



Q2 2020 Earnings Conference Call Thursday, August 6, 2020

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

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

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for holding. Welcome to the Motorola Solutions Second 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

Good afternoon. Welcome to our 2020 second 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 and Sales; and Kelly Mark, Executive Vice President, Software and 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 www.motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliations for your reference. And during the call, we reference non-GAAP financial results including those in our outlook, unless otherwise noted.

A number of forward-looking statements will be made during this presentation and during the Q&A portion of the call. These statements are based on current expectations and assumptions that are subject to a variety of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Information about factors that could cause such differences can be found in today's earnings news release, in the comments made during this conference call, in the risk factors section of our 2019 annual report on Form 10-K and 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 our CFO, Jason Winkler, takes us through our Q2 results and outlook.

First, I'm proud of our focus and execution in the second quarter as we dealt with the challenges from COVID-19. We achieved revenue and earnings per share above our expectations, generated \$209 million of operating cash flow and continued to grow in our video security, command center software and services businesses. Additionally, we closed the acquisition of IndigoVision and earlier this week announced the acquisition of Pelco, investments which further strengthen our position as a global leader in video security.

Second, our Software and Services segment continues to perform well. During the quarter, this segment grew 5% and expanded operating margins by 260 basis points. We also won several new multiyear Software and Services contracts highlighted by a \$26-million Next Gen 911 contract with the State of Utah. And finally, I'm inspired by how our employees across the business continue to find ways to engage with customers to sell, deploy and support their solutions. And while the COVID-19 environment remains fluid, I am encouraged by the customer activity we've seen particularly over the past several weeks.

Now, before turning it over to Jason, I'd also like to take this opportunity to thank Gino Bonanotte for his 33 years of outstanding service at Motorola. One of Gino's many accomplishments was developing a world-class finance organization. And Jason is a great example of our strong bench as well as our succession planning.

Jason's operational finance experience across Motorola for almost 20 years and most recently leadership of our largest segment including video security uniquely qualifies him as Gino's successor. I personally have worked closely with Jason for just under 10 years. And several of you may recall him from when he was in Investor Relations a few years back.

And with that, 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. Q2 results included revenue of \$1.6 billion, down 13% from a year ago, including \$40 million of revenue from acquisitions and \$30 million of currency headwinds. GAAP operating earnings of \$218 million and operating margins of 13.5% compared to 18.8% in the year-ago quarter. Non-GAAP operating earnings of \$359 million, down \$85 million, and non-GAAP operating margins of 22.2% down from 23.9% in the year-ago quarter due to lower sales in the Products and SI segment partially offset by higher sales and gross margins in Software and Services.

GAAP earnings per share of \$0.78 per share compared to \$1.18 in the year-ago quarter. Non-GAAP EPS of \$1.39 versus \$1.69 last year primarily due to lower sales in Products partially offset by higher sales and gross margins in Software and Services. OpEx in Q2 was \$426 million, down \$68 million versus last year primarily due to lower discretionary spend and incentives partially offset by costs from acquisitions. The Q2 effective tax rate was 23% compared to 24% in the prior year, a change driven primarily due to higher R&D tax credits in this year.

Turning to cash flow. Q2 operating cash flow was \$209 million compared with \$251 million in the prior year. And free cash flow was \$155 million compared with \$188 million in the prior year. The year-over-year decrease in cash flow was primarily due to lower sales and net income partially offset by improvements in working capital. For the first half, both operating cash flow and free cash flow were up year-over-year primarily driven by improved working capital.

Capital allocation for Q2 included \$109 million in cash dividends, \$83 million of share repurchases, \$65 million for acquisitions and \$54 million of CapEx. Additionally, we've repaid \$500 million of the \$800 million we borrowed in Q1

under the revolving credit facility, which was in response to COVID-19. \$300 million of this was paid during Q2 and \$200 million has been paid subsequent to the quarter-end, bringing the current outstanding amount to \$300 million.

Moving to our segment results. Q2 Products and Systems Integration sales were \$968 million, down 22% driven by a decline in professional and commercial radio and public safety LMR. The decline in the segment was primarily delayed sales engagement and deployments primarily caused by COVID-19. Revenue from acquisitions in the quarter was \$20 million and the currency headwinds were \$10 million.

Operating earnings were \$131 million or 13.5% of sales, down 600 basis points from last year primarily driven by lower sales. Some notable Q2 wins and achievements in the segment included a \$24-million P25 order for the State of Alaska, a \$20-million P25 order for Newton County, Georgia, and a \$17-million P25 order for the State of South Dakota.

We also launched the WatchGuard V300 continuous-operation body-worn camera, the first in the industry to address law enforcement's need for cameras that remain operational beyond a 12-hour shift. We closed on the acquisition of IndigoVision and this week announced the Pelco transaction, both important assets as we expand our video security solutions.

Moving to the Software and Services segment. Revenue was \$650 million, up 5% from last year driven by growth in North America services and software. Revenue from acquisitions in the quarter was \$20 million and currency headwinds were \$20 million. Operating earnings were \$228 million or 35.1% of sales, up 260 basis points from last year driven by higher gross margins and improved operating leverage.

Some notable Q2 wins in this segment include a \$37-million P25 multi-year services contract with the State of Louisiana, a \$10-million statewide multiyear services contract in North America, an \$8 million multiyear computer-aided dispatch contract with Baltimore County, and a \$26-million Next Gen 911 services contract with the State of Utah. Next Gen 911 is a growing part of our business that provides enhanced database infrastructure enabling multimedia content for 911 systems.

Looking at regional results. North America's Q2 revenue was \$1.1 billion, down 13% due to declines in professional and commercial radio and public safety LMR, partially offset by growth in video security, command center software and services. International Q2 revenue was \$525 million, down 14% primarily due to a decline in professional and commercial radio and unfavorable FX.

Moving to backlog. Ending backlog was \$10.5 billion, down \$376 million compared to last year, inclusive of \$126 million of unfavorable currency rates driven further by revenue recognition on the Airwave and ESN contracts and a few other international deployments, partially offset by growth in North America. Sequentially, backlog was up \$68 million, inclusive of \$253 million of favorable currency rates.

Software and Services backlog was down \$148 million or 2% compared to last year, inclusive of \$116 million of unfavorable currency rates, revenue recognition on the Airwave and ESN contracts and partially offset by growth in North America multiyear agreements. Sequentially, backlog was up \$161 million or 2%, inclusive of \$225 million of favorable currency rates.

Products and SI segment backlog was down \$228 million or 7% compared to last year, inclusive of \$10 million of unfavorable currency due to large international deployments and COVID-19 delaying sales engagements. Sequentially, backlog was down \$93 million or 3% inclusive of \$27 million of favorable currency rates driven primarily by COVID-19 delaying sales engagements.

Turning to our outlook. We expect Q3 sales to be down between 9% and 8% with non-GAAP EPS between \$1.72 and \$1.78 per share. This assumes a weighted average diluted share count of approximately 174 million shares and an effective tax rate of approximately 23%. For the full year, we expect sales to be down approximately 7% with non-GAAP EPS between \$7.40 and \$7.52. This assumes approximately \$30 million of FX headwinds at the current rates, a

weighted average diluted share count of approximately 175 million shares and an effective tax rate of approximately 21% to 22%.

Additionally, we still expect to realize the \$210 million of year-over-year OpEx reductions that we communicated on our last call. The acquisition of Pelco adds an incremental \$30 million of OpEx for the balance of the year, resulting in a net reduction of \$180 million inclusive of Pelco. And for our operating cash flow, it is expected to be \$1.5 billion for the year.

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

Greg Brown, Chairman & Chief Executive Officer

Thanks, Jason. And let me just close with a few thoughts. First, our momentum is strong in Software and Services. In command center software, we won numerous multiyear awards during the quarter, highlighted by our Next Generation 911 order from the State of Utah.

Additionally, we're seeing an increase in engagements for our cloud-based solutions as more public safety agencies recognize the benefits that these solutions can provide. We launched our CAD and records products in the cloud during the second quarter and have sold it to a number of customers already.

In our Services business, the support we've provided to our LMR customers during the pandemic has further validated the criticality of private, secure, mission-critical networks. And we continue to see customers investing in these networks for the long term.

Second, in our Products segment, while we clearly felt the impact from COVID-19 during Q2 as many of our customers experienced disruptions, I've been encouraged by the increase in activity we've seen particularly over the past several weeks with our customers. We are expecting improvement in the second half of the year as economies open up and public safety customers reengage.

In our video security business, demand remains strong and we continue to expect growth for the year. We're investing in the portfolio to provide AI-powered solutions with analytics that keep people and communities safe. And we've expanded our global footprint with the recent acquisitions of IndigoVision and Pelco.

And finally, as I look to the second half of 2020, we expect business conditions to gradually improve from the low point in Q2. Our portfolio of solutions across LMR, video and command center software, together with the services we provide, are as critical as ever. Engagements with our customers and the corresponding pipeline have increased sequentially. And our balance sheet and free cash flow generation remain strong, providing us with the flexibility to be opportunistic in the deployment of capital.

I'll now turn the call back over to Tim.

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

Thank you, 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 callers on the line how to ask a question?

QUESTION AND ANSWER SECTION

Operator: The floor is now open for questions. [Operator Instructions] Our first question is from Tim Long of Barclays. Please go ahead.

<Q – Tim Long – Barclays Capital, Inc.>: Thank you. Maybe I got one for you, Greg. And when we're done, I have a follow-up for Jason. Greg, you talked about some encouraging conversations recently. I'd love to get more color there particularly in the context of state and local government budgets and how you're seeing that and what kind of impact do you see the rest of the year. And any more color there would be great. Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, I think that things gradually are improving. It's incremental, but from the low point, Tim, in April and May was tough as well. June is better and July has performed within kind of the context of our expectations. I think that as customers reengage, among other things, there's obviously heightened interest around video, particularly body-worn video. There's interest in cloud and cloud engagement given more and more people having to work from home and a few of our customers that are having public safety systems in major deployments, some may not be fully encrypted. And given the congregation of large numbers of people in the cities, some of these customers have reached out in an effort to have us work with them to accelerate their public safety systems to encrypt them and be more secure. Those are three themes.

I think the other thing I would say is we've done a pretty good job. I think Molloy's team has done a great job and Kelly's team on learning how to engage customers remotely and move some procurements along. I also think that the pipeline is beginning to see some gradual improvement, which is positive as well. And I don't know if you want to add anything to that, Jack.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah, I think you said it, Greg. State and local, we're full on, reengaged with customers face-to-face in North America. But maybe just a few stats to put meat on the bones. Our marketing call center increase in Q2 were up 15%. Quotes for body-worn were up close to 50% and in-car and body-worn requests for quotes were up over 100%. So just to kind of quantify some of the things that Greg spoke about.

<Q – Tim Long – Barclays Capital, Inc.>: Okay, that's great. Jason, welcome. Since it's your first one, I'll throw one to you. Obviously, great performance in the margins on Software and Services. Could you talk a little bit about kind of sustainability and as that business scales and there's more bundle sales in software and things like that? Is there still room for upside to that line and what would drive that? Thank you.

<A – Jason Winkler – Motorola Solutions, Inc.>: Yeah, sure. Thanks, Tim. First, we were pleased with the growth of 5% in the segment for the quarter. And it did drive higher gross margins complemented by lower operating expenses and leverage. So pleased with the performance there. I think the team led by Kelly continues to execute well. And we'll continue to expect growth from that business as well as continue to expect operating margins this year around 34%.

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

Operator: Our next question today will come from Adam Tindle of Raymond James. Please go ahead.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Okay, thanks. Good afternoon. Greg, I just wanted to start. I appreciate you bringing out full year guidance. And it looks like on 2020 on the EBITDA line, it actually might shape up similar or maybe a little bit better than 2008-2009. And I just wanted to challenge that. Embedded in guidance is a Q4 upswing. And I just have two questions around that.

First, on the revenue line, it's going to imply improvement year-over-year in that line. What gave you the confidence to go that far out, just a couple of quarters out? Do you have something on firm orders or aged backlog that gave you the visibility to stick your neck out for Q4? And then secondly, on the operating profit dollar line, it looks like operating profit dollars are going to be down less than revenue on a year-over-year basis. And that implies a pretty big swing sequentially in Q4 on operating profit dollars. Why would that occur? Is there some cost cuts incremental or something like that that would make that operating profit dollar line inflect like that? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. So, first thing, kind of let me contextualize the Q3 guide. Obviously, revenue down negative 8% to negative 9% and then all-in revenue down approximately 7% for fiscal year 2020. Now, when I reference second half improvement, I'm talking about improvement from the low point anchored in Q2 which was – April was – things pretty much seized up and May wasn't much better. So the improvement is off of Q2. Even contemplated in the guidance though, while it's sequentially improving; we don't anticipate growth in Q4 to get to the all-in negative 7% decline. So we are not contemplating or anticipating Q4 standalone to return positively to growth, although we think it will sequentially improve from Q3.

You referenced kind of second-half of this year versus the fiscal crisis in 2009. I would say here are the differences that I think about between those two periods. In many regards, this is worse because COVID-19 is a public health crisis which has then contributed to the second-most difficult economic situation since 2009. And it's global. It's not a North American phenomenon or a US phenomenon. It's in 188 countries. That's the bad news.

The good news is we're a totally different company than we were in 2009. If we rewind the tape and think about what we were facing then, we were in the cell phone business losing several hundred million a quarter. We were in the cellular wireless infrastructure business with single-digit market share, sitting at number five or number six. And those businesses were structurally challenged. Today, we are in mission-critical public safety networks. We're in what I would call kind of central nervous system 911 command center software. And we're in all things video, fixed video, body-worn video, dashcam video, license plate recognition.

So the portfolio of the firm is much more critical need-to-have than nice-to-have. And obviously, we've been impacted by COVID-19. But that disruption has been more about a disruption than a decline in overall demand. The long-term drivers still remain pretty sound. And even in this difficult year, we still expect to grow in command center software. We expect to grow in video security. We expect to grow in land mobile radio services. And when you look at the Software and Services segment – and by the way, on the last call in May, I think I referenced Software and Services we thought could grow in the mid-single-digits. We now expect for full year 2020 Software and Services segment to grow more in the high single digits. The operating margin guidance of that segment we referenced last time was 33%. Jason just said a few minutes ago, we now expect all-in more like 34% operating margin for Software and Services.

So I certainly don't want to collectively put our neck out. I think it's more a reflection of the beginning progress we're seeing in the months of June and July. And the last thing I would throw in is aged backlog which you referenced actually is up slightly both for Q3, from this position heading into Q3 and for the second half. And those ingredients are what informs our perspective for the full year.

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

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

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

<Q – George Notter – Jefferies LLC>: Hi. Thanks very much. I guess I wanted to get back to the questions around public safety LMR. There's a stimulus package, obviously, kind of potentially coming out of the US House and Senate. And I guess I'm just trying to think about how state and local governments are kind of parsing that. It may or may not include some backfill for budgets on state and local. If you think about your outlook over the second half of the year, are governments counting on any stimulus? Or when you talk about the picture you have over the back half of the year, is it fair to say you're not expecting any stimulus as part of that picture? So any help there would be great. Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, I think first the guidance we're giving you today contemplates kind of the state of play as it is today. We talked about public safety engagement being pushed to the right a bit in our inability to get with customers face-to-face. It also impacted some deployments, but I would characterize that, again, as more of a disruption than a decline in demand. Now all-in, when we think about North America public safety, land

mobile radio, all in product and services, I think we contemplate approximately a decline of about 7% for North America public safety products and services all in. So that's kind of the way we think about it.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah, and maybe to piggyback off that, George. As you well know, implied in our guidance, we look at deals on really a ground-up basis. So they're funded. We feel like we've guided prudently. I will say that any – and really the CARES money – so some of the Phase 2 CARES money has started to flow to the state and local governments. In fact, we're in receipt of an order from a state in the Southeast, a \$20-million order in the Southeast for P25 upgrade just in the last few weeks. So we'll see some of that, but it's all implied in what we see in the second half of the year. In general, any additional monies may be beneficial. But what we see for the second half of the year is already funded.

<Q – George Notter – Jefferies LLC>: Great, okay. Thank you very much.

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

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

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Hi. Thank you for the question. Now that you've introduced your body-worn camera and also, we've talked about the video opportunity a bit more broader on past calls and as you integrated Avigilon and WatchGuard, are you still expecting to grow at three times the video market rate even with the introduction of the body-worn camera given the series of current events that have actually taken place in North America? Do you still expect to grow three times the market?

<A – Jack Molloy – Motorola Solutions, Inc.>: Sami, hi. It's Jack. There's really two questions there. We've talked about growing three times the market really in the context of our fixed video business. And, yes, the answer to that is yes. We believe and we think that the external market share data validates the fact that we're growing three times the market there. With our recent acquisitions of both IndigoVision and Pelco, we've added incremental scale, incremental geographic coverage. We've broadened our portfolio with pan tilt zoom, and explosion-proof technology that further – we've also added open channels of distribution that'll bolster our North America business. So I think we're even in a better spot as we were just three months ago to continue to grow. And I think three times is a good marker.

As we pivot to body-worn camera, we've had a body-worn solution that came with the acquisition of WatchGuard. But I think right now, environmentally, the calls for more transparency in police in the US – by the way, in the US and also abroad. We've got two deals in Europe north of \$1 million here in the last few months for body-worn cameras as well. Our pipeline's expanding. You heard my commentary around requests for quotes both for body-worn and body-worn and in-car combination deals. We're seeing customers ask for accelerated deployments. And it really works out very well because, in May, we announced our new V300 new body-worn camera. We think we've improved the quality. And just in the last two weeks, we've come out with a body-worn camera as a service offering as well that the market had been asking for.

So, listen, we feel really good about where we stand with fixed video with adding incremental brand and coverage. And then we love our opportunities in body-worn. And we think the market wants alternatives in the body-worn camera space as well.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Got it. Thank you for those details. And then maybe a quick one on Pelco. I know you guys disclosed the revenue run rate and the fact that it's going to be EPS-dilutive. But do you guys have a timeframe in mind of when it's going to be EPS-neutral or accretive? And what growth rate of revenue should we expect for that acquisition or that revenue run rate?

<A – Jason Winkler – Motorola Solutions, Inc.>: Yeah. So, as you picked up on, we talked about it being \$55 million, maybe \$60 million of contribution of the top line this year and slightly dilutive on EPS, approximately \$0.03. So, as we get into next year, it will be dilutive again to a small amount and then as the improvements to the business around growth which we expect to execute into the 2021 and beyond.

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

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

<Q – Ben Bollin – Cleveland Research Co. LLC>: Thank you. Good evening, everyone. Thanks for taking the question. I wanted to start – I was hoping you could talk a little bit about how you think about public sector budgets and whether you feel there could be any long-tail impacts to those public safety revenue sources into future years or future periods because of what you've seen in the last quarter or so from COVID. And specifically, just any thoughts on income taxes, property taxes and sales taxes. And then I have a follow-up.

<A – Jack Molloy – Motorola Solutions, Inc.>: Sure, Ben. It's Jack. Maybe I'll take a stab at the first part of your question. So what we've seen with COVID has really been more around physical disruption to be able to meet with customers. And I think we've done a good job in trying to make sure we had virtual connections with customers, integrations, ability, Kelly's team's ability to continue to service those customers.

But as we talked about before, and I think this is an important thing, as it relates to the overall state of play with kind of call it policing budgets in the US, technology is actually a very small portion of that. Technology gives public safety leverage and the ability to be more efficient. So actually, as we think about our engagements with customers, our proposal flow, pipeline and all those kind of things, we've actually seen some of those things pick up. But the reality is no matter how something's funded, you're going to call 911, someone's going to have to be able to communicate. And I think we play a pretty prominent role there.

The other thing as you think about funding, I think a lot of attention's paid to sales tax funding which has been most acutely impacted through COVID. But there's a multitude of different funding sources that really play within funding technology in the public space. It's property taxes, which quite frankly may actually improve if you look at some of the home pricing and those kind of things. Federal grant transfer dollars and just even looking at the CARES Act just through the first two phases will probably – has increased funding to the coffers of public safety.

And the last thing, and it's really important because it's been part and parcel to a lot of our acquisitions, is really around 911 funding. And so with all of this going on and we read all the narrative in the media, in The Journal, The New York Times and the like, just this Monday night, we had a deal in Kalamazoo, Michigan, that was approved. The 911, they went to referendum. They call it millage in the State of Michigan, went to vote, went to ballot to fund a P25 upgrade in Kalamazoo. And it was approved at a two-thirds to one-third by the public. And I think public will continue to make sure that they give the police, fire and EMS officers the best-of-breed technology. And quite frankly, despite all the narrative in the media, we haven't seen any kind of damage to our engagement and pipeline in the business.

<Q – Ben Bollin – Cleveland Research Co. LLC>: That's really helpful. Thanks. The other – it plays into this a little bit. I wanted to touch on kind of how you grade yourself in the command center initiative within the call center, dispatch, records. Just your thoughts on progress, market share. And I know there's a player out there that's somewhat distressed, the PE roll-up. I'm curious if you feel like there's still a lot of market share out there to grab, just how you see that market developing. Thanks.

<A – Kelly Mark – Motorola Solutions, Inc.>: Sure, I'll take that. This is Kelly, Ben. We're very pleased with the progress we're making in the command center. In fact, this quarter, we announced our records and our CAD products are now available in the cloud. We've already had a number of sales and deployments that we're working on around that. We've announced a lot of new features associated with our 911 call taking, related to call transcription, some new features there.

And then what you probably heard on the call was also that we also just got awarded a deal with the State of Utah in NGCS. And NGCS, I'll just remind you, it's a new growing part of our Software business that provides enhanced data infrastructure for 911 systems so they can handle text, voice, multimedia and other video applications and things that might be sent into 911 call centers. And the way I'd simply describe that, if you think about our 911 call centers that folks sit in and handle calls, they typically are using our VESTA call-taking software. It's basically been what I would call a single-lane road going into call centers right now and the single-lane road handled voice calls. That's it.

What we're now doing is building a multi-lane highway that goes into these call centers that provides them the opportunity, as I said, to handle multimedia, voice, text and video. And Utah is a good example of that and that's going to be a growing new piece of our Software business. But we're very pleased. We're well-landed with a lot of customers. We continue to see expansion in regards to sales and customers buying into the suite. And I think it's a great opportunity for us to take that installed base that we have and continue to expand it with these new offerings that we're developing.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. The thing I would add too is I think Kelly and his whole team, from an internal expectation standpoint, they meet or beat the financial targets that we give them inside the company. Andrew Sinclair and his team have done a great job in integrating the suite and getting operating efficiencies out of the point solutions and point acquisitions we made. Reference again this quarter, a 260-basis-point expansion in operating margin.

And while we do expect operating margins over time to continue to grow and we now expect that Software and Services segment to be approximately 34%, that also has to be weighted in too. We'll make commensurate investments along the way too. So I think that the operating margin improvement in this segment in total will be a bit more measured. I don't think you can necessarily take the 500-and-some basis points done two quarters ago and 260 basis points this quarter and straight-line it. It'll be a bit more measured. But I love the investment. I love the integration. We got a lot of outside technical talent, largely based software skills out of Seattle and Salt Lake City. And I'm pleased with the progress being done all the way around on that front.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Thanks, everyone. I appreciate it.

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

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

<Q – Paul Coster – JPMorgan Securities LLC>: Yes. Thanks for taking my questions. I'm wondering if there's any significant shift in the mix of sales between infrastructure and devices. And within devices, any significance to the sort of the LTE-based products. Is there a shift in favor of those at this time?

<A – Greg Brown – Motorola Solutions, Inc.>: I think that, yeah, there's been some mix shifts where devices have been down in Q2 in a more pronounced way. But by the way, it's consistent to the expectations, Paul, that we had. I had mentioned, I think, in May our PCR device business which – professional and commercial radio. Think about it as kind of non-public safety radio sold to enterprise. That's been acutely affected because it's largely anchored in verticals like oil and gas, airline, travel, hospitality. So that's been the most pronounced decline.

We still expect the PCR business to be down approximately 35% for the full year 2020. So that device decline has been more acute as we talked about. And there's been some device decline as well in public safety given the COVID-19 disruptions. But all pretty much within the envelope of expectations. As it relates to LTE, nothing really new. LTE is a complementary broadband network that complements mission-critical public safety and in the US, the P25 networks that are deployed. So no material change on that front.

<Q – Paul Coster – JPMorgan Securities LLC>: Good, yeah. And one area of consensus coming out of Washington is the need to kind of beef up rural communications. And I'm just wondering, are you seeing spillover effect from those infrastructure funds that have been deployed?

<A – Jack Molloy – Motorola Solutions, Inc.>: Paul, it's Jack. So in public safety, we've got 43 state and provincial networks, I think, out of the 47 that have been built. Many of those are in rural areas, so we've got good public safety coverage in rural America. And I think that's probably the biggest thing. We have continued to see – by the way, there is also a couple of states that we deem rural that are looking at CARES funding to accelerate the acquisition of statewide upgrades. So I think it's probably more generally CARES funding that may get directed to some of those rural states.

<Q – Paul Coster – JPMorgan Securities LLC>: Okay, got it. Thank you very much.

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

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

<Q – Paul Silverstein – Cowen and Company>: Thanks. Greg, last quarter, I think you said public sector video hit the \$50-million revenue mark roughly one year after you first launched video into the public sector. I recognize there's going to be quarterly volatility. But I'm hoping you can give us an update on that number.

And I guess the longer-term question would be – if I remember correctly, you did \$700 million video all-in in calendar 2019, almost all of it by definition was from the commercial non-public sector market. And the thought arises, you just added Pelco, over – it sounds like over \$100 million in annualized run rate. I think IndigoVision did \$50 million last year and that was growing at 12%. And my understanding was it was somewhat impaired at the time. So you've just added \$150 million of revenue on top of your video base.

When you look out into calendar 2021, what do you see for the video progression? I assume the public sector, given that it's so early in that adoption, we should expect public sector to embrace video very aggressively with or without the police defunding movement. And that \$50 million by the end of this year could be in the high tens if not \$100 million. Or am I thinking about it too aggressively?

<A – Greg Brown – Motorola Solutions, Inc.>: So, Paul, if we dimensionalize the video security business all-in – and you referenced a few assets. But if I think about Avigilon, IndigoVision and Pelco and then VaaS and WatchGuard, given the organic development and the continued acquisitions; we're now approaching \$1 billion of annualized revenue. I think for this year, if I were to range it; I'd range it between \$900 million and maybe \$940 million of annualized video security revenue for us inside the company. So it's consequential. It's more significant. It's against the backdrop of the largest addressable market we serve.

Molloy talked about, on the fixed video side, our ability and our expectation to continue to grow 3x the market. Now, historically, fixed video was growing at about, we think, about video security and access control about 5%. That may not grow as high as that. It may be low single digits as an overall market. But our goal is still quite clear to take market share in fixed video. And on body-worn video, I think the market is excited about the prospect of a vibrant second competitor and alternative choice. So a lot of good things going on there.

Now, you referenced video for IndigoVision and Pelco of previous periods. But again, it's also in the backdrop of COVID-19. So you necessarily can't take a historical video number and extrapolate into 2021. I think it's fair to say we know that Pelco revenues will be less in 2020. Both before they were owned by us and in the stub period annualized, Pelco revenue could be between \$140 million and \$150 million for 2020. And then our goal would be to stabilize that, use the global channel, use the second brand, use the international footprint, use the unique portfolio into the federal market that Pelco affords us. There's a lot of interesting possibilities that that company and that brand present to us as an owner that I don't think standalone, they necessarily could gain on their own. We continue to make progress on the video side on the government side. And maybe Jack can talk to that.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah. So, Paul, just two things. I think Greg hit it pretty well. But the first thing is we think about the government piece of it. That's education as well as public safety. And I think one thing I want to note that we're all exceptionally proud of is the team's agility in how quick they move to market when they were working from home to develop the COVID-19 dashboard. So think about kids going back to school in the universities or in the K through 12 environment. We've developed software that can do occupancy counting within classrooms or the workplace, social distancing metrics, mask detections. Through use of our Access Control Manager, we can do correlation reports and contact tracing to the workplace or to schools. That software will continue to help us in the, not only in government, but we believe in the enterprise space as well.

<Q – Paul Silverstein – Cowen and Company>: Greg and Jack, to my question about – relative to the \$50 million you did in the first quarter from public sector, can you give us an update on that?

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah, I think as much as Q3, obviously – so I guess, I'll answer it this way. We were impacted in April and May pretty severely, but we saw a pickup. We grew in June. We grew 7% in June and we saw the government business pick up. In fact, we landed another north-of-\$1-million deal with a federal agency. Education business picked up again in June. Probably wasn't quite \$50 million, but directionally, the business is still very strong.

<Q – Paul Silverstein – Cowen and Company>: All right. And, Greg, just a clarification on your PCR comment. If I recall, PCR was \$1 billion annual business for you. So when you talk about it being down 35%, you're talking about about \$350 million ballpark?

<A – Greg Brown – Motorola Solutions, Inc.>: That's right. Approximately, yes.

<Q – Paul Silverstein – Cowen and Company>: All right. I'll pass it on. Appreciate it. Thank you.

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

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

<Q – Trevor Bowers – Northcoast Research>: Hi, this is Trevor Bowers filling in for Keith. Could you talk about how canceled deals compared to delayed deals in the second quarter? And when would you expect the delayed deals to become realized?

<A – Jack Molloy – Motorola Solutions, Inc.>: Sure. Trevor, so to be candid and I think I'd be aware of them because I'm forced by someone to be very detail-oriented. No, I'm kidding. But we didn't have any deals that were canceled. What we've seen and I think you probably heard this is we did have delayed engagements on meetings. So when we started analyzing pipeline in April and really the first two weeks of May, we saw some new deal creation that slowed.

The other piece of it is from an integration standpoint. We saw the physical ability to access sites and those – access command centers as we were deploying command center software. We had some delays. But I would tell you, equally, we virtually deployed eight countywide networks in Q2. And the other piece of it that I think that Kelly and his team have done an excellent job on is we actually have seen the renewals for our managed and support service contracts in North America have not only been signed with on-time signage but actually upsold as well. So I think the Services team did an excellent job on that. So nothing canceled, some delays and pushed to the right. But we've seen renewals for our managed and support agreements accelerate not only in size but in terms of on-time signage as well.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. And the only thing I'd add to that is, if we take the regional lens through the business, we talked about engagements improving incrementally in North America in June and July. If we look at the rest of the world, the international business, I would say that since May, Latin America has stepped down. We expect that to be down now about \$90 million for the full year, which is an incremental \$60 million decline from May. But that's largely offset positively by the acquisition of Pelco. But that's the only other color I'd add. But no cancellations, delayed deals beginning, and again, beginning to get some traction. Kelly's team on service renewals, customer renewals on time and in some cases, at increased value.

<Q – Trevor Bowers – Northcoast Research>: Okay, great. Thanks.

Operator: [Operator Instructions] And our next question will come from Jim Suva of Citi. Please go ahead.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Thank you and good evening. Earlier in the conference call, you pretty much alleviated the concerns about the funding of projects. You talked about the prioritization to first responders, which is believable and just fine. My question is, as things are being bid on or you're being asked to give

proposal on, and I don't want the answer to be both, is it more command center or more like body-worn camera or more security? I know you kind of talked about all of them. But when we get excited about the...

<A – Greg Brown – Motorola Solutions, Inc.>: Dimensionalizing the three.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Yeah, dimensionalizing the three.

<A – Greg Brown – Motorola Solutions, Inc.>: Well, that's a great question. If we take it from a revenue view and take the revenue opportunity around securing infrastructures that are unencrypted today, cloud and body-worn – I think, and I'll have Jack jump in, I would say probably securing land mobile radio network opportunities from an all-in revenue opportunity would be number one. And what would you say between body-worn and cloud?

<A – Jack Molloy – Motorola Solutions, Inc.>: Body-worn right now. And then from a revenue perspective, followed closely by cloud as well.

<A – Greg Brown – Motorola Solutions, Inc.>: And also because the cloud opportunities that we would capture are largely as a service going forward. So, in terms of the revenue significance annualized, it's less than the other two. But over the longer term, obviously, a cloud customer with an annuity based as a service is a very valuable financial customer.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: And then my follow-on is – I know it's not a razorblade model. But I assume kind of once you get in with, say, body-worn cameras or something else, you naturally are picking up and pitching the cross-selling. Can you talk a little bit about that? Are you seeing a lot of success or any metrics of x percent of cross-selling you've seen or anything like that we can just be conscious of?

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah, so one of the things we do and we're very conscious of when we make acquisitions and we continue to bring things into the public safety or the enterprise portfolio is really who's the decision-makers and what's our capability to get in front of those customers and do we have trust, do we have influence with those customers. So a lot of the success you've seen and we're seeing with body-worn cameras and frankly in the command center software space as well are customers that really those relationships were founded upon. They've had long lasting relationships with our public safety P25 network. So there's a lot of commonality in decision-makers in public safety. And we've had good – I think good success in terms of going and continuing to add and build on those trusted relationships. So cross-sell is just part of the DNA.

We ask our account managers – Jim, just to kind of alliterate it, we have a three-dimensional view of every account. And we look at every technology we bring to bear. And we essentially have a stop sign type chart to say where we are in the progress, who's our competition and all those kind of things. So that gives you a perspective that that's how we make decisions on what to buy and then how we go approach customers.

<A – Kelly Mark – Motorola Solutions, Inc.>: And, Jim, I might just add on the cross-sell component. I think that we definitely – from a sense when there's body-worn, it feeds into our records platform in our command center. But we're still seeing a lot of traction with our customers in regards to them expanding into the suite. And certainly, there's a high level of cross-sell across the whole aspects of our suite from the 911 call handling into the CAD products and into the records products. And the integration that we provide underneath in regards to helping our customers manage that entirety of that workflow through its full complexity, not just body-worn video and handling video, but handling everything that comes into a customer from the 911 call to all the way to what happens in an incident, all the way to the body-worn video, all the way into jail, records and court; those are things that are critical to our customers and they look for a customer who could give them an integrated view. So they all work together as Jack referenced. And in particular, I'd just say in the command center side, it's incredibly important there on that cross-sell.

<A – Tim Yocum – Motorola Solutions, Inc.>: Next question.

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

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

We appreciate you listening in today and we look forward to talking to many of you soon. Thanks.

Operator: Ladies and gentlemen, this does conclude today's teleconference and a replay of this call will be available over the internet in approximately three hours. The website address is www.motorolasolutions.com/investor. We thank you for your participation and ask that you please disconnect your lines at this time.