

Feb 4, 2015

# MOTOROLA SOLUTIONS Q4 2014 EARNINGS CONFERENCE CALL



# SAFE HARBOR



A number of forward-looking statements will be made during this presentation. Forward-looking statements are any statements that are not historical facts. These forward-looking statements are based on the current expectations of Motorola Solutions, and we can give no assurance that any future results or events discussed in these statements will be achieved. Any forward-looking statements represent our views only as of today and should not be relied upon as representing our views as of any subsequent date. Forward-looking statements are subject to a variety of risks and uncertainties that could cause our actual results to differ materially from the statements contained in this presentation.

Information about factors that could cause, and in some cases have caused, such differences can be found on pages 10 through 21 in Item 1A of Motorola Solutions' 2013 Annual Report on Form 10-K, Item 1A. Risk Factors on page 38 of our Quarterly Report on form 10-Q for the period ended June 28, 2014, and in our other SEC filings available for free on the SEC's website at [www.sec.gov](http://www.sec.gov), and on Motorola Solutions' website at [www.motorolasolutions.com/investor](http://www.motorolasolutions.com/investor)

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# Q4 HIGHLIGHTS



- Sales of \$1.8B, flat overall, and up 2%\* in constant currency. Improvement driven by 4% North America growth.
  - Product sales grew 3% to \$1.2B on strong Device demand
  - Services sales of \$0.6B, down 2% excluding iDEN. Sales down 5% overall, driven by lower iDEN and Integration sales
- Increased Non-GAAP EPS from continuing operations by 32%\*\* Y/Y when excluding Q4'13 tax adjustment\*\*\*
- Reduced operating expenses by \$86M, or 17%
- Returned \$1.5B of capital to shareholders \*\*\*\*



\* Excluding \$27M of currency impact

\*\* Excluding highlighted items, stock-based compensation, and intangible amortization

\*\*\* Tax adjustment relates to the benefit recorded in Q4 2013 from the formation of our foreign holding company, contributing \$0.42 diluted earnings per share from continuing operations

\*\*\*\* \$1.4B in share repurchase and \$82M in dividends

# 2014 FINANCIAL RESULTS



(\$ in Millions)

GAAP	FOURTH QUARTER		FULL YEAR	
	2014	2013	2014	2013
Sales	\$1,823	\$1,817	\$5,881	\$6,227
Operating Earnings	(\$1,459) *	\$325	(\$1,006) *	\$947
Operating Margin	(80.0%) *	17.9%	(17.1%) *	15.2%
EPS from Continuing Operations	(\$4.02) *	\$1.12 **	(\$2.84) *	\$3.45 ***

Non-GAAP ****	FOURTH QUARTER		FULL YEAR	
	2014	2013	2014	2013
Operating Earnings	\$483	\$396	\$1,069	\$1,156
Operating Margin	26.5%	21.8%	18.2%	18.6%
EPS from Continuing Operations	\$1.25	\$1.37 **	\$2.58	\$3.86 ***

\* Includes \$1.9B pension settlement loss and expenses

\*\* Includes \$0.42 tax benefit from the formation of foreign tax holding company

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\*\*\*\* Excluding highlighted items, stock-based compensation, and intangible amortization

# 2014 CASH FLOW

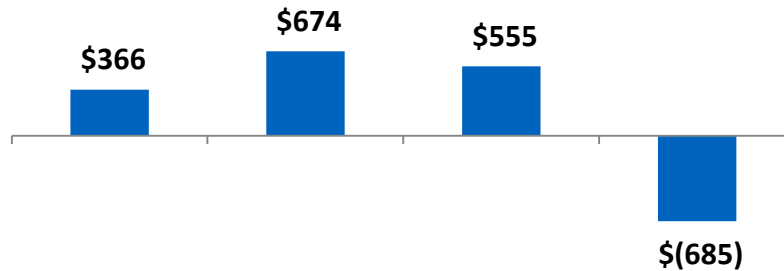


2014 operating cash flow of (\$685M)  
includes \$1.3B of pension contributions

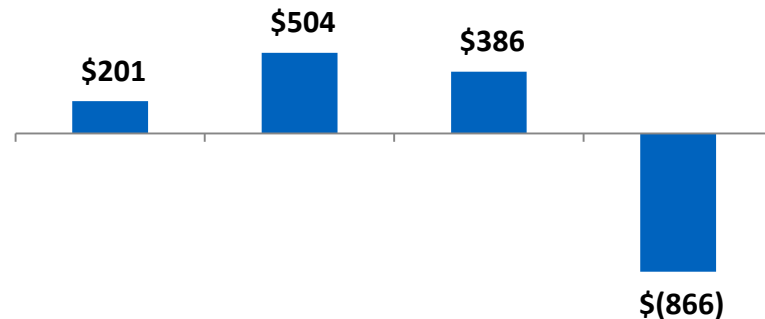
2014 CAPEX spend of \$181M

2014 free cash flow of (\$866M)

## Operating Cash Flow



## Free Cash Flow\*



\* Free cash flow = Net cash provided by operating activities – Capital expenditures

# BALANCE SHEET



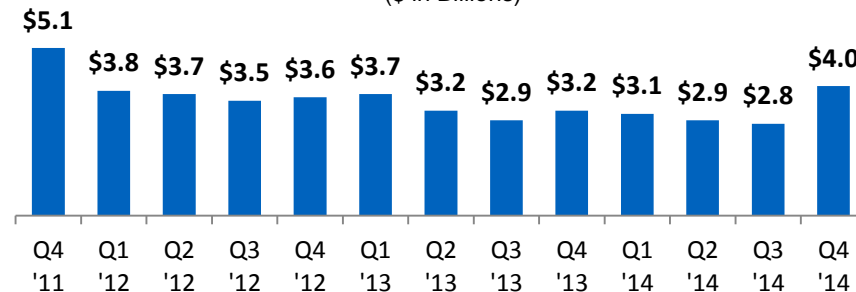
**\$4.0B in cash and cash equivalents**

## Share repurchase activity

- \$1.4B in Q4 '14
- \$2.5B in 2014
- \$7.8B total since July 2011 at average cost of \$54.03
- Reduced net shares outstanding by 36% since July 2011 buyback inception

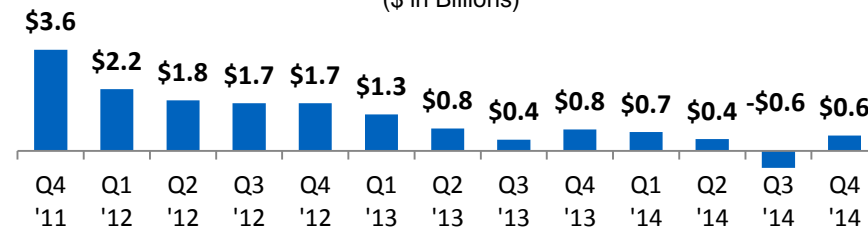
## Total Cash\*

(\$ in Billions)



## Net Cash\*\*

(\$ in Billions)



\* Total cash = Cash and cash equivalents, Sigma Fund, and short-term investments

\*\* Net Cash = Total cash – Notes payable and current portion of long-term debt and Long term debt

# MSI Q1 OUTLOOK



Outlook – Non GAAP	Range
Revenue Growth	(2%) to (4%)
Revenue Growth - constant currency*	(1%) to 1%
EPS	\$0.22 - \$0.27

\* based on spot rate as of Feb 2<sup>nd</sup>

## Key Drivers

- Currency headwinds of ~ \$40M\*
- iDEN down \$12M
- Growth in North America & Middle East
- Europe & Africa and Asia Pac decline primarily due to currency headwinds
- Latin America down due to large project timing and iDEN

# MSI 2015 OUTLOOK



Guidance – Non GAAP	Range
Revenue Growth	(2%) to Flat
Revenue Growth - constant currency*	1% to 3%
Operating Expenses	Down approx. \$150M
EBITDA	\$1.30B to \$1.36B
EPS	\$3.15 to \$3.35
Other Income & Expense	Approx. \$180M
Operating Cash Flow	Approx. \$1B
Effective Tax Rate	Approx. 33%
Cash Tax Rate	Approx. 15%

\* based on spot rate as of Feb 2<sup>nd</sup>

## Key Drivers

- Currency headwinds of ~ \$160M\*
- North America growth
- Europe & Africa down on currency headwinds and large contract roll-off
- Asia Pacific flat including currency headwinds
- Latin America growth, excluding iDEN
- Middle East growth



# PRODUCTS SEGMENT



# PRODUCTS



(\$ in Millions)

GAAP	FOURTH QUARTER		FULL YEAR	
	2014	2013	2014	2013
<b>Sales</b>	\$1,246	1,212	\$3,807	\$4,109
<b>Operating Earnings</b>	(\$944) *	\$237	(\$667) *	\$639
<b>Operating Margin</b>	(75.8%) *	19.6%	(17.5%) *	15.6%

Non-GAAP **	FOURTH QUARTER		FULL YEAR	
	2014	2013	2014	2013
<b>Operating Earnings</b>	\$396	\$283	\$754	\$775
<b>Operating Margin</b>	31.6%	23.3%	19.8%	18.9%

\* Includes \$1.3B pension settlement loss and expenses

\*\* Excluding highlighted items, stock-based compensation, and intangible amortization

# Q4 PRODUCTS



- Sales up 3%, driven primarily by North America Device growth
- Backlog up \$53M versus last year and up \$16M sequentially
- Operating earnings\* of 32%, driven by revenue growth and cost reductions
- Major projects include \$148M with the State of Michigan, \$70M across three S&L government customers in the eastern U.S., and \$12M with a major corporation in our targeted petrochemical vertical market



\* Non-GAAP, Excluding highlighted items, stock-based compensation, and intangible amortization



# SERVICES SEGMENT



# SERVICES



(\$ in Millions)

GAAP	FOURTH QUARTER		FULL YEAR	
	2014	2013	2014	2013
<b>Sales</b>	\$577	\$605	\$2,074	\$2,118
<b>Operating Earnings</b>	(\$515) *	\$88	(\$339) *	\$308
<b>Operating Margin</b>	(89.3%) *	14.5%	(16.3%) *	14.5%

Non-GAAP **	FOURTH QUARTER		FULL YEAR	
	2014	2013	2014	2013
<b>Operating Earnings</b>	\$89	\$113	\$315	\$381
<b>Operating Margin</b>	15.4%	18.7%	15.2%	18.0%

\* Includes \$0.6B pension settlement loss and expenses

\*\* Excluding highlighted items, stock-based compensation, and intangible amortization

# Q4 SERVICES



- Sales of \$577M, down 2% excluding iDEN. Down 5% overall driven by lower iDEN and Integration Services revenue
- Backlog up \$268M versus last year, and up \$452M sequentially (net of currency impact)
- Lower margins due to iDEN decline and Integration Services mix
- Major projects include \$62M with Prince George's County, \$36M with Australia MDN, \$31M with Las Vegas Metro PD, and \$15M with Forestal Mininco in Chile





# MSI REGIONAL REVENUE



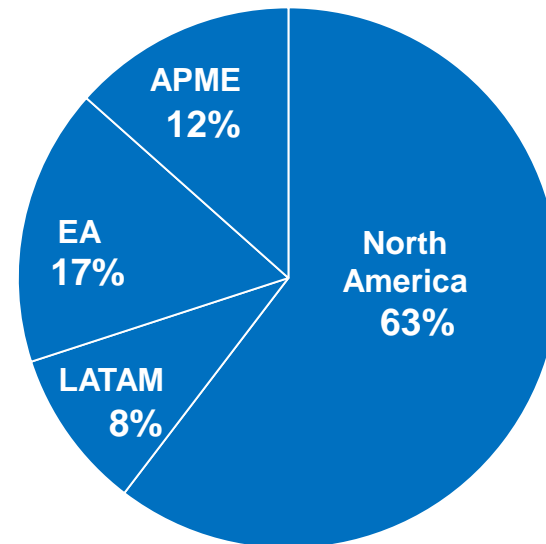
	Q4 2014	Q4 2013	Net Change	Constant Currency Change
<b>N. America</b>	\$1,151	\$1,110	4%	4%
<b>L. America</b>	\$140	\$139	1%	1%
<b>EA</b>	\$311	\$327	(5%)	0%
<b>APME</b>	\$221	\$241	(8%)	(6%)
<b>TOTAL</b>	<b>\$1,823</b>	<b>\$1,817</b>	<b>0%</b>	<b>2%</b>

## NORTH AMERICA

- Q4 record quarter in both sales and earnings
- Strong Q4 Device sales

## INTERNATIONAL

- Europe & Africa down after 8 Quarters of growth due to currency headwinds
- Asia Pacific down due to lower sales and currency headwinds
- Middle East growth in both Products & Services
- Latin America up 3% excluding iDEN



# BACKLOG



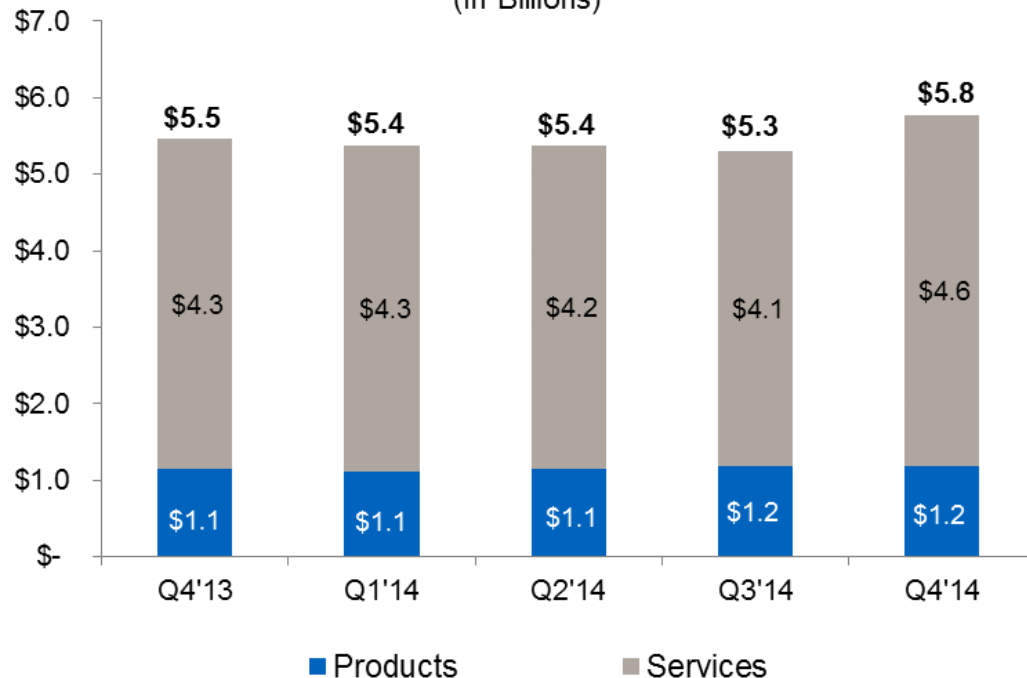
## Sequential Quarter Change (Q3'14 to Q4'14)

- Products up \$16M
- Services up \$453M, net of \$133M currency impact

## Annual Change (Q4'14 to Q4'14)

- Products up \$53M
- Services up \$268M, net of \$230M currency impact

Backlog Trend  
(In Billions)





# Q&A PARTICIPANTS

## **GREG BROWN**

Chairman and CEO

## **GINO BONANOTTE**

Executive Vice President and CFO

## **MARK MOON**

Executive Vice President and President,  
Sales and Product Operations

## **BOB SCHASSLER**

Executive Vice President, Global  
Solutions and Services

## **SHEP DUNLAP**

Vice President, Investor Relations

# USE OF NON-GAAP MEASURES



In addition to the GAAP results provided during this event, Motorola Solutions has provided certain non-GAAP measurements. Motorola Solutions has provided these non-GAAP measurements as a measure to help investors better understand its core operating performance, enhance comparisons of Motorola Solutions' core operating performance from period to period and to allow better comparisons of Motorola Solutions' operating performance to that of its competitors. Among other things, the Company's management uses these operating results, excluding the identified items, to evaluate the performance of its businesses and to evaluate results relative to incentive compensation targets. Management uses operating results excluding these items because they believe this measure enables them to make better period-to-period evaluations of the financial performance of its core business operations. There are inherent limitations in the use of operating results excluding these items because the company's GAAP results include the impact of these items. The non-GAAP measures are intended only as a supplement to the comparable GAAP measures and the Company compensates for the limitations inherent in the use of non-GAAP measures by using GAAP measures in conjunction with the non-GAAP measures. As a result, investors should consider these non-GAAP measures in addition to, and not in substitution for, or as superior to, measures of financial performance prepared in accordance with GAAP.

Details of these items and reconciliations of the non-GAAP measurements provided during this presentation to GAAP measurements can be found in the Appendix to this presentation and on Motorola Solutions' website at [www.motorolasolutions.com/investor](http://www.motorolasolutions.com/investor).

# SUPPLEMENTAL NON-GAAP MEASURES



# SUPPLEMENTAL NON-GAAP MEASURES



	Q1 '12	Q2 '12	Q3 '12	Q4 '12	Q1 '13	Q2 '13	Q3 '13	Q4 '13	Q1 '14	Q2 '14	Q3 '14	Q4 '14
Net sales	\$ 1,387	\$ 1,537	\$ 1,580	\$ 1,764	\$ 1,396	\$ 1,497	\$ 1,517	\$ 1,817	\$ 1,228	\$ 1,393	\$1,436	\$ 1,823
GAAP gross margin	697	766	820	910	693	750	765	901	577	656	685	912
Non-GAAP gross margin adjustments:												
Stock-based compensation expense	5	6	5	5	5	4	4	4	4	3	2	2
Reorganization of business charges	1	3	2	1	-	5	5	7	1	3	7	-
Non-GAAP gross margin	703	775	827	916	698	759	774	912	582	662	694	914
GAAP Operating earnings (loss) ("OE")	152	190	252	327	174	203	246	325	107	138	207	(1,459)
Non-GAAP OE Adjustments:												
Stock-based compensation expense	29	36	30	31	30	23	25	26	25	23	18	18
Reorganization of business charges	6	6	6	8	7	13	16	34	9	25	13	15
Intangibles amortization expense	-	-	-	-	-	-	-	-	1	1	1	1
Other highlighted items	-	-	-	(16)	-	-	-	-	(21)	8	11	1,906
Non-GAAP OE	\$ 193	\$ 241	\$ 295	\$ 356	\$ 216	\$ 248	\$ 296	\$ 396	\$ 126	\$ 201	\$ 259	\$ 483
GAAP OE%	11.0%	12.4%	15.9%	18.5%	12.5%	13.6%	16.2%	17.9%	8.7%	9.9%	14.4%	-80.0%
Non-GAAP Adj %	2.9%	3.3%	2.8%	1.7%	3.0%	3.0%	3.3%	3.9%	1.5%	4.5%	3.6%	106.5%
Non-GAAP OE %	13.9%	15.7%	18.7%	20.2%	15.5%	16.6%	19.5%	21.8%	10.3%	14.4%	18.0%	26.5%

# SUPPLEMENTAL NON-GAAP MEASURES



	Q1 '12	Q2 '12	Q3 '12	Q4 '12	Q1 '13	Q2 '13	Q3 '13	Q4 '13	Q1 '14	Q2 '14	Q3 '14	Q4 '14
GAAP Other income (expense)	14	(27)	(9)	(18)	(19)	(35)	5	(19)	(18)	(40)	(56)	(39)
Non-GAAP Below OE adjustments	16	-	-	-	-	-	23	-	-	-	(27)	-
Non-GAAP Other income (expense)	(2)	(27)	(9)	(18)	(19)	(35)	(18)	(19)	(18)	(40)	(29)	(39)
GAAP Earnings from continuing operations*	110	129	156	275	157	223	261	293	85	78	66	(926)
Non-GAAP OE adjustments	41	51	43	29	42	45	50	71	19	63	52	1,942
Non-GAAP below OE adjustments	(16)	-	-	-	-	-	(23)	-	-	-	27	-
Non-GAAP tax adjustments and effect	(7)	(33)	(13)	(68)	(57)	(11)	(2)	(6)	(32)	(20)	9	(728)
TOTAL Non-GAAP Earnings from continuing operations	\$ 128	\$ 147	\$ 186	\$ 236	\$ 142	\$ 257	\$ 286	\$ 358	\$ 72	\$ 121	\$ 154	\$ 288
GAAP Continuing operations earnings per share ("EPS")	\$ 0.35	\$ 0.44	\$ 0.54	\$ 0.97	\$ 0.56	\$ 0.81	\$ 0.98	\$ 1.12	\$ 0.33	\$ 0.30	\$ 0.27	\$ (4.02)
Non-GAAP Continuing operations EPS adjustments	0.05	0.06	0.11	(0.14)	(0.05)	0.13	0.10	0.25	(0.05)	0.17	0.35	5.27
Non-GAAP Continuing operations EPS	\$ 0.40	\$ 0.50	\$ 0.65	\$ 0.83	\$ 0.51	\$ 0.94	\$ 1.08	\$ 1.37	\$ 0.28	\$ 0.47	\$ 0.62	\$ 1.25
Diluted, weighted average shares outstanding	317.7	296.1	287.4	284.4	280.7	274.7	265.3	261.2	258.3	256.2	248.2	230.5

