

Motorola Solutions, Inc.
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PARTICIPANTS

Corporate Participants

Gregory Q. Brown – Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Other Participants

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

MANAGEMENT DISCUSSION SECTION

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

Okay. We will get started. We're very pleased to have Greg Brown, the Chairman and CEO of Motorola Solutions. I'll kick it off with some questions, Greg.

Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Sure.

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

And hopefully the audience will have some as well. Maybe if we start, maybe a slight review of 2013. Can you give an update how you think about that in the context of your long-term revenue growth model? We've had – government had very difficult comps in narrowband and things, but then on top of that the enterprise division probably performed like we expected as we've gone through the year. From where we are now, could you speak about the conversations you're having with customers? How visibility is beginning to look as we head into 2014? And then beyond that, whether this return to a mid single-digit or slightly above that growth rate, you think what the drivers were to get MSI there?

Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Sure. So, 2013 has been a tough year, but I'm feeling better about how we're finishing the year. We expect the firm to return to growth in Q4, grounded in solid government performance which will return to growth. We plan on in Q4 against, as you mentioned, Kulbinder, a record year last year. Our backlog position is very strong. Record – our backlog exiting Q3 is about \$5.7 billion, of which \$4.9 billion is government, roughly \$800 million is enterprise. The government backlog is a record level. So, I feel good about the position that we're in.

The overall demand drivers for the government business remain quite solid. If I think about it, state and local government has been pretty consistent and reasonably strong this year. The federal business, U.S. federal, is challenged. We talked about that on the last call. And it will decline at reasonably strong rates for the full year in 2013. But I think we've planned for that. That's anticipated.

And on the enterprise side, we returned to growth last quarter. So I think that business has stabilized. We're seeing some – the conversations to your point actually in both segments are pretty good. If I look at it from a theater perspective, North America remained solid overall, grounded in strength in government state and local. I think the enterprise business, as I mentioned, in the U.S. is stabilized.

Europe and Africa, Europe, our EA region has done well, Kulbinder, actually very well, up in government, up in enterprise. Asia Pac, we're in a management transition. We changed a number of folks on the team out, but enterprise is up. And the backlog we're building in Asia Pac is pretty solid.

So, this year – full year, as you know, top line approximately flat, but even with that, we plan on growing operating margins to approximately 18%. And I think we're doing a better job with the appointment of Gino Bonanotte as the CFO. I think our cash flow management is improving. Working capital and the focus on working capital is getting better. And so, I think the cash contribution of the business will improve as well, so.

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

Great.

Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

And I didn't answer your question. Overall, I still think that on the segment side, I still think that the government business is a low to mid single-digit business in its core attributes that's really largely without contributions from LTE expansion. And I still think of the enterprise business as a 4% or 5% growth business, but subject to more cyclical.

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

And on the government side, what's your objective thinking now on the public safety LTE opportunity. Can you give us an update where we are with the whole FirstNet side? From where we are now, if you have to guess from here to actually go to deployment to roll out the impact in your business, is this 2015 event? Is it beyond? How is visibility there changing?

Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

The conversations with FirstNet have been constructive. We're working as closely as we possibly can with them. The formation of FirstNet, the establishment of the board, their engagement with the public safety community, as you know, has elongated LTE broadband rollouts for public safety. We really won't have any revenue contribution in 2013. I think it will be reasonably small in 2014. This is a U.S. comment and stronger revenue contribution from public safety LTE in 2015 and beyond.

That said, the public safety LTE opportunity which I think it's the single best opportunity we have in front of us in the firm. I think we're very well-positioned from a product portfolio standpoint. If we have eight-year agreement with Ericsson, it positions us very well, with them providing the LTE 4G base station. It's a great partnership that spans the globe. But that opportunity is not just domestic. We are still working on some engagements in the Middle East and I am hopeful that we'll be able to conclude them sooner rather than later. But I think it will be a fantastic opportunity for us over the long-term.

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

With respect to the addressable market that opens up for you, I think previously you have given multiple billions of dollars in terms of what the spend may be. I've always been not quite clear what it could actually mean to MSI. I know you can pick your timeframe, four, five years. Can you give us some thoughts around that? And then also within the LTE opportunity, even though I guess the revenue contribution next year is small, and you're saying it's better in 2015, I'm trying to think how we truck it? Will there be a contract announcement in states or city or how will that actually be informed to the investor community as we go through 2014, do you think?

Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

So the signals and the markers you should look for on that are the contract announcements. Anything that would come out of the Middle East. And here, domestically, we are working on the opportunity for LA-RICS who put out an RFP. We just won LA-RICS on the land-mobile-radio side for approximately a \$280 million deal over 15 years. And we are hopeful, but we know we have to win the business on LA-RICS on the broadband side. We still view it, Kulbinder, roughly as a \$3 billion to \$5 billion market opportunity over the next four or five years. That revenue – that \$3 billion to \$5 billion is award revenue, total life cycle revenue, not necessarily translated to revenue within the P&L over that planning period, but that's the way I think you should think about it.

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

And can you speak about, as this whole thing is, there's obviously the significant opportunity. Has it been somewhat delayed or taking longer than we may have thought, this rollout that we're seeing? What's the competitive environment you're seeing? Are you seeing any of the infrastructure vendors try to engage more into this area now? Or do you think just your incumbency in the U.S. and just the brand name, I guess, of MSI in this segment means that even outside of the U.S., do you have sense a position change as you've gone through the last year and a half as we discussed this?

Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Well, there's no question that our brand equity is really strong in public safety, not just domestically, but internationally. The relationships we have, the incumbency on the land-mobile-radio side are obviously helpful because of our deep knowledge and domain expertise within public safety.

That said, we have to win this business. It's incremental. I think the other important thing to enunciate is that this opportunity is incremental to the core business of our public safety business on the professional and commercial radio side and on the land-mobile-radio side. As I've said publicly before, given our product portfolio, the strength of the infrastructure and device portfolio and the software expertise and our channel reach, I still expect us to win more than we lose on the opportunities going forward.

From a competitive landscape standpoint, it really hasn't changed materially in the last year or two. Our partner is Ericsson worldwide, so Motorola Solutions and Ericsson on the private-public sector partnership here in the U.S. On a carrier basis, we have partnered with Verizon. So I think that triumvirate is a very strong consortium. That will be very competitive in the U.S. I would expect, I guess, folks like NSN and Alcatel-Lucent to compete on the radio access network side and our traditional competitor here in the U.S., Harris, to be our primary competitor here domestically.

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

Do you need carrier relationships outside of the U.S. as well as you go to market there, how you have with Verizon here?

Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

It depends on the deployment, but I would imagine we would. If we're going to enter into roaming agreements and think about broadband deployments that bridge a private network – a public safety private network, where a first responder roams out of the coverage area, ideally want these roaming agreements with the necessary LTE or 4G providers to have a seamless experience.

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

Okay, great. If we move on to enterprise, I think it's fair this year forecasting that business was a bit of a challenge. There was some weakness on the wireless LAN side. There's a cyclical impact as well. There was the – just timing of the whole Lync, the Microsoft upgrade. Where are we right now in terms of your visibility you think on the enterprise business seeing some sustained growth? Which of the segments within it you think drive you into that longer term mid single-digit growth rate?

Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

I think we're in a better position now on the enterprise side. The engagements and the discussions with customers are good. We announced a number of new products on Android, Jelly Bean specifically, over the last couple of months. We also announced what we call Mx, Motorola Extensions. So we're taking the latest version of Android, putting Motorola Solutions' Extensions on it to make it more enterprise grade, things around security and device management. I feel very good, Kulbinder, about our product portfolio. And we're seeing some signs early of better engagement and I feel better about that business moving into 2014.

I still think it's a solid 4%, 5% growth business, the enterprise segment, but obviously it has more cyclical and variability to it than the enterprise business. And we experience that in an elongated cycle with revenue contraction off of very strong years before that, in part because customers were sweating the assets longer, in part because of the pause on the Microsoft OS transition. But, again, our portfolio is very good. Plus, we can answer Microsoft, answer with Microsoft solutions, with Android solutions, with Motorola Extensions and enterprise grade features on top of Android or we can put in an HTML5 RhoMobile solution that's agnostic of the OS. So, I think the gear issue is done on the portfolio. Both hardware and software is good and that business has stabilized.

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

Okay. Can we move to maybe margins and cash flow slightly? You've done a good job since separating just in terms of driving leverage on no matter what the revenue environment is. Can you speak about now? As we look out over the next couple of years, I assume at some point, there is a cap to margins that have those competitive pressures. You guys have relatively good margins versus history in both your businesses. Could you speak – when you – you can either speak it from a business line perspective or

from a P&L line item perspective, I don't really mind. From here, is there scope for further operating leverage? If you do, do 5% revenue growth, you can still exceed that in terms of op income growth? Or are there some caps that we should think about, well, at some point there has to be like a peak margin that MSI delivers?

Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Well, even though it's been relatively challenging, I'm very pleased with the fact that we are targeting approximately 18% operating margin versus 17% the year before on approximately flat revenue growth. We've had tailwinds of pension expense, but we've also been very proactive around reducing the cost structure of the business from a series of actions that we began way back in Q1 that will reduce the run rate, the expense structure by about \$80 million in 2014. So, I think, overall, we do a very good job in the firm of expense management. We can always do better.

I don't think of any kind of artificial cap, per se, in operating margins. We've targeted approximately 19% in 2014. We expect the firm to return to some growth rate in 2014. We'll give more color on that in January. But it's – we're set up well from an operating leverage standpoint, because we've tightened the expense structure. We've got solid gross margins. It's a good cash flow business. I expect operating cash flow to improve in 2014 over 2013. It should improve generally aligned with net income expansion.

But, remember, when we split, to your point, we were and are Remainco. So, as Remainco, you're left with the real estate, left with the manufacturing footprint, left with supply chain, left with the shared services cost. So, I always believe as we move forward with more fit and focus and better execution, there is always opportunity to be a little bit tighter on the expense structure side.

On cash, I think we've been very good stewards of capital. Our capital allocation framework is 50%/30%/20% of operating cash flow. So, the 50% would be used for either share repurchase or targeted M&A. Historically it's been virtually all share repurchase. We have bought back \$4.9 billion shares, contracted the share base by about 25% in nine quarters. So, we've been aggressive. We've raised the dividend 19% this year, raised the dividend 18% last year. 30% is our target of dividend return as a general framework guideline on operating cash flow. And our CapEx is about 20%.

So, that buyback of \$4.9 billion is at \$49 and change. So, I think we've been good stewards of capital. And this year, we bought back \$350 million in Q1, \$550 million in Q2, \$425 million in Q3. And I think that those are reference points for you to think about as we move forward in terms of share repurchase.

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

In terms of, Greg, the uses of cash, is there really much M&A that you guys think about evaluate? Is it a core part of the strategy? You have been active. I think shareholders like the fact that you've done a lot of cash return frankly. But from where you are now, either technology, tuck-in acquisitions, new businesses, something that's adjacent to, do you see much opportunity in the M&A front?

Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

We see opportunity, but it's more of the variety of surgical tuck-ins.

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

Right.

Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

And very close to the core or immediately adjacent. Most acquisitions don't work out in – by that, I mean, they don't return the target revenue margin and return on invested capital that's been outlined. When we look at acquisitions, given our market position, we think of it more as tuck-in. We have – our core business is fantastic on return on invested capital. So, all things being equal, when you think about where to deploy a dollar of capital, reinvesting it in our business, which, we think, our prospects are strong and/or returning it to shareholders, has historically been our priority.

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

With respect to the portfolio, is there any opportunity for disposals? I think sometimes you could argue that there is – it's not clear what the revenue synergy between some of your business lines is. And especially when you have a year, let's say, this year in which while the standard hasn't been as well, the market itself is very competitive. You guys don't necessarily have quite the skill. You're having some other business lines there. Do you think about disposals? There haven't been too many right now. Was that something you would consider? Or do you think the portfolio you have today is something that end-to-end Motorola Solutions need?

Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Well, we always take an objective dispassionate view of the business. I like the fact that we have two core businesses. One is really strong and very unique in public safety and one is very good in terms of enterprise. While they are different in the dimensions and their core competencies, they are two strong businesses. I do think, Kulbinder, to your point, it's important to note that we have the scale and we're the market leader in both businesses.

So if you think of industrial purpose-built devices and the supplier relations, the channel discussions, the patent portfolio and the market share position, I feel very good about where we are in the enterprise business and correspondingly on public safety. And we've taken end-to-end solutions orientation. So we are not – as you know, we've got out of the cell phone business and smartphone business and not interested in consumer like businesses or commodity like businesses. It's where we can sustainably compete and differentiate and provide ideally an end-to-end experience. Now WLAN is a little bit different than that. But, as I said, we have changed the value proposition by which we compete.

We are moving forward in more of a managed services like value proposition. Interestingly enough, I think some of the consumer engagements more recently on WLAN have been quite strong. It is – in the composite of the business, remember, WLAN is about \$200 million roughly of our total \$8.7 billion, \$8.6 billion, whatever the top line ends up being. So it's a manageable component. And we're going to continue to manage the portfolio, maximizing the value of both businesses. You're right. There is limited synergies, but there's still two very strong businesses.

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

Maybe on the point of synergy across customers where they could exist, there was – about a year and a half ago when we came to your headquarters, there was this discussion about the major portfolio refresh that you've done, not only in the devices side. And the idea I think was that you took some government-orientated two-way communication products, the infrastructure and you could tear that into things like hotels, into more enterprises.

Has all of that really played out? I was – at the time I thought that should really allow you to accelerate growth and take you into a new market and you had, obviously, how 2013 came up with various reasons. Has the impact of that played out because it's been a number of years since you've done the refresh or is that something in 2014 that remains an opportunity? Are there deals or reference point you can point us to that where we have won this because we've actually tiered our portfolio and it's a new use case for us?

Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Yeah. I think that it's both. We just state specifically on the professional and commercial radio side has done a great job of tiering the portfolio. And I think our portfolio has never been as strong as it is right now. Now to your point, we sell that. It's reported in the government segment.

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

Right.

Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

But, to your point, there are businesses where we sell it into hospitality, retail, manufacturing, utilities, but the PC or radio segment is reported fully up under the government segment. So, yes, I think we've had success on the expansion that you saw in headquarters about a year and a half ago. I think Spaeth has done a fantastic job. And, prospectively, looking forward, I think there is great opportunity. Just when you look at the PCR business, irrespective of the segment, we believe that there is – it's roughly a 40 million subscriber device business worldwide, of which approximately 90% is analog.

We have the leading digital portfolio. I think we're very well-positioned to convert that analog base to digital. And I think we can do that while still maintaining comparable margins. So, I think it's a great opportunity for us.

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

Are there any questions from the audience?

Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Right down here.

QUESTION AND ANSWER SECTION

<Q>: Greg, you talked about on public safety LTE as now being sort of 2015 event. What's the risk there between now and then a lot of these municipalities take more of a wait-and-see approach to upgrading their networks and sort of hold back ahead of what ends up happening on LTE?

<A – Greg Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.>: You mean hold back on their LMR?

<Q>: Yes, exactly.

<A – Greg Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.>: I don't think that's – well, the best example I can give you is Los Angeles. So, Los Angeles, we just got the award a few months ago for a 15-year land-mobile-radio deal. At the same time, they let out an RFP for broadband LTE. So, I think the networks are additive. They're not substitutional. So I'm not concerned about any chilling effect of elongated LTE hurting our LMR business on the core public safety side.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Maybe on the LTE side, one thing to close out for me, final question, I guess. With respect to the ramp of that revenue opportunity, what's the impact on margins? Because I assume you've done a fair amount of investment upfront. On the other hand, how do you recognize the revenue of these large deals to have the gross margin impact, I think, as well? So what's the net impact of that, let's say, to operating income over the next two to three years do you think?

<A – Greg Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.>: So, it's a little too early to tell because we have to secure and win some of those contracts first. I think gross margins are likely to be a little bit less than the core public safety business. So, the mix may be a little bit different. Maybe there is a higher services content. But I don't think that that will impair our ability to expand operating margins.

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

<A – Greg Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.>: Because I still think that as the firm returns to grow top line in the core, irrespective of some mix differences, I think we can continue to and should continue to expand operating margins.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Right, okay. And just maybe the last question.

<A – Greg Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.>: Sure.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: With respect to the balance sheet, is there capacity you think if you guys execute within a couple of years on the LTE opportunity that's coming through? You're seeing some operating margin expansion which you seem to be continuing to guide to revenue growth returns. Is there scope to be more levered up and maybe do a bigger cash return? Not that you haven't done a lot already, but I guess just I'm trying to think about how the model could flex over the next two years.

<A – Greg Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.>: Yeah. Well, I think there is ample opportunity. So if you think about the cash generated in the business organically, this year operating cash flow would be approximately \$800 million. But I think, in 2014, you should think more

along – you can add – well, you can think about more along the lines of approximately \$1 billion. Clearly, with the debt markets where they are and rates being attractive, that's – we took advantage of that this year with \$600 million of debt at a coupon rate of about 3.5%. So there is clearly room for us to take on more leverage. We'll evaluate that over the course of the next several quarters. And if there is a chance to be more opportunistic and provide the leverage, clearly, the balance sheet, to your point, can support it.

On the pension side, we will contribute about \$150 million the minimum for the U.S. pension this year. Next year will be – the minimum is about roughly \$280 million. It goes up. We took advantage of the transportation bill and what's called MAP-21 on the pension. So – and we'll be beneficiaries of slightly lower pension expense in 2014. But I think the balance sheet is one of the strengths for the firm. And as we return the company to growth and you think about the relative stability of the public safety and government franchise and the opportunities for core growth domestically and internationally, I think we're in a good position.

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

Great. We're out of time. Thank you very much, Greg.

Gregory Q. Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.

Thank you.
