MOTOROLA SOLUTIONS

Q3 2020 Earnings Conference Call
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PARTICIPANTS

Motorola Solutions Executive Participants

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

Other Participants

Sami Badri – Analyst, Credit Suisse Securities (USA) LLC
George C. Notter – Analyst, Jefferies LLC
Keith Housum – Analyst, Northcoast Research Partners LLC
Adam Tindle – Analyst, Raymond James & Associates, Inc.
Tim Long – Analyst, Barclays Capital, Inc.
Paul Silverstein – Analyst, Cowen and Company
Fahad Najam – Analyst, MKM Partners
Joshua Kehoe – Associate Analyst, Citigroup Global Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for holding. Welcome to the Motorola Solutions' Third Quarter 2020 Earnings Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time. The presentation material and additional financial tables are currently posted on the Motorola Solutions' Investor Relations website. In addition, a replay of this call will be available approximately three hours after the conclusion of 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] You will have an opportunity to ask questions after today's presentation.

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

Tim Yocum, Vice President, Investor Relations

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

We've posted an earnings presentation and news release at motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliations for your reference. And during the call, we will reference non-GAAP financial results, including those in our outlook, unless otherwise noted.

A number of forward-looking statements will be made during this presentation and during the Q&A portion of the call. These statements are based on current expectations and assumptions that are subject to a variety of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Information about factors that could cause such differences can be found in today's earnings news release, in the comments made during this conference call, in the Risk Factors section of our 2019 Annual Report on Form 10-K and in our other reports and filings with the SEC. We do not undertake any duty to update any forward-looking statement. And with that, I'll turn it over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thanks, Tim. Good afternoon and thanks for joining us today. I'll start off by sharing a few thoughts about the overall business before Jason takes us through our Q3 results and outlook.

First, I'm proud of the team and I'm pleased with our results and execution in these challenging times. During the quarter, we achieved both revenue and earnings per share above the guidance we provided in August, driven by growth in video security, command center software and services. Additionally, we generated $392 million of operating cash flow and strengthened our portfolio by closing the acquisitions of Pelco, a leader in fixed video security solutions, and Callyo, a cloud-based SaaS mobile apps provider for law enforcement.

Second, our Software and Services segment continues to perform well. During the quarter, this segment grew revenue 9%, expanded operating margins by 220 basis points and generated over half of the operating earnings for the company. We were also awarded the largest command center software order in our history, $120 million plus next generation 911 multi-year contract.

And finally, while the environment with COVID certainly remains fluid, I'm encouraged by the improvements we saw in many areas of our business during the quarter. Orders for body-worn cameras were up significantly year-over-year. Sales of fixed video to our government customers were strong. And we saw improved demand from both our public safety LMR and PCR customers versus Q2.

I'll now turn the call over to Jason to take you through our results and outlook before returning for some final thoughts.

Jason Winkler, Executive Vice President & Chief Financial Officer

Thank you, Greg. Q3 results included revenue of $1.9 billion, down 6% from a year ago, including $55 million from acquisitions; GAAP operating earnings of $352 million and operating margins of 18.9% of sales compared to 20.7% in the year-ago quarter; non-GAAP operating earnings of $463 million, down $46 million and non-GAAP operating margins of 24.8%, down from 25.5% in the year-ago quarter, due to lower sales in gross margin contribution in the Products and SI segment, partially offset by higher sales, higher gross margins and improved operating leverage in Software and Services.

GAAP operating earnings per share were $1.18 compared to $1.51 in the year-ago quarter. Non-GAAP EPS of $1.95 versus $2.04 last year, primarily due to lower sales in the Products and SI segment, partially offset by higher sales, gross margin and improved operating leverage in Software and Services.

OpEx in Q3 was $455 million, down $49 million versus last year, primarily due to lower discretionary spend and incentives, partially offset by costs related to acquisitions. The Q3 effective tax rate was 20% compared to 23% in the year prior, a change driven primarily by higher R&D credits and a favorable US federal return-to-provision adjustment recorded in the third quarter.

Turning to cash flow, Q3 operating cash flow was $392 million compared with $525 million in the prior year and free cash flow was $343 million compared with $465 million in the year prior. The decrease in cash flow was primarily due to lower sales. Capital allocation for Q3 included $181 million for acquisitions, $109 million in cash dividends, $105 million of share repurchases and $49 million of CapEx.

Additionally, during the quarter, we refinanced upcoming debt maturities with a new $900 million 10-year debt issuance at a rate of 2.3%. And finally, we repaid $400 million against our revolving credit facility, of which $300 million was repaid during the quarter and $100 million subsequent to quarter-end. We expect to repay the remaining $100 million balance by year-end.

Moving to segment results, Q3 Products and Systems Integration sales were $1.2 billion, down 14%, driven by a decline in public safety LMR and PCR, partially offset by growth in video security. Operating earnings were $219 million or 18.9% of sales, down 330 basis points from last year, primarily due to lower sales. Some notable Q3 wins and achievements in the segment include a $44 million P25 order with a large US Federal customer, a $28 million P25 order for the State of Wyoming, a $20 million P25 order for the State of North Carolina, a $19 million TETRA order for a large international transportation customer, and we saw strong growth in fixed video sales to government customers during the quarter.

Moving to our Software and Services segment, revenue was $705 million, up 9% from last year, driven by growth in both services and software. Revenue from acquisitions in the quarter was $24 million. Operating earnings were $244 million or 34.6% of sales, up 220 basis points from last year, driven by higher sales, gross margin and improved operating leverage.

Some notable Q3 wins in the segment include an over $120 million next generation 911 multi-year contract, a $19 million body-worn and in-car video multi-year as a service contract in North America, and an $18 million P25 multi-year services contract with Seminole County, Florida. Additionally, we received strong orders for body-worn cameras, launched our PremierOne Cloud software suite and closed the acquisition of Callyo, a cloud-based SaaS mobile application provider for law enforcement.

Looking at regional results, North America Q3 revenue was $1.3 billion, down 6% due to declines in public safety, LMR and professional commercial radio, partially offset by growth in services, video security and software. International Q3 revenue was $600 million, down 8%, primarily due to a decline in public and – professional and commercial radio and public safety LMR, partially offset by growth in services, video security and software. Sales grew in Europe while Latin America declined on continued challenges from COVID-19.

Moving to backlog, ending backlog was $10.7 billion, down $361 million compared to last year, driven by revenue recognition on the Airwave and ESN contracts, partially offset by growth in North America and $81 million of favorable currency rates. Sequentially, backlog was up $174 million, driven by growth in North America and $93 million of favorable currency rates.

Software and Services backlog was down $44 million or 1% compared to last year, due to revenue recognition on the Airwave/ESN contracts, partially offset by growth in North America multi-year agreements and $74 million of favorable currency rates. Sequentially, backlog was up $138 million or 2% due to growth in North America and $83 million of favorable currency.

Products and SI segment backlog was down $317 million or 10% compared to last year, primarily due to large International deployments and COVID-19 delaying some sales engagements. Sequentially, backlog was up $36 million or 1%, driven primarily by international.

Turning to our outlook, we expect Q4 sales to be down between 6% and 5.5%, with non-GAAP EPS between $2.71 and $2.76 per share. This assumes a weighted average diluted share count of 175 million shares and an effective tax rate of 23% to 24%.

For the full year, we now expect sales to be down approximately 6.5%, up from our prior guidance of a 7% decline with non-GAAP EPS between $7.52 and $7.58, up from our prior guidance of $7.40 to $7.52. And our outlook for operating cash flow is now approximately $1.55 billion, up $50 million from our previous guidance, driven by higher earnings and improvements in working capital.

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

Greg Brown, Chairman & Chief Executive Officer

Thanks, Jason. And let me just end with a few thoughts. First, I'm very pleased with the progress we're making in our command center software business. Our command center software suite now covers the entire mission critical workflow from 911 intake to case closure and management. It is a $500 million business, which has been growing consistently and improving its profitability while also transitioning towards the SaaS model.

Just this month, we announced our PremierOne Cloud suite, which includes fully functional CAD and Mobile and Records solutions available on the secure Azure Government cloud. So, this means we now can provide our customers the flexibility of deploying their software either on-prem or in a fully featured cloud deployment.

Currently, we have over 3,500 command center software customers, with over 500 of those using two or more components of the suite. In Q3, half of our new orders were from customers further expanding into the suite, demonstrating this continued growth opportunity as customers embrace integrated software to run their operations.

Second, the increased demand we're seeing for cloud solutions is not just in command center software. Customers are increasingly seeing the benefits of the cloud across their entire workflow. In LMR or Land Mobile Radio, we've launched our CirrusCentral cloud-based offerings for P25 networks that provide remote management and backup core options for our radio customers.

In video security, we launched a Video-as-a-Service offering for body-worn cameras that includes our cloud-based digital evidence management software as well as Avigilon Cloud Services, which now has over 4,000 ACC 7.x sites connected to the cloud. All of these subscription-based offerings provide increased capabilities to our customers and opportunities for us to grow recurring revenues.

And finally, through the global pandemic, natural disasters and civil unrest, our customers continue to depend on and rely on our solutions as need to have, demonstrating the criticality of what we provide. And our teams and peoples' resilience and support of our customers around the world was nothing and is nothing short of remarkable. Additionally, we were just recently recognized by the Wall Street Journal as one of the world's most sustainably managed companies, ranking the 6th highest in the country. As we move forward, we will continue to focus on supporting both our customers and our people while also deploying the capital to drive growth and continued shareholder return.

And with that, Tim, I'll turn it back to you.

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

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

QUESTION AND ANSWER SECTION

Operator: The floor is now open for questions. [Operator Instructions] Thank you. The first question today is from Sami Badri of Credit Suisse. Please go ahead.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Hi, there. Thank you and congrats on the solid results in 3Q. I first wanted to ask about the $120 million 911 contract that you guys signed. That was the highest in the company's history. And maybe two pieces to this. How will that that be recognized over time is kind of like the first question and then, I know there's probably going to be similar deals like this in the future, probably not at the same magnitude, but maybe could you give us a little bit of an idea on how popular this type of specific large deal could potentially be in demand in the medium to long term?

<A – Kelly Mark – Motorola Solutions, Inc.>: Sure. Hi, Sami, it's Kelly. So, on the NGCS, I think I would say three things about it. First off, look, we're really excited about that part of the business. It is the entry point for all 911 calls. And as I think I may have referenced on a prior call, what that effectively does is creates the ESINet multi-lane highway entry point to 911 centers, where they can now handle video, audio, pictures, text versus the single-lane highway of voice that they could handle before.

The second thing I'd say about this deal is when you think about it, this and other similar deals like that will get on NGCS, there's always an installation component that's upfront and then there's a longer tale of as-a-service, where we'll run the system for our customers and that's similar to what we have here in the multiyear contract.

The third thing, I just remind you about around NGCS, is while we have some of our own software and componentry in it, we are also acting as a systems integrator. So, we are, in effect, reselling backhaul and other components as a offering for the entire solution, which is a bit different than what we do in our 911 call-taking software or CAD software where we are the entirety of the software solution. But we're excited about this. We think that NGCS and ESINet is – I would call it, if you're looking at a nine-inning baseball game, I think we're somewhere around maybe the second or the third inning. So, we're early in the conversion of ESINet across the United States. So, there's certainly other deals out there and we'll just continue to fight for those and update you on those as they come.

<A – Greg Brown – Motorola Solutions, Inc.>: And, Sami, this contract, $120 million plus, will be rev-recognized over a multi-year, long-term contract.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Got it. Thank you. And then, Greg, just one question for you. We still have the $9 billion of revenue and $10 EVP – EPS guideposts laid out for 2021 and obviously COVID may have shifted this around a little bit, but I was hoping you'd give us a little bit of an update around this guidepost or this framework on how we should be thinking about what's to come in the medium to long term.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. Well, obviously, COVID was the ultimate disrupter, but what I would say is I'm pleased with the momentum of how the business is performing. We talked about Q2 of this year, Sami, being the low point. We would improve in Q3. We expect to improve in Q4. I think the print for this quarter reflects some of that improvement. All I would say, look, I'm not going to guide 2021. I think that would be premature. But I would say, as we sit here today and I don't have a crystal ball, I would expect us to grow and return to overall revenue growth next year and I would also expect us to grow in both segments for next year, but again, we'll update you a quarter from now on the next earnings call.

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

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

Operator: Our next question is from George Notter of Jefferies. Please go ahead.

<Q – George Notter – Jefferies LLC>: Hi, guys. Thanks very much. I was really interested in some of your comments, Greg, on the software business. I think you mentioned a $500 million run rate at this point. Can you talk a little bit more about how that – I would imagine that run rate is getting cannibalized to some degree as you move customers from perpetual software licenses to a subscription. And can you talk about potential cannibalization on that revenue run rate or maybe talk about the mixture of customers that are converting to subscription or anything you can that get us more insight in that transition? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Sure, George. So, the majority of the software revenue today is licensed revenue. Kelly and Andrew have done a good job cloud-enabling the suite. The only component left to cloud-enable is records, which will be done in the first half of 2021. So, we're incrementally moving more and more customers to as-a-service. But, again, I think we're still going to be able to manage that transition from perpetual license incrementally to more as-a-service without any major dislocation or disruption of top line revenues.

Said another way, you see that, Software and Services will perform this year in the high-single digits and I expect Software and Services in total in the segment and both sub-segments, Software and Services, to continue to grow in 2021 as well, even while we're transitioning those clients gradually to as-a-service. I do that as a multiyear transition.

<A – Kelly Mark – Motorola Solutions, Inc.>: And, George, the only thing I might add, it's Kelly, is we're really excited about the command center software suite we just announced, which now fully cloud enables CAD, records and our mobile. That's in addition to already what we do in Aware, our VaaS license plate recognition, is as-a-service and also our Kodiak part of the portfolio as well. The only part of the entirety of what we have that won't be cloud-enabled yet is our 911 call taking. That should happen in the first half of next year. And in addition to that, we're excited about what we just did with Callyo, the acquisition we just did, which picks up a very large customer base of folks that are using that mobile application, which is also an as-a-service part of the portfolio.

<Q – George Notter – Jefferies LLC>: Got it. Okay. And then, one just quick housekeeping item. I didn't see it in the press release or the presentation, but was there an FX impact on top line in the quarter and can you tell us what that was? Thanks.

<A – Jason Winkler – Motorola Solutions, Inc.>: It was pretty small.

<Q – George Notter – Jefferies LLC>: Okay.

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

<Q – Keith Housum – Northcoast Research Partners LLC>: Good morning, guys. Hoping you'd shed a little light on the ability to do sales this quarter. In terms of last quarter, I think what we heard was a lot of challenges in terms of getting you to see the customers. How did that develop over the third quarter and is that a challenge going into the fourth quarter?

<A – Jack Molloy – Motorola Solutions, Inc.>: Sure. Hey, Keith. It's Jack. Good afternoon. Yeah, so we saw sequential improvement in terms of our ability to engage in customers. And just to kind of give you the geographic around the world, first of all, in North America, in government, we've been able to engage in person with customers and we've seen that manifest in terms of increase in proposals and sequential increase in terms of our LMR business and, as Kelly pointed out, command center and video.

In Europe, it's important to point out, 55% of our revenue in Europe is recurring revenue. But we are starting to see – we saw certainly in Q3, both in the enterprise market and government, the ability of our customers to actually come and extend and meet us virtually. So, that's been an improvement. Asia-Pac, same thing.

The one area of the world where we're having essentially lockdown, continue to be locked down and we have got very much diminished expectations is Latin America. But I would certainly say it's improved. Been proud of the resilience of the team in terms of use of videoconferencing and really trying to engage our customers and pull them along. We've been heavy in terms of virtual trade shows and demonstrations. And as I said in government, particularly in public safety, we engage with our customers in person masked up, etcetera.

<A – Greg Brown – Motorola Solutions, Inc.>: And, Keith, just one other anecdote I'd give you is we just completed Kelly's team, the Annual Software Summit, just a few days ago. We did it in person a year ago. We just completed the virtual multi-day engagement just a few days ago and attendance was literally double virtually. So, I think Molloy's team and Kelly's team and our customers, quite frankly, have been good in transitioning virtual engagement, digital engagement, business continuity. It depends on the theaters Jack referenced internationally, but we've been able to navigate that much better than we were doing a quarter ago.

<Q – Keith Housum – Northcoast Research Partners LLC>: Got you. Appreciate that. And just as a follow-up there, in terms of – and changing gears, actually. In terms of like FirstNet and Airwave, give us the latest on where LTE versus LMR kind of stands in terms of around the world.

<A – Greg Brown – Motorola Solutions, Inc.>: I think the high-level answer is no change from the last time we spoke to you. 4G and ultimately as it transitions here in North America to 5G, LTE or 5G is a complementary technology to mission-critical Land Mobile Radio. I think the awards that Winkler went through on state awards and upgrades, particularly in state and local, reinforce and reference the criticality need to have dimensions of Land Mobile Radio.

As it relates to Airwave, I think it's the same thing. We remain in active discussions with the customer and we do have an expectation that that Airwave contract will get another extension. But that timing will be dictated largely by the customer. But again, I think LMR, LTE or if you want to substitute that and say LMR 5G coexist, and quite frankly, we think the upgrade in faster speeds domestically and in the UK are good for command center, good for our video security business and overall, are a net positive.

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

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

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

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Okay. Thanks. Good afternoon. Greg, I just wanted to start with a question on margins. Between the two segments, it's been a little tale of two cities. In Products and SI, that's been the drag on overall performance but probably the biggest opportunity moving forward. So, hoping you can maybe just walk through some of the moving parts to get this segment back to the kind of 22% to 23% operating margin range from years past. Does revenue need to get back above $5 billion? Are there things you can do from an OpEx standpoint and just the timing to that?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. Adam, so kind of taking – let's take a look at OpEx overall. For the full year, we'll remove about $250 million of OpEx out of this business this year, year-over-year. If you net that to include acquisitions, it's a net $170 million reduction. So, I think the team has moved quickly and did a good job on expense structure, both structural and variable, to adapt to the COVID environment we got hit with a couple of quarters ago. So, think of OpEx this year, all in, year-over-year, being down net $170 million, about approximately $100 million of that returns next year in the form of incentive compensation.

Operating margins for the two segments, we still expect Software and Services to be consistent with what we told you last time, with operating margins for the full year 2020 of being about 34%. Obviously, the Products segment declines this year, given the top line volume decline. I expect the operating margins obviously to improve with volume. And even though $100 million of OpEx returns next year, that's as we sit here today; we'll always look to see if we can refine or further improve that cost structure. But that's kind of a composite view.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Okay. And maybe just as a follow-up, I'd imagine from a top line standpoint, one of the big drivers in that segment is going to be the PCR business. Could you just maybe just update us on where that business sits today and into 4Q, so that we can kind of think about the opportunity moving forward into 2021 as it potentially rebounds?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. I think that PCR has been incrementally – it clearly was an extreme low-point in Q2. It's performed a little bit better in Q3 and we expect it to improve a little bit better; that's informed into our overall Q4 guidance. PCR, as you know, has been hit with primarily the critical industries that gotten slammed by COVID the most, hospitality, entertainment, transportation, oil and gas and, quite frankly, I think that we expect PCR to return to some form of growth in 2021. And that's in part what informs our expectations for the Products segment to return to growth as well.

It also might be worth noting that even in this environment, North America, which represents our largest theater and is sold primarily through channels, the channel inventory in North America is down. So, that's another good indicator in terms of potential foundation for us to continue to print improvement as time goes on.

<A – Jack Molloy – Motorola Solutions, Inc.>: And maybe one other thing, Greg. Just historically as we look at PCR, new product introduction, even in challenging times...

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

<A – Jack Molloy – Motorola Solutions, Inc.>: ...equates to growth and we do have some product refresh on the slate for 2021 as well.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Got it. Thanks, Greg. Thanks, Jack.

Operator: Our next question is from Tim Long of Barclays. Please go ahead.

<Q – Tim Long – Barclays Capital, Inc.>: Thank you. Yeah, two if I could, here. Greg, maybe first, just talk a little bit high level about kind of the state of your customers, state and local budgeting, given the macro and stimulus and anything of note there, any changes.

And then, secondly, if you could talk a little bit on the video side. You mentioned that getting good traction with the government, so maybe just give us a little bit more color there, how much video is ramping there, and are you seeing any level of cross-selling across that video business? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Sure. Tim, just to take them in reverse order, on video, specifically let's start out with body-worn video. We had the strongest quarter we've had. Really good demand for a lot of the obvious demand driver reasons you would suspect, but I think Molloy and John Kedzierski and the team are doing a good job with the acquisition we made there in the form of WatchGuard. Quite frankly, also another impetus behind the body-worn video growth is international performance, which came through an acquisition as a part of WatchGuard called Edesix.

So, I like our performance there and also I like the increased demand. We also did have strong growth in fixed video to government, solid double-digit growth. I think a reflection of we've said the sales cycle is always longer in state and local and fed, but very good performance on fixed video into the government. By the way, Pelco being a benefit to that as well, given the fact that that acquisition came with a lot of contractual government clearances that allowed us to move right in to further fed government purchases that were beneficial.

In terms of state and local customers, Jack mentioned it, I think that our customers have found a good way to engage during these challenging times. Many of them do meet in person. We also meet digitally or virtually. And remember, the state and local budgets have been largely set. So, that's a good thing that moves us well into next year. We've also been the beneficiaries of CARES Act money from the feds and I think that has had a favorable impact as well. So, I don't know, Jack, if you want to add anything on the state and local budgets beyond that.

<A – Jack Molloy – Motorola Solutions, Inc.>: No, Tim, I think it's just prioritization, prioritization, prioritization. As you've heard me mention before, we're not in the business of a nice to have, we're in the business of a need to have in terms of emergency response. So, really we continue to see our customers drive projects through. The other thing is, I think that sometime is lost, there's just a multitude of different funding sources. Greg talked about CARES Act, but there's also things like special purpose local option taxes, which are still getting passed.

And so, we remain highly engaged with our customers. We see great demand across the portfolio and government and as we know with what has happened in the world right now, security means a great deal to cities, to states and I think to our federal government. So, more to follow, but we're encouraged with what we see.

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

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

Operator: Our next question is from Paul Silverstein of Cowen and Company. Please go ahead.

<Q – Paul Silverstein – Cowen and Company>: Greg, I think I heard somebody mention that your business is 55% recurring. What is recurring revenue for the overall company?

<A – Greg Brown – Motorola Solutions, Inc.>: No. I think Molloy's reference was that the majority of our European revenue is recurring, largely because of the Airwave contract.

<Q – Paul Silverstein – Cowen and Company>: Ah, my fault.

<A – Greg Brown – Motorola Solutions, Inc.>: No. That's all right, Paul. But if you look at overall, Software and Services, which we view as largely a proxy for recurring, this year, in full year 2020, Software and Services will be higher than 35% for this year, which we view as a favorable byproduct of the year, I guess. So, that's good.

<Q – Paul Silverstein – Cowen and Company>: Then, as a follow-up, on the government piece of video, looking out to next year, coming off this year, any quantifications you can provide us, ballpark, in terms of how big – I know you just started selling over a year ago, but how big can that business be next year and how big will it be this year?

<A – Greg Brown – Motorola Solutions, Inc.>: Well, so just to kind of – if you take all the video assets that we have, fixed, body-worn, in-car, license plate recognition, domestically and internationally, this business, all-in for assets, hardware, software, is likely to be about $940 million, Paul, for this year. You've heard us talk about growing it 3x the market. That 3x the market is around the fixed video and access control piece, which we still believe we can achieve.

If you take the size of the video market, all-in, worldwide and we always zero China out, given their indigenous competitors, this is about an $18 billion – $17 billion, $18 billion business, addressable market. It's actually the largest addressable market we have. So, I think there's room to run here with the assets we've accumulated along with the analytics that our team is developing and intelligent edge devices as well.

<Q – Paul Silverstein – Cowen and Company>: Greg, I appreciate that. I was actually focused on the government piece of the market that you entered back about a year ago.

<A – Jack Molloy – Motorola Solutions, Inc.>: Hey, Paul. So, I think we had mentioned probably maybe three calls ago, probably nine months ago, the question was asked, "hey, how big is your government video business?" And really, we said approximately $200 million at the time and that's an aggregation of two things. It's the mobile video market that's come through, vis-à-vis, the WatchGuard acquisition, as well as Greg had mentioned, the Edesix that also came as an acquisition.

The remnants of it are fixed video security sales into all governments and I would tell you, both of those businesses are growing strong double-digits right now. Both fixed video and the government, we talked about the success we had in Q3, both in the feds and state/local, but also, we highlighted some of the success we've had in body-worn in terms of unit and dollar bookings substantially up in the strong double digits there. So, hopefully, that helps.

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

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

Operator: Our next question will come from Fahad Najam of MKM. Please go ahead.

<Q – Fahad Najam – MKM Partners>: Thanks for taking my question. Greg, I want to ask you a big picture question. In light of the view that most of your government customers are very slow to move and they tend to be not driven by – like usually, enterprises are driven by profits and maximizing profits, your government customers tend to be more slower. Are you noticing any kind of an inflection point in your government customers' decision making when it comes to whether it's next gen 911 command center solutions or video? Are we betting on a new trend and that's going to accelerate going forward?

<A – Greg Brown – Motorola Solutions, Inc.>: I would say this. I mean, in the command center software, next gen 911 is a new opportunity for us and that's obviously a favorable trend. The other thing I'd say, in terms of decision cycles, is command center software, historically, has had some of the oldest legacy technology and workflow processes literally over several years, 10, 15 years plus.

So, I actually think that the inflection point is COVID-induced in part, that's accelerating decisions to the cloud. Traditionally, state and local customers would prefer control and they'd confer – they'd prefer on-prem. I actually think that this pandemic has been a positive accelerant to decision making around command center software, particularly around cloud. I think this suite that Kelly and Andrew's team has built also can be an accelerant to decision-making, because instead of trying to decide a forklift process and an all or nothing, you can get an anchor tenant module in place and then upgrade those modules for additional components along the suite.

On Land Mobile Radio, we literally have tens of thousands of different contracts that are at different lengths and the systems are in different ages. The pandemic and the civil unrest has been an accelerant to some older systems here in North America that needed to be upgraded to digital and with state-of-the-art encryption to protect the communities and the local law enforcement better.

I think as Molloy and his team have built new devices, APX NEXT, in TETRA, the MXP600 that's just announced, those two represent events and opportunities for our customers to make decisions to refresh as well.

<A – Jack Molloy – Motorola Solutions, Inc.>: Greg, you hit it really well. I think the other thing that we're – we have a compelling ecosystem for our customers. That's an overused term, but I say that under the lens of Greg nailed it. Devices that work with command center, how do you extract, how do you disseminate information in a mobile environment? Those are the expectations that we've seen, frankly, for a number of years in the enterprise space and government is certainly catching up to that. And I think those will be accelerants moving forward for us in public safety.

<Q – Fahad Najam – MKM Partners>: Thanks. You touched upon a follow-up piece that I wanted to ask, which is – so, as your government customers migrate their command and control infrastructure to next-gen digital platforms, is that creating a resulting opportunity in new applications like mission-critical push-to-talk features on the radio? Then, if that's the case, are you beginning to see that and can you quantify that opportunity?

<A – Kelly Mark – Motorola Solutions, Inc.>: This is Kelly. I would say, it's not that it's offering up those type of opportunities on the mission-critical push-to-talk, but it offers up the opportunity to enrich the whole workflow with multimedia. And at the edge, officers today carry a mobile device with them. They can receive now from the command center video images and data that they couldn't receive before. But the radio as part of the workflow is instrumental in regards to its uniqueness of the communication that it provides. So, it's not so much about mission critical push-to-talk as much as it's about enriching the entire command center workflow with all the information that we're very used to dealing with today in our day-to-day lives. It's now enabling that across that mission-critical operational workflow so they can manage that information from 911 call intake to record and case management at the end.

<Q – Fahad Najam – MKM Partners>: If I can rephrase my question, which was a little bit more simpler. I wasn't particularly honing in on mission-critical push-to-talk. What I was trying to get at is, are you beginning to see a refresh of your devices business as a result of the upgrade in the new command and control software that you're now selling?

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah, we are. So, we announced last October the APX NEXT device. We've already built north of $100 million in terms of funnel opportunities for that. We're very encouraged. Remember, we introduced devices at the top end. So as we get through 2021, we'll start to broaden the reach of those devices. We see great demand for those devices because it's not only purpose-built P25 communications, which is truly the bedrock of how cities and states and public safety communicate, but to bring in LTE capabilities for backup push-to-talk, for ability to do on the fly programming and those kind of things, it brings a number of those different things.

So, excited about that. Greg talked about, just this week, we announced a collaborative device for the TETRA market in Europe and essentially we've already been – we're booked out for the year this year. So, we're really encouraged about that as well. So we see a need for devices that can do more for our customers, as I said earlier, in terms of aggregating, disseminating and really intelligence within their ecosystem.

<Q – Fahad Najam – MKM Partners>: Appreciate the answers. Thank you.

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

Operator: [Operator Instructions] Our next question is from Jim Suva of Citi. Please go ahead.

<Q – Josh Kehoe – Citigroup Global Markets, Inc.>: Hi. This is Josh Kehoe on for Jim Suva. Thanks for taking our questions. Can you provide any more color on the headwinds you're facing in the public safety LMR business and when you expect to be through them? And is it largely due to COVID-19 or is there more to it? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: I think the headwinds we talked about when COVID hit us back in March were PCR and the industries that were affected by it. And public safety LMR kind of "being pushed to the right." The push to the right largely around sales engagement and deployments, I don't think that's changed at all. That's still the primary reason for the push to the right. Although I will tell you, it performed – it, public safety LMR – performed better than our expectations in Q3 and we expect it to improve again in Q4, which informs our guide.

And I think public safety LMR and PCR, as I referenced earlier, I think will both improve, which will primarily drive why we expect the Products segment to return to growth next year. There's a lot of still budget sources that Molloy referenced; we've been the beneficiaries of the CARES Act as well, but that's what I would say.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah. The only thing I'd just piggyback onto Greg's comments there, the one issue that we've been challenged with is actually physical deployment of systems in the Middle East and Africa and in Latin America. So, we're completely impaired to go do anything and that's really elongated our ability to recognize revenues in those theaters.

<Q – Josh Kehoe – Citigroup Global Markets, Inc.>: Okay. And as a follow-up, as we look into 2021, how are you thinking about prioritizing M&A versus share repurchases? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: I think that our capital allocation framework is 50%, 30%, 20%. 50% of the cash flow being available for either acquisitions or share repurchase. It's a fungible amount depending upon the opportunities that are in front of us. 30% is dividend and 20% is CapEx. So, that framework, loosely, is that – it's not meant to be a prescription, but it's a framework. We were active in buying back shares at these levels, as you've seen in Q3. We think these are attractive levels to buy the stock in Q3. And we'll evaluate opportunities as they come.

We've done tuck-in acquisitions on the video side, on the software side. I think that in regards to acquisitions next year, it will be, in part, a reflection of what opportunities come our way. But that's the thinking around the deployment of capital at this point.

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

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

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

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

No additional comments. Thanks for joining us today.

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 you that please disconnect your lines at this time.