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PARTICIPANTS

Corporate Participants

Mark F. Moon – EVP, President-Sales & Product Operations, Motorola Solutions, Inc.
Gino A. Bonanotte – EVP & Chief Financial Officer, Motorola Solutions, Inc.

Other Participants

Tavis C. McCourt – Analyst, Raymond James & Associates, Inc.

MANAGEMENT DISCUSSION SECTION

Tavis C. McCourt, Analyst, Raymond James & Associates, Inc.

Okay. Thanks for joining us in the standing between you and lunch here for a few minutes. I'm Tavis McCourt, communications technology analyst for Raymond James. Really pleased to have with us today from Motorola Solutions, Gino Bonanotte, Chief Financial Officer; and Mark Moon, Executive Vice President of Products and Sales & Product Operations at Motorola Solutions. And we're just going to do a quick fireside chat Q&A session here. And I guess just to kind of baseline the business, Mark, why don't you give a quick explanation of the two businesses that you're in, and then maybe a quick review of the recent trends in those businesses, and kind of how you view the growth and return profile of those businesses?

Mark F. Moon, EVP, President-Sales & Product Operations, Motorola Solutions, Inc.

Sure. Thank you, Tavis. So, we actually, at Motorola Solutions, have two very strong core businesses, a government business that's primarily made up of mission-critical communications equipment for public safety entities around the world as well as commercial kind of two-way radio business within that government segment. The other segment is enterprise. So you think of mobile computing or data capture, wireless LAN business, we're market leaders in both businesses across the board in all of our product segments with the exception of WLAN, both in the product segment itself and in each region around the world, we're the number one market leader.

This year, coming off of very strong year last year, this year the government – through Q3 year-to-date, the government business is basically flat year-on-year. Enterprise business down 2%, which we'll – which we'll talk about a little bit later in the discussion primarily driven around macroeconomics and market conditions, but we'll talk about that more specifically. We've indicated for the full year that we expect growth to be relatively flat, and about 18% operating margins. So as we've done lots of activities as we've looked at this year to make sure we position ourselves to return to growth in both segments for next year and we're excited about where we are and where we're going.

Tavis C. McCourt, Analyst, Raymond James & Associates, Inc.

Great. And you mentioned the enterprise business having been down year-to-date, what are the challenges? So it's been rough I guess for about five quarters or six quarters, that business has been either decelerating or in outright decline. How do you segment how much of that might be secular versus kind of macroeconomic secular type – cyclical type challenges in that business?

Mark F. Moon, EVP, President-Sales & Product Operations, Motorola Solutions, Inc.

Yeah. And so as you just indicated, I think we had had – last quarter we had growth but we had had six consecutive quarters of decline prior to that. And when I think about it, and obviously we've thought about it a lot, the primary drivers have been around the market, so the macroeconomic conditions as well. When you think about the challenges in the market, lots of things going on, customers delaying purchasing decisions, pushing out, sweating assets a little longer than normal. Some things going on in the marketplace like consumer devices, choices around OS, some challenges in the retail space, which is our primary vertical for the enterprise piece. So there was a lot going on, and as you mentioned, certainly as we look around the industry, lots of other folks have experienced that as well. And when we look at our market position, we've held market share. So in that particular pace, we feel like we've executed well in a lot of areas.

With that said, I think our execution could have been better in a couple of spots. Number one, I would have wished we would have anticipated the customer challenges a little better, so we could talk about technology transitions and some of the things that they were going to be impacted with. Secondly, I think some product offerings in the space where we were seeing some consumer device activity in a customer facing kind of segment of our business, we could have been faster to market there, and quite honestly, ramped our go-to-market kind of sales efforts a little bit quicker as well. We've now feel like we've got a very robust portfolio of Android-based products that have come out here in the second half of the year that we're excited about.

And then finally, when I think about those pieces, I think that we were very dependent on the retail vertical. And as retail began to face their challenges, so did our business as well. So we put a lot of effort on expanding into other verticals. We primarily enterprise based than in retail and transportation and logistics, and we're really trying both in all geographies around the world to make some organizational changes and some focus so that we expand into other verticals that I think will help us as we go forward with execution for the future.

Tavis C. McCourt, Analyst, Raymond James & Associates, Inc.

And you talked a little bit about operating system transitions in that business, so I'm not sure if everyone is aware of it. Historically in the rugged mobile computing space, these were Microsoft, CE or Windows mobile devices, and you guys have had – made some meaningful investments in bringing Android-based devices to market. How much traction are you getting with that and as your preference for your major OS vendor to get something a little more like they've done on a consumer side bringing operating system like that for your market. Would that be a catalyst? Is that holding people back in terms of waiting for that Microsoft OS or is Android strong enough to offset any of that negative impact?

Mark F. Moon, EVP, President-Sales & Product Operations, Motorola Solutions, Inc.

So I think it's been a mix, honestly, I think, given everything that was going on, the uncertainty around the next offering from Microsoft was certainly a reason to a delay in procurement. And I think it did have an impact. We've seen a number of customers that have embraced Android, some of which though are still very dependent on Microsoft. And so, I think for the industry, it would be good for Microsoft to come back with a good offering. I also think Android is here to stay. And our view is, we believe we can support both OS platforms. We'll have products that Microsoft-based as well as Android-based.

And our acquisition of RhoMobile which is an HTML5 allows us to really work across multiple OSs. And I think that's going to be critical for the future. You're going to have iOS, Microsoft, Android and a number of OSs that our customers are going to look to us to help them make this technology transition in the future.

Tavis C. McCourt, Analyst, Raymond James & Associates, Inc.

How far on that path of your large customers in that segment gone in terms of rewriting or porting applications to new OSs?

Mark F. Moon, EVP, President-Sales & Product Operations, Motorola Solutions, Inc.

I think it's dependent on the customers. Some have moved fairly quickly, as I have said some have actually been resilient in staying with Microsoft and waiting on this next release to come. And we've seen a number of customers that have said you know what, we're going to always have multiple OSs, so we need to move forward now with Android for this particular app. We're going to have some consumer devices that meet use cases that work, and we're going to have some very rugged computers that are going to stay for a while and will be Microsoft-based. So it's a mixture across the board, but I think that trend will continue as we go forward.

Tavis C. McCourt, Analyst, Raymond James & Associates, Inc.

And, Gino, from a financial standpoint, how do all these cross currents in the enterprise kind of inform your expectations for the margins of that business and where to make investments and where to pull investments? And if you want to dovetail that with some of the – the last quarter's announcement on cost reductions and how much of that's coming from enterprise versus government versus corporate?

Gino A. Bonanotte, EVP and Chief Financial Officer, Motorola Solutions, Inc.

Sure. Thanks, Tavis. The margin perspective on OS, Microsoft or Android, really is very similar.

Tavis C. McCourt, Analyst, Raymond James & Associates, Inc.

All right.

Gino A. Bonanotte, EVP and Chief Financial Officer, Motorola Solutions, Inc.

We've we made investments in Android. We've been making investment in the Android operating system for a number of years, and it really in advance of the market turning to an Android based and to some extent on Microsoft's delay in OS platform. So, the interplay between the two, I think is generally margin-neutral. The Android devices tend to be a little bit of a lower tier device, so to that extent the ASPs are a little bit lower. But that – we would expect that lower ASP on more of a value device regardless of operating system.

With respect to cost reductions as you've mentioned, we've talked about a little over \$80 million in cost – annualized cost reductions through the end of Q3, and really those reductions our across both segments and multiple levels of the P&L beginning manufacturing, cost of goods sold, through R&D and selling and marketing as well.

Tavis C. McCourt, Analyst, Raymond James & Associates, Inc.

Got you. If you move on to the government business kind of flattish this year, but like you said its coming off a really strong year in 2012 for multiple reasons, and you mentioned that you view these businesses as growth businesses next year. What is driving growth in the communications business for first responders?

Gino A. Bonanotte, EVP and Chief Financial Officer, Motorola Solutions, Inc.

Go ahead, Mark.

Mark F. Moon, EVP, President-Sales & Product Operations, Motorola Solutions, Inc.

You mentioned, we did and I mentioned earlier, growth last year was 12%, which was really strong for that piece driven by a number of factors narrowbanding and other things playing in. But at the core, the fundamental drivers of the business have stayed pretty consistent. Transition from analog to digital, which is still a really – a big piece of the business, the majority of radio users, the high percentage are still analog. So that's one piece. When you think about safety and security everywhere around the world, still top of mind, so we're still getting mind share with how do we make sure that we're supporting those folks that are protecting and serving. And there are also budget pressures everywhere. So while you don't want to decrease safety and security, you got to understand how we use a force multiplier like technologies. So, when you look at all that piece combined with aging infrastructure, 65% of the systems out there are ten years plus old. So there's normal churn in the pace. We continue to see, all those things coming together to say there is still emphasis on spending around the communications business. And as we say, as we come back to next year, we think that will continue with some growth, and then as we look into the future other things like LTE and our expanded services portfolio, we think it will be an addition to that business.

Tavis C. McCourt, Analyst, Raymond James & Associates, Inc.

And to get on the LTE subject, I guess explain what exactly that is – that opportunity is for you. And in terms of timing, I think you guys have pretty much taken it out of near-term guidance, but in terms of the product that you're going to sell in into that opportunity or these new products are they existing, why specifically is Motorola uniquely positioned to benefit from first responder LTE?

Mark F. Moon, EVP, President-Sales & Product Operations, Motorola Solutions, Inc.

Yeah, I think, in fact, I think that's a good stipulation. Everybody is aware of the LTE networks that have been deployed commercially, not only here in the U.S. but around the world in a lot of places. There has been this concept of private spectrum, if you will, for public safety. In the United States, as you know, we've allocated 20 megahertz of spectrum, created an organization called FirstNet to manage that piece and to build a nationwide network.

Our view has been for the last several years, we've been investing at how do you take commercial grade standards-based 3G PP kind of LTE, but then also create public safety kind of features above it so that you can't really have public safety capabilities on an LTE network. We call that public safety LTE. We have eight years remaining on an exclusive partnership with Ericsson, who as you know is by far the number one provider of eNodeBs commercial LTE network gear. Given that and our market position, we

think together working to really define an offering around public safety kind of creates a situation where we believe we can serve public safety well. At the same time, there will be a need to round the public carriers because the expense will always be something that you'll look at both, but there is numerous examples of disasters whether it'd be Sandy here that recently happened or Hurricane Katrina where the public networks went down, but the fact of the matter is public safety still needs to communicate. And again as you think about technology enabling real-time efficiencies and situational awareness, the fact of being able to upload and download video from the scene to a command center back to a scene to build a pool of information, schematics for the building that you happen to be going in to try to rescue someone, is really kind of the next level of creating real true policing at an efficient level or firefighting at an efficient level or emergency management at an efficiency level that I think that technology will bring.

Tavis C. McCourt, Analyst, Raymond James & Associates, Inc.

And you mentioned kind of the command center as LTE is rolled out, and I presume from an application standpoint, video becomes kind of realistic for first responders in an economic way for the first time. What kind of opportunities open up for you guys, whether it's from a service perspective or software perspective in the command center that maybe weren't there before?

Mark F. Moon, EVP, President-Sales & Product Operations, Motorola Solutions, Inc.

Yeah, in fact, that's exactly, I think this opens up a new realm. We've been talking about Real-Time Crime Center; an offering where we have that really says how do you take the data, because just getting the data into a center is not enough, you've got to be able to do something with the data. So, analytics around that video, how do you really leverage that and then getting information back out to the police officer or the firefighter, we call it the Connected Officers. So really offerings around each of those which will really be services led in a lot of cases. So we've made a real conscious effort to grow our services content and to be able to have offerings that incorporate a number of application providers with third-party support because everything will not be created, so it will be a dynamic ecosystem as you know as we go forward. So – and I think our ability to really leverage our footprint, our services capabilities, our extensive partner network, really and then our domain expertise around public safety plays in very well with the overall architecture, but also what do you do with that information, how you make best use of it.

Tavis C. McCourt, Analyst, Raymond James & Associates, Inc.

Right. And Gino, I want to dovetail that a little bit into kind of uses of cash, Motorola has been really tremendous generator of free cash flow over the last several years. Mark said the government business kind of moving in some new spaces and you made a few acquisitions in the last couple of years. How should we think about the use of cash going forward, kind of the split between buybacks, dividends, and potential acquisitions?

Gino A. Bonanotte, EVP and Chief Financial Officer, Motorola Solutions, Inc.

So, Tavis, reaffirmation of our model, the 50%, 30%, 20%; 50% being acquisitions and buybacks, 30% dividends, and 20% capital – capital spend inside the company. Return of capital continues to be very, very important to us. We've returned since Q3 of 2011, \$4.9 billion in the form of the stock repurchase, contracting the share base by about 25% at \$49.22 a share. We have \$2.1 billion left on the current authorization. And in that same timeframe, we've paid above little over \$500 million in dividends. So, the capital return continues to be a priority, and you should expect the same type of diligent management around the 50%, 30%, and 20% that we've seen in the past.

Tavis C. McCourt, Analyst, Raymond James & Associates, Inc.

And then I guess the most recent meaningful acquisition has been Psion. Maybe some comments on how that has gone relative to your expectations. And then as you look at these other opportunities, whether it's in the government space or the enterprise space, how do you decide kind of buy versus build? What are the processes internally that kind of say, okay, we need to be in this application or this new services portfolio, here is our opportunities to buy the – what are the metrics you guys use to make that decision?

Gino A. Bonanotte, EVP and Chief Financial Officer, Motorola Solutions, Inc.

So maybe I'll start.

Tavis C. McCourt, Analyst, Raymond James & Associates, Inc.

Yeah.

Gino A. Bonanotte, EVP and Chief Financial Officer, Motorola Solutions, Inc.

With respect to Psion, I would say the integration is progressing. We're making – we're meeting all our targets from an integration perspective, realizing synergies, manufacturing synergies, leveraging our position with vendors. We're also meeting all of our expectations from an integration plan perspective, cost reductions throughout the P&L. We've experienced – Psion's experienced the same type of market conditions that the inherent enterprise market has continued. So a little bit off of our expectation on revenue, but progressing with the integration ahead of schedule in most cases.

With respect to the buy versus sell, as we move to spaces that are inherently more solutions and services based, it becomes more and more of an issue. And the framework that we've operated under is understanding where we add value based in our competence in the verticals we serve public safety, enterprise, transportation and logistics, and understanding what the value points are in that ecosystem across applications and services, and doubling down and investing on those.

Mark F. Moon, EVP, President-Sales & Product Operations, Motorola Solutions, Inc.

Yeah, I think – Gino said it very well. We spend roughly \$1 billion a year on R&D. I think we manage the leverage of that R&D very closely on gross margin dollars that have generated four to one quite honestly on each R&D dollars. So that kind of balance as well as looking at the value proposition of where we can truly add value, and we'll continue to do that, both looking at partners, but also looking at potential tuck-in acquisitions as we go forward.

Tavis C. McCourt, Analyst, Raymond James & Associates, Inc.

Got you. And I guess on the – take it back to the enterprise business, I think you entered this year, probably a little more optimistic than it turned out. I think a lot of that was kind of based on commentary you were hearing from some of your bigger customers and planned rollouts that kind of maybe, you got staggered or delayed or whatever ends up happening throughout the year. What are some of your bigger customers telling you in the enterprise business today that – is it the same? Does it feel more confident, does it feel less confident?

Mark F. Moon, EVP, President-Sales & Product Operations, Motorola Solutions, Inc.

Yeah, I think the conversations and the good news is we had really good conversations particularly after the first quarter and as we've moved throughout the year, even more detailed conversations. Not it's necessarily about the need, because I think there was a lot of interest and at the end of the day probably miscalculated the timing of that interest as turning into real revenues for us. But it feels like in the second half; number one, we've really got a realistic view of what are the expectations for rollouts. I think there is also a view in the retail space which we talked about earlier that things look to the better now and better in the view of next year is better than it was in 2013, which helps us.

I think we also introduced new products that we expected to see revenue in the second half, early in the year when we knew the schedule for the releases. And as we got closer to the midpoint of the year, we recognized that these would be slower to be adopted. They would be a lot of pilots, which there have been, a lot of interests which I'm excited about, but also just like Motorola Solutions is doing, a lot of these large corporations are really managing their capital very close. As times were tougher, how do I delay, push out a little bit and look at things like rather than a real large change out of the fleet, how do I really work this as a consistent piece of technology transitions, and we're having those conversations with a lot of customers so that you may not see the really big spike, but over time I think this is better. They will just be more planned migrations of fleets and technology change outs as we go forward.

So, the conversations currently are very, very good. As we talked about certainly, we've created a comparable that's different than what we had before, but which was not what we were looking to do, but certainly is something that as we look forward. But I do think customers are getting into a point now where; number one, the need is there, of needing to move forward with technology. But they are also doing the same thing that I talked about public safety on enterprise space. How do I make my employees more efficient? How do I really focus on customer loyalty, and technology as a means to that? So I think the interesting piece of what we're trying to offer is we can help both of those things be better. So the ROI on our offering, we think, is very positive.

Tavis C. McCourt, Analyst, Raymond James & Associates, Inc.

Have you seen the conversation, whether it's through an RFP process or just kind of anecdotally with customers change it all since – in this market kind of the number two player just merge with the number three player. So a little bit of consolidation or is it too soon to kind of expect any real change in the market dynamics?

Mark F. Moon, EVP, President-Sales & Product Operations, Motorola Solutions, Inc.

I think it's too soon to see big changes in the way the market is reacting, but clearly Honeywell is a good competitor. I think bringing together Honeywell and Intermec and as we went and brought Psion with us. Clearly, we are the two large players in the industry. So I mentioned we're proud of the fact that we're still number one, but we view Honeywell as a very viable competitor.

I also view it kind of good for the industry though. I think consolidation help settle things. We saw some erratic behaviors and commitments in certain parts of the world. So I think that will settle down. And then from our standpoint, we recognize that we've been competing with Honeywell and Intermec for a long time. We've got to continue to do that and win, but we've also got to look at new competitors and new spaces at the same time. So I think over time, it will be good for the market, and over time, we realize I think it will be good for us to force us to continue to stay focused and get better.

Tavis C. McCourt, Analyst, Raymond James & Associates, Inc.

Got you. Gino, a free cash flow question, although a lot of free cash flow this year has been – the ratio of free cash flow to earnings has been a little lower than in past years, and I know some of that was due to circumstances outside your control, and some kind of changing the tax structure. But what are the things that you can do kind of a CFO that you're targeting to improve, bringing more of the earnings to free cash flow?

Gino A. Bonanotte, EVP and Chief Financial Officer, Motorola Solutions, Inc.

Sure. So I think it's worthwhile to start with what happened – what's happened in 2013. And clearly 2013 has been subpar year, and we can do better. If you look at 2012 versus 2013, there were certain – some puts and takes that affected our cash, operating – from an operating cash perspective 2012 was \$1,069 million and 2013, our last guidance was approximately \$800 million. The puts and takes are about \$150 million is associated with the tax holding company that you've just described Tavis, as we talked about in Q1. There's also \$43 million of an India tax issue that we've discussed in the Q3 call, so there's about \$200 million associated with that.

We also had a difficult – a little bit of a difficult compare, we had retained about a \$100 million in accounts receivable from the networks transaction – the sale of the networks business. So that's a little bit of a comp issue 2012 to 2013, as well as some pressure in POC, percent of completion, our large projects, the difference between the cash milestones and the billing milestones impacted cash flow this year by about \$100 million – another \$100 million. And offsetting that was – pension contribution was lower by about \$190 million. So that's kind of the puts and takes.

What we can do and what we are doing over the last three months has been focus on cash, focus on working capital, and traditional elements of working capital. Although, we've been relatively pleased with inventory, we have work to do in accounts receivable and we have works to do in payables. We have several initiatives that we've instituted throughout Q3 that we believe will lead us to end the year with comparable performance metrics to 2012, whereas with respect to payables and receivables as well as some actions inherent in – in our large contracts, timing of billing and – and frankly, some internal metrics around cycle time and our ability to bill the customer as quickly as possible. So, I think those are the areas of focus and concentration. It is clearly an area of focus for the company as we move into – as we finish off the year, and move into next year.

Tavis C. McCourt, Analyst, Raymond James & Associates, Inc.

Great. And I think I'll open it up for a question or two if there are any.

QUESTION AND ANSWER SECTION

<Q>: [Question Inaudible]

<A – Mark Moon, EVP, President-Sales & Product Operations, Motorola Solutions, Inc.>: So, the basic work around the traditional, in the U.S., it's primarily Astro P25 technologies. The network components themselves are a build that would be similar to building out an LTE network. In other words, you'll have towers, you'll have base station equipment, you'll have a control center, then subscribers coming back on. So, there is systems integration work and services associated with that for the implementation as well as for the ongoing maintenance, somewhat operations, but a little bit different because most of, as you think about the public safety networks, they operate then themselves. We usually just maintain it.

From an LTE perspective, it will be Greenfield build out in a lot of cases, using existing sites in a lot of cases, some similar to the two way equipment. Some would be shared with commercial cellular users as well. So there will be some integration, some operations of those networks. The interesting piece is what's accomplished by both are still somewhat different. Though they're still mission critical push to talk in data that will be used on the public safety networks today that will be changed out, there's also as you look at LTE, its primarily video and big pipe data driven. So, there's a need really for both and for the immediate future. In fact, in Los Angeles, Los Angeles Regional Communication System just actually we won a large procurement to build out in that entire region, a brand new P25 network. They're currently actively pursuing an LTE network of which they've got a BTOP federal grant to go do some work to build that out as well. So, I think you'll see both.

The interesting piece is and you think about the users right here where we are in New York City are actually having discussions about technology upgrades and you think about the city has a system, Suffolk County, all surrounding counties. So, a lot of those systems are either in the process of being changed out, recently have been changed out. So the volume of business around the world, we happen to talk – kind of centralize it around the U.S., but will continue to move towards our more traditional business. We see that. And then ultimately as we began to see revenue ramps and Tavis mentioned it earlier, we've indicated and guided that really the revenue before you really see some meaningful revenues, we hope to see some more announcements next year, but would really be 2015 and beyond. So we're hopeful that that would then contend to augment or be incremental somewhat to the business that we have today.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Another question?

<A – Gino Bonanotte, EVP and Chief Financial Officer, Motorola Solutions, Inc.>: There was one, there somewhere.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: My final question was I think you guys have had an initiative in both businesses for kind of moving more towards managed services. Can you give us some maybe that financial breakdown of the managed services deal versus a traditional deal? How much are you willing to put on your balance sheet? Is it a big enough transition to really – would external investors really be able to see that in the financials and kind of how fast is it moving towards that model?

<A – Gino Bonanotte, EVP and Chief Financial Officer, Motorola Solutions, Inc.>: So I'll start – so managed services, there are a lot of different deals that could fall into that managed service categories. Some require capital investment and use of the balance sheet, but the majority of them don't involve the use of the balance sheet. I think I would characterize them, certainly the tenure of the contracts are longer. A traditional contract would be fairly lumpy deployment, and then complete the deployment and work on services, while the managed services would be a longer deployment, and we do have some examples, some very recent examples of large managed services deal.

From a margin profile perspective, we believe that an operating margin level would be comparable. Within gross margin BGM, it would be slightly different but comparable at an operating margin perspective.

Tavis C. McCourt, Analyst, Raymond James & Associates, Inc.

Okay. Great. Well, thank you very much, Gino and Mark. And I think we're going to adjourn to lunch now.

Gino A. Bonanotte, EVP and Chief Financial Officer, Motorola Solutions, Inc.

Thank you, Tavis.

Mark F. Moon, EVP, President-Sales & Product Operations, Motorola Solutions, Inc.

Thanks, Tavis.