



Q4 2019 Earnings Conference Call Thursday, February 6, 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, Services & Software

Other Participants

Tim Long – Analyst, Barclays Capital, Inc.
George C. Notter – Analyst, Jefferies LLC
Keith M. Housum – Analyst, Northcoast Research Holdings, LLC
Adam Tindle – Analyst, Raymond James & Associates, Inc.
Jim Suva – Analyst, Citigroup Investment Research
Ben Bollin – Analyst, Cleveland Research Co. LLC
Paul Coster – Analyst, JPMorgan Securities LLC
Paul Silverstein – Analyst, Cowen and Company, LLC
Fahad Najam – Analyst, Cowen & Co. LLC
Sami Badri – Analyst, Credit Suisse Securities (USA) LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for holding. Welcome to the Motorola Solutions Fourth Quarter 2019 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 the call over the internet. The website address is www.motorolasolutions.com/investor.

[Operator Instructions] I would now like to turn – actually introduce Mr. Tim Yocum, Vice President of Investor Relations. Mr. Yocum, you may begin your conference.

Tim Yocum, Vice President, Investor Relations

Good afternoon. Welcome to our 2019 fourth 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've 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 reference non-GAAP financial results, including those in our outlook, unless otherwise noted.

A number of forward-looking statements will be made during this presentation and during the Q&A portion of the call. These statements are based on current expectations and assumptions that are subject to a variety of risks and uncertainties. Actual results could differ materially from these forward-looking statements.

Information about factors that could cause such differences can be found in today's earnings news release, in the comments made during the conference call, in the Risk Factors section of our 2018 Annual Report 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, I'll turn it over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thanks, Tim. Good afternoon and thanks, everybody, for joining us today. I'm going to start off by sharing a few thoughts about the overall business, before Gino takes us through the results and outlook.

First, Q4 was an outstanding quarter capping another record year for the company. We grew revenue 5%, expanded operating margins by 80 basis points, generated \$795 million of operating cash flow.

Additionally, we ended the quarter with our highest backlog position ever of \$11.3 billion, up \$659 million year-over-year and up \$217 million sequentially. Second, our full year 2019 results exemplify the strength of our business.

In our Products segment, we grew revenue mid-single digits, driven by a second consecutive year of record land mobile radio sales in North America, as well as strong growth in our video security business.

In Software and Services, we grew revenue double digits and expanded operating margins by 330 basis points, on strong demand for our command center software solutions and continued growth in our Services business.

And finally, as I look to 2020, our record backlog position coupled with the investments in our command center software and video security portfolios position us well for another year of organic revenue growth, operating margin expansion and strong free cash flow generation.

I'll now turn the call over to Gino to provide additional details on Q4 results and 2020 outlook, before returning for some closing thoughts.

Gino Bonanotte, Executive Vice President & Chief Financial Officer

Thank you, Greg. Q4 includes revenue of \$2.4 billion, up 5% including \$82 million of revenue from acquisitions and \$17 million of currency headwinds. GAAP operating earnings of \$590 million, up \$74 million, and operating margins of 24.8% of sales compared to 22.9% in the year ago quarter. Non-GAAP operating earnings of \$707 million, up \$57 million or 9%, and non-GAAP operating margins of 29.7% of sales, up 90 basis points from 28.8%, driven by higher sales and gross margin, partially offset by higher OpEx from acquisitions.

GAAP earnings per share of \$1.39 compared to \$2.44 in the year ago quarter. The current year quarter includes a non-cash charge of \$1.53 per share related to actions taken to de-risk \$1 billion in pension obligations. Non-GAAP EPS of \$2.94, up 12% from \$2.63 last year on higher operating earnings and a lower effective tax rate. OpEx in Q4 was \$523 million, up \$40 million versus last year, primarily due to acquisitions. The Q4 effective tax rate was 22% compared to 23.5% in the prior year.

For the full year, revenue was \$7.9 billion, up 7%, driven by growth in the Americas. Revenue from acquisitions was \$312 million and currency headwinds were \$113 million. GAAP operating earnings were \$1.6 billion, up \$326 million or 26%, primarily driven by higher revenue and gross margin. Non-GAAP operating earnings were \$2 billion, up \$235 million or 14%. And non-GAAP operating margins were 25% of sales, up 130 basis points, driven by higher sales and gross margin, partially offset by higher OpEx from acquisitions.

GAAP earnings per share was \$4.95 compared to \$5.62 in the prior year. The current year included a non-cash charge of \$1.53 per share related to actions taken to de-risk \$1 billion in pension obligations. Non-GAAP EPS was \$7.96, up 11% from \$7.15 in 2018 on higher sales and operating earnings, partially offset by a higher effective tax rate and a higher diluted share count in 2019.

For the full year, OpEx was \$2 billion, up \$158 million versus last year, primarily due to acquisitions. And the effective tax rate for 2019 was 22.4% compared to 21.7% in the prior year.

Turning to cash flow, Q4 operating cash flow was \$795 million compared to \$812 million in the prior year, and free cash flow was \$736 million compared with \$743 million in the prior year. For the full year, operating cash flow was \$1.8 billion, up \$748 million and free cash flow was \$1.6 billion, up \$697 million. The increase in cash flow was driven by the impact of the \$500 million pension contribution made in 2018, higher operating earnings, and improved working capital.

Capital allocation for 2019 included \$709 million of acquisitions, \$379 million in cash dividends and \$315 million in share repurchases at an average price of \$137.35.

Additionally during the year, we repaid the remaining \$400 million balance on the term loan used to acquire Avigilon. We refinanced approximately \$800 million of senior unsecured debt, extending our debt maturity profile. We settled the initial five-year convertible note with Silver Lake, one year ahead of its maturity and extended the relationship with a new five-year convertible note that expires in 2024.

And finally, we reduced \$1 billion in pension obligations through a lump-sum window, paying approximately \$836 million out of pension plan assets to participants who elected this offer.

Moving to segment results, Q4 Products and Systems Integration sales were \$1.7 billion, up \$3 million with growth in the Americas and AsiaPac, offset by a decline in the Middle East and Africa. Revenue from acquisitions in the quarter was \$38 million and currency headwinds were \$9 million.

Q4 Products and Systems segment operating margins were \$484 million or 28.9% of sales, flat with the prior year. Higher gross margin in the current year was offset by higher OpEx, primarily from acquisitions.

Some notable Q4 wins and achievements in the segment include a \$64 million P25 order for the State of Arkansas; a \$36 million P25 order from Thurston County, Washington; a \$24 million P25 order for Luzerne County, Pennsylvania; and \$5 million in fixed video security wins for government customers. Additionally during the quarter, we launched our next-generation P25 radio, APX Next as well as our Avigilon AI-powered H5 camera line.

For the full year, Products and Systems Integration revenue was \$5.3 billion, up \$229 million or 5%, on growth in the Americas. Revenue from acquisitions was \$157 million and FX headwinds were \$54 million. Products and Systems Integration operating earnings were \$1.2 billion or 22% of sales, up slightly from the prior year on higher sales and gross margins, partially offset by higher OpEx related to acquisitions.

Moving to the Software and Services segment, Q4 revenue was \$704 million, up \$120 million or 21% from last year, driven by growth in all regions. Revenue from acquisitions in the quarter was \$44 million and currency headwinds were \$8 million. Operating earnings were \$223 million or 31.7% of sales, up 310 basis points from last year, driven by higher sales and gross margins and improved OpEx leverage.

Notable Q4 wins in the segment include \$8 million command center suite order from Tulare County, California; \$6 million command center software suite order from the Irvine, California police department; \$6 million for a computer-aided dispatch system for the City of Atlanta, Georgia; a \$68 million P25 multi-year service contract with the State of Victoria in Australia; a \$29 million P25 multi-year service contract with the State of Connecticut; and a \$24 million P25 multi-year service contract with the U.S. Navy.

For the full year, Software and Services revenue was \$2.6 billion, up \$315 million or 14%, with growth in the Americas and EMEA. Revenue from acquisitions was \$155 million and FX headwinds were \$59 million. Software and Services operating earnings in 2019 were \$802 million or 31.4% of sales, up 330 basis points versus the prior year, driven by higher sales and gross margins and improved OpEx leverage.

Looking at regional results, Americas' Q4 revenue was \$1.7 billion, up 10%, driven by broad-based growth across LMR services, video security, and command center software. For the full year, Americas' revenue was \$5.7 billion, up 12% with growth in both segments.

EMEA Q4 revenue was \$448 million, down 9% due to large system deployments in the Middle East and Africa in the prior year, partially offset by growth in Europe. For the full year, EMEA revenue was \$1.6 billion, down 3% due to FX headwinds and declines in the Middle East and Africa, partially offset by growth in Europe.

And in AsiaPac, Q4 revenue was \$214 million, up 6% or \$12 million, driven by growth in Australia. For the full year, AsiaPac revenue was \$657 million, down 3%, driven by China and FX headwinds.

Moving to backlog, ending backlog was \$11.3 billion, up \$659 million or 6% compared to last year. Sequentially, backlog was up \$217 million, driven by growth in Software and Services. Software and Services backlog was up \$699 million or 9% compared to last year, driven by multi-year agreements in North America as well as the ESN contract extension. Sequentially, backlog was up \$261 million with growth in all regions.

Products and Systems Integration segment backlog was down \$40 million or 1% compared to last year, driven by the Middle East and Africa. Sequentially, backlog was down \$44 million with growth in the Americas offset by declines in EMEA and AsiaPac.

Turning to our outlook, we expect Q1 sales to be up approximately 2% with non-GAAP EPS between \$1.30 and \$1.35. This assumes an effective tax rate of approximately 20% and a weighted average diluted share count of approximately 176 million shares.

For the full year, we expect revenue growth of approximately 4% with non-GAAP EPS between \$8.65 and \$8.80 per share. This full year outlook assumes an effective tax rate of approximately 23%, weighted average diluted share count between 176 million and 177 million shares, and full year OpEx down \$60 million versus 2019. We expect full year operating cash flow to be approximately \$1.9 billion.

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

Greg Brown, Chairman & Chief Executive Officer

Thanks, Gino. And let me just close with a few final thoughts. First, 2019 was an outstanding year. Our land mobile radio business had a second consecutive record year in North America, while our video security and command center software businesses both exceeded our expectations.

Second, I was particularly pleased by the performance of Software and Services during the year, which now makes up roughly a third of our overall sales and is a proxy for our recurring revenue.

The demand for our integrated command center software suite drove strong revenue and backlog growth in our Software business, while our Services business grew mid-single digits organically, led by another strong year in North America. Additionally, we expanded operating margins in the segment by 330 basis points, which drove overall operating margin expansion of 130 basis points for the company.

And finally, I think we're very well positioned for another strong year in 2020. We serve large addressable markets. We have a seasoned team focused on consistent execution. And the investments we've made in North America along with our command center software and video security portfolios will continue to drive organic revenue growth, operating margin expansion, EPS growth of at least two times revenue growth, and strong free cash flow over the long-term.

I'll now turn it back over to Tim.

Tim Yocum, Vice President, Investor Relations

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

QUESTION AND ANSWER SECTION

Operator: Thank you. The floor is now open for questions. [Operator Instructions] Our first question will come from Tim Long with Barclays. Please go ahead.

<Q – Tim Long – Barclays Capital, Inc.>: Thank you. Yeah, just one and then the follow-up, I'll give you them both. You guys can pick. So, first, maybe on the targets for 2021, the \$9 billion in revenues and \$10 in EPS, talk a little bit how we're going to get there. It seems like given the strong margins and OpEx management, EPS seems a little easier than the revenues. But if you could just touch on that a little bit?

And secondly, might be related, you know that organic growth in Q1 is kind of low. I'm wondering if there's other large deals that impact that kind of like they did in Q4. And then also, looking at the 4% for the year, you do have a little bit of M&A help and you have bigger contribution from software and video. So just curious if something is going on in the LMR side of the business, when you look into the full year 2020. Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. So, first, in terms of the concept of \$9 billion and \$10 in 2021, I think I've been pretty consistent in saying approximately \$9 billion and approximately \$10 in 2021. Tim, it was always meant to be directional and not prescriptive or specific guidance.

And as you mentioned, I think it also includes and contemplates both organic and inorganic. I think that you see the guide for both Q1 and the full year in 2020 on top of what we did in 2019 and I like the progression and the path that we're on.

You're right that if you extrapolate that out, it will likely be closer to approximately \$10 on the bottom than on the top but again it contemplates both organic and inorganic and we'll see how that develops.

In terms of Q1 specifically, I would just say that a couple of things. We're coming off of two consecutive record years. The previous year comp in Q1 of last year was 13% growth. And as we referenced and have been consistent, that included the timing of a \$40 million Fed order in Q1 that when you normalize for the timing of that, I think you feel a little bit better. The linearity of Q1 is consistent with the last several years. It's about 20%. It's always our smallest quarter. And with the exception of the anomaly of last year, I think it's consistent and in line with the way our business generally flows.

The final point I'd make too is that, our all in 4% growth for 2020 is generally balanced with a little bit less than 4% growth in the first half, 4% growth in the second half and the 4% overall numbers consistent with what I mentioned a quarter ago. From a composition standpoint, we still expect growth overall in LMR all in with Services in 2020. And we believe video security will grow again. We expect that in the 15% range and command center software in the high-teens. So, all in all, I think balanced strong across multiple platforms, but that gives you the color of Q1 and 2020 as well as your 2021 question.

<Q – Tim Long – Barclays Capital, Inc.>: Okay. Thank you very much for the color.

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

Operator: The next question will be from George Notter with Jefferies. Please go ahead. Please go ahead, George. Perhaps your line is muted on your end. We'll move to our next...

<Q – George Notter – Jefferies LLC>: I'm sorry about that.

Operator: There you go. We can hear you now, sir.

<Q – George Notter – Jefferies LLC>: Can you hear me? Great. Apologies. All right. So on Avigilon, you've been talking about a 15% growth target for 2019. Just to confirm you guys hit that or beat that and kind of curious what that business grew for you last year. And then, again, you mentioned 15% kind of growth aspiration for this year again in video. I'd love to get an update on kind of where you are in terms of investing in that business and starting to get leverage in terms of your government opportunities, international opportunities. Just give us an update on the progress there. Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: So just overall on the business and then Jack could comment on the investments and other composition of your question but we did grow 15%, actually a little bit better but – so it exceeded our expectations in 2019. I'm really pleased with the acquisition. And I'm particularly pleased with Molloy, John Kedzierski, all the Avigilon team of the way it's been integrated, the way we're investing, the way we're refreshing, the way we're expanding go-to-market. And we do expect again growth around 15% for that business, which I remind you is about 3x the market.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah. The only color I'd add, Greg, just in terms of the investment, George, we invested fairly significantly in terms of go-to-market in North America in the first quarter last year. I think that helped attribute to the momentum. As Greg indicated, we picked up in the second half of the year.

The other piece of it is it's obviously a very innovation-driven market. We had a relatively large-scale launch with our AI-powered H5 camera line. And again, the Q4 success and even what we're seeing in terms of pipeline build is very encouraging.

The last piece of it is we formulated a government sales team. And we did – Gino made a mention of it. We did \$5 million in sales. Half of that was in the federal government market, which is really the longest selling cycle. So, all in, we're encouraged in terms of the markets.

Internationally, one of the investments we're making now is really focused on routes to market, taking our go-to-market coverage and getting into new countries that Avigilon was not in when we acquired them. So I think some work to do there. But definitely, I think some opportunity as well.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. Just George, one other thing just to complement the team, one of the verticals that I think has been the strongest performing is education in the notion of safe schools. I think it's been the sweet spot of demand for Avigilon. And Jack and team are going to make even more investments to expand the width and breadth of our reach in that vertical nationwide. I think it's front and center with so many school systems and countywide education systems, this whole notion of safe students and doing the necessary protection around perimeter and anomaly detection and motion detection.

So, we're investing more in that vertical. And we're investing and integrating the end-to-end Avigilon video security and analytics system, integrated with our existing land mobile radio.

So stay tuned on that front for more updates over time in both the education vertical and a few others. But that's been high demand for us.

<Q – George Notter – Jefferies LLC>: Thank you.

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

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

<Q – Keith Housum – Northcoast Research Holdings, LLC>: Good morning, guys. Gino, a question for you just a little bit more details on the numbers. It looks like R&D stepped up quite a bit this quarter. Is that kind of a new run rate to think about that? And is there specific areas, I guess, you're expanding the R&D in order to capture, I guess, more future opportunities?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah. As we talked about the increase, Keith, was attributable to acquisitions. We will continue to rationalize spend. We have made incremental investments in our growth businesses, both Jack mentioned go-to-market as well as additional investments in R&D with the new camera as well as in command center software and we continue to drive costs out of the overall business.

So I talked about a \$60 million reduction in 2020. So what you're seeing in 2019 is really a function of the acquisitions coming on. And as we work through cost structures across the acquisitions and more so across the underlying business, you'll see that come down.

<Q – Keith Housum – Northcoast Research Holdings, LLC>: Great. And then a quick follow-up, in terms of the license plate reader business and the WatchGuard, can you guys give a little bit of color on how those acquisitions are performing for you?

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah, sure. Keith, it's Jack. So, related to WatchGuard, one of the encouraging things we have with WatchGuard and with VaaS is really the ability to first bundle mobile in-car video with license plate recognition software and ultimately look at those as a platform.

So we've – Q4 last year, we announced our 4RE, mobile video WatchGuard that's integrated with license plate recognition that's tied to our LEARN database which is the biggest license plate recognition database in the market. Early returns from customers tell us, this gives them better evidentiary management, as well as it improves officer safety. So, we're encouraged by both of these and I'd remind you that WatchGuard is the leading player in-car video. We see more and more of the body-worn and in-car video sales being tethered together. And obviously, our go-to-market scale in North America is significant. So we really like both of those acquisitions.

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

Operator: The next question will be from Adam Tindle with Raymond James.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Okay. Thanks and good evening. Greg, I know it's not a normal practice to talk about individual contracts, but the State of Florida LMR deal was a landmark one that you've talked about in the past as an example of kind of the threat of LTE cannibalization being overblown. It seems like some potentially unattractive terms being asked of you based on what's being reported on that and I don't think you've come to an agreement, but just hoping for a little bit more color why. I'm not sure if those terms are boiler plate. They've been agreed to in the past. And what has changed to see such a big deal that seems like it may be falling through?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, Adam, thanks. So, first of all, I mean just to paint the picture and remind everybody, we did anticipate getting State of Florida. We didn't. I think it was largely a result of over a year and a half of delays in lawsuits and appeals, primarily by the incumbent competitor. On top of that, there's been some administration management changes. But I think it's fair to say that there was fluidity in scope and some design assumptions.

Now, having said that, we have an extensive presence throughout the state already. We still look forward to participating in what the State of Florida decides to do next. The project by the way was never in backlog. While we did anticipate signing it, we didn't. And it was going to be a managed service, so it would have been, I think, about \$13 million to \$15 million a year over several years. I think we're going to stay engaged with the State of Florida. We would like to think there's still opportunity to reengage and participate in that going forward.

In terms of overall demand for LMR, as I mentioned, we've had two record years back to back. We've had the State of Pennsylvania; we had the State of Iowa. And there's a whole – we had the largest LMR deal in the history of the company in Canada. So LMR remains strong. And these deals continue to come in and they're usually accompanied with 7- and 10- and 12-year maintenance contracts as well.

I think the State of Florida had a lot of factors involved. We would still like to participate and hope we have a role going forward, but that's really the state of play at this point in time.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Okay. That's helpful. And just as a follow-up, kind of circling back on some of the things that you said in the prepared remarks at the end. The 2020 guidance I think implies somewhere around low-double digit operating profit dollar growth on 4% revenue growth. I know that leverage is something that you've done in years past but largely through a lot of cost optimization programs. And I think the composition of profit dollar growth and leverage is becoming more a function of scaling the Software and Services piece. So I'm hoping that maybe you could just touch on that dynamic, that changing composition of profit dollar growth and leverage, and double-click on where you see Software and Services margins moving to in 2020.

<A – Greg Brown – Motorola Solutions, Inc.>: So, that was a lot, but we still think the business can – we expect it to grow all-in 4%. We do think that video security solutions will grow at 15% and command center software in the high-teens.

As I've commented before, as it relates to China, our China revenue continues to fall off largely as expected, in an accelerated way. Just to contextualize that, Mainland China was about \$120 million of revenue in 2019. I think that's going to be cut in half in 2020, more pronounced – not unanticipated – but more pronounced and reflective of our strategy around China. And we've been de-emphasizing that theater for the last several years.

So, I think we will, A, continue to grow organically. I think LMR continues to grow all-in inclusive of services, video security and command center software, I mentioned. Services will grow – should grow mid-single digits.

From an operating leverage standpoint, as Gino mentioned, we think OpEx goes down \$60 million, largely normalized and optimized from G&A rationalization from acquisitions made previously. But Software and Services will continue to grow high-single digit. That's what we anticipate. And from an operating margin standpoint, I think that Software and Services will be about 33% expanding over 2019. And we would see and anticipate the Products segment operating margin expanding as well.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Very helpful. Thank you.

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

Operator: The next question is from Jim Suva with Citi Investment Research.

<Q – Jim Suva – Citigroup Investment Research>: Thank you. Just one clarification, then kind of a more detailed strategy question. And the clarification question is, if I got my memory correct, which it could very well be wrong, the long-term guidance that you gave of the \$9 billion in sales and \$10 in EPS, not guidance, but say let's call it, goal or whatever for 2021, that does include unannounced M&A. But for

the 2020 guidance for this year, the sales of 4%, plus or minus, and the EPS that does not include unannounced M&A that hasn't been announced yet. So that's kind of my clarification question.

Then my strategy question, Greg, when you look at running the company for 2020, what's kind of the maybe one or two variables to the upside or downside that you're taking a look at, whether it's state budgets or are there a couple of big contract renewals from competitors or within yourself that come up for renewal? Just so we can think about some of the key factors you're looking at for 2020. Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Sure. So Jim, your memory is correct. The approximate \$9 billion and \$10 does contemplate future acquisitions. And you're also correct, that our 2020 guidance that we're confirming today does not, so you're right on that front.

In terms of kind of overall levels and thinking about 2020, I like the fact that we have record backlog. I like the fact that more of the revenue is dimensionalized toward a recurring theme, vis-à-vis Software and Services.

I'm really pleased with Kelly Mark and Andrew Sinclair and Jack Molloy and John Kedzierski. And I don't say that conveniently or to be nice and give the commercial for those guys. They've done an excellent job on two of these growth strategies that are very critical to us going forward. And at the same time, land mobile radio all in continues to be steady – product and services – and will grow.

The variables, you always think about is there a geopolitical event that could happen. Maybe, who knows? The coronavirus is relatively – maybe it isn't early in its stages. We'll see. We don't think that impacts us at this point in time, but we'll see how that plays out. This is also an election year and sometimes, if there's a change in administration that could provide a temporary pause or dislocation. I don't know if that's 2020 or 2021. But that's going to be an interesting set of dynamics to watch that whole political theater unfold. I think overall, state budgets in the US are solid. I think the US federal budgets are solid. We've talked about tailwinds with the National Defense Authorization Act. FX is very muted for us in 2020. As we sit here today, maybe \$10 million of headwind. So, I think our guidance and our view is balanced, prudent, but I like the underlying strength of the business, the performance drivers and the execution by which we're achieving.

<Q – Jim Suva – Citigroup Investment Research>: Thank you so much for the details. It's great. Thank you.

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

Operator: And our next question will come from Ben Bollin with Cleveland Research. Please go ahead.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Good evening, everyone. Thanks for taking my question. I wanted to start, if you could just talk specific to public sector surveillance opportunities. Historically, it seems like Avigilon has disproportionately been weighted towards enterprise. How do you feel about the progress you are making? What's the visibility on large deal opportunities as it relates to public sector customers?

<A – Jack Molloy – Motorola Solutions, Inc.>: Ben, it's Jack. So I made a comment earlier that we put a team that was specifically focused at state and local. Really when we think about local, it's local, it's citywide video security systems. I think we've talked about before that we manage the City of Chicago. But just last year, we had opportunities that we won in Cleveland and in Dallas as well. So we've got opportunities. We've got relationships. I'm actually very encouraged.

What we typically see with citywide safe city opportunities that they typically do a pilot in an area, particularly in the central business district or an area that's very hardened by crime and build out. So, the other kind of elegant thing when we secure those deals is there's a scalability that'll happen in this year 2020 and 2021 as they make sustained investments in those networks as well.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Okay. And looking at command center, where do you think customers are in their PSAP modernization efforts? Is it still ultra-early innings and things get a lot better from here, just any high level thoughts on where that market is and its evolution?

<A – Kelly Mark – Motorola Solutions, Inc.>: Ben, its Kelly. I think it's still early innings on the PSAP modernization. Certainly, we're starting to see some moves with some of the larger cities out there in regards to building into the ESINET as you probably heard us talk about it, which is the more advanced way to bring multimedia to the 911 call centers, but I'd say that's still early innings. The impact of that eventually, it will drive churn of software because they'll have to update the software which sort of sits downstream from that 911 call to be able to handle the multimedia, but that also falls within the normal budget cycle that they have to prioritize. So it's not as if it will drive a tremendous acceleration, but certainly something that we'll see happen over the next many years.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Thanks, guys.

Operator: The next question is from Paul Coster with JPMorgan.

<Q – Paul Coster – JPMorgan Securities LLC>: Yes. Thanks for taking my question. Can you break out the full year growth by region, give us some sense of how – if there's any differences between the regions?

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah. Hey, Paul, it's Jack. Well, when you think about it, North America last year we grew 13% in 2019; 7% in constant currency this year in 2020. And by the way, I do want to note North America, it's particularly important that we grew across LMR, had tremendous success in command center software as well as in our video security business. We actually expect continued growth across all platforms. We expect growth in North America in the federal government area, in Canada as well as in the US in state and local.

As we think about Europe, EMEA last year, we had a – it's important to note EMEA was down in 2019 3%. Most of that was driven really by a culmination of two things: two deals in the Middle East; two nationwide deployments, one in Northern Africa and one in the Middle East that created a tough comp. Also, we were in a tough FX environment last year, but we did grow in Europe, both in Eastern Europe and Western Europe. And in 2020, we expect the region in whole to grow, not only in Europe, but the Middle East and Africa as well.

And then lastly in AsiaPac and I think Greg made mention of this, is we expect AsiaPac to decline slightly this year and really that's driven by the fact that our revenue in China will be cut in half. The rest of AsiaPac is fairly stable for us, but it's just the planned continued deterioration of revenue in China that really impacts AsiaPac.

<Q – Paul Coster – JPMorgan Securities LLC>: And Greg, I'd take your point that a change in the administration might cause a pause in spending. What happened in prior presidential cycles that you can call out as material, if anything?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, I mean, I think just in general whether it's Republican or Democrat, it wasn't meant to be a partisan comment, but whenever there's a change, there's typically you go through a new cycle, they appoint new people and cabinet members, they reconstruct the budget. There may or may not be a continuing resolution. The budget details need to be solidified which really are foundational to what they will spend the first few quarters after the election. I think that's what we've experienced in the past.

<A – Jack Molloy – Motorola Solutions, Inc.>: I think that's exactly right. The other piece of it is just what happens in the House and Senate and are there changes there that might change budget priorities as well. But as Greg said, it's not – we've had very good years in Democratic administrations and very

good years in Republican administrations. It's really just how quickly can they get the agency heads in place that can start to set the wheels in motion for both our customers and our team.

<Q – Paul Coster – JPMorgan Securities LLC>: Makes sense. Thank you.

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

Operator: The next question is from Paul Silverstein with Cowen and Company.

<Q – Paul Silverstein – Cowen and Company, LLC>: Thanks. Appreciate taking the questions. Appreciate that this might have been asked in different forms. But Gino, if I remember correctly, last year you spoke about gross margin uplift being the largest driver of operating margin uplift and with OpEx being relatively flattish, but not down and you delivered on that. This year, you're talking about OpEx declining once again by \$60 million. I don't think I heard you reference gross margin. If you did, I apologize. What should we expect from gross margin relative to the opportunity for operating margin uplift for incremental leverage?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah, Paul, this is Gino. We did not mention it, but really the expectation in the Products segment is for gross margins to be comparable to what they were in 2019 and continued expansion in Software and Services from 2019 into 2020.

<Q – Paul Silverstein – Cowen and Company, LLC>: All right. And as a follow-up, I appreciate that both of you have done a very good job trying to herd the cats and keep expectations in line. So Greg and Gino, apologize if this goes in the other direction. But you're telling us that you expect China to be down by \$60 million or so to get cut in half.

So starting out, if we normalize for China, your organic growth, your normalized growth looks more like 5%. And I'm asking obviously a longer-term question here. And then if I think about the growth you're putting up in command and control software and video of 15% to high-teens as those grow as a percentage of revenue and as LMR comes down as a percentage of revenue that should obviously have an uplift long-term on growth, all the things being equal.

I just want to make sure I'm thinking about this the right way if we think about longer-term growth as you go forward in time. I appreciate large numbers. But when I look at what's going on in your business, it sounds like growth should actually trend up over time?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, so kind of a couple of things. In the context of 2020, we went through that. I appreciate the question and I understand where you're coming from. You are right that over time as Software and Services and video security, obviously command center software that are growing substantially faster and become greater from a contribution standpoint that should provide lift both from a growth rate and organic growth rate. And we would anticipate that trend over time. We're only guiding for 2020.

The China being cut in half is much more pronounced. So China was down \$20 million in 2019 against 2018. It's much more pronounced this year. It's not unexpected. I think it's related to a lot of the things we've been doing and decisions that we've made proactively with China. So that's not unanticipated.

But also, I think in the context of the overall guidance, I think it's appropriate to be prudent. By the way, some of this growth, remember, the other trend here is incrementally things that were sold as CapEx that might roll to the top line growth number to take 3% to 4% to 5% to 6% go more toward annuity revenue, multi-year annual recurring.

So, as we move some product to incremental annual recurring revenue that would temper down top line growth as we transition over time, but enhance the longevity and durability and predictability of the cash flow. So there's that dynamic as well.

But all in, pleased with where we are, record backlog, high-growth businesses performing and LMR as well. Remember, coming off two record years; that's important to understand. And the LMR business being longer sales cycle and a little bit lumpy in nature, 2020 is reflective of that, but that too is still growing all-in with Services.

<Q – Paul Silverstein – Cowen and Company, LLC>: Greg, I appreciate the response. To be clear, I wasn't looking for you to change the 2020 guidance, it was a longer-term question.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. No, no, I know, I appreciate it. And I totally understand where you're coming from.

<Q – Paul Silverstein – Cowen and Company, LLC>: Okay. Thank you.

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

Operator: The next question is from Fahad Najam with Cowen.

<Q – Fahad Najam – Cowen & Co. LLC>: Thanks for taking my question. I wanted to see if you can address something that hasn't really come up lately is the opportunity in the public LTE or private LTE space, for you guys. I assume that with your video or increased growing portfolio of video services, there is a synergy with your private LTE offerings. Can you speak to any incremental deployments you've had with your private LTE offerings?

<A – Jack Molloy – Motorola Solutions, Inc.>: Fahad, it's Jack and it's a good question. If you think about our LTE offerings, historically, we've got a couple of things. We've talked about FirstNet. We think there's muted expectations for FirstNet in North America.

But LTE to the enterprise is where we've got significant opportunity. We announced a CBRS portfolio last March at our Channel Partner Expo. We won some of our first deals with a big health care system out West. So we're encouraged by that.

We also have a 900 megahertz offering to the utility space that we announced last week, at DISTRIBUTECH. And think of this as being something that actually takes advantage of existing P25 footprint. So less sites, better return on investment for utilities, leverages higher power capabilities and it has P25 and essentially LTE capabilities standing side-by-side. The last thing is LTE, it will be an enabler for APX Next device, which is our public safety, police, fire, EMS device targeted. And if you remember that's got P25 capabilities but also it will have 5G capabilities resident in the device; it's going to have LMR flow-through capabilities there.

So, really it's coming at a number of different things, device opportunities in public safety, some software opportunities in public safety on FirstNet. And then it will have infrastructure as well as device opportunities in the enterprise space, namely utilities and health care, et cetera.

<Q – Fahad Najam – Cowen & Co. LLC>: Appreciate it. And if I could maybe ask you about the competitiveness of your video products; one of your competitors, they talked about their wins at Fresno and Cincinnati. But I just want to understand how competitively your products are coming together. You've got WatchGuard and your other video platform. Can you speak to the competitiveness and improved competitiveness of your product offerings relative to your competitors?

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah. I think, end-to-end our video business is obviously as you mentioned, we've got a fixed video security analytics business in Avigilon. It's the only end-to-end game in town. Everything from AI-powered cameras at the edge to video management systems to – a part that we don't talk about a lot and that's access control. Greg talked a little bit earlier about education and I think access control is every bit as important to our story as we secure campuses and the like.

When we think about our video business in the public safety and I talked about earlier, again, we're the only one – we've really got the – we got the only one who's got an end-to-end story there. We've got not only on-body. We're the leading in-car video provider. But we've also got LPR capabilities.

But more importantly, our LEARN database is the most robust database in play and content matters. As you well know, we've got over 20 billion plates in the system. So, we think we're pulling the story together. We've actually consolidated our sales teams in public safety directed at video, because through the acquisitions, we had different people pointing on different places. We've aggregated those teams, have them under a central leader now and we're focused on getting after the public safety space. But I think from the innovation standpoint from our portfolio, we've got everything we need to execute.

<Q – Fahad Najam – Cowen & Co. LLC>: Appreciate the insight. Thank you very much.

Operator: [Operator Instructions] The next question comes from Sami Badri with Credit Suisse. Please go ahead.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Hi. Thank you for the question. On your video win in the quarter that was for \$5 million. And I appreciate some of the comments you gave regarding your federal sales team that has been ramping up. But was this in any way related to the NDAA policy? Or did the NDAA policy went to your advantage to win this actual contract? Or was this completely unrelated to the NDAA policy that actually boxed out some of the Chinese vendors?

<A – Jack Molloy – Motorola Solutions, Inc.>: Sami, the NDAA I think we've dimensionalized it as being a tailwind to our business. It's created a favorable environment for Avigilon. But I would tell you I think it's more of a result of having the right portfolio, the right focus and the right relationships and the ability to navigate the federal government sales cycle. I'd probably attribute more of success to Mark McNulty and Jim Mears and their teams and getting after that business. I think that's it. Yes.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. And the only other thing I'd add on the video again as you think about the video assets we've acquired and aggregated in 2019, they're roughly all in about \$700 million in revenue. That includes fixed video, in-car video, body-worn video, license plate recognition video. We feel very good about the end-to-end system orientation, strong AI edge analytics. And then we take those and integrate them into our incumbency around land mobile radio for a pretty powerful ecosystem around mission-critical communications and analytics. So that's the path we're on.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Got it. Thank you. And then one follow-up is, if you look at the – all your command center contracts that you've been signing and winning over every quarter, has the average size of these contracts from a dollar perspective started getting larger? Or is it very in line on a quarterly basis? Or was it very in line in 4Q 2019 versus the prior three quarters?

<A – Kelly Mark – Motorola Solutions, Inc.>: Sami, it's Kelly. We are seeing the contracts start to get a bit larger as we see the bundles and the suites, certainly referencing a couple of large ones as we did in the earnings materials with Irvine. So as we see the customers step in rather than just buy a point product like CAD or records, they're now bundling more and more together. So that will lead to a bit more of an influx in regards to the size of those as those happen.

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

Operator: Ladies and gentlemen, this concludes our question-and-answer session. I will turn the floor back over to Mr. Tim Yocum, Vice President of Investor Relations, for any additional or closing remarks.

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

Yeah. Nothing else to add. Appreciate everyone joining today and we'll talk to many of 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. Take care.