MOTOROLA SOLUTIONS

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PARTICIPANTS

Motorola Solutions Corporate Participants

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Other Participants

Pierre C. Ferragu – Analyst, Sanford C. Bernstein Ltd.

MANAGEMENT DISCUSSION SECTION/FIRESIDE CHAT

Pierre C. Ferragu, Analyst, Sanford C. Bernstein Ltd.

So good morning. I'm Pierre Ferragu and I cover, at Bernstein, telecom equipment globally and we have in the coverage, Motorola Solutions. So we are supposed to have a fireside chat this morning, so it's a bit cold.

Edward J. Fitzpatrick, Chief Financial Officer & Executive Vice President

With no fireplace.

Pierre C. Ferragu, Analyst, Sanford C. Bernstein Ltd.

We couldn't find the fireplace, but we'll still have the chat. So what we're going to do this morning is to have like – to go straight into a Q&A, so please feel free to give us questions. You have question cards with you and people will go around and take your questions, and I'll do my best to ask them all. So I have with me Ed and Mark and we – I'm going to basically work on the assumption that you're all fairly familiar with Motorola Solutions.

Maybe I'll just ask you one introduction question very quickly. If you were to pitch the company maybe in a few words, and – okay, in a few words and in which you could tell us what Motorola Solutions is today. And maybe a very, very brief overview of how the company built up to what it is today over time, so your history with Motorola, maybe the Symbol acquisition and your position in both Government and Enterprise.

Edward J. Fitzpatrick, Chief Financial Officer & Executive Vice President

Do you want to start and I can fill in gaps.

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

Sure. So Motorola Solutions, separated our mobility business a little over two years ago. Long-term company, 85 years rich history, primarily in the public safety business. And in that particular business, we're actually mission-critical provider for government products for mission-critical communications. Number one market player in – across our portfolio and across all the regions.

We acquired Symbol Technologies and that also moved us in the mobility – enterprise mobility space, where we're also a number one market provider across our portfolio in everything, which is enterprise mobile computing, advanced data capture, RFID. We also have WLAN, which we're not the number one player in, but everything else we're the number one player in all regions of the world.

As we just mentioned, we just came off of eight quarters as the standalone Motorola Solutions, eight very successful quarters. We just reported Q1 results, which were actually down, primarily driven by enterprise. And we guided for the rest of the year as being a 3% to 4% growth business still with operating earnings of approximately 18%. So all-in-all, still excited about the business and excited for where we are.

Edward J. Fitzpatrick, Chief Financial Officer & Executive Vice President

I think Mark covered the high levels. $15 billion, $16 billion market cap. Capital allocation, we've talked about, combination of dividends at 30% – of operating cash flow dividends 30%, CapEx 20% and then a flexible combination of share repurchase and acquisitions the remaining 50%.

Pierre C. Ferragu, Analyst, Sanford C. Bernstein Ltd.

Great. Thank you. So maybe if we – let's take your business areas one by one and let's start with Government business. So you've recently talked about, like, growth prospects in that industry, in that segment of 5% per annum. Could you give us some perspective how you get to that number? Why 5%, why not more, why not less?

And maybe one way to look at it is, I think you are running at the moment over 10,000 public safety infrastructures. You have refreshed cycles ongoing from one technology to the other one. I would assume that the number of infrastructure – you still have infrastructure being rolled out in the world. So how much growth comes from your existing installed base, how much is this installed base being expanded? And how you all adjust up or down into this 5% sort of growth prospects you estimate?

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

So I'll start. So actually Pierre's referencing at the recent financial analyst meeting we talked about the anticipated CAGR growth from now to 2015 for our Government business being 5% growth. We actually are coming off of a very strong year in government. In 2012, we grew the business 12%. In North America, we grew 14%. Our guidance for this year has been low to mid-single digits for Government growth. So again, kind of give you context around kind of what we guided and also around this 5% number, which is the CAGR that we have shown for our available market.

When we look at the particular business, last year, obviously it was a little bit of an exception, a good exception. We talked about narrow banding in the U.S. being about 3% of that overall growth. But it still led us to very good growth from the core business as well as new product introductions in that segment. There's a huge base also of migration from analog to digital technologies.

Pierre mentioned the 10,000 systems; we have over 10,000 systems around the world today. When you look at that base, over 60% of them are still analog. And just shy of 50% are over 10 years old. So having a footprint – number one, when you think about being a very, very strong market leader, sometimes you would think, well, there's only way to go. But in this case it's actually a real strength for us, because customers don't usually migrate in a forklift kind of capacity. They actually migrate over time.

And so technology or the subscriber devices we've been selling for the past several years are both analog and digital capable. So customers begin this migration cycle to move to new technology but with their existing footprint in place. So as we look at the growth prospects around the world, North America continues to be strong. In the first quarter, we reported 6% growth in North America, but generally we would expect that to be a lower single digit growth business.

We're excited about the growth prospects in other areas of the world. Latin America continues to be a strong double digit growth business. Europe has actually been growing in double digits even with their financial troubles, but excited about the growth prospects longer term in Middle East and Africa and Asia.

Asia, as many of you know that have followed us, has not been as strong Government wise. We just recently went through a reorganization, reallocated resource, but also a change of the management team there. So we're excited about the prospects as we go forward for growth in Asia as well.

So deep down I think it's the embedded base, how do we continue to leverage that. Conversion to new technologies with new products and the conversion of analog to digital migration. And at essence of it and as we demonstrated even through tough financial times and micro economic difficulties in different parts of the world, spend on safety and security and on the products that we offer and the solutions that we provide has remained a priority.

Edward J. Fitzpatrick, Chief Financial Officer & Executive Vice President

I think that covers kind of the shorter and nearer term. I think as you look longer term as well we've talked about, Mark mentioned the core growth, 4%, 5% and then these – in our core areas and the expansion areas we think are growing faster, things like – and we'll talk about this I'm sure later – the LTE opportunities we have out there, managed services, advanced devices in the Enterprise side, so we take that core growth 4%, 5% and then if we're able to capitalize moving forward on these expansion markets we think we can do that core growth plus as you move forward.

Pierre C. Ferragu, Analyst, Sanford C. Bernstein Ltd.

So maybe a quick word on this like expansion, this like new opportunities in public safety, mostly LTE or maybe how you see that over the next maybe three to five years and where we stand today, I think, like, things are happening probably slower than we would have expected a couple of years ago in the U.S., but a bit faster elsewhere, maybe an update on that would be useful.

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

Yes. I think it's a very introduction, as we talked about the last couple of years, the core business has remained strong. But the expansion areas of public safety LTE and also the expansion of associated services both around our core and with public safety LTE or areas in the Government space that we see beyond the core being strong growth areas. Also when we talked about this CAGR growth of the core being 5%, when we look at the growth of the expansion areas the CAGR is really more like 15%. So we think here, of course, greenfield spaces, new opportunities for us, so clearly not the market share that we have in the other places, but the chance to now provide incremental growth. LTE being one of the most exciting areas for that to happen.

In North America, as you know, they've allocated 20 megahertz of spectrum. They've formed a board called the FirstNet board, to build a nationwide inter-operable network for public safety.

We have both – have a number of customers already in place that originally started with the early adapters in BTOP grants in North America, State of Mississippi, Harris County, Texas, a couple of others. We're in a partnership on this public safety offering with Ericsson, so the number one provider in RAM technology and we, combining our public safety domain expertise to differentiate above, if you will, commercial 4G LTE.

So the opportunity certainly is going to be here in North America, as Pierre mentioned, it's been delayed. They've actually held off on any further progress on BTOPs until they can negotiate both spectrum leases as well as make sure that this – any spending that goes forward is inter-operable with the nationwide network, which we feel strongly that everything we're doing will be.

Internationally, however, there has been a lot of activity both because of the interest in North America to designate spectrum and also to create a funding stream to provide for that nationwide build out. So we're seeing a lot of activities in several parts of the world, but in particular, in the Middle East, where there is spectrum, there is funding, there is also safety and security issues, as you would suspect. So we continue to be very excited about the future prospects of LTE.

Now as we've indicated, this year we've said do not expect the revenue to be over $50 million. We'd be seeing it beginning to ramp next year and becoming even more material, I think, as we get out into 2015.

Pierre C. Ferragu, Analyst, Sanford C. Bernstein Ltd.

Maybe a quick follow-up on your partnership with Ericsson, how does that impact your cost structure. Should we expect like LTE to be a business with a different gross margin from what you're doing today? Or are things going to look very similar?

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

So I think, when you think of LTE, in general, both the partnership with Ericsson, as well as, there will be a reasonable amount of third-party content. Gross margins, as you've said, will be less than what we see in our traditional business, but we believe operating margins, again, will be very similar to our existing businesses. When we think about what we're doing, the customers we're selling to, the delivery capabilities that we've got to go see, we've actually got a footprint in place. So we're not creating new calls to build to be able to go distribute this. And we've actually because of that existing footprint as well, I think Ericsson has also realized that they look at us as their distribution arm for this public safety LTE. So they've also looked at this in a very different way. So we think we can have a very competitive offering and yet still hold our operating margin.

Pierre C. Ferragu, Analyst, Sanford C. Bernstein Ltd.

Okay. And still on public safety, maybe original perspective, so you mentioned very good growth at the moment in Europe. Am I right thinking that in Asia, things are a bit slower at the moment? How do you understand that? Because some of it could be cyclical, but some of it could be also that the competitive landscape in emerging market is not as favorable to you as it is in Europe or in North America?

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

Yeah. So we talked last year a good bit even when we were having a very successful year in the Government business that we weren't pleased with our overall growth in Asia. We reported for the full year last year 5% growth in Asia. And as I mentioned earlier, I believe Asia should clearly be a strong double-digit growth business. I think it was driven by a number of factors. We mentioned one of them. I think the competitive landscape, particularly in China, for the push for localization is certainly very strong, as well as the economy in China last year slowed for sure, so we saw our business in China slow.

We also have been fortunate in previous years to have several large projects. The Royal Malaysian Police was a very large project we had in Malaysia, as well as several large deals in Australia. So when we looked at those comparables, we also recognized that we have been somewhat dependent on the big deals in certain areas and on good consistent growth in China and Australia. So part of what we looked at as we saw the slow last year and as we go into this year is kind of a double-down not only in those areas, but also in new areas, growth areas like Indonesia and other areas where we really didn't have the presence that we felt like we should have, so we reallocated some resources to get further sales coverage there.

And we actually see, as I've mentioned previously, backlog for that region picking up, which is good indication for the second half. We see the prospect for the second half Government business picking up. And for the full year, while we still don't think we'll be back at the double-digit growth rates that we said that we expect going forward, I do think we'll be strong single-digit growth again there and prospects of building backlog going into the next year.

Pierre C. Ferragu, Analyst, Sanford C. Bernstein Ltd.

Okay. And in terms of competition in Asia, do you – are you meeting, like the same competitors as in Europe and in the U.S. and in North America? Or is that different and maybe more fragmented? Who are your main competitors today on deals you're winning or losing in Asia?

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

So competition for us – and I'll circle back to Asia. Competition for us around the world is interesting because we happen to be what I believe is the really only provider worldwide that has end-to-end solutions. So in the different regions, we have different competitors. In North America, Harris is our primary competitor. Harris does compete in some of the other regions, but has most of their presence in North America. That's primarily in the ASTRO technology.

When we get outside of North America in Latin America and in Asia they also sell ASTRO, but they also sell the European standard of TETRA. In TETRA we primarily compete with Cassidian on the infrastructure and with Sepura on the subscriber devices, so a mixed competition.

In Asia we see all of those competitors that we just said, but you also see smaller, indigenous competitors for sure. The other piece that I think is interesting both in our regions is we have really strong market share and presence in our Professional and Commercial Radio business of which case there most of the competitors are primarily Asia competitors. Kenwood, Icom, HYT. So primarily those are commercial based systems when we think about North America or in Europe, but when you get to parts of Asia and developing emerging countries, as you said, in some cases this technology Small Systems is also emerging there. So you'll see some of these lower or entry tier competitors in those regions.

One of the things we talked about that I think has been successful for us over the last couple of years is to really tier our portfolio both in subscribers and in infrastructure with an entry tier, mid-tier and high tier. So it gives us the ability to serve these emerging markets with an entry tier product without taking our margins down on a higher tier subscriber or infrastructure business. So what we've seen is as we are facing different kinds of competition in Asia, we're still able to maintain strong margins in Asia and still maintain the market share lead in Asia. But I think that competition will continue to increase and we continue to feel like we will be effective at how we go after competing.

Pierre C. Ferragu, Analyst, Sanford C. Bernstein Ltd.

Maybe one last question on Government. So you have very clearly a very strong market position, so how do you see margins in that segment evolving going forward? So the 50% gross margin today, what are the main factors influencing it and how do you see it evolving over time? And in terms of operating leverage, if you grow your top line at least 5% – so 5% for the core activity plus potentially some upside from additional opportunities. How should we expect the P&L of the division to evolve over time?

Edward J. Fitzpatrick, Chief Financial Officer & Executive Vice President

So as we think about margins, we're going to look at it on an operating margin level, Pierre, as we look through. We talk about growing our operating margins to 18% this year, 19% next year really driven by operating leverage. We look at gross margins being in a more relatively stable, maybe even some pressure, as Mark talked about, with new products as they roll out, but at the end of the day, that growth that we see at the top line that we talked about, that core plus expansion growth, we think with that we can hold margins, gross margins relatively stable, which at the end of the day more of that flows through the operating margin, so we can get that operating leverage, in other words, growing the top line faster than we're growing our spend. So we think that in the Government sector and in the Enterprise segment that there is opportunities for both of them driving that operating margin 18% this year and to 19% in 2014.

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

Yeah. I think key to that has been, as I've mentioned before, this tiering strategy and also a platforming strategy that's allowed us to replicate standard Government products, but then sell them into other verticals as well, which gets reported back through our Government segment. So as a result of that, we've been able to maintain our increased ASPs across the portfolio which, obviously, given that and with the operating leverage effectiveness has really helped us increase the bottom line.

Pierre C. Ferragu, Analyst, Sanford C. Bernstein Ltd.

And so longer term, shall we expect actually the OpEx, maybe we'll touch base on the Enterprise later, but in Government, should we expect your OpEx base to remain fairly stable because you have scale everywhere in the world? Or is that the sort of money you spend on R&D today is what you don't expect like a step up or maybe down, I don't know, in that, I don't know on the three to five year horizon?

Edward J. Fitzpatrick, Chief Financial Officer & Executive Vice President

I think the way you should think about it is we're going to grow the top line. To grow that top line, in a lot of cases, many cases, some of these – you may use the base product, but on top of that we're developing specialized feature sets for our customers across the globe. So the R&D will need to ramp, but we do think that we can ramp it slower than the top line growth. I'd say the same thing and I'll let Mark talk with more granularity, but at the high level modeling level as we talk about it, selling and marketing as well, we can leverage. But as Mark talks about greenfield opportunities, you can't do that without having a presence in the region whether it's our own sales force or channel partners that we go to market with.

So we think that R&D is probably the least leveragable, but it is leveragable followed by selling and marketing and then G&A the most leveragable as we go forward. So I think we're actually in a decent shape. We could – we always look to be more efficient, that's Greg favorite saying, and we're all aligned with that. I think at the end of the day, we'll need to ramp and we think there is leverage opportunities going forward here.

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

Yeah. We've talked about a number of times and I think we've demonstrated it is that we've created a culture, and by the way, I think given our base and our footprint, we have the ability to shift resources, but also to ensure that culture is, we're going to grow the top line quicker than we're going to grow our cost structure so that we get leverage down to the bottom line. And that's been the way we've been performing and quite honestly, I think, that was why even when we took our yearly guidance down for this year at the top line from 5% to 5.5% to 3% to 4% we still held the 18% operating margin. So I think the view is we can do that, still hold or grow our share and continue to get leverage.

Pierre C. Ferragu, Analyst, Sanford C. Bernstein Ltd.

Great. So maybe we can touch on Enterprise now. So as you can imagine lots of questions on the ongoing weakness in the business, so – in that segment and so maybe if I were to summarize this question. So first of all you sound confident that the ongoing weakness is more cyclical than secular and is not like the reflection of a change in your competitive landscape or competitive dynamics. Maybe if you could take us through that logic and what are the tangible facts that you can see today that makes you confident in this analysis?

Edward J. Fitzpatrick, Chief Financial Officer & Executive Vice President

I'll give a high level and let Mark talk as we go forward on the Enterprise side. We talked about a few things that are driving the confidence level for that second half return to growth. I think one of the keys is the new product introductions that have recently rolled out Q4 into Q1. Products like the MC40, bioptic scanner, the MC45, those types of products that weren't built on the hope that they will come. They were built based upon customer feedback and input into the demand for these types of products in whether it's a lower price point or lower tier, as you heard Mark talk about, or Mobile Point Of Sale type of product that'll help our customers run their businesses more efficiently or effectively.

We've also talked about as we look at the funnel of opportunities, this is where Mark should add some more color, as we look at the funnel of opportunities in the big deal space, those over $10 million, $15 million are up significantly, 25% versus where we were at this point in time last year. The funnel increasing.

And then when we look – really when we look at the Enterprise business, the reduction in sales or the decline in sales really started in the second half of last year, Q3, where the business, if you back out the decline in iDEN and the Psion acquisition and look at the core underlying business, the business was down 10% Q3 and Q4. As we look at that year-over-year comparison, we think, is significantly easier. Couple that with the new product introductions as well as the funnel of opportunities and the meaning dialog we're having with our customers, it gives us confidence that return to growth in second half is doable.

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

I think just to tag on to the question around cyclical, we do primarily believe the drivers of the business and the performance over the last three or four quarters is primarily cyclical. We've talked about the microeconomics that are going on around the world, the reduced IT hardware spend. We also mentioned some confusion around OS and where we're going, which I think is becoming a little more clear as we move forward.

The other piece is that, kind of give credence to that, in my opinion, is when you look at market share positions, you look at ASPs across product lines, those that really remain pretty steady. And you look at performance, while it's not fun to perform, or miss your guidance, we look at the performance of our competitors, and other folks in this space, it's been very similar, as spoken to by market share.

So I think the view when we looked at first quarter, for instance, which was when we were lower than expected in Enterprise results, the issue was around large projects. The large projects that we were expecting to happen, just didn't happen. When we looked at the business under $1 million around the world, it was actually up 1%, but the large projects, particularly those over $1 million were actually down 25%. So that would say, well, maybe that's still structural. Maybe they're not going to happen, but the interesting piece is, what Ed indicated, is that both from our activity, with our sales organization and funnel activity, but more importantly, real live conversations with some of our largest customers and largest partners are that projects are there, we're doing a number of pilots. There is very healthy discussions around big deals that are now going to be released. So we do expect Enterprise business to turn around in the second half.

Pierre C. Ferragu, Analyst, Sanford C. Bernstein Ltd.

Okay. So you mentioned your competitors and you don't see like a more pronounced weakness at MSI when compared to your traditional competitors. What about the risk of your, let's say, end market getting more and more, like, consumerized, like so this is always widely discussed threat of iPad-based solutions, or like low cost tablet-based solutions becoming a threat to your core business? That's one way to look at it. And then the second way to look at it would be the structural shift of Enterprise spending from more like, maybe, back office type activities where you have a very strong position to more like consumer-facing type of activities, where maybe a larger share of the spending could go into more traditional – like less traditional solution based on consumer devices?

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

So I think, by the way, I think both very valid points, and things that we spend a lot of time looking at as we go forward. First and foremost though, I think we believe the drivers, mobility increases, the need for more efficiency and effectiveness connection from front office to back office for inventory control. Even there was a lot of conversation around omni-channel and if brick and mortar is going to change, does that change? But actually it creates more connection with the customer, more emphasis on supply chain efficiency and understanding what inventory you have, where it is, how to get it to places at the most efficient time. So things that we believe that our product offerings actually capitalize on. So first and foremost, we think that basic value proposition is still there. There is clearly a rise in the number of mobile users, and I do think consumer devices, as you said, or different models is going to play to some of those new users.

We've talked about – when you think about our mobile computing business, we've talked about thinking about it in three segments, kind of an industrial mobility segment which is about 60% of our mobile computing business. It's the rugged back office, what you would think of that's Motorola Solutions, Honeywell, Intermec. And that business is really still relevant and really unchallenged by consumer devices.

Then you've got Field Mobility users and that's probably about, if you will, 30% of our business, 20% to 30% and the other 60% to 70%. In that space still a lot of FedEx, UPS, DHL, a lot of folks that are very rugged device users, but some that clearly could have a use for a consumer device that maybe only wants one application not heavy-duty back end to inventory or scanning. Maybe they just want to do light scanning or just enter in an address and back where that would certainly be a piece.

Then you have customer facing segment which is about 10% of our mobile computing sales. But I think as a segment that is increasing and I think it's segment where you've seen a number of our traditional customers that have tried some smartphones or, if you will, Android or Apple devices. It's also a growing piece where there is some new market segment with whether it's around mobile payment or otherwise that may be applicable for a consumer device. So for us, number one, we think there is still a big piece of that, that's still very much attributable to our core portfolio where we've been selling and continue to sell. We've also introduced the new portfolio like our MC40 that begins to move up, much more like a consumer device.

So we believe we can go after some of this expansion area as we move forward. But certainly, there'll be a play there as we go forward. And we understand that and we think at the end of the day, customers, many of these customers that have tried consumer devices, many of which, I think, you'll see come back, some of which by the way it will work fine for, and I think that's great and we'll continue to expand our base where we can go provide it.

The second piece was around spending patterns and, I think, that's also an interesting piece. I think with any Enterprise customer or any business or any of us personally, you're always trying to say, is there some way to stretch the current use of what I've got a little bit longer than what might be the normal pattern. I think we've seen that in some of the delayed projects, but I also think, again, coming back to the value proposition, I think, it's strong. I think we see that the return on investment for what we offer is strong. So, I think, while spending patterns have shifted a little bit over the last several quarters, I don't think it's a structural shift.

Ultimately, I think, just like with anything else we've got to make sure what we do makes our customers better and we believe this offering does that. And, again, I think at the end of the day the proof is going to be in the pudding. We've got to go deliver in the second half, we've got deliver this quarter, deliver the second half on our commitment.

Pierre C. Ferragu, Analyst, Sanford C. Bernstein Ltd.

And I think it's very safe to say that investors understand very well the strength of your competitive position in Governments where the size of your market share is first. And then so the fact that you have an install base that has enormous backlog comparatively to requirements helps a lot understand the strength of your position there. How does that work in Enterprise? Why wouldn't like a Silicon Valley start-up just come up with ruggedized device and start competing against you with a very aggressive pricing policy? What makes, like, this playground that you described in which you're competing against Honeywell and Intermec, why is that such a closed club? And what are the barriers to entry?

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

So I would certainly stop short of saying, it's a closed club. I realize that we have to compete everyday both with the traditional and non-traditional competitors. But I do think similar, it's a little different when you think about the infrastructure build out in Government and how that's very attractive to continue to add on subscribers. But similarly, I believe, having a number one market position in Enterprise, having a big presence within these customers, continuing to look at as the value proposition changes and as you think about more of software integration, porting apps, understanding customer needs.

So the differentiation that we believe we provide by really understanding the domain, working closely with our customers, having a very strong services offering and partner community 20,000 strong that work within our ecosystem, I think it still differentiates us, number one, against the traditional competitors, but also ultimately I think it's what CIOs and our end user customers really count on to say, how can we make sure that, number one, we're getting something that makes us more efficient and effective?

Number two, we're getting good value for the money, but ultimately helps us solve our problems. How do we get closer connected to the customers and how do we get more efficient with our operations? So again, I think this combination of our tiered portfolio so that when we do have price pressures at the low end, we have a low end product that's able to go meet those pressures without providing extenuating margin pressures, but also this combination of customizing our products for what the enterprise customers really need and adding a services rep around it, I think, differentiates us.

Edward J. Fitzpatrick, Chief Financial Officer & Executive Vice President

Nothing to add.

Pierre C. Ferragu, Analyst, Sanford C. Bernstein Ltd.

And on the timing of recovery in spending one question we've had is, how, like, the whole operating system game is going to influence, like, decisions of your clients? So what they have in mind first is that maybe you'll notice your clients are still hesitating on what's the right operating system going forward for that type of applications. Are they going towards Android or Windows and what's your position on that? So that is the first question.

And then the second question is you seem to have a very high level of confidence in a recovery in the second half, but the push back I would have is that if Windows-based devices for this enterprise environment are available only in 2014, does that mean that you'll have a lot of business being pushed out to next year?

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

So I think as we indicated earlier, we mentioned our operating system. And primarily when we're talking about that, and then I'll come back to the Android piece, we talked about clarity with Microsoft, their Windows 8 for enterprise version, where they're going. When you think about our traditional customers, almost 100% of them are some form of a Microsoft operating system, whether it be with us, with our competitors, Intermec, Honeywell, that's where they are.

So I think a lot of the customers will need to understand is we're going forward, not is it available today, but where are you going? Is there going to be a next generation roadmap for Windows for the enterprise? I think Microsoft has worked hard to try to clarify that, as you said. Solution is probably a little further out than what we and a lot of customers had hoped for. But I think we'll continue to work that piece. And I'll come back to that when we talk a little bit about.

Some customers however have said for what they want to do Android actually works very well. And several of our newest products are actually Android based, so we actually have now Microsoft and Android offerings. And to ease that transition both for the future migration of the Windows products, but also for the customer that may have an Apple device or may have a Android device and may have Microsoft devices and still may want to migrate to the future, we actually have leveraged our acquisition of

RhoMobile, which really is the ability through HTML5 to write your application once, but then easily port it over to the different kinds of operating systems.

So we're trying to create a migration path, similar to what we do in Government, to say not only are you backward compatible, but how do think about where I'm going in the future, and make that migration as smooth as possible. We're trying to leverage RhoMobile to make sure we ease that timeframe, if you will, from when the next generation of Windows devices are available.

So I think it will delay some purchases. I think we'll see a number of Windows-based purchases that happen now and in the second half, and we'll see some Android purchases. And again, I think part of this, where it sounds like we're in a complex environment, could sound like a threat and certainly it might be easier if we could say, here's exactly what's going to go happen.

But I think the complexity of these decisions really leads to our being the trusted partner with many of these customers. If they're going to go through a difficult decision, want to know how they're going to ultimately migrate, and want to be able to look at someone who has a strong presence and has been in the business, has a big service and software expertise, I think that speaks well for Motorola Solutions.

Pierre C. Ferragu, Analyst, Sanford C. Bernstein Ltd.

Maybe you're well on growth in enterprise, so the latest number you communicated, at your Capital Market Day last week, was slightly below what you're talking about in government for like the core business growth. How do you get there? It's the same question. How do you get there? How much of the growth you expect in Enterprise comes from your existing installed base? How much like, greenfield you still have to grab companies that are good candidates to adapt one of your solutions and that have nothing in place today, and maybe by region as well?

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

So I think, again, Pierre is referring, when we talked about growth rates over the next three or four years, we talked about Enterprise being at the core base of the enterprise products without the expansion category being 4% growth business. We talked about, thinking about enterprise business right now as a low to mid-single digit growth business as well, similar to what we said about Government.

When we think about how we get that growth, and clearly to get even that growth in this year, obviously it leads to a much stronger second half, as we've been talking about. But even as we go forward, you know we talked about the embedded base being certainly one thing that I think we go leverage. And by the way, most, in most developed areas where we serve, there's going to be some level of technology, either us or a competitor there, so we'll continue to leverage our embedded base. We'll continue to compete as fiercely as we can for those that aren't Motorola Solutions' customers today.

But I think also as we look at the pieces I talked about earlier, Latin America for enterprise, Asia for enterprise, Middle East and Africa in enterprise, there is clearly some new greenfield customers in those areas that we can go get. So while we'll leverage the existing base, particularly in North America and parts of Latin America and certainly in Western Europe where we've had a very strong enterprise business, we'll also go try to create new customers in these emerging countries and economies and where we're trying to get a new sales coverage model.

Pierre C. Ferragu, Analyst, Sanford C. Bernstein Ltd.

Makes sense. And so you mentioned it earlier that WLAN is an area where you're not a clear market leader. What's the rationale for you to have that in your portfolio – that activity in your portfolio? And if so what's your right to make money in WLAN if you don't have the scale? Do you really have, like, a sustainable position against much larger competitors?

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

So I think we've been fairly vocal. Similar to what we've always tried to be very transparent and candid and we were vocal last year at the end of the year and last quarter that we were not pleased with our performance in the WLAN business. We also had talked about while our WLAN business wasn't growing at the same rate of the market, we understood part of that, because we recognized that we weren't playing in all the verticals where growth was happening with WLAN. That was a very strategic and tactical decision on our behalf to say what we've got with this WLAN portfolio, we want to sell in the markets where we are.

So particularly in retail we had a very big presence and we actually had very good share for WLAN. But in some of the other, like financial services markets where we had no sales coverage, we made a decision not to create a sales team just to go sell WLAN. So as a result, we didn't participate in some of that growth. Now with that said, I think, there is reaching a level of maturity within the retail space so that brings one question with where we are. There's also been in my opinion lower execution than what we expected on our behalf. We certainly didn't expect to decline 30% last quarter.

So two things that we've done. Number one, we've doubled down the intensity to take a hard look at what do we need to do to execute in this business as we go forward. But also we've also made a determination that we don't just want to compete in the access point business. It needs to be a more solutions offering. So we've combined this with our services offering to say many customers who want to look at this as a turnkey solution or as a service that they provide.

So we're still expecting a number of customers to actually leverage that kind of offering. The uptake has been a little slower than we anticipated. So we'll continue to monitor that closely as well, but I think as we go forward, we'll continue to look at how do we get better execution and is it core to our offering and our portfolio as we move forward in the future.

Pierre C. Ferragu, Analyst, Sanford C. Bernstein Ltd.

I have one question on Enterprise and Government. Why not two separate companies? And so that's a question I asked you recently. So can you take us through what, like, operational synergies do you have between your Enterprise activities and your Government activities?

Edward J. Fitzpatrick, Chief Financial Officer & Executive Vice President

I'll start and then we'll chime in. So I mean, as you'd expect in an enterprise that you have – just like Psion, you have certain economies as you bring the organizations together in the back office types of synergies. So for sure we've leveraged that in the acquisition of Symbol back in 2007. Part of that was part of the thesis or the acquisition plan. But as you think about the products that we sell, mobile computing and on the radio side those types of devices, there are certain also synergies that you get from displays, from batteries, from the integrated circuits and the like.

So on the bill of materials side we've done a decent job making sure that we're as efficient as we possibly can be. And then on top of that the whole supply chain, leveraging that and then Mark can speak more to it as well. The development teams were well coordinated in the past, probably even more so as it's all consolidated under Mark going forward.

The R&D teams coordinating to ensure new product roadmaps are aligned to the extent that they can be as well as the sales force, which Mark will have to talk more to there as far as channel partners and/or direct sales force and what we're able to do there. But there are synergies across the board here as we look at it and as you expect any company to do as you bring this together. And there's some logic to it when you talk about the end customer being enterprise type customer. It's not a consumer type business it's an enterprise business, both the government and the enterprise.

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

And I think we did talk about this a little bit at our financial analyst meeting and I do think the two organizations are continuing to work the leverage of what each has been strong at. One of the prime examples of where we're really leveraging kind of our government expertise, which has always been a leader in mission-critical voice, as you think about enterprise devices going forward and how do you, if you will, optimize voice over various kinds of networks within the enterprise environment, who's better to do that than Motorola given our experience around voice technologies. So engineering teams and the services teams have been working very, very closely.

From a go to market perspective, we did talk about we were able to take some upper and middle level management layers out to leverage kind of the cost synergies around go to market from the two organizations similarly to what we're trying to go do with Psion. And again, right now, we're going through a low period for enterprise that we talked about for the last three or four quarters. The three or four quarters previous to that the enterprise business was very, very strong and we enjoyed some of that piece then.

During both times, I think we looked very strongly at the overall company of what makes sense, what doesn't make sense, and we continue to do that. I mean, at the end of the day, we understand we got to deliver on our commitments and we got to continue to increase shareholder value, and we're pushing very hard to make sure we do that.

Pierre C. Ferragu, Analyst, Sanford C. Bernstein Ltd.

Thank you. Maybe one last question, Ed, on acquisition. So the Psion acquisition, what drove that, how is it progressing and how is it – is that going to positively impact your portfolio? And going forward, do you see a lot of opportunity – acquisition opportunities at the moment? How is, like, the flow, what does your market place look like on that aspect? And then, maybe as a concluding remark, an update on your, I would say, financial capital structure strategy, use of cash, maybe if you can just bring us, like, your latest update on that point?

Edward J. Fitzpatrick, Chief Financial Officer & Executive Vice President

Okay. Mark, jump in on the Psion piece as well. I think the Psion acquisition was very much in our sweet spot from an acquisition perspective and that it was in the mobile computing space in the places where there wasn't a lot of overlap from a product perspective in places like ports and cold storage, and the like. So there's product, not a lot of overlap, so we thought they're a nice coupling to what we were doing. Not a lot of acquisitions out there, like that given that we're number one, have number one share in all the markets that we're playing in, right, so – and the mobile computing is no exception.

So I think that's going very well. The acquisition thesis was that there would be back-office synergies and we're well along the path executing for that. We talked about getting that business from about a breakeven to 5% to 10% this year, and I think we're on track with that. That's a combination of getting the synergies out, getting the bill of materials kind of lined up, so we can improve the gross margins in that business which were lower than our enterprise gross margins, and we're on the path. That will take a bit longer because some of that involves engineering change and the like, but on the path that we expected.

I think that business is feeling the pressure like the rest of the enterprise businesses as well at the top line, but I think we had a reasonable business case for the first year out of the gate. So I think we're getting at it and I think it's very much on course. So I think that, if there were more like that out there, we would do them, because it's very much in line with the way that we think about acquisitions in general. We want them to be very much in the core of what we do, or close to core.

So as we think about acquisitions going forward, we've talked about things that can help us be stronger in the verticals, or in the product spaces where we play, and that's the way we think about it. In orders of magnitude, something like that, you know, $200 million, that was the Psion purchase price, that's kind of orders of magnitude that you should be thinking about as we proceed.

And it's really those items that we look at on acquisitions. It's the right return on the invested capital, it's the right strategic fit, the right cultural fit, the ability to integrate. Those types of things are critical, right, and that's what we're going to do. That's why you've seen us be deliberate. We'll continue to be deliberate, but we think that acquisitions can help grow shareholder value if you do them the right way. So we'll continue to look at it that way.

As you turn to capital structure, really no change from what we've talked about before. We think about allocating our operating cash flow; 30% of operating cash flow to dividends, 20% to capital expenditures and then the 50% remainder being a flexible combination of either share repurchase inter-acquisition. So the acquisitions we've talked about. We've been somewhat biased toward share repurchase and that we've done more of that.

Part of that's because we have more cash on the balance sheet than we think we need to run the business. So we've made nice progress in bringing cash back from offshore. And as we've done that we've done a significant amount of share repurchase effectively purchasing about 20% of the outstanding stock over the last several years at pretty attractive rates given where we are today. So the way we think about share repurchases really is based upon the value that we calculate for the firm versus the value of the stock and we'll be deliberate over time and we'll be opportunistic when we think those opportunities present themselves.

Pierre C. Ferragu, Analyst, Sanford C. Bernstein Ltd.

Excellent. Thank you very much for your time.

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

Thank you.

Edward J. Fitzpatrick, Chief Financial Officer & Executive Vice President

Thank you.

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

Thanks, everyone.

Edward J. Fitzpatrick, Chief Financial Officer & Executive Vice President

Thank you.