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PARTICIPANTS

Motorola Solutions, Inc. Presenter

Gino Bonanotte – Executive Vice President & Chief Financial Officer

Other Participants

Kulbinder S. Garcha – Analyst, Credit Suisse Securities (USA) LLC (Broker)

QUESTION AND ANSWER SESSION

Kulbinder S. Garcha, Analyst, Credit Suisse Securities (USA) LLC (Broker)

Okay. Great, we'll get started. My name is Kulbinder Garcha, I'm the telco equipment analyst at Credit Suisse. We're very happy to have Motorola Solutions here, Gino Bonanotte, who is the EVP and CFO of the company. So Gino, thanks for attending.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: There is lots of questions I have. Maybe as I think about my discussions with investors, one of the ones where there's been debate all year long is the path of Motorola Solutions getting back to revenue growth, and it's not material revenue growth in the end market. We understand that, but when you think about the drivers of – on the long-term basis of revenue growth of the company, can you may be break them down for us.

And then, as you're doing that specifically, as you'd called out quite clearly in 2016, there were various headwinds in the ex-Airwave issue, and in the earlier part of the year, there was a Norway contract, there was currency fluctuations, there was South America. What tailwinds and headwinds should we think about in 2017?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Great. Thank you, Kulbinder. I think, before I get into the profile of growth and how we think about it, perhaps a view of where we're at right now as a company.

And if we look at Q3, pleased with Q3 performance, 8% growth, operating margin expansion of 530 basis points, EPS growth of 67%, operating cash flow growth, and in the quarter we increased the dividend by 15% to \$0.47 a share. Since spin, we've increased that dividend from \$0.21 to \$0.47 a share, and we bought back \$109 million of stock.

And if we look at, one level down, what we talked about and I'll circle back to the question on the composition of growth, we look at Managed and Support Services. Managed and Support Services has grown mid-single digits in 2016. And if we look at the composition of revenue, right now, 40% of our revenue is derived from services, 25% of our revenue is derived from multi-year Managed and Support Services, recurring durable revenue and margin. As I think most people know, North America comprises about two-thirds of our revenue base and we've seen growth in North America for the past four quarters.

So pleased with Q3 performance. As we look ahead to Q4, we've guided to top-line growth 9% to 10% top-line growth, return to growth in products, return to growth in the core, and certainly EPS expansion year-over-year.

With respect to how we think about the profile of revenue growth, we think the core grows at low-single digits. We think Managed and Support Services grows at some multiple of the core. In 2016, it's grown mid-single digits. And we think software – Command and Control software although nascent and a small base grows at something greater than Managed and Support Services, so we think all in the profile of low-single digits is the right growth profile going forward.

What we said about 2017 and obviously we'll give more detail on 2017 on the next call, what we said about 2017 specifically assuming Airwave flat year-over-year, 2016 to 2017.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: So even though there are two months of incremental revenue, the difference in the pound from when we made the acquisition to where we are at now would leave us flat year-over-year, iDEN contracting another \$50 million year-over-year, but our expectation is to grow in 2017.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: And on the core business, the drivers of growth are especially given the various moving budgets, could you just go through that. You spoke in the past about, I think, the percentage of the base is quite aged in terms of infrastructure...

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

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: ...mainly in the U.S., I think. But also then it is analog and can you speak about how that translates into that being a growth market because it is probably through cycle growth but there tends to be quite large fluctuations in it.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah. When we think about growth in our markets, we view the business, MSI as a platform business, with a very, very strong install base. And into that platform, we have the ability to sell Managed and Support Services, devices, infrastructure, software. And really what drives the business is, are the use cases and functionality around software and services, less so than perhaps an analog to digital migration, just for the sake of technology.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: So, when we look at the drivers of growth, we look at Managed and Support Services based on the complexity of our systems now and our ability to provide those services to our customers at a better price point than they can self-maintain their systems, as well as devices, infrastructure, and software related to the command center. You look at the ECW, Emergency CallWorks acquisition we did little over a year ago – couple of years ago, which is next generation 911, it's been more successful than we anticipated in the business case. So we're seeing growth in software as well.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: And the Command Software segment, you mentioned is quite small.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: It's quite small.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Do you have to acquire in that area? What do you say?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Acquisition is part of it – organic and acquisition is part of it. We acquired Spillman.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: We announced the Spillman acquisition, which is CAD Tier 2, Tier 3 customers for CAD, complements our Premier CAD offering in Tier 1. We talked about Emergency CallWorks. So, it's a combination of organic investment and acquisition.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Before we come to LTE and Public Safety and FirstNet and all those good things you like talking about. Before we come to that, on Airwave, I have a few questions. It was financially a very accretive transaction, and it seems to be coming together with the business quite well. But can you speak about – my understanding was that there is kind of a time limit to that revenue base. And first of all, like having now had the business inside the organization for a while, how does that revenue profile look to you over the next few years and what – MSI, what success are you having in upselling into that customer base because frankly, if you run it for a few more years, the accretion must look even better and better, the more years you have it. So, could you speak about that.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah. So, let's start with the – the acquisition is performing exactly as we expected. The revenue is contracted until January 1, 2020.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: There has been no change in the revenue. The only change has been related to the movement in the pound as really after Brexit – after the Brexit vote. But it's important to keep in mind that the acquisition was funded with in sterling, the cost structure is all pound, so we do have a natural hedge and it's performing as we expected.

We continue to believe that that LTE is incremental to LMR.

The Airwave integration is going well. There's skill sets in Airwave related to that Managed and Support offering that we can leverage elsewhere, but the acquisition is performing as we expected, the revenue is contracted through January 1, 2020.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: And we're very pleased with the performance of that acquisition.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Is there a scenario as you work with the Airwave business that, that 2020 time horizon gets pushed out for various reasons.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah. There are many scenarios associated with ESN. There was a hearing in the UK Parliament recently that was broadcasted, that's available if anyone would like to take a look at it. And there are some of concerns that the users have around coverage that, that may impact that date. But right now, we are on track to deliver what we need to deliver as far as the contract is concerned, by the timeframe that we need to deliver it by. But there are clearly some concerns around the ability to deploy in the timeframe as it's currently articulated.

It's important to note that as part of the approval process around the acquisition of Airwave, it was important for the Home Office to have the ability to extend the contracts for any portion of the coverage or in its entirety. And there is a 12-month notice period in order to keep that, any particular part of the current Airwave system going.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: And shifting to Public Safety LTE, let's speak about it a little bit by in the U.S. and versus elsewhere. I think FirstNet have on their website now that they're coming close to the point of awarding contracts. How should investors think about the impact of that to MSI? Assuming the – I know time lines have been pushed out many, many times and until its announced and even then there could be lots of delays, but like how should we think about it for the impact to the MSI, the opportunity it creates, maybe the risk that it creates as well?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah. I think the way to think about it in – at the highest level is that any movement to deploy Public Safety Broadband is beneficial for us. We think that LTE, based on discussions with our customers, is incremental to LMR and any scenario that opens up broadband for Public Safety is incremental for MSI. Based on the investments we've made, the software and services, investments that we've made around Solution sets for broadband, regardless of scenario, would be beneficial for MSI.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Can you talk a little bit about how the process might evolve in the sense that, I guess FirstNet awards it for a jurisdiction or a region to a carrier and then ideally they have a series of vendors of which you're part of that consortium, is that the way it works or who's the lead vendor and who's not, and how it works?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah, we've talked about this a few times, we'll give more clarity after the award...

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: ...deference to the process...

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: ...we're not going to really comment on the details. The expectation we have is there will be an award, near-term, as you referenced the FirstNet website and then there will be a contract that would be sub – that – agree to subsequent to that, which would include all the elements of scope that you referenced, Kulbinder.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: And the initial trials and deployments you had in some parts of the U.S., can you update us as to where they stand? You've had a couple of like small wins I believe, right?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Well, we've had LA-RICS...

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: ...that's deployed and working. We've talked about the wins. We've had the two wins in the Middle East...

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: ...and the deployments continue, and obviously the ESN contract. So we won the major contracts that have been awarded around LTE, some have – ESN is a combination of carrier LTE and some of the services and software that we provide on top of that, and some of the other ones are more of a private deployment. We think we have a solution regardless of where our customers might want to – or how our customers might want to deploy broadband.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Beyond the U.S., what are the next public safety LTE markets we should pay attention to?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Well, there are several markets that have allocated spectrum, so really when you think about LTE, it's spectrum allocation...

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: ...and it's obviously funding availability. So, we continue to work on opportunities where spectrum has been indentified for broadband for public safety and we think there is funding opportunities.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: And these are spread around the world?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: They are spread around the world. There is some in Latin America. There is some in Asia. We continue to work all those.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: And with respect to, if the business is growing next year, organically, one of the things that we've seen at MSI is very good control of the cost structure. And is there still further room for efficiency, and can you speak about how you balance, in particular, just several years of keeping OpEx low, even bringing it down to certainly lower the percent of sales? And if you actually return to growth, is there any need to start reinvesting in the business? How does that work?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah. So, we think that there's always opportunity. There will always be an opportunity to move resources, to tweak costs. We've taken out, since the end of 2012 through the end of 2016, we will have taken out \$700 million out of the cost base, about a third of our OpEx, and when we think about it, those cost reductions are structural in nature. So, as revenue growth returns, the leverage on that growth will be substantial, we don't think we need to add any OpEx.

And you think about the growth, I've had a couple of questions around, do you think taking out R&D, you've compromised your position going forward. And we certainly don't think we've done that.

When you look at what we've done from a cost reductions perspective, specifically in R&D, it's been more around how we manage the function. As an example, in the past, we had a General Manager for P25, the U.S. standard and a General Manager for P25 handsets, P25 infrastructure that worked within P25, we've replicated that through TETRA and to a lesser extent for PCR.

What Bruce Brda has done has gone to a subscriber and infrastructure, as well as a software and services lead, and common platforming across all those technologies, reusing those platforms has driven costs down as opposed to cutting projects, that's not the nature of the cost reduction we've undertaken. We've changed essentially the way we manage the function, as well as making far greater use of shared service centers.

Interestingly, as we reduced \$700 million in OpEx, we have increased our investment in command center software growth technologies at the same time. So, we think we're well positioned for growth, we don't think we need to add OpEx as that growth returns.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: And after being quite aggressive on capital return, is there more of a thought to return to growth; changing a bit less buyback and more towards M&A going forward, or how should we think about that?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Well, we've seen this year with Airwave...

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Yeah.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: ...and Spillman, two sizeable acquisitions, accretive very strong financial profile, as well as continuing the buyback program. So, if you think about the \$1.2 billion, \$1.3 billion in acquisitions, and what we said on the last call between \$800 million and \$900 million of share buyback coupled with the 15% increase in dividends, you can expect us to continue to be good stewards of capital and return that to shareholders.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: And on the M&A front, what's the kind of areas we should think about? Because I looked at Airwave as a fit with the business, but very financially a good move as well, whereas on the other hand, if you're going to become more of a support services and software-oriented company, that's a bit of a change from the MSI a five years ago, so is it like – how do you balance technology versus ...

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Sure. As we think about acquisitions, this really hasn't changed, either I think we talked about it the last time we got together at the FAM...

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: ...the initial discussion was we think our growth opportunities are in Managed and Support Services. And when we talk about Managed and Support Services, we're talking about specifically public safety communications; we're not talking about going far up-field.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: And that the opportunity for acquisitions would be in Managed and Support Services i.e. Airwave as well as the command center and software, Spillman as an example, that continues to be our focus within Managed and Support Services, and within the command center and software. We've worked long and hard to get to a singularly focused company. There is no intention for us to add another leg to the stool.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Our focus area remains, organically and inorganically, Managed and Support Services and command center software.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: And as you – is the – in terms of let's say of selling services into this vast installed base, has there been any change in sales force incentives just to encourage just an up-selling to your installed base over the last couple of years to drive that all?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: There have been changes. It's obviously a different sale than a hardware sale. And we've seen the result of that, we've seen the backlog in Support Services, if we look at the end of Q3, our backlog increased by \$2.1 billion, \$1.4 billion of that was Airwave, but without Airwave, \$700 million, the majority of that Managed and Support Services, although importantly, product software – oh, I'm sorry, product backlog is up sequentially and year-over-year at the end of Q3. But the lion's share of that increase in backlog has been around Managed and Support Services driven by North America. Again, very durable, sticky, multi-year business.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: And the sort of the product growth is driven by services contracts, is that what you're saying or?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: No. No. No. The product reference was just as an aside, I was talking about services...

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Oh, I see. Okay.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: But importantly, that backlog growth obviously...

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right. I see.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: ...for nearer term is very important as product tends to – product backlog tends to be – the duration of it is less than the duration of the services backlog.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: And coming to the issue of the President, I'd like to note that I know not much about these things frankly, but I'd like your perspective. There is lots of talk about this impacting infrastructure spend and investment in the U.S. and MSI is exposed to that. And I guess you guys have been around enough, long enough to know how these things really work, how should we think about the impact of that?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah, this can go in many different directions. As we think about it, the first thing I would say is that, under Democratic administrations and Republican administrations, public safety has been a priority.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: So funding has been available under both parties. The current Vice President has been a strong proponent of public safety, as well as Republican administrations have been strong proponents of public safety.

With respect to infrastructure, to the extent we invest in an infrastructure, which is sorely needed as you travel around airports in the U.S., we think net-net, that's positive to the extent it drives growth in other verticals, at least for the 30% of our business that's verticals other than public safety...

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: ...we think it's a net-net positive. Clearly not as much as it would be for other companies, construction companies, but we do view that as positive and clearly corporate tax reform, we view as positive.

Kulbinder, there is really not a lot to say, because there are no details right now.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: As those details become available, it'd be clearer as to what it means for us, but generally, with respect to those two items, specifically, I think it's generally positive.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Maybe one last question for me. Just on an – on the international side, can you speak about the growth drivers of the business? I think in the U.S., we spent a lot of time looking at that, and there is obviously different competitive environment I think internationally as well. As you think about building out the international business, is the same about around Support Services, driving through in a product refresh, or are you building the business differently there?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Yeah. I think it differs in certain geographies. I think to a large extent, industrialized economies act a little bit like the U.S. does. The public safety is an important part of economic growth and certainly investment, foreign investment or otherwise.

So, the part of the rest of the world that looks a little bit more like the U.S. G8s, G20, pick a number, looks a little bit more like the U.S. In other parts of the world, the public safety deployments are not as mature, but what we've seen in region, Latin America has been very, very difficult, we see Latin America stabilizing. In Q3, it contracted, as expected, primarily led by iDEN and we see Q4 being substantially better than that on a year-over-year basis.

So, the drivers continue to be really essentially the same drivers as are in the U.S. The maturity of the deployments are not quite to the standards, by any measure, public safety spend, by GDP, per capita GDP, population, sworn officers, the industrialized countries tend to spend more. So given opportunities for large deployments internationally, there is an ability for that maturity to move up a little bit.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Maybe – we're running off time, one last one. One of the themes that seems to come through in the last few – in the last year I think is this idea of moving more towards services, and can you give us some metrics as to how much of your business or backlog is now tied to multi-year contracts in terms to the visibility that gives you compared to where we were a few years ago?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: Clearly, we mentioned backlog increased \$2.1 billion...

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: ...in Q3, that's essentially all Managed and Support Services.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: So we've seen that backlog increase significantly driven by the U.S. frankly.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: And not only have we seen that increase, because that's been increasing for several quarters in a row and initially the discussion was we see the backlog increase, what's happening to duration, because we don't see it in revenue. We have seen it in revenue, we've seen Managed and Support Services growing at mid-single digits. So we see it in both backlog and we do see it in revenue. Again, 25% of our revenue right now is recurring services and we expect that to continue to grow as that grows at a higher rate than the core.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: And these contracts are like five years, six years old?

<A – Gino Bonanotte – Motorola Solutions, Inc.>: They're multi-year, some are 10 years, 15 years...

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: ...that's a great point, Kulbinder, it really speaks – that activity continues in North America, and it speaks to the durability of LMR.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Okay.

<A – Gino Bonanotte – Motorola Solutions, Inc.>: So, the fact that our customers are signing agreements that are 10 years, 15 years for Managed and Support Services around LMR.

Kulbinder S. Garcha, Analyst, Credit Suisse Securities (USA) LLC (Broker)

Okay, great. I think we run out of time. Thank you very much.

Gino A. Bonanotte, Executive Vice President & Chief Financial Officer

Right. Thank you, Kulbinder.