarily, the public safety to the degree that we're seeing in the PCR marketplace.

<Q>: Thanks.

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

<Q – Paul Silverstein – Cowen & Co. LLC>: Hi. Can you all hear me okay?

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

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

<Q – Paul Silverstein – Cowen & Co. LLC>: Okay. If I go to the PCR business – and I know you don't normally break it out, but given that you've got a business with particular exposure, I assume particularly heavy exposure to those sectors that have been absolutely devastated, hospitality, energy et cetera, the ones you listed, can you give us a sense for what percentage of revenue comes from those particular sectors?

<A – Greg Brown – Motorola Solutions, Inc.>: Yes. Paul, the professional and commercial radio last year, again, as Gino referenced, think land mobile radio for commercial and enterprise, last year all in, was about \$1 billion. So as we think about it this year, obviously, that's the area that's come under the most pressure. And two-thirds of that is vertical served, airlines, retail, hospitality, oil and gas that had been the most significantly impacted. So that's what's driving the more pronounced double-digit decline in that area.

<Q – Paul Silverstein – Cowen & Co. LLC>: Given the nature of LMR, that's exactly what I would have expected, somewhere well north of 50%. So it's around two-thirds.

Second question, with respect to your comments about Asia Pac in particular – and I recognize it's not been uniform in Asia Pac. At least I don't think it's been uniform in terms of the timing of the impact of COVID and the shutdown. I think it hit China first and now we're seeing Malaysia, Vietnam, Thailand, et cetera. But my question is, is there any insight you can gain in terms of seeing the sequencing in terms of things haven't gone cold turkey and coming back? I know it's very, very early. There's not a lot of visibility. I trust anywhere, but is there anything you can take away from that timing sequencing of events as it relates to your North American business and your worldwide business?

<A – Jack Molloy – Motorola Solutions, Inc.>: Yes. So Paul, I think we look at Asia Pac, to your point, it's essentially pretty sporadic. Things within country, you can't get in there from out, but our biggest country in Asia Pac is Australia. Things are – I'd say they're slightly ahead of where certain states that have started to reopen are here with a lot of the same precautions and measures that have been set up. It's just really early to kind of tell, to be honest with you. But I will tell you, one of the things that we look at is our – we haven't really talked about it, but our video security and analytics business in the states that have opened up, we've seen engagement even within North America improve there.

So – there's not a whole lot we can glean. If you look at parts of the Middle East, Dubai, those places are starting to open up a little bit as well. But it's what I would call very cautious opening up.

<Q – Paul Silverstein – Cowen & Co. LLC>: All right I appreciate that. Thank you.

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

<Q – Ben Bollin – Cleveland Research Co. LLC>: Good evening everyone. Thank you for taking the question. I wanted to begin, could you start by discussing a little bit about, how you think of your sales cycle duration as you reengage customers? Do you think there's any change in the kind of the traditional period of those awards?

Just any high-level thoughts on where you think customers' heads are at as you're starting to have those discussions and your ability to close new business? And then, I have a follow-up.

<A – Jack Molloy – Motorola Solutions, Inc.>: Okay, Ben. So I dimensionalize our business, it's not – all things are not the same. There's big projects and then there's amount of what you call kind of term agreement and grass roots business. But by the way it has continued to extent to continue to flow. Large projects typically go through – you get a request for proposal, that's a time line. But then you have elements where they have to go through board approval, city council approvals, state procurement approvals and the like to use that example. And really, what Gino and what Greg have referenced is a lot of those meetings have been delayed. So there's not an issue that we have to go resell, re-canvas, if you will. It's really just the procedural milestones have moved to the right, whereby

we've had to reshuffle the milestones of a project and just extend them out into the second half and those kind of things. That's been the issue. It hasn't been. The good news is with video technology and those kinds of things, we've been able to stay engaged with our customers, answer questions and all those kind of things.

But it's really just a milestone type thing where we've seen the delays. And as we talked about the physical access to get not only in sites but in the command center and those kind of things as well, if we've got to go do work where there's people there, there's been some delays as it relates to those things as well.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Thanks for that. Jack you also earlier commented on the diversity in the funding sources. Outside of the 911 funding, when you look at the federal transfer tax, federal grants, property and income taxes, just stepping back, I mean, those four pieces don't seem to be in a very good position looking forward.

So I'm not looking for guidance, but I'm interested how you're thinking about the absolute budget opportunity coming from the public sector customers, into the future. Just that aggregate bucket of opportunity, how you're thinking that develops over time? Or any specific feedback you're getting from customers? Thank you.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah. So I'd start with – listen, if we were selling – and I don't want to – if we were selling something that they would deem is non-critical, not-essential to their workflow communications, I'd maybe be a little bit concerned, but I think fact that, you're selling mission critical communications, you're at the very top of the priority chain that's a good thing.

But it's interesting, if you look at it, a lot of our customers feel like property taxes, a lot of these things, if there's a recovery that's a little bit sharper, they may not have the impact that we had. Obviously, there's been a pretty significant impact as it relates to sales tax. But remember, most of our things are things that they've been planned for multiple years. They're technology upgrades, expansions and those kind of things related to mission-critical and we've kind of went through this before, went through this a little bit after 9/11. Certainly felt this, I was pretty close to the customer back in 2009, navigated a team in the Central United States. It was probably hit, frankly, from a budget perspective, harder than everybody. And we saw some things delayed. We had some additional questions to answer. But every deal that we had at that point in time continue to move forward. And I think I look at that as encouraging as we move through this pandemic.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Thanks guys. Best of luck in 2Q and for the year.

Operator: Our next question comes from Paul Coster with JPMorgan. Please go ahead.

<Q – Paul Coster – JPMorgan Securities LLC>: Yeah. Thanks for taking my question. The sequential decline that you're looking for, from a geographic perspective, is it sort of uniform across geographies?

<A – Jack Molloy – Motorola Solutions, Inc.>: Yes. So Paul I think it is. If you look at it, because of the broad spread nature and we do business, Greg had said it hit 180 countries, there's 120 those that we do business. It – in general, if you look at it on the surface it's essentially at an equal weighting. And I think the reason for that is because it hasn't that the opportunities have just gone away. It's been that we've had some of the same limits, physically engaging with customers, going to sites and physically deploying systems and those kind of things. There's been essentially equal opportunity delays as it's related to those things. So I'd say, in general, it's been felt largely equally, around the globe.

<Q – Paul Coster – JPMorgan Securities LLC>: Just want to go back to the sort of budget contention question for a moment. It seems to me from a public safety perspective, things have shifted dramatically and they're going to be around for a while now. And the big shift, of course, is towards testing and then administration of public health systems and that's going to be data intensive. And it just seems like that's where the dollars are going to be going in the future, but you feel like that doesn't contend with your budgets. If you can just comment upon that. And in passing, also, does the opportunity present itself to Motorola as well? I mean can you participate in what seems like a very big initiative over the next couple of years?

<A – Jack Molloy – Motorola Solutions, Inc.>: So Paul, it's a great question and one that, frankly, has us – if there's a lot of things that we – this has been certainly a struggle over the couple of months for most companies. But it really delights us in the fact that we've added substantially in terms of the video security and analytics portfolio to the company. Right now, our teams are working on, and May and June, we'll be continuing to market video analytics solutions around social distancing, around mask compliance and detection in campuses, in manufacturing facilities, in the public domain, fever scanning technology as well as contact tracing.

So analytics that will essentially tell you, if you think about – a lot of the dialogue around getting return to campuses, return to schools and the like, our access control solutions will be able to monitor and tell you if somebody was sick, who went through that door at that school, who might likely have come in contact with someone who's sick. So as much as we'll see maybe a change or a moderation of different type of opportunities, our video security and analytics space put a spot on in that. I also think the move – and Kelly and his team have done a great job moving the command center to the cloud. But if you look at our Avigilon Cloud Services business, this has been I think, we've moved 35,000 cameras to the cloud so far this year. So, I think with every challenge comes an opportunity and the video security analytics business is one that I think has an opportunity to benefit from this.

<Q – Paul Coster – JPMorgan Securities LLC>: But you don't see the contention that I talked about. I mean, I see the opportunity for you, but you're not even seeing the contention for scarce resources there, the tension between public safety as expressed through health care versus public safety through LMR plus responder systems?

<A – Jack Molloy – Motorola Solutions, Inc.>: If you talk to a paramedic, a police officer or a fireman, they'd tell you the most important piece of equipment that they have that they've always had and this is a millennial fireman or is the fireman who's been on the job for 30 years, the single most important communication and the lifeline that they have is their two-way radio. We don't see see that changing. Our customers are telling us they don't see that changing.

<Q – Paul Coster – JPMorgan Securities LLC>: Okay. Thanks.

Operator: Our next question next question comes from Walt Piecyk with Lightshed. Please go ahead.

<Q – Walt Piecyk – Lightshed Partners>: Thanks. I assume that the next quarter's guidance basically just assumes that the current state of affairs extends until the end of June; you're not expecting any recovery. I'm just curious just kind of the thought process on that because obviously, you've had some states opening up, some airlines talking about seeing increased bookings. You've had competitive companies talk about return to growth. Verizon talked about, while consumer was down, some of their larger enterprise or public safety clients were stronger than ever.

So I'm just curious about kind of what the guidance for Q2 implies? And how far to the rate, I guess, you could realistically think it can be, given some of these data points that already exist now in early May?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. I think that, Walt, it largely reflects and is driven by, as Gino mentioned, the professional and commercial radio segment itself. So radio for corporate verticals, that's the most accentuated pressure point on Q2.

The second is the engagement and deployment. And again, it was the second half of March, April and largely a lot of May as well. And we just thought, if we're going to guide Q2, let's do it in a responsible, prudent way, and move forward accordingly, but that – it's really...

<Q – Walt Piecyk – Lightshed Partners>: So is it just the PCR that you're involved with? Because the PCR that other companies are involved with, I'm not sure, has seen that type of dramatic move. So is it just that when you talk about airlines and things like that, that it's just these specific things because your products are addressing

customers that are dealing with large crowds. That it's more specific to you guys, as a result. And then, I guess it's hard for any of us to figure out when those types of businesses are going to come back, if at all, right. I mean, some of these customers, theoretically, could just go away, right?

<A – Greg Brown – Motorola Solutions, Inc.>: Yes. Walt, maybe if I could – so PCR, if you think about it – I think you talked about Verizon, but the traditional PCR, if you think about it from a competitive set, it's companies like Kenwood, like Hytera, ICOM, a number of those type of people. And so I think, without a doubt, they've felt the same thing.

And again, those are private systems dedicated towards a refinery, an airline, a Marriott Hotel and those kinds of things. And I think that industry has equally felt it because there's a physical element of design and deployment of a system as well. Verizon is a lot different. You could go and pick up at a kiosk; you could have a phone delivered, and you can pick it up. So I wouldn't see the same sort of physical – the delay, if you will, that we would see in our business. So I think that's really what....

<Q – Walt Piecyk – Lightshed Partners>: Yes. I wasn't referring only to Verizon. I mean, Ericsson, Axon, Ciena, CommScope, ADTRAN – I mean, there's – I mean, obviously, there's more than just Verizon as a data point, but it seems like some of these customers you just mentioned, like airlines, and some of these, again, customers that rely on large crowds, might be more specific, right? So again, are you worried that maybe those customers don't push to the right, but they just never kind of return at all because of the state of how people are going to return to large crowds as opposed to not?

<A – Greg Brown – Motorola Solutions, Inc.>: I think it would be a small portion of it. I mean, the example is if an airline goes out of business, well, that's one airline that won't need a radio system. But as we look at it, we view that to be a relatively small subset of the customers, frankly.

<Q – Walt Piecyk – Lightshed Partners>: Okay. But it's enough that it's driving the revenue down that much in Q2. Because I thought you said the public safety was doing well, and it was this segment that was doing poorly, and that was enough to take your revenue growth down by 15%?

<A – Greg Brown – Motorola Solutions, Inc.>: Yes. Walt, I think what we're trying to say is that Q2 is a timing issue, not an evaporation issue; and it's acute, negative 14% to negative 17%, but it's not evaporating. It's going to the right. And there might be some that evaporates, but we think it's pretty small percentage. It's really representative of things being pushed to the right in that professional commercial radio category.

<Q – Walt Piecyk – Lightshed Partners>: Awesome. So if I see like, for example, if JetBlue sees their numbers and we see those numbers go up, and Marriott we see their numbers go up, this should be indicative that that business could then come back next quarter? Not June quarter, but the September quarter, is that fair?

<A – Greg Brown – Motorola Solutions, Inc.>: Walt, that's exactly right. And look, I can't speak to the exact timing of quarterly alignment. I don't know if we're that precise. But you are right that as airlines recover, people start to fly again, people go to Marriott, Hilton, Hyatt, the states and the economies and commerce reopen, does that business and the acute pressure downwards starts to improve? Yes, it'll improve.

<Q – Walt Piecyk – Lightshed Partners>: Got it. Thanks, Greg. That's helpful.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. No problem, Walt. Thank you.

Operator: Our next question comes from Jim Suva with Citi. Please go ahead.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Thank you. Greg, and Peter, I've known you for over a decade of time, and we've both been through a lot of cycles. You correctly talked about so much the puts and takes. My question, since a lot of the questions already have been answered, is more on the top of the ladder, so to speak, when you talked about Motorola Solutions will get its fair piece of the pie or even bigger than its fair piece of the pie.

Is that pie or top of the ladder permanently structurally compressed or compressed for, like, maybe 6 to 12 months just due to less inflows of – you mentioned five to six inflows of state and local budgets? I'm more focused on the state and local budget balancing opportunities and what your experience has been in that. Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Well, I think what I would say is this. Obviously, this is a situation that I don't think any of us have seen before. We've had 9/11. We've had the dot-com collapse. We've had the Lehman Brothers Great Recession. This one's different in that it's 187 countries. And it's a combination of both a public health crisis and a severe economic downturn at once; and, they're intertwined. So if I take a step back and think about are we in the right businesses? Do we have brand equity? Do we have strength in incumbency? Do we have a greater percentage of recurring revenues in software and services? And I look at command center software that will continue to grow, we believe it should grow this year even in the face of this; video security and analytics, we expect to grow even in the face of this; Software and Services, we would expect, and still could, grow around mid-single digits even in the face of this. And the incumbent footprint and strength that we have in our installed base of 13,000 land mobile radio networks worldwide, with probably our strongest anchor tenant position being North America, is that a good business to be in? We absolutely believe that.

We'll monetize services. We'll move upstream. By the way, we'll integrate these as well. We'll integrate video security with integrated land mobile radio networks as an anchor tenant conveyor of communications and critical information. And this addressable market, and we zero out China. Forget China. It is about a \$40 billion addressable market. Is it temporarily dislocated? Obviously the answer is yes. And that's reflected in the Q2 guide. We always guide. I've never in my career not guided for a full year. This is a first. We just think it was a prudent thing to do. There's a lot of variables and things that are moving around.

But it doesn't change the fundamental strength, attributes, longevity, and advantages that our brand and our market position and the technologies we play, we can capitalize on, which is also why we are going to continue to invest organically. Sales coverage, video security, command center software to the cloud, hearing different and newer radios that you'll see, later this year and next year. And we're going to continue to invest inorganically. And I think this is an opportunity to prioritize capital deployment, around acquisitions of assets that they're having temporary dislocation that may make sense for us accretively to fold into Motorola Solutions. So there's no doubt, it's a tough environment.

But I really believe and I think our team does, too, that this is an opportunity to invest and lean in responsibly, take down the breakeven and take out \$210 million of OpEx and position the firm even stronger to come out of the other end in 2021 and beyond. And that's exactly what we're going to do.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Great and my quick follow-up is other companies have kind of called off M&A simply because you can't meet in person, you can't walk their floors and factories. It sounds like from your comment that you just gave me now that M&A is actually very, very interesting to you and you're still going to go forward as planned. Is that correct? Or maybe your go forward planning just takes a little bit longer?

<A – Greg Brown – Motorola Solutions, Inc.>: I would say, it's going forward. It may take a little bit longer, but there's, a couple of opportunities that we're engaged with now and that dialogue has begun. We'll see. Most of them don't pan out. But I don't see – and right now, Jim, as we're in the middle of May, this is another area that I feel is kind of reopening, if you will. I don't see conversations in this regard being encumbered that will delay any plans or opportunities that come our way.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Thank you so much for the detail. That's greatly appreciated.

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

Operator: Our next question comes from Sami Badri with Credit Suisse. Please go ahead.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Hi. Thank you very much for the question. My question mainly has to do with Avigilon and the video surveillance business, and you've guided to a slight growth or some

growth in 2020 for video. But I was hoping you could tell us what video and what Avigilon grew in 1Q of 2020? And where really we should be thinking about the growth rate just because the growth rate is coming from a mid-teens growth rate in 2019? And we just want to get a better sense on how to model that for 2020.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yes. So obviously, Q2 as Greg, Gino, as we pointed out, there's been some limitations in terms of just ability to meet and some of those customer engagements. That's been the issue for Q2. But I would tell you, Sami, looking at Q1, where we were coming out of the end of March in Q1, it was the best quarter we've had with Avigilon. Frankly, we had talked about growing three times the market. We're taking more share particularly, in North America, the team has done an outstanding job. We've made significant investments in go to market, even greater investments in research and development.

I spoke to some of the interesting things we're working on and pandemic response earlier. We've got a completely new line of H5 cameras, software analytics investments we've made. That's not even to include what we've invested in, in public safety and WatchGuard, the acquisition of WatchGuard and VaaS and what we're doing there. So we actually – we expect the business, assuming a return to normal, sometime in the third quarter, we expect to get back to those growth rate levels, if not greater.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Got it. Got it. And then I just had a follow-up on command center. And there was a big uptick that you guys have called out. You've addressed it. And the big thing and you are pointing to growth for the full year. The one thing I really want to know is when it comes to command center suite, do you have existing customers buying more modules within the command center? Is that what the big uptick was or its just customers that needed the command center suite in the first place, and then they just happen to execute that in 1Q 2020 and you're going to see more new customers come in for the rest of the year versus existing customers buying in more modules? Just want to understand kind of like what the motion is within command center?

<A – Kelly Mark – Motorola Solutions, Inc.>: So Sami, it's Kelly. It's a combination of both. Actually, in the first quarter, we actually picked up a number of new customers, frankly, more new customers than suite customers, which is great because that gives us the opportunity to land and expand those customers and grow the platform in the width and the depth of what we provided to them. We are still seeing also though, many of our customers are still moving, and we are expanding and adding more modules of the command center suite. As you probably recall, as I've said in the past, folks don't walk in and buy typically all the components at one time simply because of the risk profile of a command center and a 911 center. They will schedule and they will do 911 one year, CAD the next year, records the next year And the thing that we watch is how we're doing in regards to penetrating across those positions, and we're still seeing good progress on that. So I don't know if you have a follow-up on that, but that's pretty much how we look at the command center as a performance and why we saw the growth we did in Q1.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Perfect. Thank you.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Tim Yocum for any closing remarks.

Tim Yocum, Vice President of Investor Relations, Motorola Solutions, Inc.

No additional comments. Thanks for joining today. And we'll talk to a lot of you soon.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.