MOTOROLA SOLUTIONS

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PARTICIPANTS

Motorola Solutions Executive Participants

Chris Kutsor – Vice President, Investor Relations
Greg Brown – Chairman and 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

Timothy Patrick Long – Analyst, BMO Capital Markets (United States)
George C. Notter – Analyst, Jefferies LLC
Vijay Bhagavath – Analyst, Deutsche Bank Securities, Inc.
Walter Piecyk – Analyst, BTIG LLC
Adam Tindle – Analyst, Raymond James & Associates, Inc.
Sami Badri – Analyst, Credit Suisse Securities (USA) LLC
Jim Suva – Analyst, Citigroup Global Markets, Inc.
Paul Silverstein – Analyst, Cowen and Company LLC
Keith Housum – Analyst, Northcoast Research Partners LLC
Paul Coster – Analyst, JPMorgan Securities LLC
Ben J. Bollin – Analyst, Cleveland Research Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Motorola Solutions Q4 2018 Earnings Call. All participants are in listen-only mode. Later, you will have the opportunity to ask questions during the question-and-answer session. [Operator Instructions]

It is now my pleasure to turn today's program over to Mr. Chris Kutsor, Vice President of Investor Relations. Please go ahead, sir.

Chris Kutsor, Vice President, Investor Relations

Thank you, operator, and good afternoon, everybody. Welcome to our 2018 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, Services and Software. 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 and non-GAAP reconciliations for your reference. During the call, we reference non-GAAP financial results, including those in 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 this conference call, in the Risk Factors section of our 2017 Annual Report on Form 10-K and in our other reports and filings with the SEC. We do not undertake any duty to update any forward-looking statement.

With that, I'll turn it over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thanks, Chris. Good afternoon, and thanks for joining us. I'll share a few thoughts about the overall business before Gino takes us through the results and the outlook.

First, Q4 was another excellent quarter. We posted records for revenue, earnings per share, operating cash flow, and backlog. Revenue grew 15%, earnings per share grew 25%, and we generated operating cash flow of over $800 million.

Second, our full-year results were outstanding as well, and illustrate the earnings power of our business, driven by demand across our entire portfolio and continued strong execution. For the full year, we grew revenue 15%, earnings per share 31%, and generated close to $1.6 billion of operating cash flow, excluding a voluntary pension contribution, and grew our backlog by almost $1 billion.

And finally, demand remains strong across our platforms in mission critical communications, video, services, and software, and we continue to invest for long-term growth.

So, I'll now turn the call over to Gino to provide additional details on Q4 results and 2019 outlook before returning for some closing thoughts.

Gino Bonanotte, Executive Vice President & Chief Financial Officer

Thank you, Greg. Q4 results include revenue of $2.3 billion, up $297 million or 15% from the year-ago quarter, including $159 million of revenue from acquisitions and $25 million of revenue related to the adoption of accounting standard ASC 606. Organic revenue, which excludes acquisitions and the accounting change, was up 6%.

GAAP operating earnings were $516 million, up $13 million, and operating margins were 22.9% of sales compared to 25.7% in the year-ago quarter. The lower operating margin is primarily due to costs related to the closure of certain supply chain operations in Europe and higher OpEx related to acquisitions. Non-GAAP operating earnings were $650 million, up 15% or $84 million, and operating margins were 28.8% of sales compared to 28.9% of sales in the year-ago quarter. Higher sales and gross margin were offset by higher OpEx related to acquisitions.

GAAP earnings per share was $2.44 compared to a loss of $3.56 in the year-ago quarter. The prior-year loss was driven by the effects of 2017 tax reform. Non-GAAP earnings per share was $2.63, up 25% from $2.10 in the year-ago quarter.

OpEx in Q4 was $484 million, up $77 million due to acquisitions and ASC 606. Other income and expense was $51 million compared to $36 million in the year-ago quarter, driven by an increase in net interest expense of $12 million. The Q4 effective tax rate was 23.5% compared to 32.8% last year, primarily due to 2017 tax reform.

For the full year, revenue was $7.3 billion, up $963 million or 15%, including $507 million of revenue from acquisitions and $83 million of revenue related to the adoption of ASC 606. Organic revenue, which excludes acquisitions and the accounting change, was up 6%.

2018 GAAP operating earnings were $1.3 billion, down $29 million or 2%, primarily driven by a charge to an existing environmental reserve, the closure of certain supply chain operations in Europe, and lease exit costs associated with acquisitions. Non-GAAP operating earnings were $1.7 billion, up 16%, driven by higher sales and gross margin, partially offset by higher OpEx related to acquisitions.

GAAP earnings per share was $5.62 compared to a loss of $0.95 in 2017, driven by the effects of 2017 tax reform. Non-GAAP EPS was $7.15 compared to $5.46 in 2017, an increase of 31%.

For the full year, OpEx was $1.8 billion as expected, including $258 million from acquisitions and ASC 606. Other income and expense was $165 million compared to $163 million in the prior year. And the effective tax rate for 2018 was 21.7% compared to 31% last year, due primarily to tax reform and tax benefits related to share-based compensation.

Turning to cash flow, Q4 operating cash flow was $812 million compared to $761 million in the year-ago quarter. The increase was driven primarily by higher earnings. Free cash flow in Q4 was $743 million compared to $740 million last year. Capital expenditures were $69 million, up $48 million versus last year, primarily related to the Airwave extension.
For the full year, operating cash flow was $1.1 billion, including the $500 million voluntary debt funded pension contribution in Q1 of 2018. Free cash flow in 2018 was $878 million compared to $1.1 billion in the prior year. Excluding pension, operating cash flow was $1.575 billion, and free cash flow was $1.4 billion. The higher cash flows in 2018 was driven primarily by higher earnings.

Capital allocation for 2018 was $1.2 billion of acquisitions, $337 million in cash dividends, $197 million of CapEx, and $132 million of share repurchases at an average price of $112.42. Additionally in Q4, we repaid the remaining $100 million of the revolving credit facility associated with the Avigilon acquisition, and we continue to expect to repay the $400 million term loan associated with the Avigilon acquisition in 2019.

<u>Moving to segment results</u>
Q4 Products and Systems Integration sales were $1.7 billion, up $233 million or 16%, driven by the Americas and EMEA. Revenue growth from acquisitions and ASC 606 in the quarter was $137 million. Q4 Products and Systems Integration segment operating earnings were $483 million, or 28.9% of sales, down 140 basis points from last year, driven by higher OpEx related to acquisitions.

Some notable Q4 wins in the segment included a $47 million P25 order from Snohomish County, Washington; a $24 million P25 order from Ingham County, Michigan; and a $16 million P25 order from Riverside County, California.

For the full year, Products and Systems Integration revenue was $5.1 billion, up $587 million or 13%, led by the Americas and the EMEA. Revenue from acquisitions and ASC 606 was $396 million. Products and Systems Integration operating earnings were $1.1 billion or 21.7% of sales, compared to 22.7% of sales in the prior year, driven by OpEx from acquisitions.

For 2019, we expect operating margins to be up approximately 100 basis points, and gross margins to be between 48% and 49%, which is comparable with 2018.

Moving to the Services and Software segment, Q4 Services and Software revenue was $584 million, up $64 million or 12% from last year, driven by growth in every region, and inclusive of $47 million of growth from acquisitions and ASC 606. Services and Software operating income in the quarter was $167 million or 28.6% of sales, up 340 basis points from last year, driven by organic gross margin expansion, partially offset by higher OpEx from acquisitions.

Some notable Q4 highlights in Services and Software include a $71 million services contract with Maricopa County, Arizona; a $29 million services contract from Cobb County, Georgia; a $26 million contract to provide Next Gen 911 Core Services for a customer in North America; and a $16 million services contract in Australia. Additionally, we signed the Airwave network extension through the end of 2022 for $1.1 billion, with additional services from local agencies to be added during 2019.

And subsequent to quarter end, we acquired VaaS International Holdings, a leading global provider of data and image analytics for vehicle location. The equity used in the acquisition has been offset with share repurchases of $65 million in Q4, and $125 million in January of 2019.

For the full year, Services and Software revenue was $2.2 billion, up $376 million or 20%, with growth in all regions. Revenue from acquisitions and ASC 606 was $194 million. Services and Software operating earnings in 2018 were $631 million or 28.1% of sales, compared to 25.7% in the prior year, driven by organic gross margin expansion and acquisitions.

Looking at 2019, we continue to expect full year operating margins to be approximately 30%, with gross margins of approximately 50%.

Looking at regional results, Americas Q4 revenue was $1.6 billion, up 16% on growth in both segments. For the full year, the Americas revenue was $5.1 billion, up 17% with growth in both segments, driven by acquisitions and organic growth. EMEA Q4 revenue was $491 million, up 24%, and was also driven by growth in both segments. For the full year, EMEA revenue was $1.6 billion, up 18% with growth in both segments driven by acquisitions and organic growth. In Asia-Pac, Q4 revenue was $202 million, down 5% on a decline in Products and Systems Integration, partially offset by growth in Services and Software. For the full year, AP revenue was flat at $680 million with growth in Services and Software offset by a decline in Products and Systems Integration.

Moving to backlog, ending backlog was $10.6 billion, up $988 million or 10% compared to last year, inclusive of a $205 million backlog revaluation due to unfavorable changes in currency rates.

Services and Software backlog was up $1.1 billion or 18% compared to last year, driven by an increase of $613 million in the Americas and $537 million in EMEA related to Airwave. Sequentially, Services and Software backlog was up $1.2 billion, also driven by growth in the Americas and the Airwave extension.

Products and Systems Integration backlog was down $116 million or 3% compared to last year, due primarily to two large system deployments in 2018 in the Middle East and Africa. The Americas backlog was up $14 million year-over-year. Sequentially, backlog was down $42 million, driven by the same Middle East and Africa deployment. Segment backlog in the Americas was up $104 million sequentially.

Turning to our Q1 outlook, we expect Q1 sales to be up approximately 11%, with non-GAAP EPS between $1.11 and $1.16. This Q1 outlook assumes approximately $35 million of FX headwinds at current rates, approximately $140 million of revenue from acquisitions, an effective tax rate of approximately 25%, and approximately 174 million fully diluted shares.

For the full year 2019, we expect revenue growth of 6% to 7%, with non-GAAP EPS between $7.55 and $7.70. And full year operating cash flow is expected to be approximately $1.7 billion. This full year outlook assumes approximately $65 million of FX headwinds at current rates, approximately $230 million of revenue from acquisitions, an effective tax rate of approximately 25%, and a weighted average diluted share count of approximately 175 million shares for the full year.

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

Greg Brown, Chairman & Chief Executive Officer

Thanks, Gino. Let me close with a few thoughts.
First, 2018 was a record year for the company built on a strong foundation. We saw continued LMR growth led by North America and EMEA and Airwave has been extended through the end of 2022. Additionally, our Services and Software segment grew revenue and operating earnings double digits, and we acquired key assets in video, software, and analytics.

Second, I think we're very well positioned for another strong year in 2019 with our industry-leading portfolio of LMR solutions, a comprehensive Command Center software suite, and new video and analytics capabilities, all of which are supported by a growing services business. We serve customers in growth segments of large addressable markets. We have a strong team focused on consistent execution, a healthy balance sheet, and durable, growing cash flows that will drive continued shareholder returns over the long term.

And finally, a year ago, at our financial analysts meeting, I provided a view of driving the company towards what I called 8 and 8 in 2020, meaning approximately $8 billion in revenue, and $8-plus in EPS. Today, I'd like to update that and tell you we're now driving the company towards 9 and 10 in 2021, approximately $9 billion in revenue and approximately $10 of earnings per share by the end of 2021. This current view is contemplated within the framework of our capital allocation framework.

And with that, I will turn the call over to Chris.

Chris Kutsor, Vice President, Investor Relations

Thank you, Greg. Before we begin taking questions, I'd like to remind everybody to please limit themselves to one question and one follow-up so we can accommodate the others. Operator, would you please remind everyone on the line how to ask a question.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] And we'll take our first question of the day from Mr. Tim Long with BMO Capital Markets. Please go ahead.

<Q – Tim Long – BMO Capital Markets (United States)>: Thank you. Yeah, so just one question, I was hoping you could update. Obviously, there's been a lot of movement and some acquisition in the Command Center in the software space, and you had talked about a $400 million run rate there. Can you just talk a little bit about the kind of the trajectory, particularly as you're adding more pieces on there? And just on the follow-up, Greg, more specifically for you those more positive numbers for 2021. Could you just talk a little bit about – obviously backlog is good all over the place. So, maybe just give us some color on what's driving the much higher confidence, which pieces of the business are you seeing the most traction leading to those increased revenues and EPS numbers? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, Tim, so look, as I said, I think we're really pleased with 2018 pretty much across the board, both in the Product and SI segment, as well as Services and Software. I think why we feel good about going into 2019 is the record backlog position, strong entering Q1, general comparability of backlog 2019 against 2018, but a lot of strong demand drivers. We still see continued, consistent demand. We talked about organic constant currency growth. A quarter ago, we said we thought it would be 4% first half of 2018, 4% second half of 2018, and 4% for the full year. We actually came in a little bit higher than that on an organic growth constant currency growth rate for revenue, and we expect comparable organic growth revenue of constant currency growth in 2019 as well. I think the regions that will lead that are the Americas and EMEA, as well as converting some of the backlog, and of course the Avigilon asset continues to perform at or above our expectations. And as Jack mentioned last quarter, huge addressable market, it's about $12 billion without China, and we sized that market growth growing at 5%. We're targeting growing the Avigilon asset at 3x that.

I think Jack has done a great job with his team of managing the asset, increasing sales coverage, investing in that business. So when I look at LMR, when I look at the Command Center software suite, and the progress Andrew Sinclair and Kelly are making, and then overall growth of Services and Software, which we continue to believe is high single-digits, PS&I low single-digits, but in 2019, we're going to grow revenue of the firm. We're going to expand gross margin of the firm. We're going to increase cash flow despite a higher effective cash tax rate. We're going to grow our earnings per share, and we're going to grow operating margins. So I think the team has done a really good job, and I think we're well positioned as we sit here in February 2019.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: And Tim, this is Gino. The first part of the question was VaaS?

<Q – Tim Long – BMO Capital Markets (United States)>: No, we were just kind of updating the overall software, the software stand-alone, or Command Center, however you want to look at it, revenue rate comparable to the $400 million you were talking about.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. I think that as you unpack the segment, we expect high single-digits for the segment of Services and Software. That comports to double-digit growth of software, and mid-single digit growth of managed and support. On an annualized basis in 2018, the business performed that way. Actually, I would say above expectations, given acquisitions. But Tim, as you comport that $400 million software and lay on the growth rate, think double-digit growth rate on that piece, which feeds a high single-digit combined for the segment.

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

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

Operator: And we'll go next to George Notter with Jefferies. Please go ahead.

<Q – George Notter – Jefferies LLC>: Hi, guys. Thanks very much, and congratulations on the good results. I guess I wanted to start by asking about the government shutdown. Obviously, it's topical these days. I'm assuming you had a minimal impact in your December quarter, and then maybe a little more impact you expect in Q1. But can you just talk about what mix of business comes from U.S. federal? And then what sort of impact are you seeing or do you expect to see in Q4, and then now going into Q1 and beyond? Thanks.

<A – Jack Molloy – Motorola Solutions, Inc.>: Hey, George, so first of all, we have, any impact in Q1 has been implied, obviously, in our guidance, and frankly, we expect minimal impact. The second thing, I think the second part of the question was related to the size of the federal business. It's approximately $600 million, but it's important to note that it comes from a multitude of different agencies. I think many companies in this space are defense and security. We do business with law enforcement administration, FBI, as well as providing base security as well. The last thing I would note is that our managed and support service business for the federal government, actually those contracts all come in largely in our fiscal Q3, which is aligned with the federal government's close, so those things are already logged on the books. So to tie it all together, minimal impact, and we'll have to see. No one can predict the future given the length, but we expect minimal to no impact to Q1, and we'll see how things play out the rest of the year.

<Q – George Notter – Jefferies LLC>: Got it. Okay. And then, just as a quick follow-up, I was curious about Avigilon. So, obviously, you're investing for growth in that business. You can see it in the margin performance. But when do you expect to start to see the revenue ramp there associated with those investments? And maybe just give us an update on where you're investing and how that's going. Thanks.

<A – Jack Molloy – Motorola Solutions, Inc.>: So, George, really our investment has been two-fold. First of all, we've fortified and expanded our enterprise sales force. So, that's the first thing. The second thing, we hired a team specifically to get after our revenue synergies in state, local, and in federal government. Those teams were all hired by the end of the year. So, the net of it, I think as we think about it, the second half of the year is really when we think we'll start to see the impact of those things, because we have a lot of new hires in the enterprise space. And then as you've heard me relate, and you have heard Greg and Gino discuss before, the government sales cycle in and of itself typically takes 12 months. And so we started those things in the back half of last year, and I think we'll start to see some positive impacts in the second half of 2019.

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

Operator: [Operator Instructions] We'll go next to Vijay Bhagavath with Deutsche Bank. Please go ahead.

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

Operator: Vijay, your line is open. If you wouldn't mind checking your mute function.

<Q – Vijay Bhagavath – Deutsche Bank Securities, Inc.>: Yes. Can you hear me?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: We can now.

<Q – Vijay Bhagavath – Deutsche Bank Securities, Inc.>: Okay, yes, sorry, the headset died. Amazing. So, my question is, it's great to see your – the confidence in the full year outlook, 6% to 7% versus expectations for around 5%. So, help us understand, Greg, what are the drivers as detailed as you can be, on what's driving that confidence in that 6% to 7% number? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Well, you're right. We expect 6% to 7% for the full year. I think, in part, some of that top line comes, as I mentioned, from the backlog position and the record backlog position that we have exiting 2018, coming into 2019. Additionally, there's top line revenues that are coming from acquisitions, both Avigilon at least in Q1 in the stub-period, as well as Plant CML and VaaS. I think there's a really good focus, Vijay, on both gross margin expansion to come with that top line growth, as well as continued operating expense management. While OpEx is increasing for the firm, that's largely driven by, if not entirely driven by, acquisitions. But on the base business, we continue to drive consistent efficiencies. So, as I mentioned, I think demand in the state and local business, regionally what's driving it, Vijay, is the Americas and EMEA.

If I dis-aggregated from a product view, Land Mobile Radio demand remains pretty solid for North America, both in public safety as well as commercial customers. And Command Center software continues to grow at double digits. I think people – we have low penetration, single-digit penetration against a $5 billion addressable market. More and more people want to buy the suite of product that we're developing, so demand is solid there. And again, Avigilon, as Jack mentioned, and not only is it a good segment, look, video is in high demand. Everybody knows that both from a city or public safety standpoint as well as commercial, but it's not just video. It's video with machine learning, the appropriate analytics, the intelligence in the Edge device, integrating it back into VMS, and integrating it through our portfolio and the Command Center and what we do. So the good news is, yes, we're in video, but I think our solution is particularly strong around its design of AI at the Edge device, and the way that we're incorporating that back from an integration standpoint for our customers into the Command Center software. So, that's what I'd say.

<Q – Vijay Bhagavath – Deutsche Bank Securities, Inc.>: Thank you.

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

Operator: And we'll take our next question from Walter Piecyk with BTIG. Please go ahead.

<Q – Walt Piecyk – BTIG LLC>: Thanks. Hey, Greg, there's been a ton of noise since the last call about Chinese manufacturers. I think even today there was another one ripped out of the Nokia network. I'm just curious, as you're kind of ramping the Avigilon business and talking to customers, is that something that's resonating with enterprise customers as well as public safety? And how do you think that plays out? Because I think there's been some press about not only the manufacturers of some of these cameras being Chinese, but even the components of other cameras that you wouldn't necessarily think are Chinese, maybe creating some concern for customers that could be an opportunity for you guys?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, no, I think you're right, Walt. I think it's – as you know, right, to back up, there's obviously a growing concern about what I call Chinese electronics content through the lens of Cellular, Huawei, ZTE, through the lens of Land Mobile Radio, Hytera, and certainly in video, concerns around Hikvision, and Dahua. And I mentioned them by name because they're mentioned by name in the National Defense Authorization Act. They're mentioned by name because our government has said that there's concerns around national security as it relates to those vendors. The government is saying that. We're not saying that. So, we're following it accordingly. Clearly that's beneficial as Molloy and team go into the U.S. federal business. The NDAA takes effect in August of this year. Although since it's out there with long sales cycles, I think it's already being contemplated with purchases now, even though it hasn't gone into effect until August 13.

Your other question is right. It's not just government agencies, it's critical infrastructure. So whether it's power grid or airports or transit or oil and gas, I think there is an effect where some customers are contemplating, because critical infrastructure looks an awful lot like public safety, and it gives some of our customers cause for pause. And your last point is also correct, that it's not just Chinese vendors, but there are some critical Chinese components in other people's product that this ban applies to. So, all of that said, I think we continue to drive to be the preferred Western alternative and leader, which we are in mission-critical communications, Command Center software and video, and all of the characteristics that you described, both governmentally and in critical infrastructure, Walt, I think are favorable.

<Q – Walt Piecyk – BTIG LLC>: And then just a follow-on question, since Chris said we do get two. Enterprise again, I think earlier you had mentioned that Avigilon's strengthened your enterprise sales capabilities. A lot of the acquisitions you've done historically have been adding more things to sell into public safety, and helping those good relationships with the customers. When we look at 2019 and 2020, is there going to be an opportunity to add things that also, maybe, the enterprise space? Look, I'm thinking industrial IoT type applications, or things that might not necessarily be the stronghold of public safety, but appeal, maybe, to that enterprise base, given that you've got the sales force there now?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, I think that's a possibility, Walt. I mean, if you take our VaaS acquisition and license plate recognition, there's a part of that solution that is public safety-centric. But there's also a part of that solution that's deployed around commercial enterprise. So, yes, I think we will look at acquisitions. We're always evaluating acquisitions that make sense strategically and financially that would supplement and strengthen, clearly, public safety, but it may make sense to your point in the enterprise as well. Whether it will be IoT or critical infrastructure, we'll always keep an eye on that for those assets.

<Q – Walt Piecyk – BTIG LLC>: And in the interim, you're just going to buy a ton of stock back. You've mentioned $125 million so far, that's obviously you already hit our Q1 run rate, so in the absence of acquisitions, it's just a lot of share repurchase, right?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, I think that – again, we've always talked about the capital allocation model, which on a normalized basis, we continue to follow. We used the majority of our capital last year to acquire companies. As we're into 2019, we will pay back the $400 million, or we intend to pay back the $400 million of short-term debt associated with the Avigilon acquisition. When you do that, and over the course of the year, given more available capital, again, today it contemplates buying maybe approximately $500 million of shares, plus or minus, which again is fungible between share repurchase and/or acquisition. But you're right. We've gotten off to a solid start in Q1.

<Q – Walt Piecyk – BTIG LLC>: Great. Thank you.

Operator: And we'll go next to Adam Tindle with Raymond James. Please go ahead.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Okay. Thanks. Greg, I had a question before the call prepared to ask you about catalyst beyond 8 and 8, but I guess you preempted me on that.

<A – Greg Brown – Motorola Solutions, Inc.>: I anticipated your question.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Yes, you did. So, 9 and 10, I just wanted to kind of break it apart, just starting with the $9 billion in revenue. You have seen nice revenue growth for a while. I think that implies like a high single-digit revenue growth category to 2021. More likely you're going to get questions on concerns that we've been enjoying an upgrade cycle, narrow banding, all that sort of stuff, and lapping that, understand the secular trends in Services and Software, but maybe just talk about what gives you the confidence on the Products and SI side to enable the sort of growth CAGR that you're implying here.

<A – Greg Brown – Motorola Solutions, Inc.>: Well, I think I would say three things about the 9 and 10. Remember it's not prescriptive guidance, it's directional, it's a current view, and it's contemplated within the capital allocation framework. In other words, it could very well be a combination of organic growth and acquisitions. So, it's not meant to be necessarily unpacking some detailed three-year view. But as we've looked at it from a management team, and incorporated both what's in backlog and the drivers of the business across the segments for Services and Software, as well as Products and SI, again, segment guidance, thinking low single-digits P&SI, Software and Services high single-digits. We think those respective growth rates are generally sustainable, which informs our view of that three-year target. So, that's kind of the way to think about it and contextualize it.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Okay. That's helpful. I think it also implies a strong double-digit profit dollar growth CAGR. Maybe just touch on, as you thought about that plan, which segment do you see the most opportunity to expand margins to enable it?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, in 2019, we're going to expand operating margins for both segments. For Kelly Mark's group on Services and Software, we talked about it a year ago, and here we are. And so we're guiding to it specifically about gross margins of about 50% and operating margins of about 30%. On the PS&I segment, comparable gross margins of 48% to 49%, but operating margin growth of 100 basis points on the bottom line. Over time, I think that Services and Software, given its profile and given its over time expansion in gross margins, to be more software and multi-year services like, I think we have an opportunity to grow those margins over time, which I think would clearly be beneficial to us.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Thanks, and congrats on 2018.

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

Operator: And we'll go next to Sami Badri with Credit Suisse. Please go ahead.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Hi. Thank you. My question mainly has to do with just contribution from VaaS and Avigilon? Did they contribute anything to your reported backlog in the quarter, or very little for 2018?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Well, Avigilon very little, nothing for VaaS. It was subsequent to quarter end.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Got it. And then for Avigilon and VaaS, as you think about these two businesses being integrated into your business, and then offered across I guess you could say the rest of the channel in the sales force that you have currently, would you describe the integration at least for Avigilon as somewhat completed or still in the cycle? And then for VaaS, could you give us an idea on when that would be considered fully integrated across every single salesperson, every entity, et cetera?

<A – Greg Brown – Motorola Solutions, Inc.>: I would say that Avigilon's integration is largely completed, and VaaS, again, dimensionalized of about $100 million of annual revenue, EPS neutral for

2019. It's a fairly small tuck-in, so I would expect us to have some run rate and rhythm of performance in a quarter or two.

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

Operator: And we'll go next to Jim Suva with Citi. Please go ahead.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Thank you very much. I know you earlier talked about the federal government closure. The question is, is there any ripple effect, positive or negative, to the state and local governments, whether it be election cycles or the federal government shutdown coming back? Or is that contract just so long-term nature, they are not impacted?

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah, so, as it applies to state and local, around nine years ago, state and local government had really kind of moved away from federal grants. There's been kind of a suppressive effect on federal funding to the locals for public safety technology. So, they stand alone. They budget their own dollars in a large part, and so the federal shutdown has no impact at all. State and local is fully operational. RFP activity, cutting of purchase orders, et cetera, is normal course of activity right now.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: And then my follow-up is, any updates on the Airwave terms, extensions? Is it reflected in your backlog? How should we think about that, if any changes?

<A – Greg Brown – Motorola Solutions, Inc.>: Thrilled about the Airwave extension. I tip my hat to Kelly Mark and Vincent Kennedy and his whole team in securing that extension, again, through the end of 2022. It's about $1.1 billion that went into backlog, and we expect another $300 million to $350 million of additional contracts. Local entities that aggregate up that will go into backlog that those contracts get signed between now and the end of the year so that the $1.45 billion, which was referenced by the customer, is fully contracted for entering into the extension period. It is worth noting to your point that the terms and conditions are substantially similar to the original contract term for Airwave, which I think is obviously good. And a lot of hard work by a lot of people. So, it's good news.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: And Jim, just to be clear on the $1.1 billion into backlog, so as we think about year-over-year backlog increases in Services and Software, $1.1 billion was the Airwave extension, but in the backlog, the year-ending backlog, you have to offset the revenue that we realized in 2018, as well as a portion of the FX that we noted in our earlier comments, impact the backlog. So, when you think about the Services and Software segment, the majority of the backlog increase was driven by the Americas, by North America. It's about $550 million or so of backlog increase associated with Airwave, just to be clear on that.

<A – Greg Brown – Motorola Solutions, Inc.>: That's a great point, Gino.

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

Operator: [Operator Instructions] We'll take our next question from Paul Silverstein with Cowen. Please go ahead.

<Q – Paul Silverstein – Cowen and Company LLC>: Thanks, guys. First off, I was hoping, Greg and Gino, I think you all had referenced Avigilon the quarter before last as having accelerated from the 15% growth rate at the time of the acquisition earlier last year. I was hoping you could give us an update on where that growth rate is today. I heard you say that you're expecting 15%, or triple the 5% market rate. But again, if you could update that. The bigger picture question is relative to the guidance you gave for calendar 2019, where are the greatest opportunities for upside, where are the greatest risks for the guidance you provided? And one more, if I may, which is, I heard your response to the last question about state and local. My specific question would be, in their budgeting process, it's still early in the year, and I recognize that public safety is somewhat unique. But do you already have visibility, in most cases, into those budgets? I assume they're relatively healthy given the state of the economy, but that's the question. Do you already have that visibility? Thanks, guys.

<A – Greg Brown – Motorola Solutions, Inc.>: So, I would say on Avigilon, again, credit to Jack Molloy and his team performed at or ahead of expectations for the planned period last year in 2018, healthy double-digit growth. You're right, again, articulating for 2019, looking to 3x the market, given the performance and actions that Jack and team have taken to prepare us to go get and satisfy demand on the commercial as well as public safety side, and U.S. federal side. Longer sales cycle, Jack mentioned he sees that getting more traction in second half. So, Avigilon tracking well.

On risks and upside, I would just say, I think all in, I think our view is balanced. It's probably worth noting that if I were to detail regional color, we see the growth being driven largely by North America or the Americas and EMEA. But we have a muted expectation for Asia-Pac or roughly flat. So, I think that incorporates our realistic view at this point of that region. But I'd say from a risk and opportunities standpoint, all in, it's a balanced view at this point in time.

<A – Jack Molloy – Motorola Solutions, Inc.>: And Paul, I think your last question was around state and local budgets. And to answer your question, our team works very closely on both fronts. There's operational budgets for state and local governments and that would really encumber maintenance and support of networks. The secondary thing, that's also device refreshes and those kind of things. So we have good visibility on a consistent basis to those budgets. The second thing is, our team particularly here in North America, Jim Mears' team works very closely with customers on large scale projects in terms of capital allocation requests that we put through. So, in terms of visibility, I think our team around the room here is generally pleased. The six-quarter rolling that we take, we obviously take a keen interest on not only what's happening this quarter, but out six quarters. And visibility and pipeline for state and local government continues to look good.

<Q – Paul Silverstein – Cowen and Company LLC>: I appreciate it. Thank you.

Operator: And we'll go next to Keith Housum with Northcoast Research. Please go ahead.

<Q – Keith Housum – Northcoast Research Partners LLC>: Good afternoon, gentlemen. Greg, if you could provide a bit of color on the VaaS acquisition, perhaps dimensionalize the strategy behind the acquisition and perhaps the growth rate, and where do you expect synergies is going to benefit going forward with that acquisition?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, I think the VaaS acquisition is all about the importance of content and it has the largest database of license plates in North America. It's a critical need component for public safety. And we had been talking to these folks for a number of months, and feel it's a natural tuck-in that matches the demand requirements of our customers. It improves our analytics capability. I think it integrates and simplifies our customers' work flows, so I just think it makes a lot of sense. As we mentioned, it's probably an additional approximately $100 million in revenue in 2019. EPS neutral for the year, probably $0.01 negative in Q1, if you really want to dis-aggregate and get into the detail. But I like it because data is getting more and more important, and this specific data is directly a high need one for our public safety North American customers.

<Q – Keith Housum – Northcoast Research Partners LLC>: Got it. And do they go to market the same way as Motorola does, there would be synergies in the sales force?

<A – Kelly Mark – Motorola Solutions, Inc.>: We look to line up – this is Kelly – Keith, we look to line up their sales team working with our team closely. They also use some partners. So there are similarities to the way we go to market, and in regards to selling their solution, it will fit right into our Command Center software selling motions that happen with Jack's team.

<Q – Keith Housum – Northcoast Research Partners LLC>: Great. And then if I just do a follow-up question here, you guys mentioned you'd be able to grow gross margins throughout the year. I guess, if you can just throw us on a little bit of strategy behind how you're going to do that? Is there efficiencies in getting manufacturing process, or is it through pricing? How do you plan on raising gross margins?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: In both segments? Either segment, Keith?

<Q – Keith Housum – Northcoast Research Partners LLC>: Both segments, please.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: So let's take the Services and Software segment first. A large part of the margin expansion in 2018 and a significant portion moving forward into 2019 is related to our underlying software business and improvements we've made in delivering and closing out prior projects. In the government sector – I'm sorry, in the Products and System Integration segment, gross margin improvements, there's several initiatives around gross margin from SKU reductions to rationalizations in the supply chain to as well as some targeted price actions within that segment.

<A – Greg Brown – Motorola Solutions, Inc.>: And I think for both segments, Andrew Sinclair on the Software side, and Jack's team with Kedzierski and Scott Mottonen, I think that we continue to get efficiencies around platforming of these businesses, both platforming infrastructure, platforming LMR devices, and platforming Command Center software. And those efficiencies are reflected in the gross margin expansion for Services and Software and some of the operating margin expansion planned for PS&I.

<Q – Keith Housum – Northcoast Research Partners LLC>: Great. Thanks guys. Appreciate it. Good luck.

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

Operator: And we'll go next to Paul Coster with JPMorgan. Please go ahead.

<Q – Paul Coster – JPMorgan Securities LLC>: Yes, thank you for taking my questions. Two quick ones. I wonder if you could give us a little bit of help on projecting out the segment-level revenue for 2019. I assume obviously the VaaS gets loaded into the Software and Services business. Perhaps you can sort of elaborate a little bit for us?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Sure, Paul. This is Gino. Really, it's consistent with what we've said about the longer-term guidance. Product and Systems Integration at low single-digit growth, and Services and Software at high single-digit growth. Now that's a longer-term view, but in general, that's our view of the growth of both segments.

<Q – Paul Coster – JPMorgan Securities LLC>: Got it, thank you. And then if I may ask the Airwave question in a slightly different way. I think in the past, we've thought of it was a $400 million to $500 million of revenue per annum contract. And I wasn't quite sure with the $1.1 billion, whether we should kind of cut that back a little bit, or was there some kind of adjustments that we had to make based upon what Greg was saying earlier on that gets us back into that $400 million to $500 million zone? Or perhaps I was just simply wrong.

<A – Greg Brown – Motorola Solutions, Inc.>: No. The total number associated with the Airwave extension is $1.45 billion. $1.1 billion is contracted for already and has fed into backlog. We expect the subsequent $300 million to $350 million in local contracts executed over the balance – over the next several months. So, the Airwave extension three years through the end of 2022, Paul, is at very substantially similar terms on the original deal. So, that's a favorable outcome for us.

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

Operator: And we'll take our next question from Ben Bollin with Cleveland Research. Please go ahead.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Good evening, guys. Thanks for taking my question. I wanted to dive in a little bit on the Command Center. How would you say you're progressing on the creation of a broader product suite? Can you talk a little about the sales cycle of that in relation to customers? What's the duration? How does it compare to what you have seen traditionally in LMR? How does it compare to Avigilon? Thanks.

<A – Kelly Mark – Motorola Solutions, Inc.>: So, on the Command Center, the progress, we're very pleased with the progress we're making. The focus of the strategy in the Command Center has been around three things. First off, it's around consolidating the platforms across the various product sleeves that touch every component of the workflow. The second component is around integrating the suites so that there's a clear flow of information, a common user interface, pieces of records that come in from a 911 call taker will then automatically be handed to the CAD (computer aided dispatch) operator, and then automatically handed to the Command Center, and subsequently into records. And the third thing is moving the platform to be cloud-ready on the Azure platform, so it's prepared to be sold as a service.

So, we're very pleased with what we're seeing. As we sell the Command Center software, I'll let Jack talk a little bit about the sales cycle, but when we sell brand new software engagements right now, roughly you can think about 25% of those are suite sales, but that's not the thing that we are really looking at. When we engage our customers, most of our customers that we engage have a piece of software in the Command Center already. And the elegance of the suite is it makes the subsequent pieces of software that we sell in there all the more attractive, based on the common user interface and the interface of data that helps make their workflow operate much, much smoother, and hence provide them to be able to provide better outcomes to their customers. So, Jack, I don't know if you want to talk a little bit about the sales cycle that we see as we engage?

<A – Jack Molloy – Motorola Solutions, Inc.>: Sure, Kelly. So I would just piggyback on that to say that the selling motion is typical of a government CapEx project, typically 12 to 24 months. The difference with Command Center software, and Kelly just noted it, is there's a level of tangibility, because it's a constant. It's a 24 by 7 environment, whereby they're dealing with the technology. Why the suite approach makes sense from our customer standpoint, and this is big, is because when you go in and do an upgrade to these networks, it's pretty intensive in terms of the work that's done. It's disruptive in the 24 by 7 environment. So the more that you can get to a common user experience, which is exactly what Kelly and Andrew and team are doing, we think it will make the lives of, frankly, our dispatchers and 911 call-takers much more simple. But again, tying it back, similar to a large-scale radio network, 12 to 24 months is a sales cycle and we're engaged now in 2019, 2020, and beyond projects.

Operator: And there are no further questions at this time. I would like to return the floor back over to Mr. Chris Kutsor.

Chris Kutsor, Vice President-Investor Relations, Motorola Solutions, Inc.

Thank you, operator. That will conclude it for today. Thanks, everybody.

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

Thank you.

Operator: This will conclude today's program. Thank you for your participation. You may now disconnect and have a wonderful day.