MOTOROLA SOLUTIONS

Q2 2019 Earnings Conference Call
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PARTICIPANTS

Motorola Solutions Executive Participants

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

Other Participants

George C. Notter – Analyst, Jefferies LLC
Adam Tindle – Analyst, Raymond James & Associates, Inc.
Keith Housum – Analyst, Northcoast Research Partners LLC
Paul Coster – Analyst, JPMorgan Securities LLC
Joshua Kehoe – Analyst, Citigroup Global Markets, Inc.
Brian Yun – Analyst, Deutsche Bank Securities, Inc.
Ben Bollin – Analyst, Cleveland Research Co. LLC
Sami Badri – Analyst, Credit Suisse Securities (USA) LLC
Paul Silverstein – Analyst, Cowen & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for holding. Welcome to the Motorola Solutions' Second Quarter 2019 Earnings Conference Call. Today's call is being recoded. If you have any objections, please disconnect at this time.

The presentation material and additional financial tables are currently posted on the Motorola Solutions' Investor Relations website. In addition, a replay of this call will be available approximately three hours after the conclusion of this call over the Internet. The website address is www.motorolasolutions.com/investor.

At this time, all participants have been placed in a listen-only mode. [Operator Instructions]

I would now like to introduce Mr. Tim Yocum, Vice President of Investor Relations. Mr. Yocum, you may begin.

Tim Yocum, Vice President, Investor Relations

Good afternoon. Welcome to our 2019 second quarter earnings call. With me today are Greg Brown, Chairman and CEO, Gino Bonanotte, Executive Vice President and CFO and Kelly Mark, Executive Vice President Services and Software.

Greg and Gino will review our results along with commentary. And Kelly will join for Q&A. We posted an earnings presentation and news release at motorolasolutions.com\investors. 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 and the comments made during this conference call in the Risk Factors section of our 2018 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 statements.

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. Before I get started, I would like to inform you all that due to a death in the family Jack Molloy, is unable to join us for the call today. So obviously, our thoughts and prayers are with Jack and his family this afternoon.

Turning to the call, I'll start off by sharing a few thoughts about the overall business before Gino takes us through the results and outlook.

First, Q2 was another strong quarter. We grew revenues 6%, earnings per share 16%, and expanded operating margins by 240 basis points versus the prior year. Additionally, we ended the quarter with our highest backlog position ever of $10.9 billion, up $1.5 billion year-over-year and up $500 million sequentially.

Second, we continue to execute well in both segments of the business. Our Products segment grew 4% and expanded operating margins by 50 basis points, while our Services and Software segment grew 9% and expanded operating margins by 590 basis points.

This strong broad-based performance shows that our customers continue to value, the public safety ecosystem we have built across our platforms, mission-critical communications, command center software and video security solutions.

And finally, based on our Q2 results and the demand we continue to see across our portfolio, we're raising both revenue and earnings per share estimates for the full year.

And with that I'll now turn the call over to Gino to provide additional details on Q2 and outlook before returning for some closing thoughts.

Gino Bonanotte, Executive Vice President and Chief Financial Officer

Thank you, Greg. Q2 includes revenue of $1.9 billion, up 6% versus last year including $33 million of revenue from acquisitions, offset by $37 million of currency headwinds. Organic revenue growth was 4%. GAAP operating earnings of $349 million, up $76 million and operating margins of 18.8% of sales compared to 15.5% in the year ago quarter. Non-GAAP operating earnings of $444 million, up $66 million or 17%, and non-GAAP operating margins of 23.9% of sales, up 240 basis points from 21.5% driven by higher sales and gross margin, partially offset by higher OpEx from acquisitions.

GAAP earnings per share of $1.18 compared to $1.05 in the year ago quarter. Non-GAAP EPS of $1.69, up 16% from $1.46 last year. OpEx in Q2 was $494 million, up $31 million versus last year primarily due to acquisitions.

Other income and expense was $51 million compared to $44 million in the year ago quarter driven primarily by increases in foreign currency and non-operating expenses. The Q2 effective tax rate was 24% compared to 25% last year.

Turning to cash flow. Q2 operating cash flow was $251 million compared with $425 million in the prior year and free cash flow was $188 million compared to $384 million in the prior year driven by the timing of incentive payments and cash taxes. For the first half of 2019 excluding the voluntary $500 million pension contribution made in 2018, operating cash flow was up $77 million and free cash flow was up $30 million driven by higher earnings.

Capital allocation for Q2 included $94 million in cash dividends, $63 million of CapEx and $25 million of share repurchases at an average price of $146.65. Additionally, we issued $650 million of new 10-year senior unsecured notes and used the proceeds to repurchase existing notes resulting in an extended weighted average debt maturity profile. And subsequent to quarter end, we acquired WatchGuard, a leader in in-car and body worn video for public safety for total consideration of $271 million.

Moving to segment results. Q2 Products and Systems Integration sales were $1.2 billion, up $49 million or 4% driven by the Americas. Revenue from acquisitions in the quarter was $16 million, offset by currency headwinds of $18 million.

Operating earnings were $242 million or 19.5% of sales, up 50 basis points from last year on higher sales and gross margin partially offset by higher OpEx from acquisitions and investments in our video security solutions portfolio.

Notable Q2 wins in the segment include $60 million of additional P25 orders for the statewide system in North Dakota, a $46 million P25 order from Oakland County, Michigan, a $34 million P25 order from Washington Metropolitan Area Transit Authority, $5 million of public safety video security contracts in Broward County, Florida and the Cleveland metro area and several multimillion-dollar video security wins in the education vertical.

Moving to Services and Software, revenue was $622 million, up $51 million or 9% from last year driven by growth in the Americas and the EMEA. Revenue from acquisitions in the quarter was $17 million, offset by currency headwinds of $19 million.

Operating earnings were $202 million or 32.5% of sales, up 590 basis points from last year driven by higher sales, gross margin expansion and OpEx reduction. Some notable Q2 wins in the segment included $200 million ESN extension through 2024, a $60 million P25 multi-year services agreement with the state of Tennessee, extending service through 2028, a $59 million five-year contract extension to provide license plate data and analytical software, and a $5 million records management contract for Baltimore County.

Looking at regional results, Americas Q2 revenue was $1.3 billion, up 11% driven by broad-based growth across all platforms. EMEA Q2 revenue was $356 million, down 7% due to two large system deployments in the Middle East and Africa in the prior year and currency headwinds, partially offset by growth in Europe. And in Asia-Pac, Q2 revenue was $157 million, down 7% or $12 million due to currency headwinds and China.

Moving to backlog, ending backlog was $10.9 billion, up $1.5 billion or 16% compared to last year inclusive of a $119 million unfavorable change in currency rates. Sequentially backlog was up $492 million with growth in both segments. Services and Software backlog was up $1.5 billion or 24% compared to last year driven by EMEA and the Americas, sequentially backlog was up $430 million due to multi-year contracts in the Americas and the ESN extension.

Products and SI segment backlog was down $48 million or 2% compared to last year, primarily due to large system deployments during the prior year in the Middle East and Africa, partially offset by $165 million of growth in the Americas. Sequentially backlog was up $62 million driven by the Americas.

Turning to our outlook, we expect Q3 sales to be up approximately 6.5% with non-GAAP EPS between $1.91 and $1.96. This assumes $20 million of FX headwinds at current rates, a weighted average diluted share count of approximately 177 million shares and an effective tax rate of approximately 25% versus 18% in the prior year.

For full year 2019, we now expect revenue growth of 7% to 7.5%, up from our prior guidance of 6% to 7% and we now expect non-GAAP EPS between $7.67 and $7.77, up from our prior guidance of $7.60 to $7.72. This full year outlook assumes $115 million of FX headwinds at current rates, an increase of $25 million from our prior outlook, $40 million from the acquisition of WatchGuard, an effective tax rate of 24% to 25% and a weighted average diluted share count of approximately 176 million shares. Full year operating cash flow is expected to be approximately $1.7 billion.

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

Greg Brown, Chairman & Chief Executive Officer

Thanks, Gino. Let me just close with a few thoughts. First, Q2 was outstanding. We had strong organic revenue growth in both segments significantly expanded both gross margins and operating margins and ended the quarter with our highest backlog position ever. Second, the acquisitions we've made in video security and command center software are having a meaningful impact on our business.

With our recent purchase of WatchGuard, we've now made acquisitions in these two areas that total $2.4 billion. These acquisitions are expected to contribute revenue of about $1 billion this year, growing high-teens with an EBITDA profile of about 20% and growing.

And finally, if I look to the second half of this year, I'm encouraged by our performance led by North America, which saw strong organic growth in both segments during the quarter. LMR demand remains robust and our video security and command center software solutions continue to gain momentum, which positions us well for expanded free cash flow generation going forward.

I now would like to turn the call back over to Tim.

Tim Yocum, Vice President, Investor Relations

Thanks, Greg. Before we begin taking questions, I'd like to remind callers 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: The floor is now open for questions. [Operator Instructions] Thank you. And our first question will come from George Notter of Jefferies. Please go ahead.

<Q – George Notter – Jefferies LLC>: Hi, guys. Thanks very much. I guess I wanted to start off by asking about the backlog, obviously a nice sequential jump here to $10.9 billion. Can you kind of walk us through the different puts and takes on that backlog that you gave us, I think some parts of it when you're talking about the segments, but I guess, I'm trying to drill down into the organic backlog growth and some insights into the puts and takes would be great?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Sure, George. This is Gino. So let's talk year-over-year first, for Services and Software, up $1.5 billion. The way to think about that is about two-thirds of that is the UK Home Office extensions that we talked about and a third of it our North America multi-year service contracts. For Products and Systems Integration year-over-year down on projects in the Middle East and Africa and up in the Americas. And sequentially the $500 million of growth is driven primarily by North America multi-year contracts as well as the $200 million ESN contract extension.

<Q – George Notter – Jefferies LLC>: Got it. And then, what would be organic growth look like in backlog. It sounds like a whole lot of this is organic, if you could just clarify that that would be great.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah. It's primarily organic, primarily all organic.

<Q – George Notter – Jefferies LLC>: Got it. Okay. And then I guess the topic dejour is China trade wars. Obviously there's a new salvo here in terms of tariffs that would get implemented on the next tranche of goods.

But I guess I was just wondering what the bigger picture is now, with – you're competing with Hytera and Hikvision, on a couple different sides of the business. Just give us your sense for, what's going on there and how you're taking advantage of that competitively? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Well, I mean contextually, George, as the tariff trade war continues with China including the tariffs increase that Trump announced a few hours ago, that is contemplated in the guidance we're giving for the full year.

For the second half, roughly, it's about an incremental $8 million or $9 million for the full year. Actually it's $8 million or $9 million for the full year and roughly half of that for the second half, but that increase that he talked about, being implemented September 1 is already contemplated.

I remind you that we've made decisions going back several years ago, where we no longer do manufacturing in China. I think Mainland China revenue was about 1.5% to 1.7% of our revenue. So we don't have a concentration there.

We don't do product management. We don't do software development. So I think we're pretty well insulated from some of the things that are going on there. Competitively, it's an advantage in two different areas. If I take Hytera first and the litigation as you know, we won the patent infringement case in D.C. with the, International Trade Commission that implemented an import ban and a cease-and-desist order. We've had two wins in Germany, in Mannheim and Dusseldorf.

There's a trial going on as we speak in Australia for patent infringement and source code copying. And we're optimistic about the outcome. And then the big one is Chicago in November in 2019. And despite repeated attempts by Hytera to delay and deflect multiple efforts to push that trial into 2020. We have every reason to believe that it will happen in November, in Chicago with a jury trial that will evaluate a trade secret theft and source code copying and I and we are looking forward to that trial and subsequently that outcome.

On the Hikvision and Dahua video security space as it relates to the NDAA, the procurement ban goes into effect in 13 days on August 13. By the way, Avigilon in the video business performed well in Q2. It grew double-digits. It's tracking where we expect it to be.

Video security, we think will be about 15% for the full year which is 3x the market growth which we articulated before. And interestingly enough, those results actually don't really include anything from the federal market.

We haven't gained traction yet. The sales cycle in Fed is even longer than state and local, but to your point, George, I think we will become a beneficiary of the NDAA procurement ban for Hikvision and Dahua in the video security space, but I think that will be more likely 2020. We are encouraged by the ongoing discussions we have with our Fed customers and I think that will be beneficial in 2020.

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

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

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

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Okay. Thanks and good afternoon. Greg, I just wanted to start with WatchGuard, and maybe touching on the strategic vision with that asset. I'd imagine there's some synergies with other acquisitions that you've done like VaaS. And in that light, I understand the majority of mix for that business is related to in-car video systems based on the S1 they filed a couple of years ago, but they also have a body worn camera business and wanting to understand if that piece is something you think is worth investing and how you'll approach that market?

<A – Greg Brown – Motorola Solutions, Inc.>: Thanks, Adam. We're excited about WatchGuard. To dimensionalize it, it is the in-car camera market leader, which fills in a gap that we had within the video solutions portfolio. Secondarily, we are seeing, and Molloy is seeing more customers that are buying in-car and body worn together, which we think is obviously a positive outcome and gives us some optimism for that asset going forward.

On the revenue side, we believe WatchGuard will contribute about $40 million in 2019, but what I love about it is it's all a similar sales motion. So it's another key asset in video surveillance and analytics that gets put into the sales force North America strong 500 plus people that we think we can grow substantially. I mean WatchGuard very good company, but they have 35 salespeople, half of which are inside salespeople.

So we will by definition give them significant more market reach touch points with all of the customers that we have, bring them into conversations where we have incumbency in land mobile radio and command center software. We think it's very strategic. I'm excited about it. And on the body worn side, to your point, we have a body worn platform, they do too. We'll look to rationalize that together and as I mentioned over time, sell them in tandem to match more and more the way our customers are buying.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Okay. Thanks. And maybe just as a quick follow-up. Services and Software margins were certainly highlight in the quarter, significant improvement both sequentially and on a year-over-year basis. You could just maybe double click on the drivers, how much was greater mix of command center, was it operational improvements in the core services and the sustainability of that? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: I'll start, and maybe Kelly will jump in. But I think the strong performance was a combination of top-line growth and operating expense efficiencies. I mean it was a fantastic quarter by Kelly and his team and Andrew Sinclair on the software side, all the people working services very, very pleased.

We had talked about an operating margin for that segment for this year, moving toward 30%. If we look at that segment of Services and Software, for the first half, the operating margin is about 30.5%. We now believe given that first half performance that the full year operating margin will look more like 30% to 31% on the operating margin side. So it's just good work by Kelly and his team.

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

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

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

<Q – Keith Housum – Northcoast Research Partners LLC>: Good morning, guys. Greg, just going back to the tariff real quick. From a competitive advantage standpoint, there should be some advantage you guys have versus your Chinese based competitors especially in the PCR market, correct? And then how do you guys extrapolate on that?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, I think, look, I think the generally you're right, Keith. It is an advantage. There's more and more developed countries that are very sensitive to putting Chinese gear or Chinese electronics or wireless technology into either critical infrastructure. Obviously, they don't even consider that here in the states. So from a market standpoint, that's an advantage. It's an advantage for us as we go head-to-head against Hytera in the litigation. By the way, that was self-inflicted by them.

So when a company steals intellectual property, for us that puts so much R&D and patent protection and investment around innovation. We're going to fight appropriately. We want to compete. We like a level playing field, but what they've done is egregious systematic, multi-year and I think and we think that there will be a penalty in a payment for them as a result of their actions.

And on the video side of course, you're right as well – two of the largest video providers being Hikvision and Dahua and of course, we have to remember that Huawei has a high silicon division that provides a semiconductor that guides some of the intelligence in OEM and white label cameras as well and that's a benefit too. So generally net-net, I think we're a bit unique in that the Chinese situation in total is more tailwind than headwind for our company for a whole host of reasons.

<Q – Keith Housum – Northcoast Research Partners LLC>: Got you. And my follow-up, I would be remissed if I didn't ask about FirstNet. Obviously, AT&T been thumping their chest in terms of the new additions they have, but what are you seeing in terms of benefit – your benefit from it and are people transitioning over to push-to-talk?

<A – Greg Brown – Motorola Solutions, Inc.>: They're not. We don't see really any benefit at all in terms of revenue contribution for us. We didn't have really any in Q1. We didn't have any in Q2 and for the full year, Keith, we're really projecting low-single-digit millions very, very little. Obviously, AT&T will continue to build out the network. They're adding "connections or subscribers". It's a cellular data play and they will look to win back customers from Verizon or T-Mobile or Sprint onto FirstNet data plans that is separate than LMR. It's incremental to LMR, obviously, as we've seen given the organic strength of land mobile radio here in the states. And we would know if the users were incremental push-to-talk over cellular because FirstNet is using Kodiak for that solution which we own as an asset. And when we look at the traction and the growth there, we really don't see it. So FirstNet, I think is obviously working for AT&T and I think that's great, but for us, it has no meaningful revenue contribution at all this year.

<Q – Keith Housum – Northcoast Research Partners LLC>: Is there expectation you'll have it next year or the following year?

<A – Greg Brown – Motorola Solutions, Inc.>: I think, too early to project for next year, but from my view, our expectations are pretty muted.

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

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

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

<Q – Paul Coster – JPMorgan Securities LLC>: Yeah. Thanks for taking my question. Actually, Greg, I'd like to pursue that just a little bit further which is to say that AT&T is seeing several hundred thousand subscribers so far on FirstNet which is drop in the ocean I know, but some of the device companies are getting very excited about the opportunity. And I guess the question is a two-part question. One is what is your plan in terms of deploying devices onto FirstNet and how does Motorola make money out of the device side of the story.

And the second is do you see any competition here for finite budgets inside the FirstNet – as the first responder community? And is that the probably the reason for the many interesting initiatives you're doing in that context?

<A – Greg Brown – Motorola Solutions, Inc.>: Well. I'll answer the second one first. We see budgets being pretty healthy here in U.S. state and local. That combined with the criticality of what we sell into public safety on mission-critical communication platforms as well as command center software and video security, makes what we sell more of a must have than a need to have. On the device side, Paul, we already have a device approved on the FirstNet procurement list.

So we have the LEX product that's approved. I think it's fair to say that you'll see us have some additional new products over time. But today, first responders have that land mobile radio P25 here in the U.S. and the smartphone. And if there's an additional device, if you will that device will – it will replace the smartphone which we don't have any market share to begin with anyway. So device while I said earlier, is pretty much zero for us to-date, there's really nothing but upside. Because, if there is some kind of device that may get traction on FirstNet from a data side it would be a smartphone enhancement or a smartphone like replacement and won't affect the mission the critical typically APX P25 radio.

<Q – Paul Coster – JPMorgan Securities LLC>: Got it. And then they look to this FirstNet network to sort of roll into the 5G plans as well. That likewise, you don't see as either revenue opportunity nor a risk?

<A – Greg Brown – Motorola Solutions, Inc.>: I don't see it as a risk. I do see it as a revenue upside. It's additional to LMR, it's really outside of LMR. The fatter the pipe and the faster the speed, I think those are positive conditions for what we sell in command center software and video security. So as the pipe gets fatter, as that cellular network gets built out as 4G over several years migrates to 5G. It has no impact that we could see on LMR, an upside to what we see on the other two platforms we're building.

<Q – Paul Coster – JPMorgan Securities LLC>: Got it. Thank you.

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

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

<Q – Josh Kehoe – Citigroup Global Markets, Inc.>: Hi, this is Josh Kehoe, on behalf of Jim Suva. Thanks for taking our question. Could you give us any more color on how you're sizing up the potential opportunity for Avigilon from the National Defense Authorization Act? Geographically, where do you expect to see the most benefit? And how are you thinking of the potential ramp in revenues there?

<A – Greg Brown – Motorola Solutions, Inc.>: Well I would say, first of all, just to dimensionalize Avigilon, solid double-digit growth in Q2. Number two, still expect about 15% revenue growth this year which we think is 3x the market. Love the state and local government wins in Q2 both the Cleveland area and Broward County are new and material as it relates to Avigilon. And safe schools on the enterprise and education front is, white hot for the reasons that we all know. Safer schools securing the perimeter, protecting schoolchildren, having a necessary lockdown and doing the kinds of things around perimeter security, video surveillance, anomaly detection, motion detection and having those alerts without human intervention, feed into appropriate law enforcement officials in a 911 center automatically, and then also signal alerts to the land mobile radio to the principal or security person or guidance counselor are critical.

That use case is widespread getting traction and significant, so I love what Molloy has done. By the way, he and his team have made investments on the product side. I think you'll see some new cameras rollout in the second half of the year. We've significantly increased go-to-market, which is part of the reason that informs our confidence and our ability to perform the way we describe in this critical area.

And all this is really without any contribution to your point, Josh, from the NDAA yet. The sales cycle in Fed are longer. The conversations are great. We're having active dialogue. As you've probably seen and understand the procurement prohibition of Chinese video providers takes effect in 13 days and our customers are struggling to identify and replace our Fed customers given the resources that they have. We are helping them where we can, but we expect that to get traction more in 2020 than this year.

<Q – Josh Kehoe – Citigroup Global Markets, Inc.>: Great. Thank you.

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

Operator: Our next question comes from Vijay Bhagavath of Deutsche Bank. Please go ahead.

<Q – Brian Yun – Deutsche Bank Securities, Inc.>: Hey. This is actually Brian Yun from Deutsche Bank. So I also had a question on the Avigilon business. So on the product refresh opportunity from the National Defense Act, what we've been seeing and kind of hearing is sales confusion, kind of customer confusion on whether it's just limiting new Chinese equipment purchases or if the requirement is to sort of rip out existing systems since you guys are super close to the conversation there. Can you kind of expand on what you're seeing, what your view is? Do they have to rip out the existing equipment? In both cases, Avigilon kind of comes out as a clear winner, but it'd be interesting to get your view. Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Brian, there's two dimensions to the National Defense Authorization Act in terms of the federal ban. One is August 13 is a procurement ban. So, as of the 13 of this month, no federal agency can procure new video security equipment from Hikvision or Dahua. In a year from this month, in August of next year is the second leg of it, which is a grant prohibition, which is to say that no federal funds can be used for the procurement of Chinese video security, mainly those two companies named. So grant money that might be created at the Fed level that could flow through to a state and local or community, cannot be used as of August of next year. They don't necessarily have to rip out the video cameras that they have today. So there's a procurement ban of August of this year, there's a grant ban rather. They can't use grant money in August of 2020.

<Q – Brian Yun – Deutsche Bank Securities, Inc.>: Okay. Great. Thank you. It's very helpful.

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

<Q – Ben Bollin – Cleveland Research Co. LLC>: Good evening, everyone. Thank you for taking the question. I wanted to touch on two items if I could. First is, could you talk a little bit more about where public sector customers are driving the funds and budget dollars across the three major segments, LMR I think we're pretty familiar with, but when you look at surveillance and command center opportunities for those future wins, where does that money come from?

And then a second kind of follow on, as you've leveraged yourself into more of these longer tail public safety assets, how does that influence your ability to compete in deals? Do you feel like you're getting more pricing power, there is no like-for-like competition, what do you think on that front? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: On the first one, I would just say that U.S. state and local budgets are healthier generally. Obviously, some states vary as you know, but I think the tax revenues and overall fiscal conditions from a budget standpoint are – we see healthier than they have been in several years. They source different revenues from different points.

Some have obviously 911 taxes that are used to fund the procurement of command center software and other kinds of things like that. But the other thing that makes us affordable in the envelope of these budgets is that we're selling these long-term multi-year contracts. As an example, Gino in his commentary talked about the state of Tennessee, which goes through 2028.

So depending upon the way the customer wants to buy, it could be OpEx, it could be CapEx and depending upon the length of time that they want to pay for it, we have the flexibility to meet them in a way that's conducive for them to buy that fits the affordability envelope of their individual fiscal situation. And the Fed, I would say, has been beneficial given the fact that there is budget clarity and certainty.

So specifically for us as it relates to that budget, we saw more revenue and deals flow in the first half than the second half because of the budget certainty and the clarity that the Trump administration and obviously Congress has provided. So I think from a federal budget standpoint, today, that situation is more favorable than it has been in the past as well.

<Q – Ben Bollin – Cleveland Research Co. LLC>: And on the competitive landscape as you get into more of the various surveillance and the broader command center envelope, how does that influence your competitive position in deals?

<A – Greg Brown – Motorola Solutions, Inc.>: I think it's advantaged it generally speaking. In land mobile radio, I think it's remain the same. But in command center software as we've acquired more assets and can compete on 911 call handling, can compete on Tier 1, Tier 2 or Tier 3 CAD, can compete on records management or evidentiary management. And then more importantly which is in part what's led to the operating margin expansion in Q2 to put these assets together and platform them.

So if a customer wants to buy a point product for one of those areas we can sell it. If they want the economies of scale of a "suite" which is two or more of those obviously that's an advantage that we have given the scale that we provide the integration we're building, the cloud-enabling set of architectures that we're putting around command center software where a customer can be on-prem or hybrid cloud or in the public cloud and will meet at them where they want to be met on a common architecture. It's a competitive advantage. On the video security side, we've got fixed video. We now have in-car video. We have body worn video and we'll do everything we can from an end-to-end standpoint to package and differentiate and sell it as a compelling value proposition, because I think bigger and more integrated is a competitive advantage for us over time.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Thanks, Greg. I appreciate it. Please give Jack our best.

<A – Greg Brown – Motorola Solutions, Inc.>: We'll do. Thank you.

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

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Hi, thank you. The first question I had for you was on WatchGuard and how you think about the market that WatchGuard is in and various competitors, the market growth rate and then what you think you'll be able to grow a business like WatchGuard now that it is within Motorola? And I have a follow-up.

<A – Greg Brown – Motorola Solutions, Inc.>: I think that one of the things we like about WatchGuard is it's the in-car camera market leader. I think we don't give individual product or segment guidance per se, but I think it's reasonable to say that WatchGuard could grow at a double-digit profile given the interest in video, given the way I think customers will buy in the future in combination by buying in-car and body worn together. They'll do some of those purchases more together. And the overall TAM for video is several billion dollars all-in in video. And as we've said, Avigilon is $12 billion to $13 billion without China and then you add incrementally body worn video and in-car camera to that TAM total and look at that profile and we believe in general, we can grow that double-digits.

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

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

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: And then regarding my follow-up question actually has to do with the operating margins in Services and Software. Now, you've clearly shown and demonstrated there has been expansion. Would you say up to this point that you're achieving Services and Software operating margin expansion faster than expected and do you think that that could be the case over the next couple of years as well that you would achieve a higher profile faster given the way your business is tuning up?

<A – Greg Brown – Motorola Solutions, Inc.>: I think it was achieved in the first half more than we thought than it would be for the full year. So remember, the operating margin target for that segment was 30%. We've inched it up to 30% to 31%. I think you can't necessarily focus on one quarter from a linearity perspective, but make no mistake. I'm pleased with the performance of that segment, reflected in the increased color of going from 30% to 30% to 31%. I think Kelly and his team are making meaningful changes that will be foundational, that will enable us to continue to grow it over time. Too early to forecast obviously anything for next year, but would we and would I expect it to grow? Yes, we would and I would.

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

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

Operator: And our next question will come from Paul Silverstein of Cowen. Please go ahead.

<Q – Paul Silverstein – Cowen & Co. LLC>: Guys, I appreciate you taking the question. Greg and Gino, I apologize to you and to others if you have already been asked and answered this question. I've been hopping around from call to call tonight, so I do apologize. But on the video piece with Avigilon and number of other acquisitions form apart, if I'm not mistaken, it looks like Hikvision and Dahua between the two, they do about $1.5 billion of revenue or did $1.5 billion of revenue in their respective fiscal 2018 collectively outside of China. I don't how much of that was in the U.S.

But if we return back to that opportunity in terms of those two competitors in particular the number one and three in the market being gated, is there a way to quantify – I assume the opportunity for you is entirely in the U.S. in terms of the incremental that there's not an impact outside of the U.S. with respect to being gated. How much revenue is – any sense for how much revenue there is that you could pick up from their particular situation?

<A – Greg Brown – Motorola Solutions, Inc.>: Well I think Paul, it's reflected in the performance and the guidance we've given i.e. the market, so take China out. The market without China is growing about 5% and 5.5% and our expectations are 15%. So by definition, we've set in place a plan and a strategy around investment, product, refresh, refresh cameras, going down market on certain cameras. And then as well as channels synergy and go-to-market investment that is we believe could have a yield of 3x.

Now we talked about this a little bit before, Paul, but that's okay just quickly dimensionalize it. The performance we have and we expect to have with Avigilon is really without any anticipated significant contribution from Fed and the National Defense Authorization Act both on procurement and grant restrictions. We don't see that having any effect at this point in time for this year. So if we can grow about 3x the market without China, investing and refreshing the camera portfolio and tiering it more broadly, bringing on more effective channels, significantly adding go-to-market and by the way it's more than U.S. and North America, we think it's also EMEA as well. This market is a $12 billion to $13 billion market without China, that's growing nicely.

So we are optimistic about what we can do here and it's one of the areas, again – we're about building platforms. It's not just video, it's the edge device, it's the storage, it's the management, it's the analytics, it's the machine learning and the AI that take all of that end-to-end experience and provide use cases around specific verticals to differentiate. This is a hot market. I think Molloy has done a good job. We have a lot more work to do, but that's the perspective.

<Q – Paul Silverstein – Cowen & Co. LLC>: Greg, if I could ask you a quick follow-up to your point about platforms, correct me if I'm wrong, but I think it was just a quarter ago or maybe two quarters ago when you had completed or at least and integrated the Avigilon and perhaps some of the other video capabilities into command and control software-based platform. Did you address or could you address what the early indications are in terms of take up by those 6,000 command and control centers throughout the U.S.?

<Q – Kelly Mark – Motorola Solutions, Inc.>: Hey Paul, it's Kelly. So I'll touch on that. When I spoke to that before, it was really in regards to as we bring these platforms together, we make sure that the inter-linkages between the various components LMR, video security and command center software all exist. So in the case of Avigilon or in the recent acquisition of VaaS, those video streams or that data plugs straight into the command center, so for a customer for example that has our aware product, they can have the visibility to the video and/or the VaaS data right on that screen. So it helps just facilitate the inter-linkages of those platforms, not something I would direct you towards to measure in regards to that penetration to those command centers because they will also be gated a bit by who uses our Aware platform as well.

<Q – Paul Silverstein – Cowen & Co. LLC>: How broadly is Aware used?

<A – Greg Brown – Motorola Solutions, Inc.>: Aware is one of our earlier products and growing pretty rapidly. We don't get into how many PSAPS directly use it yet, but that's something that we'll be updating you on the future. So but it's one of our newer products and it's growing relatively quickly because of its ability to integrate and provide as we say on a single pane of glass, a situation from CAD to mapping to assets to VaaS and video and other components. It's a very integrated view to help our customers manage their resources during an emergency.

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

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

Operator: 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

That concludes the call. Appreciate you joining today. Thank you.

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.