MOTOROLA SOLUTIONS

Q4 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

Tim Long – Analyst, Barclays Capital, Inc.
Adam Tindle – Analyst, Raymond James & Associates, Inc.
George C. Notter – Analyst, Jefferies LLC
Keith Housum – Analyst, Northcoast Research Partners LLC
Louie DiPalma – Analyst, William Blair & Co. LLC
Paul Silverstein – Analyst, Cowen and Company
Fahad Najam – Analyst, MKM Partners
Sami Badri – Analyst, Credit Suisse Securities (USA) LLC
Ben Bollin – Analyst, Cleveland Research Co. LLC
Jim Suva – Analyst, Citigroup Global Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for holding. Welcome to the Motorola Solutions Fourth 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 Fourth Quarter Earnings Call. With me today are Greg Brown, Chairman and CEO; Jason Winkler, Executive Vice President and CFO; Jack Molloy, Executive Vice President of 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 motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliations for your reference. And during the call, we'll reference non-GAAP financial results, including those in our outlook, unless otherwise noted.

A number of forward-looking statements will be made during the 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 statements.

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 results as well as our outlook.

First, I'm very pleased with our performance during the quarter. We achieved revenue and earnings per share above our guidance, had our largest quarter ever for LMR orders in North America, and we ended the year with record backlog of $11.4 billion, up $175 million versus last year, and up $750 million sequentially.

Additionally, we generated $703 million of operating cash flow during the quarter and $1.6 billion for the full year.

Second, our Software and Services segment had another strong quarter as demand for our LMR services, video security, and command center software continues to drive growth. For the full year, the segment grew 9%, expanded operating margins by 290 basis points, and accounted for 37% of total revenues and 52% of total operating earnings for the entire company.

Additionally, the recurring nature of this segment and record-ending backlog provides us with good visibility going forward, and we expect another year of strong growth in this segment in 2021.

Finally, we saw a number of events during the year that continue to reinforce the importance of having secure, reliable mission-critical communications for first responders. Whether it was the hurricanes in the Southeast, fires in California, or more recently, the explosion in Nashville, our LMR networks continued to provide private, secure voice communication to the men and women on the front lines when other networks were down. And while we continue to invest in broadband solutions that augment LMR with valuable data and location capabilities, the redundancy, resiliency, and reliability that LMR provides during the most critical moments continues to be foundational and a must-have for our customers.

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

Jason Winkler, Executive Vice President & Chief Financial Officer

Thank you, Greg. Our Q4 results included revenue of $2.3 billion, down 4%, including $60 million from acquisitions and $19 million from favorable currency rates. GAAP operating earnings of $555 million and operating margins of 24.4% compared to 24.8% in the year-ago quarter.

Non-GAAP operating earnings of $667 million, down $40 million or 6%, and non-GAAP operating margins of 29.3%, down from 29.7% due to lower sales in the Products and SI segment, partially offset by higher sales and improved operating leverage in Software and Services.

GAAP earnings per share of $2.37 compared to $1.39 in the year-ago quarter. The increase was primarily due to a non-cash charge of $1.53 booked in Q4 of 2019 related to the actions taken then to de-risk our pension.

Non-GAAP EPS of $2.86 versus $2.94 last year down primarily due to lower sales in Products and SI partially offset by higher sales and improved operating leverage in Software and Services.

OpEx in Q4 was $492 million, down $31 million versus last year, primarily due to lower discretionary spend, lower incentives, and then partially offset by costs related to acquisitions.

The Q4 effective tax rate was 21% compared to 22% in the prior year.

Moving to the full year 2020, our revenue was $7.4 billion, down 6% primarily related to lower sales of public safety LMR and PCR products, partially offset by growth in LMR services, growth in video security, and growth in command center software.

Revenue from acquisitions was $203 million, and currency headwinds were $12 million. GAAP operating earnings were $1.4 billion or 18.7% of sales versus 20% in the year prior. The decrease was primarily driven by lower sales in Products and SI, partially offset by higher sales and improved operating leverage in Software and Services.

Non-GAAP operating earnings were $1.8 billion, down $140 million, and non-GAAP operating margins were 24.8% of sales, a decrease of only 20 bps despite the sales declines in Products and SI, driven by the actions we implemented around costs, lower incentives, and growth in Software and Services.

GAAP earnings per share was $5.45 compared to $4.95 in the prior year, which included the previously mentioned non-cash charge for pension. Non-GAAP EPS was $7.69, down 3% from $7.96 in 2019 on lower sales and operating earnings, partially offset by a lower effective tax rate and a lower diluted share count in 2020.

For the full year, OpEx was $1.8 billion, down $162 million from last year, primarily driven by lower incentives, lower discretionary spend, and offset by $75 million from acquisitions. And the effective tax rate for 2020 was 20% compared to 22.4% in the prior year on higher R&D tax credits and higher tax benefits from share-based compensation recognized in the current year.

Turning to cash flow. Q4 operating cash flow was $703 million, compared with $795 million in the prior year, and free cash flow was $637 million compared with $736 million in the prior year. For the full year, operating cash flow was $1.6 billion compared to $1.8 billion in the prior year, and free cash flow was $1.4 billion versus $1.6 billion in the prior year. The decrease in cash flow was driven by lower sales and higher cash taxes in the current year, partially offset by improvements in working capital.

Capital allocation in 2020 for us included $612 million of share repurchases at an average price of $155.93 per share, $436 million in cash dividends, and $287 million for acquisitions. Additionally, during the year, we refinanced outstanding debt maturities with a new $900 million 10-year debt issuance at a rate of 2.3% and raised our dividend 11%.

Moving to our segment results, Q4 Products and System Integration sales were $1.5 billion, down 10% primarily due to lower sales of public safety LMR and lower sales of professional and commercial radio, partially offset by growth in video security. Revenue from acquisitions in the quarter was $44 million. Operating earnings were $408 million or 27% of sales, down from 28.9% in the prior year on lower sales.

Some notable Q4 wins and achievements in this segment include $122 million P25 order for Nassau County, New York; a $61 million P25 order for State of New Jersey; over $50 million of P25 orders from several large North America utilities customers; a $26 million P25 order from Morris County, New Jersey; and a $20 million TETRA order in the UK.

Additionally, we had another quarter of double-digit growth in fixed video sales into our government customers. For the full year, revenue in the segment was $4.6 billion, down 13% from the prior year, driven by lower sales of public safety LMR and PCR, partially offset by growth in video security. Revenue from acquisitions was $119 million. Operating earnings were $880 million or 19% of sales, down from 22% in the prior year on lower sales, partially offset by lower operating expenses.

Moving next to our Software and Services segment, Q4 revenue was $763 million, up 8% from last year, driven by growth in LMR services, growth in video security, and growth in command center software. Revenue from acquisitions in the quarter was $16 million. Operating earnings were $259 million or 33.9% of sales, up 220 basis points from last year, driven by higher sales and improved operating leverage.

Some notable Q4 wins in this segment include a $100 million P25 managed services contract with the State of Tasmania, Australia; a $79 million TETRA managed services contract extension in Europe; a $30 million P25 multiyear service contract with the Minnesota DOT; a $29 million P25 multiyear service contract with Austin, Texas; and finally, an $11 million award for a command center software contract in Norway.

For the full year, revenue was $2.8 billion, up 9% on growth in LMR services, growth in video security, and growth in command center software. Revenue from acquisitions was $84 million. Operating earnings in 2020 were $955 million or 34.3% of sales, up 290 basis points versus the prior year, driven by higher sales and improved operating leverage.

Looking next at our regional results, North America Q4 revenue was $1.6 billion, down 4% on declines in public safety LMR and PCR, partially offset by growth in LMR services, video security, and command center software. For the full year, North America revenue was $5.2 billion, down 5% with declines in public safety LMR and PCR, partially offset by growth in LMR services, video security, and command center software.

International Q4 revenue was $725 million, down 6% due to declines in public safety LMR and PCR partially offset by growth in video security and LMR services. Revenues declined in Latin America and Asia-Pac, while EMEA was up 2%. And for the full year, international revenue was $2.4 billion, down 8% on declines in public safety LMR and PCR, partially offset by growth in video security, command center software, and LMR services. Revenue declined for the year in Latin America and Asia-Pac while EMEA was flat year-over-year.

Moving to backlog. Our ending backlog was a record $11.4 billion, up $175 million compared to last year. Sequentially, backlog was up $753 million, driven by record LMR orders in North America during the fourth quarter. Software and Services backlog was up $213 million compared to last year, driven by multiyear agreements in North America, partially offset by revenue recognition for Airwave. Sequentially, backlog was up $518 million with growth in both regions.

Products and SI backlog was down $38 million compared to last year, driven by delays in sales engagements during the year related to COVID-19. Sequentially, backlog was up $236 million in Products and SI, driven by record LMR orders in North America during the fourth quarter.

Turning next to our outlook. We expect Q1 sales to be up between 5.5% and 6%, with non-GAAP earnings per share between $1.58 and $1.64. This assumes FX at current spot rates, a share count of approximately 174 million shares, and an effective tax rate of approximately 19%.

And for the full year, we expect sales to be up between 7.25% and 8%, with mid-single digit growth in Products and SI and low-double digit growth in Software and Services. And we expect full year non-GAAP EPS between $8.50 and $8.62 per share. This assumes FX at current spot rates and a share count of approximately 174 million shares and an effective tax rate of 22.5% to 23%.

We expect full-year operating cash flow of approximately $1.8 billion, which includes an unfavorable year-over-year impact of approximately $125 million related to higher cash taxes. And we expect full year OpEx to be approximately $1.9 billion, which includes a year-over-year increase of $75 million related to higher incentives as we plan for growth and $60 million related to acquisitions closed in 2020 offset by further cost reductions.

Finally, I’d like to highlight that we are updating our reporting to incorporate an enhanced disclosure around our three major technologies across both segments. As a result, in our forthcoming 10-K, you will see net sales in our two segments reported in the following three technologies: LMR Mission-Critical Communications, Video Security and Analytics, and Command Center Software. We have provided a supplemental slide in the back of our earnings presentation representing this view for the previous three years, and on an ongoing basis, we will incorporate this into our quarterly reporting.

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

Greg Brown, Chairman & Chief Executive Officer

Thanks, Jason. And I thought I would end with a few thoughts on the business. But first, I want to take a minute to talk about the substantial progress we're making in video security. Three years ago, we began our investment in video security with our acquisition of Avigilon. Since that time, we've added acquisitions that leverage our scale across our portfolio and AI-powered analytics, NDAA-compliant manufacturing and go-to-market coverage. As a result, we expect to generate over $1 billion in annual revenue this year across our portfolio of video security technologies.

This includes our fixed end-to-end video security and access control solutions embedded with advanced analytics and mobile video, which includes purpose-built body-worn and in-car video solutions that are integrated with back-end evidence management software.

Additionally, this quarter, we began shipping cameras from our new global NDAA-compliant video manufacturing facility in Richardson, Texas.

In fixed video, we launched Avigilon Cloud Services last year to connect customers to cloud-based analytics, system management, and continuous updates. As customers embrace analytics that convert video into data and the scalability of the cloud to run their operations, we expect this to be a growth driver for the business.

And in mobile video, this quarter, we'll begin deploying customers on CommandCentral Evidence which is our next-generation digital evidence management platform and a fully integrated component of our PremierOne Cloud Suite that includes CAD, mobile, and record solutions available on the secure Azure Government Cloud.

Currently, we have thousands of customers using either our digital evidence management system or command center software, and we believe the intersection of our installed base in mobile video and the command center positions us well for continued growth.

Second, the investments we're making to integrate video security, command center software and LMR continue. This past summer, we launched Safety Reimagined, focusing the integration of our products into one unified ecosystem, helping our customers be more efficient and proactive in their security and safety operations.

We're redefining the ease with which our AI-enabled solutions adapt to the needs of our customers by removing system silos, simplifying management, and automating workflows for the effective detection, analysis, communication, and response to incidents. Imagine a scenario where an unusual activity is detected by our Avigilon camera, all security guards with Motorola radios in the vicinity are notified and the case is automatically and seamlessly opened in the incident management system. Simultaneously, live video streams from the relevant cameras are automatically pumped into the Avigilon Control Center and an operator is able to verify the presence of a suspicious package by leveraging our appearance search feature.

This intuitive easily customizable interaction between technologies is enabled by our new cloud-based business workflow automation software, Orchestrate, which we launched just this past week.

Finally, as we close out literally a year like no other, I want to take a moment to reflect on everything we accomplished as a company. When COVID-19 hit, we moved swiftly and with focus to make a number of immediate decisions including implementing a work-from-home policy to ensure the safety of our employees and reducing operating expenses quickly, culminating in a $162 million OpEx reduction year-over-year inclusive of acquisitions.

And yet, we remained focused on executing in a challenging environment with Software and Services growing every quarter and Products and SI improving in the second half as we expected.

We also continued to deploy capital and invest for the future. We launched several new products, accelerated product migration to the cloud across our three technologies, acquired five companies, refinanced approximately $900 million of debt at very attractive low rates, repurchased $612 million of shares as well. And additionally, with Gino's retirement, we elevated Jason Winkler to the CFO position, a strong example of our readiness and succession planning.

I am really proud of the way our team performed during an unprecedented year. All that we've accomplished and the improvement in our sales engagements demonstrate the enduring strength and durability of both our business and our people. Ending the year with a record backlog position is a testament to those efforts and that momentum helps position us well for a year of strong growth, revenue, earnings, and cash flow growth.

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

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] And our first question will come from Tim Long with Barclays. Please go ahead.

<Q – Tim Long – Barclays Capital, Inc.>: Thank you. Two, if I could. First, maybe, Greg, could you just give us an update – obviously, we're in a weird time with COVID and whatnot, but what you're hearing from customers in the public safety side on budgeting and overall health of the customer base, and if there's any impact that you would see one way or the other if there was some Federal stimulus for state and local.

And then the second one maybe for you or Jack, on the video side, can you just talk about two of the areas? One is on the government; it sounds like it's going well. How much more room is there for growth as you further penetrate there? And then, secondly, what does it take to do a better job on the body cam side, and how do you see that as an opportunity? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Thanks, Tim. So overall contextually, I feel pretty good about the demand signals we see overall at this point for 2021. Now, obviously, we're still in a pandemic. We're matching supply and demand given some of the supply constraints that we're currently going through. So that's – our guidance is informed by those components, and we think our full year is a prudent view given where we are.

But I think that I'm really pleased with Q4 in particular. A record quarter for orders in North America, a record quarter specifically with LMR orders in North America, and finishing the year with record backlog are all positive trends.

Environmentally, we transition from one administration to another. I think that what we do rises to the top of the food chain despite Republican or Democratic Presidential administrations. I think our Federal business, and Jack could talk about it, in 2020 was solid overall, was down slightly, but it was also coming off two back-to-back record years. But I think that the Biden administration has opportunities for us. I think it's more likely than not that we'll see stimulus, but we'll see. And I think that there's also an opportunity perhaps in the new administration for some bipartisan support for potentially an infrastructure bill, which I think, foundationally, would serve us well.

In terms of state, local and video...

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah. So, Tim, just to decompose your two questions, number one, in terms of our fixed video government sales, we're really pleased with the progress. If you remember, when we acquired Avigilon, it was essentially a nascent business, and very strong growth. In fact, fixed video growth in 2020 was north of 45%. So, we like that. That feels good.

We also acquired Pelco, and I think it's important to point out that Pelco gave us Federal government contractual mechanisms with which to sell upon, and we enjoyed that, those contracts in 2020. So, we feel good about that, but more importantly, where we're going moving forward in 2021.

With respect to mobile video, actually, we had a very strong year. If you look at the second half of the year, both Q3 and Q4 orders for body cams were up for us over 60% in both respective quarters. Fundamentally, what we're hearing from our customer base is customers want an alternative. I think with our market reach, our go-to-market coverage, our channels, I think we've got a reach to start to get into suburban and rural municipalities as well, which is where we're going to start seeing the next level decisions.

The other piece of it that we haven't talked much about was we acquired a company called Edesix through our Vigilant acquisition. We had two international wins of over $1 million last year. And again, we think we're well set for the international market.

The last thing, and I think that really ties it all together, and Greg hit it on the script, is that we're obviously launching a new digital evidence management platform this year with CommandCentral Evidence. We've got a differentiator in that our body-worn and how mobile video flows ties into our full workflow with CAD, mobile, records in our, obviously, digital evidence management. So, we think we're excited. We think we're well poised for the body-worn space as well.

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

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

<u>Operator</u>: And the next question will come 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, on the last call, you called 2021 a growth year for both segments. I know you didn't specifically guide, but there's some perception that you're comfortable with Street estimates. You have strong backlog. I think currency moved your direction, but now today guiding below Street estimates. So, is this just a case where we were off in terms of the Street, or is there anything that gives you maybe a little bit more conservatism now versus 90 days ago?

<A – Greg Brown – Motorola Solutions, Inc.>: No, as I mentioned 90 days ago, I did expect us to forecast growth in 2021, and that's what we're doing. I do feel, Adam, pretty good about the growth overall, but also by segment and the respective technologies and the theaters. I think that we'll grow products in mid-single digit. We expect to grow Software and Services in low-double digit.

The backlog position, as you referenced, serves us well. I think the fact of the matter is we're still early days in February and still in the middle of a pandemic. Things are incrementally getting better, and we're still operating, at this point, Adam, with some supply constraints and limitations.

Now, the demand signals are stronger than the current supply constraints that we have. So, that's also informing our guidance. And we think given the overall environment, it's probably a prudent thing to do at this point in time. We'll see how the rest of the year plays out.

<Q – Adam Tindle – Raymond James & Associates, Inc.>: Okay. That's helpful. And just as a follow-up, I wanted to maybe paint a narrative and have you respond to it. Right now, it seems like the body-worn camera market is becoming increasingly important to the customer base. I'm wondering how this impacts the share of wallet opportunity within the customer base for follow-on products, because the investor concern is that you're known for LMR leadership, not necessarily known for body-worn camera leadership. And as this becomes more important, perhaps it's a better opportunity for your competitor to upsell their software suite. So I think you understand the narrative there. I'd just be curious, your comments on that and how you would potentially debunk that.

<A – Greg Brown – Motorola Solutions, Inc.>: No, look, I think the body-worn video area is a great opportunity. I think, historically, it's been served by one provider. Now, there's a more compelling viable choice as an alternative in Motorola Solutions. So, I think Jack referenced the strong order activity that he saw in Q3 and Q4. I think that serves us well. We also think the integration of body-worn video and evidence management into the command center, given our incumbency and strong position across the different modules that broaden the whole suite in command center software, is – I like that position.

And, look, I also think we can grow internationally with body-worn camera. And at the end of the day, the body-worn video addressable market, we think, is about $500 million all-in with body-worn camera and evidence management. I think we have a great opportunity to take share and be a competitive compelling number 2. But I also like the fixed video and access control addressable market being a multiple of that. Without China, we think it's about $15 billion. So, there's a lot of room to run across the technologies, inclusive of body-worn, but I think historically that market has been served by one provider.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah. And the only other thing I'd add on that, Greg, we don't think it's one or the other. As we said before, they're all need-to-have technologies. Do you need body-cams for accountability? Yes, without a doubt. And we've seen our growth over 60% in both Q3 and Q4. But if you look at our performance from an LMR perspective, it was big deals like Nassau and New Jersey. But quite frankly, Q4 from a grassroots perspective, which we track, was our strongest Q4 in five years. And so, we think there's certainly opportunities on both ends of the spectrum, and we think wallets won't be constrained. Wallets will open up for more technology.

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

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

Operator: And the next question is from George Notter with Jefferies. Please go ahead.

<Q – George Notter – Jefferies LLC>: Hi, guys. Thanks very much. I guess, I was curious about some of the comments on record backlog. Was there anything unusual about the order book this quarter? Was there an Airwave contract extension, for example, or anything sizable in terms of the order book?

<A – Jason Winkler – Motorola Solutions, Inc.>: Hi, George. Thanks for the question. So we saw strong orders across the board. North America we highlighted being a record. We talked about some rather large orders, Nassau County, some utilities, summing to $50 million. But as Jack just mentioned, our grassroots, which is smaller deals, transactional-type deals, were also up significantly. So across the board-type deal activity in North America complemented also by international with renewal of managed services in EMEA and a new contract award for the State of Tasmania in Australia. So I'd say, across the board in both theaters strong orders performance.

<Q – George Notter – Jefferies LLC>: Got it. Okay. That's great. And then, just as a follow-up, you guys seem to be talking a lot more about LMR services, and I know managed services in general have been a push for the company. But just based on your commentary, it seems like there's a positive inflection there. Is that the right perception to have? And can you talk more about what's intuitively driving that? Thanks a lot.

<A – Kelly Mark – Motorola Solutions, Inc.>: Hey, George. It's Kelly. On the services, we've been pleased with the performance of services. In particular, it demonstrates the resiliency of the recurring revenue business that we built in Software and Services. In particular, as we look at 2020 and going into 2021, North America services has been growing, so has international. We have expanded our service offering. We are now pushing a bit more into cybersecurity as well, which is a very, very attractive area that continues to be a focus amongst municipalities.

But I think that the services business as we look at it continues to operate at a steady pace. As Jason just highlighted, we had a number of good orders. Managed service orders internationally that either extended existing networks that we had or also added on new ones like the Tasmania transaction that we just discussed.

So the services business continues to be something that demonstrates also the resiliency of LMR and the demand for that because we see our customers continue to renew the contracts that they have at increased rates and on time, which is a very positive integrator of both the compelling nature of our services but also the importance of LMR.

<A – Jason Winkler – Motorola Solutions, Inc.>: Also, the investments we're making on the product side of LMR to advance – and the networks continue to get more complex and connecting them to the cloud with Cirrus will continue to provide opportunities to grow our managed services offer in and around those new products.

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

<u>Operator</u>: The next question comes from Keith Housum with Northcoast Research. Please go ahead.

<Q – Keith Housum – Northcoast Research Partners LLC>: Good afternoon. Thanks, guys. Just dissecting the large orders that came in in the fourth quarter again, perhaps, can you provide with a more color if you can in terms of what's the primary driver that you're seeing from your customers? Is it really the large guys versus small guys? Is it new offerings that are allowing the contracts at a higher price? I guess, is there any two or three things that are primary drivers of those large orders now?

<A – Jack Molloy – Motorola Solutions, Inc.>: So a few things. As you can imagine, part of this was we had I would say our engagement with customers particularly in Q2 was slightly impaired, so we saw obviously the velocity of those engagements improve in the second half.

But the other thing that I think we're going to start to see, we – particularly as it relates to Nassau County, which was one of the big deals that we cited in our script, was a mix to the APX NEXT, which we announced in October of 2019. Will that be – is that obviously coming at ASP appreciation for us? It does. But I think more importantly, as you look throughout the portfolio, you look at what Kelly has brought to market in command center software, you look at what we're doing from a PCR perspective, just this week, we announced a category changer in the Ion device which combines a legacy PCR device but also does private LTE and CBRS in one device.

And so we think some of the investments we've made from an R&D perspective on device refresh, on converging devices and those experiences will continue to provide an upgrade – upsell opportunity for our customers, and we think more to follow into 2021.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, Keith. I agree. And at the end of the day, we said things would improve sequentially in the back half of 2020 as sales engagement improved. I think that was a driver. I think there has been pent-up demand and exactly what Jack just said. Even during a COVID year, I can't remember this number of new products that we invested in in 2020. Yes, we managed discretionary expenses down. Yes, we didn't have travel incentives. We had a benefit on expenses. But at the same time, whether it was APX NEXT, a new TETRA device, Ion for PCR, cloud-enabled modules in command center, refreshing the video security suite, we made a conscious effort to invest organically in product development, and I think that strong Q4 in part is because of some of those new products.

Our whole intent was not only to come out of COVID but come out stronger than we went in. And I think Kelly and Jack particularly have done a great job on prioritizing new products and investments.

<A – Jack Molloy – Motorola Solutions, Inc.>: And the thing we failed to mention just internationally as we start to see our momentum grow there is the MXP600, which was really the first major TETRA device announcement, and quite frankly, we were oversubscribed for that in Q4. We took as many orders as we could ship. So we're happy with that, too.

<Q – Keith Housum – Northcoast Research Partners LLC>: Great. Thanks. And just following up on a question from earlier here, cybersecurity, I know you guys made several small acquisitions in that space. Can you provide a little bit more color about what the plan is for cybersecurity? Is it cybersecurity related to the networks, or is it beyond that for public safety agencies? I guess what's your goal?

<A – Kelly Mark – Motorola Solutions, Inc.>: Hey, Keith. It's Kelly. So sure. So the cybersecurity services that we offer right now and the ones that we also expanded last year with a couple of acquisitions will focus around monitoring and incident resolution and helping our customers understand the risk profile of what they have installed both in their command center and in their LMR networks.

So our initial focus is on those core areas that we provide our products around, specifically the LMR networks as I said and the command center. We'll look to expand to their critical networks that they may need to manage their operations. So it's pretty focused right now, but something that our customers are very interested in because those are obviously the most critical assets that they need to protect and make sure they're always up and running.

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

Operator: And the next question will be from Louie DiPalma with William Blair. Please go ahead.

<Q – Louie DiPalma – William Blair & Co. LLC>: Greg, Jason, and Tim, good afternoon.

<A – Greg Brown – Motorola Solutions, Inc.>: Hi, Louis. How are you?

<A – Jason Winkler – Motorola Solutions, Inc.>: Hi.

<Q – Louie DiPalma – William Blair & Co. LLC>: Great. You formally launched the Command Center in the Cloud PremierOne platform in October, and I was wondering have adoption trends and performance lived up to your internal expectations? And as a follow-up to that, is the pandemic stimulating the shift to your PremierOne platform from your on-premise customer base?

<A – Kelly Mark – Motorola Solutions, Inc.>: Hey, Louis. It's Kelly again. On that question, the answer is yes, it's definitely stimulated the interest in the cloud. I think everybody from consumers all the way to government have learned the importance of cloud and the ability to operate remotely. We accelerated our efforts to drive more and more of our command center to the cloud. You'll continue to see us expand more to the cloud even this year.

It is one of the faster growing areas in our portfolio. We're getting a lot of interest in regards to conversations with our customers. As you know, those buying cycles are somewhat long, so you'll hear more and more about that in the future.

I would highlight just as we talk about our command center growth, our SaaS revenue growth as a component of our command center is growing at a multiple of our overall command center software growth. So that's a good indication that we're seeing more and more customers show interest in transition towards that type of model.

<Q – Louie DiPalma – William Blair & Co. LLC>: Thanks. And related to what you just said, I know you have CAD, mobile, and records on the PremierOne platform and you also spoke about SaaS. You previously indicated that you plan to offer 911 call taking in the cloud in the first half of 2021. Is that initiative still on track?

<A – Kelly Mark – Motorola Solutions, Inc.>: That's correct, and yes, it is. That is definitely another component. That's the final and the last component that we need to add to the cloud.

<Q – Louie DiPalma – William Blair & Co. LLC>: Perfect. Thanks.

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

Operator: And the next question is from Paul Silverstein with Cowen. Please go ahead.

<Q – Paul Silverstein – Cowen and Company>: Thanks, guys. I appreciate you taking the questions. First off, before I ask my question, I just want to clarify. Jason, did I hear you say that PCR was $763 million for the year?

<A – Jason Winkler – Motorola Solutions, Inc.>: PCR?

<Q – Paul Silverstein – Cowen and Company>: Yeah.

<A – Jason Winkler – Motorola Solutions, Inc.>: No. I didn't – no. But PCR was down about $300 million from last year. That was the decline that we saw in 2020.

<Q – Paul Silverstein – Cowen and Company>: All right. You know what, so I'll make that my first question. So I think I remember you and Greg saying that you all were expecting about a $350 million or 35% decline for the year. It sounds like it wasn't that much different but somewhat better. My question to you – my first question is, is that reflective of a stronger – I assume it means you had a stronger Q4 than you were expecting, and the real question is looking forward, what is your expectations for the pace of recovery given how hard 65% of the revenue in PCR was hit? Are you seeing that actually come back faster than you expected? What's your expectation for the year?

<A – Greg Brown – Motorola Solutions, Inc.>: So, Paul, you're right. Q4 was better than we anticipated in PCR. So for the full year, as Jason just mentioned, it was down about $300 million. We had signaled there could be about $350 million. So a slight improvement.

We do think it will continue to improve in 2021, and in fact, at this point overall, I think our expectation is that it can grow. Now, it will be incrementally as these – a number of different key verticals like transportation, airline, hospitality, oil and gas, as they improve, but 2020 was pretty draconian. I look at it as more or less a floor and our expectation is for PCR to return to growth in 2021.

Now, having said that, we still have to operate and execute on that against the supply constraints and limitations that are in front of us. But as we've started out the year in 2021, it's a good start.

<Q – Paul Silverstein – Cowen and Company>: All right. My second question is looking at video and your command center software, and I appreciate you all giving the breakout, I think that's great. My question to you is in video, if I look at the numbers correctly, you put up – it almost doubled in calendar 2019, another almost 30% growth in calendar 2020. Obviously, that was helped by the many acquisitions you made. And then command center software, you had about 30% of your growth in calendar 2019, albeit less than 10% growth in calendar 2020 I assume impacted by the pandemic.

In those two particular product markets that represent significant greater growth opportunity for you, are you seeing a step-up in organic growth? If we look beyond the pandemic in terms of the trends especially on the software side of video, but taking the two together, are you seeing a step-up in organic growth?

<A – Jason Winkler – Motorola Solutions, Inc.>: So within the technologies you're referring to, the growth expectations for video security are to be up high-teens this year and command center software to return to 20% growth like measures, which you mentioned on some of the look back into 2019 and 2018 as we get beyond the pandemic impact. And that LMR would be up mid-single digits. Those are the expectations for 2021 from a technology standpoint.

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

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

Operator: The next question is from Fahad Najam with MKM Partners. Please go ahead.

<Q – Fahad Najam – MKM Partners>: Thank you for taking my question. If you could help me understand in terms of – I understand it's a difficult question to answer, but can you give us a rough idea on the average life of the devices in the field? I suspect you have a new product that you launched last year or the year before. So, maybe you can give us some indication as to when we can expect to see some meaningful upside from a device refresh perspective.

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah. Fahad, hi, it's Jack. So, we've seen, historically, five, six, seven years ago, people would hold the device for 10 years. The refresh cycle now looks more like six to seven years for a device.

<Q – Fahad Najam – MKM Partners>: And can you give us some indication as to where the average life of the devices are in the field today and how the adoption of the new APX NEXT device is going and should we expect meaningful refresh on an upgrade cycle maybe in the near term or within the next 12 months?

<A – Jack Molloy – Motorola Solutions, Inc.>: So, obviously, within the US and globally, there's so many municipalities, law enforcement. But the one thing that I would say is that we've looked over history, the XTS family, the APX family, we typically get three to five years until the revenue becomes very meaningful. And so, we're 1.5 years in. We feel like we've got a great amount of refresh cycle both with the APX NEXT and then internationally with our MXP600 device.

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

<A – Jason Winkler – Motorola Solutions, Inc.>: I'd add, in our product cycles, we run concurrent devices, both the old and the new.

<A – Jack Molloy – Motorola Solutions, Inc.>: That's right.

<A – Jason Winkler – Motorola Solutions, Inc.>: So that we continue to sell both. It's not a consumer like where you switch from one to the other. So, customers expect the device to be available for some time, and then of course, the new device, as it becomes more feature-rich and compelling, leads to a transition point.

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

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

Operator: The next question will be from Sami Badri with Credit Suisse. Please go ahead.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Hi. Thank you for the question. So, I kind of just wanted to cover something that I don't think has been touched on on this conference call or in the prepared remarks. It's referring to the Hytera litigation. We did get an update in January of 2021. I was hoping if we could just go through the latest that you guys have heard from the ongoing litigation and whether or not the actual 2021 guidance includes any contribution or award contribution from that litigation outcome.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. So, Sami, the guidance for full year 2021 does not contemplate any award or anticipated monetary settlement. What I would say is our engagement and pursuit legally of Hytera is unwavering and relentless. The court recently recalculated the compensatory and punitive judgment to a number that's – I think it's $544 million is the recalculated federal court award. But it doesn't change the fact that Hytera stole, they stole trade secrets, they infringed, and they infringed on copyright source code. So, that's unchanged.

And having said that, we expect the current damages award – again, I think it's $544 million. We expect that to increase after a court applies a pre- and post-trial interest as well as a compulsory royalty going forward. So, stay tuned. We continue to pursue. It will remain front and center. Nothing more important than protecting our intellectual property. But none of what I described is reflective of the numbers we talked about today.

<Q – Sami Badri – Credit Suisse Securities (USA) LLC>: Okay. Great. And then – that's very helpful to clear that up. The other thing I want to talk about more of a Motorola strategic perspective is on prior calls we've talked about you going after acquisitions and targets. I'm sorry if it was mentioned earlier on this call and I'm essentially just repeating questions already asked, but what is the appetite of Motorola to go out and do same number of deals in 2021 comparable to 2020? Is there appetite for that right now? Or are you guys in digestion mode?

<A – Greg Brown – Motorola Solutions, Inc.>: I think there's appetite and there's capacity. But if you take a step back, my priority is investing organically in the business. We have great markets. The technologies of Land Mobile Radio, mission-critical communications, all the trends around modernizing 911 and command center software, and of course, all things video, fixed video and access control as well as body-worn. But these are big addressable markets, in combination approaching $40 billion of an addressable market that's probably 3x greater than it was for this company five years ago or so.

So, prioritizing new product and investments, by the way, an investment like the global manufacturing facility for fixed video in Richardson, Texas to give us a better scale, better capacity, lower unit cost. Jack talked about APX NEXT, he talked about TETRA, he talked about PCR. You know we're investing in the cloud. And by the way, we also bought back stock at attractive rates. We look at the long-range plan. We do the DCF. We look at where we think the stock is attractive to buy back, and we've been active on that front as well.

$612 million of share repurchase last year, $287 million of acquisitions, and we did another double-digit raise on dividend of 11% of $436 million. So, yes, we continue to scan acquisition opportunities. They'll probably be more around video security, software and services. But I think we've been good stewards of capital. We'll continue to be responsible on that front. But we like the prospects, both organically and inorganically.

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

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

Operator: [Operator Instructions] And the next question will come from Ben Bollin with Cleveland Research. Please go ahead.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Good afternoon, everyone. Thanks for taking the question.

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

<Q – Ben Bollin – Cleveland Research Co. LLC>: Can we start looking at this Ion device specifically, how incremental is that product relative to what's been out there historically? It looks to be higher priced versus the previous high-end turbo product. So I'm interested in the spread there. And then, I'm also curious any thoughts you have – does this product open up new addressable market, because it's got more features and multi-node and capabilities? Or does it have more use cases and it opens up some TAM? What's your perspective on that product and that line as it expands?

<A – Jack Molloy – Motorola Solutions, Inc.>: Yeah, Ben, we invested in the Ion because we believe we had an opportunity to create a new category. So some of the things that it does; obviously, when we make an engineering decision to include higher throughput mechanisms like private LTE, CBRS, we want to do though because we have an eye on a workflow that a customer application.

So as an example, it does image capture, it does scanning, it does things that no radio that we've ever made for the PCR space has ever done. So fundamentally, that creates new opportunities. Think of things like warehousing, manufacturing, even there's hospitality, stadium security type applications. We also think as we – Greg referred to Safety Reimagined. As we start to see our video opportunities access control merge with PCR opportunities, we think that kind of device plays well into that environment, too. So again, it would be accretive to what we typically do. It redefines the PCR category.

<Q – Ben Bollin – Cleveland Research Co. LLC>: Okay. And then my second question, just stepping back, Greg, when I look across the portfolio, you're really the only vendor who touches radio, surveillance, command center, with the breadth and the scope. Could you talk a little bit about the feedback from customers as you leverage that portfolio and just your long-term aspirations to gain share in some of the markets where you're not as incumbent? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, thanks, Ben. Well, first of all, you're right. I don't think anybody else has the width and breadth of our portfolio. But our goal is to be the best and compelling across all three technologies.

I mentioned the size of the addressable market, but I also think – and I referenced this a little bit in the opening remarks. I also think the special sauce is the integration of these technologies. Not only does not – no one else have them, but I think you're going to see us integrate them as well. Automated, workflow, machine learning, AI-powered analytics, that allow – I mean, there's volumes of video and how do you see it, how do you watch it, how do you extract it, how do you redact it, how do you push it to an incident, to a dispatcher? And we're working not just having best-in-class point products for these technologies and I like the hand of cards we're playing, but it's the orchestration and the integration led by our Chief Technology Officer, Mahesh Saptharishi, who is making great progress on the orchestration and integration.

So you think about the things that are going on, whether it's social unrest, wildfires, immigration, there's a lot of trends socially and environmentally that I think are favorable, there's a lot of technology trends that I think are favorable. And as we've talked about consistently about the overarching purpose of our company of helping people be their best in the moment, those critical mission-critical literally moments that matter. That's the envelope of our vision and the technologies that we invest, and the integration that we're pursuing.

And I think there's more room to run to your point outside of the United States in a number of international theaters, and stay tuned for us to share some more things on that front as well. Thanks, Ben.

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

Operator: The next question is from Jim Suva with Citi. Please go ahead.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Thank you. And congratulations. And it's very encouraging the backlog bookings outlook. Am I correct to say that that does not include any potential government stimulus packages? Because it seems like whenever I read the online or watch the news, they're talking about stimulus packages, and maybe some of that comes to you, or maybe it doesn't come to you, or how should we think about are there anything potentially being talked about in stimuluses that could actually take that number even higher or does it simply not filter into you guys? I'm just curious about if anything there.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, Jim, I would say remember, I think that engagement is improved. New products getting traction. Pent-up demand. And we did have some benefit of CARES Act money. About $150 million in 2020, but also CARES funding is now extended through December of 2021. So there's a good level of continuity there.

But you're right. I don't think as we described the business and look at the visibility in terms of current demand signals, potential stimulus, potential infrastructure bills, some things from Washington probably would be further enabling in some of the growth that we're expecting.

<A – Jack Molloy – Motorola Solutions, Inc.>: The only other thing, Jim, that I'd piggyback on to what Greg said is that obviously the education space appears to be a place that there's going to be funding directed at and prioritized. What's really lost in the shuffle and lost in the noise is I think a pretty solid print in Q4 was what we've done with connected learning with our CBRS investment. We did close to $10 million in 2020 with some pretty major cities that those projects are a little bit like a snowball. They'll continue to grow. They'll also pull through video opportunities and access control opportunities. So we think there could be some potential in that in the education space as well.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: That's what I thought. And thank you, and congratulations to you and your team for a strong 2020 and outlook for 2021. Thank you.

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

<A – Jason Winkler – Motorola Solutions, Inc.>: Thanks, Jim.

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

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

No further 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 participating today and ask you that please disconnect your lines at this time. Thank you.