



## Q1 2013 Earnings Conference Call Wednesday, April 24, 2013

### **PARTICIPANTS**

#### **Motorola Solutions, Inc. Corporate Participants**

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**Shep Dunlap** – Vice President, Investor Relations  
**Greg Brown** – Chairman and Chief Executive Officer  
**Ed Fitzpatrick** – Chief Financial Officer & Executive Vice President  
**Mark Moon** – Executive Vice President and President, Sales and Product Operations

#### **Other Participants**

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**Tavis C. McCourt** – Analyst, Raymond James & Associates, Inc.  
**Jim Suva** – Analyst, Citigroup Global Markets Inc. (Broker)  
**Peter J. Misek** – Analyst, Jefferies LLC  
**Stan Kovler** – Analyst, Morgan Stanley & Co. LLC  
**Simona K. Jankowski** – Analyst, Goldman Sachs & Co.  
**Keith M. Housum** – Analyst, Northcoast Research Partners LLC  
**Kulbinder S. Garcha** – Analyst, Credit Suisse Securities (USA) LLC (Broker)  
**Andrew C. Spinola** – Analyst, Wells Fargo Securities LLC

### **MANAGEMENT DISCUSSION SECTION**

**Operator:** Good morning and thank you for holding. Welcome to the Motorola Solutions first quarter 2013 earnings conference call. Today's call is being recorded. If you have any objections please disconnect at this time. The presentation material and additional financial tables are currently posted on the Motorola Solutions' Investor Relations website. In addition, a replay of this call will be available approximately three hours after the conclusion of this call over the Internet. The website address is [www.motorolasolutions.com/investor](http://www.motorolasolutions.com/investor).

At this time all participants have been placed in a listen-only mode and the line will be open for your questions following the presentation. I would like to introduce Mr. Shep Dunlap, Vice President of Investor Relations. Mr. Dunlap, you may begin your conference.

#### **Shep Dunlap, Vice President, Investor Relations**

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Thanks and good morning. Welcome to our call to discuss first quarter results. With me this morning are Greg Brown, Chairman and CEO, Ed Fitzpatrick, Executive Vice President and CFO and Mark Moon, Executive Vice President and President of Sales and Product Operations. Greg and Ed will review our results along with commentary, and Mark will join the Q&A session.

Earlier this morning, we posted an earnings presentation and press release at [www.motorolasolutions.com/investor](http://www.motorolasolutions.com/investor). These materials include GAAP to non-GAAP reconciliations for your reference. It's always important to review these materials. 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. And with that, I'll now turn the call over to Greg.

**Greg Brown, Chairman & Chief Executive Officer**

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Good morning, and thanks for joining us today. Thanks, Shep. This morning we reported first quarter sales of \$2 billion, an increase of 1% over last year. Sales in Government increased 3%, while Enterprise sales declined 4%. On a GAAP basis, net earnings from continuing operations were \$0.68 per share compared to \$0.50 in the year ago quarter.

Non-GAAP net earnings from continuing operations were \$0.66 per share compared to \$0.59 per share in Q1 of last year, a 12% increase. For the remainder of this call we'll reference non-GAAP financial results unless otherwise noted.

Now, as I think about our performance with respect to the quarter, I have three key takeaways I'd like to share with you on the business. First, execution on our business model remains solid with double-digit earnings per share growth driven by disciplined cost management and our return of capital to shareholders.

Second, coming off a record year in 2012, we still had continued growth in Government, with improved profitability in the segment as well, and North America was strong. In fact, growth in every region was good except Asia, where we did not perform up to our expectations.

And third, in Enterprise, revenue was softer than we anticipated and declined due to several factors.

First the WLAN business declined 30%, where we simply are not executing well. Second, our iDEN business declined over \$30 million in the quarter. And third, our rugged mobile computing business continues to be impacted by some macro uncertainty and a pending operating system transition. In this environment, a number of customers delayed purchase decisions in the quarter.

Now, that said, we believe improvement in the Enterprise business will be second-half driven for several reasons.

First, beginning in Q3, the run rate comps get more favorable from last year, which includes foreign currency exchange favorability of approximately \$30 million at current levels. Second, iDEN becomes less of a drag for the second half as about \$60 million of our now \$80 million expected full year decline will be in the first half of the year.

And third and finally meaningful customer engagements and the introduction of several new products should also drive second half improvement. In light of the slower recovery in Enterprise, we now expect full year sales growth for the total company of approximately 3% to 4%. This includes expectations for Government growth continuing at low to mid-single digits and Enterprise growth of low to mid-single digits reflecting market softness anticipated in the first half.

We remain confident in the fundamental drivers of our business and our ability to drive improved operating earnings. I'll now turn the call over to Ed to provide additional details on the quarter, and then I'll return to discuss the quarter in more detail.

**Ed Fitzpatrick, Chief Financial Officer & Executive Vice President**

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Thanks, Greg. Q1 sales grew 1%, lower than our expectations as we experienced mixed topline results. Our Government business performed very well with the exception of Asia, and as Greg stated, the recovery in our core Enterprise business is now expected to occur in the second half of the year.

In Government, we continued to see steady growth. First quarter sales totaled \$1.3 billion, an increase of 3% over the prior year quarter. Operating margins in the Government segment improved 200 basis points from 14.1% to 16.1%. Solid sales growth and continued cost efficiency drove the operating margin improvements in this business.

Enterprise business revenues decreased 4% to \$627 million in Q1. Excluding the impact of Psion and iDEN, Q1 revenues declined 8%. This compares to a 10% decline in each of Q3 and Q4 of 2012. Operating margins in the Enterprise business declined from 16.2% to 9.7%. This decline was primarily driven by lower Enterprise product sales volume, the addition of Psion sales and lower iDEN sales.

Operating expenses were \$683 million or 34.6% of revenue which represents a 60 basis point improvement from the year ago quarter. This includes the addition of Psion and lower pension expenses versus last year. We remain focused on ensuring our cost structure is aligned to the business needs and will continue to monitor and adjust our spending based on the macro environment. Our operating earnings for the first quarter were \$278 million or 14.1% of sales compared to \$290 million or 14.8% in Q1 2012.

Total other income and expense was a net expense of \$11 million in the quarter compared to a net expense of \$3 million in Q1 2012. This amount was higher year-over-year but lower than expected primarily due to gains on investment sales. We still expect this line item to be a net expense of approximately \$30 million per quarter based on higher interest expense going forward.

I'll now move on to taxes. Our effective tax rate was 30% for the quarter. This amount was lower than expected due to certain discrete items and a change in amounts that are now deemed to be permanently reinvested overseas. Given these items, we now expect an ongoing tax rate of between 32% and 33% versus our previous outlook of 34%.

Cash used by operating activities in the first quarter of 2013 was \$31 million as compared to \$69 million of cash generated by operating activities in the first quarter of 2012. The lower than expected cash flow results were negatively impacted primarily by the timing of long-term contract milestone billings.

Q1 was also adversely impacted by a little more than \$40 million that we were required to post related to a foreign tax deposit. We expect this amount will be refunded during 2013. We ended the quarter with \$3.7 billion in cash and investments and \$2.5 billion in debt. During the quarter, we executed a \$600 million bond offering at a 3.5% coupon rate as part of our long-term capital allocation plan.

With respect to capital return, we repurchased \$357 million of stock or 5.9 million shares at an average price of \$60.27 per share in the quarter. Since we began repurchasing shares in Q3 of 2011, we've bought back \$3.9 billion or 82 million shares at an average price of \$47.56. We have \$1.1 billion remaining under our current authorization. In addition, we paid \$72 million in dividends during the quarter.

Now turning to our Q2 and full year outlook; for Q2, we expect sales to be flat to down 2% compared to the second quarter of 2012. This factors in a flat to slightly down Government business given the very robust 14% growth a year ago and flat Enterprise sales.

Our Q2 outlook is for non-GAAP earnings per share of \$0.66 to \$0.71 from continuing operations based on the Q1 ending share count. This compares to non-GAAP EPS in Q2 2012 of \$0.70 per share. This outlook excludes stock based compensation and intangible amortization expenses of approximately \$0.13 per share and other items historically highlighted in our quarterly earnings releases.

Moving to full-year 2013, our outlook is now for sales growth of 3% to 4%, which factors in a softer first half for Enterprise than we initially expected. We remain committed to driving operating leverage and continue to plan for full year operating margins of approximately 18%.

I'll now turn it over to Greg for business highlights from the quarter.

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**Gre Brown, Chairman & Chief Executive Officer**

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Thanks, Ed. As previously stated, Government sales for the quarter were up 3% over Q1 2012. Profitability for the business also increased, with operating earnings of 16.1% compared to 14.1% in Q1 of last year.

In ASTRO, our industry-leading P25 portfolio we grew nearly double digits with strong subscriber growth representing a record Q1. In terms of new contracts, we received a \$72 million contract from the state of Tennessee to implement Phase 2 of the Highway Patrol statewide P25 Phase 2 digital communications network. This system will provide the critical communications link to assist Tennessee's troopers in ensuring their state is a safe and secure place in which to live, work and travel.

We were also awarded a \$26 million contract by Las Vegas Metropolitan Police Department to implement a P25 Phase 2 700 megahertz digital radio communications network. This was a competitive win-back, and this system will provide critical voice communications for METRO Officers throughout Clark County, Nevada and expand the interoperable P25 footprint in Southern Nevada.

Wyandotte County in Kansas purchased a \$25 million ASTRO system to serve public safety first responders and utility workers. Outside the U.S., we received an ASTRO award for over \$70 million, which is our largest ever system sale in Africa and the first phase of a nationwide communications network. And in Brazil the Army recently added a multi-million dollar expansion to their ASTRO system as well.

We continue to innovate for public safety with customer-driven features embedded in our radios, and more than ever, we enable them using software options. Examples of several features in our ASTRO system that are software enabled include efficient spectrum use with Phase 2 TDMA, dual band functionality and enhanced security and encryption.

Our digital platform continues to enable a smarter and more robust communications network with features such as over the air programming, network management utilities and remote diagnostics. And the exciting opportunity is that 60% of our customers' public safety networks in the U.S. are still analog and eventually will migrate to digital.

Our TETRA portfolio also had a good quarter with double-digit growth driven by new systems. We continue to execute on our tiering strategy in TETRA. In this quarter, we launched the new MTP6750 handheld, the world's first TETRA radio with a 5-megapixel camera. It embeds a special encrypted marking to validate metadata and ensure that images have not been tampered with before being presented in court. Giving frontline officers this tool at the scene of a crime should reduce court time and increase prosecution rates with images used as evidence.

At the recent International TETRA Awards our Automated RF Coverage Evaluation Solution won recognition for best new innovation. Developed collaboratively with the London Metropolitan Police Service, this network monitoring utility provides automatic visibility of trouble spots on a mission critical TETRA network and reduces maintenance costs by decreasing the need for testing in problem areas.

Our ASTRO and TETRA mission critical communication systems help secure mission critical infrastructure beyond public safety. We've tailored our products to meet the needs of requirements of expanded verticals such as transportation and mining and energy.

The Houston airport, the fourth largest in the U.S. upgraded its command and control center with a \$4 million investment in Motorola's MCC7500 IP Console for critical dispatch needs and daily operations. Combined with their deployment of the new APX subscriber platform, more than 1,000 users efficiently manage operations supporting 36 million travelers annually. And among our international TETRA customers this quarter, we won multi-million dollar awards with rail transportation systems in Stockholm, Sweden; Klang Valley Malaysia, Macau, China; and Medellin Metro in Colombia.

Our radios are also designed to operate in harsh environments like petrochemicals and oil and gas. For example, the SIBUR Russian pipeline recently invested in a multi-million dollar TETRA system. In Australia we're working with Queensland Gas Company on a \$4 million enhancement to their TETRA radio network. And Chevron in Thailand recently purchased the TETRA system for their operations.

Additionally, we continue to invest in areas beyond voice and into the command center. Command centers for law enforcement are the backbone for receiving and sending mission critical voice and data, enabling "situational awareness" for first responders to be more effective. As public safety increasingly leverages "big data", our capabilities are once again addressing key needs.

Our new Real-Time Crime Center solution integrates radio consoles and video over existing carrier and private wireless networks while incorporating public and private sector cameras. The Real-Time Crime Center solution provides a foundation for agencies to operationalize predictive policing strategies and use analytics to realize the full promise of technology investments in voice and video.

The City of Malden, Massachusetts is an early adopter of a Real-Time Crime Center and recently implemented an Integrated Public Safety Video Surveillance Network incorporating over 30 video cameras located throughout the city.

In Public Safety LTE, we continue to work with our North America customers while several of them are negotiating spectrum-lease arrangements with FirstNet following their February board meeting.

We're also pursuing international opportunities and innovating with products like our new LTE modem, the VML700 which interoperates on a carrier and public safety LTE network. The modem works on a public carrier LTE network and can also act as a mobile 802.11 mobile WiFi hotspot while our customers plan for a public-safety-grade LTE network. This VML700 enables new media rich applications like photos, geo-mapping, or streaming video in the vehicle.

Another testament to our leadership position this quarter, we were the first public-safety LTE vendor to successfully complete the latest interoperability testing activities with the Public Safety Communications Research Program located at the Department of Commerce. And our LEX700 LTE handheld device for public safety is now available to ship.

For our Federal customers, we released a new product designed to serve their agencies that need secure voice and data communications. The AME 2000 is based on Motorola's Assured Mobile Environment

solution which combines a commercial off-the-shelf Android device with hardware and software to provide end-to-end encrypted voice and data communications through private or public wireless networks to support the missions of Federal agencies. This new mobile device combined with our CRYPTR micro Encryption Unit provides Federal government level data security to mobile devices.

Moving on to our Enterprise segment, sales in Enterprise were \$627 million, a decrease of 4% from Q1 of 2012. Operating earnings declined to 9.7% of sales from 16.2% last year driven by negative leverage from lower sales, iDEN declines and the addition of Psion revenues which will carry lower than segment margins as we continue to drive margin improvement in that business.

Within the Enterprise portfolio, our business was down primarily due to the iDEN decline, Wireless LAN declining over 30% and the Enterprise Mobile Computing business declining single digits without Psion.

In addition, a large base of legacy applications deployed by our Enterprise customers are written in Microsoft's legacy O/S, which is aging. As a result, customers are contemplating a transition to Android or the future Windows Phone 8 embedded operating system. Although this doesn't impact all of our customers, it has resulted in delays for several customer projects.

Now that said, we do have a dual OS strategy with Microsoft and its variants in our Enterprise secure version of Android. We continue to deploy Windows CE and Embedded Handheld 6.5.3 products. And we are strategically partnering with Microsoft on their release of the next generation of Windows Embedded Handheld based on Windows 8. We've also launched Android products and the ecosystem is growing in Enterprise, and more importantly we've offered our customers an OS agnostic solution in RhoMobile, a tuck-in acquisition we made a while ago which I remind you is an HTML 5 framework that enables "write once, run many" applications.

We've also ramped up our new product launches over the last few months, especially on the Enterprise Mobile Computing side with updates to core products like the MC92 and MC67. We've also brought to market several new "category expanding" Enterprise Mobile Computing products like the MC 40, the Smart Badge 1, and MC45 and our MP6000 multi-plane scanner, which is our first entry into an entirely new market for us in bioptic scanning.

The updated core products are playing well competitively, especially the MC92 and MC67 which represent the leading products in their respective categories. And we're also seeing good pilot interest and funnel expansion for some of our newer portfolio.

Our Enterprise business is purpose-built with solutions designed by working closely with our customers to meet their unique business requirements. For example, we launched two new wearable devices designed to increase efficiency and accuracy in inventory and warehouse distribution.

Our new and improved wearable mobile computer enables warehouse associates to keep their eyes and hands on moving materials and frees them from paperwork. Accompanying with our wearable finger ring scanner, it combines effortless scanning and task accuracy verification. Our innovation in this space resulted in multi-million dollar awards this quarter from two parcel and delivery companies in the U.S.

Among our transportation and logistics, customers OnTrac, a regional parcel carrier that serves the Western U.S. continued their \$4 million rollout of MC9500s for their delivery fleet.

Tesco continues to investigate in our MC17 Retail Mobile Computers, which enables a personal shopping experience in their stores with a \$3 million order this quarter for an additional 100 stores.

We designed this product working closely with Tesco allowing customers to scan items while they shop, efficiently checkout and target promotions with buying patterns. We were also awarded a contract to supply Dutch retailer Sligro with MC17 devices for use in 30 of their largest stores.

On the RFID front, Macy's has been a leader in the adoption of RFID in retail, and this quarter they continued to invest in our RFID solutions for their stores, which increase inventory accuracy and enhance productivity. At the recent ProMat Conference we demonstrated our comprehensive supply chain solutions from manufacturing to distribution to retail outlets.

Our comprehensive offerings are now complemented with Psion's rugged modular offerings to the manufacturing and the supply chain verticals. One Psion product that exemplifies this rugged design is the Omnii XT15ni, a handheld device designed specifically for operation in hazardous conditions including pharmaceuticals, oil and gas, utilities, chemical and other manufacturing applications.

We're encouraged by the early interest we've experienced with our new category expanding device, the MC40. This multi-function device is designed for inventory management as well as point-of-sale and voice. For front of the store, it provides a robust alternative to a consumer device with the durability that is core to our devices in a sleek, pocketable design with touch screen interface. We are working with some customers who previously explored consumer-grade devices with attached sleds and found them to be inadequate point of sale solutions because of lack of durability, shortfalls with voice and push-to-talk clients and a lack of Enterprise level support.

Our solution meets these requirements, supports multiple applications in one device with a built-in card reader, includes full-shift battery life with user-swappable batteries and a secure operating system that enables multiple users to have unique log-in and security credentials.

Now before turning to a regional overview of the company, I wanted to explain some changes to our regional reporting structure. In January, we realigned our regions under a new geographic structure. Sales from the Middle East are now included with Asia, forming a region that we now call "APME". We also installed the new leader in January in APME as well.

And our sales in Europe and Africa form a region called "EA", and we've included a historical schedule of the performance of these regions with this quarter's earnings release. And, Mark, I'm sure, may have the opportunity to elaborate further on the regional structure later during the call.

Moving on to the regional results this quarter for the total company, with respect to the Americas, North America sales increased 1% with continued strength in Government up 6% while the Enterprise business declined double-digits. Latin America performed well this quarter. Both Government and the Enterprise without iDEN increased double digits. Including iDEN, Latin America was down 3%.

Turning to Europe and Africa, we grew 13% driven by double-digit growth in both Government and Enterprise. Excluding our Psion acquisition, the Enterprise business declined mid-single digits.

Finally, in Asia Pac and Middle East, sales declined 13% driven by a significant double-digit decline in Government. The Government business in Asia declined across the portfolio, and the Enterprise business grew mid-single digits year-on-year. We still anticipate full year growth in Asia Pac and Middle East overall.

Couple of other final comments: we also received top recognition from CRN's 2013 Partner Program Guide awarding PartnerEmpower – our PartnerEmpower channel program a five-star rating. CRN recognizes an elite subset of vendors that provide the best partnering elements in their channel

programs. Our 20,000-plus partners are an extension of Motorola that scales globally and complements our direct sales organization.

In fact, many of our partners have been with us for decades and are proud to exclusively represent our products. It is also worth highlighting that we were also honored with an unprecedented five Red Dot Product Design Awards including recognition of innovative designs for our new MC40 mobile computer and the MOTOTRBO SL radio and mobile radio control head.

Now the Red Dot Awards as they are affectionately known is one of the most internationally acclaimed design competitions dating back over 70 years, and the Red Dot is an internationally recognized seal of quality.

In conclusion, our Q1 revenues were softer than we anticipated driven by mixed results. Looking forward, the Government business remains solid. And within Enterprise we expect second half improvements from customer engagement and new products as well as a benefit from lower comps and favorable foreign exchange. We remain focused on driving revenue growth, earnings improvement, cash flow, and shareholder return.

#### **Shep Dunlap, Vice President, Investor Relations**

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Thanks, Greg. Before we begin taking questions, I would like to remind callers to limit themselves to one question and one follow-up in order to accommodate as many participants as possible. Operator, could you please remind our callers on the line how to ask a question.



## **QUESTION AND ANSWER SECTION**

**Operator:** Our first question comes from Tavis McCourt with Raymond James. Please go ahead.

**<Q – Tavis McCourt – Raymond James & Associates, Inc.>:** Yes, I guess one and then a follow-up. First, I guess a little more clarification on the weakness or misexecution or how would you clarify it in terms of the Asia Pacific business? And what steps are you taking to turn around that trend? And then secondly, although I understand the guidance, I'd like to understand kind of the levers you could pull if the full year turned out to look a lot more like Q1 in terms of flattish year-over-year growth. Could you still get to margin expansion, or does it require some topline growth to get there? Thanks.

**<A – Mark Moon – Motorola Solutions, Inc.>:** So, Tavis, I'll take the first piece of that question. I think we talked about through several quarters of last year that we were not pleased with our performance in Asia. As you remember, we reported single-digit growth in both Government and Enterprise last year. At the end of the year, we decided to make some changes, both structurally as we kind of expanded our sales coverage and went to more regional leadership. We also made a leadership change within the region with bringing in a new leader by the name of Mohammad Akhtar who had previously led the Middle East but prior to that assignment had served 15 years within Asia and had wonderful experience with Motorola as – within the region.

This particular quarter, we also did not perform as well as we had hoped, and similar to the Enterprise story, I do believe it will be second-half driven. As Greg said, though, we do still expect for the Asia region to be mid to high single digit growth for the year. If you think about the quarter in particular, though, the quarter was really driven by a couple of countries around the region that had some anomalies.

While I'm not making excuses for our performance, Malaysia was down \$12 million as a result of the roll-off of the Royal Malaysian Police project. India and Australia were down \$8 million and \$6 million respectively, with large projects that happened the previous year. And then China and Japan were both down \$7 million. We continue to experience some pressure in China both macro economically as well as localization pressure around the PDT standard for our PCR type of business. So we continue to be pressured there, but as I said, I think we put the steps in place to turn that business around. I'm confident in the leadership. I'm confident in the moves that we've made, and I think you'll see steady improvement as we move throughout the year.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Yeah, on the full year outlook, Tavis, obviously we spent a lot of time on it. We believe primarily as the Government business continues to moderate I think pretty solidly and still grow off of record comps the previous year, that's also why we think when we guide Q2 to flat to slightly down or flat to down 2%, that's also embedded in that with a record 14% quarter than the previous period for Government. At the end of the day it primarily comes down to Enterprise. We think we're taking a pretty prudent approach. The full-year guidance still does expect, as you asked specifically, some topline growth. That's expected for the second half and for the full year. Now, that said, I'll tell you I'd like to think it's in the DNA of this management team to continually manage costs pretty aggressively, which is why we're reiterating our commitment to operating leverage and still targeting approximately an 18% operating margin for the full year this year irrespective of what the topline growth is.

**<A – Ed Fitzpatrick – Motorola Solutions, Inc.>:** So, Tavis, as you know, as we've talked about, we need topline growth to drive leverage and to improve operating margins. We are assuming that topline 3% to 4%, but we do think that 18% is achievable based upon our view of spending. There was some level of investment assumed in our prior guidance that we have now pulled back on, and that's why we do believe we can get that 18%. And as Greg said, it's in the DNA of the organization that everyone knows

what they need to do. If the top line is softer, we don't make the investments that we had planned to make. So that's all factored in to what we've guided here.

**<Q – Tavis McCourt – Raymond James & Associates, Inc.>**: Thank you.

**Operator**: And our next question comes from Jim Suva with Citi. Please go ahead.

**<Q – Jim Suva – Citigroup Global Markets Inc. (Broker)>**: Thank you. A follow-up to the – one of the prior questions about Asia not performing well, it sounds like you've got a grasp on what happened there, but I'm a little bit unclear, maybe you can take another shot at it about what are you guys doing there to resolve this? Is it do you need to have a bigger footprint there? Do you need stronger sales force people or is it more channel work through? Or do you need to withdraw more or make more M&A there? How are you going to resolve the Asia challenges that you're seeing?

**<A – Mark Moon – Motorola Solutions, Inc.>**: So, Jim, I think in short it's a little bit of all of what you just mentioned. When we look back over the last several years, we were fortunate in Asia to have steady growth, even through 2009 when we declined in other regions, we had growth. But in retrospect, when we look at that, that growth was really centered around China and Australia and some large projects. What we recognized last year is that we didn't have the proper strategy and resources in the areas that we see for future growth, the emerging countries like Indonesia, India, Thailand, Vietnam. So what we've done is rebalanced our resources. When I talked about a new sales coverage model, that's exactly what we did both from a leadership perspective as well as augmenting some resources from outside of the region with subject matter expertise to help kick start that growth in these new areas.

So, combined with the overall leadership, I think that we've taken the steps to go do that. I do think it will take time. That's why I talked about second half driven, but we really do understand and I think the opportunity for growth within that region is certainly still there.

**<A – Greg Brown – Motorola Solutions, Inc.>**: And, Jim, just to accentuate, we think it's organic investments. So when you kind of inventory the main items for the Asia recovery plan, it's leadership, marketing, channel management, sales coverage, which basically represent organic investment and a reprioritization of capital deployment that we have every intention of making.

**<Q – Jim Suva – Citigroup Global Markets Inc. (Broker)>**: Great. And then as a follow-up switching gears to the Enterprise side of things, is that more macro-driven and Enterprise budgets and uncertainty and just given the overall macro issues, or is there something that MSI, Motorola Solutions can do to kind of surpass and get around the challenges that have kind of been persisting on the Enterprise side as far as products or rollouts? Or how should we think about overcoming those headwinds?

**<A – Greg Brown – Motorola Solutions, Inc.>**: So, Jim, I think that there's a few factors. I think it's primarily macroeconomic driven, which has resulted in customers deferring some purchases. Now, Q1 was challenging on the Enterprise side and it actually got a little bit more challenging toward the latter half of March.

I also referenced, though, in my earlier comments there is this uncertainty around operating system transition. Remember the mobile computing environment, which is the bulk of our Enterprise business, is virtually a 100% Microsoft installed base. Customers with Windows CE, customers with Windows Embedded Handheld, they want a road map on how they transition from their OS environment to the new Microsoft environment. And that's work that we're still working with Microsoft on. I was on a call recently yesterday with the development teams and Steve Ballmer and myself, and we're working on a few client opportunities to ensure and target getting a new Microsoft release product piloted by the end of the year.

So that's also a component. Now, having said all that, remember, our wireless LAN business declined over 30%. That's not market driven. That's a failure to execute on our part, and we are transitioned – we've transitioned from moving from a product sale to a managed services sale on WLAN and we're not doing a good enough job. And the next few months will be critical for us to get more traction and grow that business of opportunity.

And then lastly, Jim, the iDEN business was down pretty sharply in Q1. Most of it was anticipated, but quite frankly iDEN was down even more than we thought. It was a \$32 million year-over-year decline. And for the full year we now expect iDEN to be about \$185 million full year in 2013 coming off of \$265 million the previous year. So actually the overall decline in iDEN is a little bit more pronounced than we originally thought.

**<Q – Jim Suva – Citigroup Global Markets Inc. (Broker)>:** Great. Thanks for the details, gentlemen. I appreciate it.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Thanks, Jim.

**Operator:** And our next question comes from Peter Misek with Jefferies. Please go ahead.

**<Q – Peter Misek – Jefferies LLC>:** Yeah, gentlemen. The first question is on capital return. Can you give us an update on where we are with that process and leveraging onto the balance sheet? And then I had a couple of operational questions.

**<A – Ed Fitzpatrick – Motorola Solutions, Inc.>:** Sure, so just high level we're obviously very pleased with the progress we've made with the program – the share repurchase program thus far, got a little over 20% of our share base being reduced since the inception of the program. 82 million shares, \$3.9 billion at an average price of \$47.56. This quarter we did another \$357 million at an average price of \$60.27, bringing our ending share count at the end of the quarter to 272 million shares. We have about \$1.1 billion remaining in the program as of the end of the quarter. And I'd say kind of our thought process going forward, Greg can add to it, is we'll maintain the flexibility to be opportunistic in the execution of the repurchase, as we've done in the past. So, you should expect that same mantra going forward.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Yeah, I mean, we've clearly demonstrated our commitment to capital return to the shareholder now approaching \$4 billion. You've seen the levels we've purchased back at what prices. By the way, at the end of the day, all in we feel very good about the value created with that whole process, and we will continue to be opportunistic going forward to maximize shareholder return.

**<Q – Peter Misek – Jefferies LLC>:** So just a couple of quick operational questions. The first is, how should we think about currency and FX going forward? Obviously, very volatile swings in the yen but we've also had some big movements in the euro. How should we look at that for the remainder of the year? What assumptions are we – we should be modeling? And then lastly, as we look at the Government business higher level and maybe a little bit longer term more qualitatively, you made some comments on the analog/digital switchover. How much of that equipment is installed? How should we look at that progression as we approach the 2018 cutoff deadline? If you could help there qualitatively that would be great. Thanks.

**<A – Ed Fitzpatrick – Motorola Solutions, Inc.>:** Sure. On the FX front, if you recall last year, Q3 in particular was the big dip, and for us the biggest euro – the biggest impact on FX is the euro. So as that declined last year fairly significantly, it caused effectively a – it think it was a \$40 million or thereabouts decline in sales in Q3 that we talked about. At rates where they are today with the euro at about 1.3, that

causes for the second half of the year, in fact a lot of it in Q3, a \$30 million improvement in Q3 and a little bit more for the full year. So that's the way we're thinking. Our guidance is factoring in current rates, assuming they stay where they are, and that's the impact that Greg talked about on the call.

**<A – Mark Moon – Motorola Solutions, Inc.>:** Peter, as you think about the Government business as we've talked about, we've been very pleased with how resilient the Government business continues to be. Last year as we talked about the real strength, there was a lot of talk about narrowbanding, which certainly had an impact in North America. But at the same time we talked a lot each quarter about new product introductions, the expansion of analog to digital. We also talked about the benefits of that and of aging infrastructure. The comment Greg made earlier about 60% of our customers in North America are still analog; worldwide 50% of our customers are still analog. So as we go forward, given that aging infrastructure, the benefits of moving from analog to digital as well as the things that we just talked about, the need, the drive – the fundamental drivers that are still present within government, it helps us continue to be optimistic. We talked about the Government business being low to mid-single digits. I think as we continue to put out new products, once LTE takes hold, as we talked about and we'll talk about further, LTE's been somewhat delayed, we think that moves the Government business to continue to be in solid mid-single digit kind of a growth business.

**Operator:** And our next question comes from Stan Kovler with Morgan Stanley. Please go ahead.

**<Q – Stan Kovler – Morgan Stanley & Co. LLC>:** Thanks. I'm calling in for Ehud Gelblum. I just wanted to ask you on the mobile computing side, are you seeing any impact from as you mentioned customer oriented devices like iPad, iPhone, I mean help us quantify that? And in terms of the mix of Microsoft versus Android going forward, how do you anticipate that change shifting perhaps to more Android – more percentage of the portfolio or of that business could go potentially to Android? Then I have a clarification.

**<A – Greg Brown – Motorola Solutions, Inc.>:** So you kind of clipped in and out. I think what you were asking was about Microsoft to Android transition, and then also the consumer device potential substitution in mobile computing? Is that what you were saying?

**<Q – Stan Kovler – Morgan Stanley & Co. LLC>:** Yes, that's correct. Thanks.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Okay. So, on the Microsoft side or the operating systems side, obviously we ship both. We do Microsoft and Android. I described already the conversations with Microsoft at the highest levels of the company to ensure a road map for our installed base customers of Microsoft. Now two of our newest products, the MC40 and the ET-1 tablet now WAN-enabled are both Android. It's also worth noting that what we do is we, Motorola, take off the shelf Android and then with our development team under Girish Rishi, put specific Enterprise features around that on device management, security, encryption, and the like and we will continue to do that.

So I think that you will see us continue to ship more Android product, of course, in 2013 and 2014 and have more than a couple of products on Android. We will work with Microsoft to transition the legacy installed base, and also we probably have a few dozen customers that have invested in RhoMobile, which was the tuck-in acquisition we did. And again, that whole reason is kind of an insurance policy that lets a customer install RhoMobile software which is operating system agnostic and provides an application framework that they can run – write once and run many irrespective on the OS underlying the specific device.

On the consumerization if you will, as some people like to call it; as I mentioned earlier in my remarks, there are a couple of positive signs where customers have looked to deploy either an Android device or

an Apple iOS device and for a variety of reasons have come back to us, whether it's durability, whether it's overall post-sales support on application refresh or break fix or inventory management or help desk support, having an Enterprise device is different than trying to just take a consumer device and slap it into an Enterprise framework.

We are cautiously optimistic that the MC40, as well as the overall feature and service capabilities that we bring to the table can mitigate some of the front-facing store operations on in terms of the consumerization or use of a consumer-grade device. It's still in transition. I don't know if Mark wants to add anything to that, but I think generally we're well-positioned and stay tuned.

**<A – Mark Moon – Motorola Solutions, Inc.:** I think the comment was exactly right. We talked about it in the past. There's certainly been a presence of consumer devices moving into the front of store. As we've said, I think that's also a positive because it increases the visibility and the need for mobility. And as we've said in the past, all ships rise with the tide, at the same time we're expanding our portfolio, as Greg said, the MC40, the MC45, the Smart Badge. So, we're beginning to move from this traditional, rugged line worker which is still the heart of our business, move back up so that we have offerings in the front of store as well.

**<A – Greg Brown – Motorola Solutions, Inc.:** Yeah, that's an important point. Remember as you look at our rugged mobile computing business, it's typically blue collar, concrete, warehouse, purpose-built. The front-facing store fight between our MC40 or a consumer-grade device we look at more as opportunistic than a cannibalization or a core threat to the heart and soul of what we do on rugged devices.

**<Q – Stan Kovler – Morgan Stanley & Co. LLC:** Thanks. That's very helpful. And then, on the financials, going back to the Enterprise margins, is it just a matter of higher revenue to improve margins, or is there anything related to mix that will also change, iDEN obviously going down a little bit more than you expected, impacting the operating margin there? Maybe you can clarify what else gets you back up in terms of operating margin there. And just a little bit more color on the taxes going down, if you can help there. That's all for me. Thank you.

**<A – Greg Brown – Motorola Solutions, Inc.:** So I think Ed and I will tag team this. But you're right, on the margin profile on Enterprise, the contraction is partly due to a more accelerated decline of iDEN, which has a different gross margin profile. It's also the incorporation of Psion which has lower gross margins at the moment, as we integrate that acquisition. By the way, the overall integration of Psion, I think, is going well, and we will work over time to get the economies of scale in the supply chain to take the gross margin profile of their products directionally more in line with the gross margin profile of our Enterprise portfolio. And on tax?

**<A – Ed Fitzpatrick – Motorola Solutions, Inc.:** Yeah so – and just a few more things on the margin side, really. You said it right. It's really volume, as the volumes go down at the gross margin level of this business, it hurts the operating margin. So volume is probably the biggest contributor to the operating margin decline. The gross margin decline and we talked about really the mix of Psion and iDEN as well as a shift between product and services mix, which brought the gross margins down for the full year. As Greg said, I think in the aggregate as well, our view is that we should be driving operating margin improvement as we get to a full year view of low to mid single digit growth. In the Enterprise business we should see operating margin expansion as you look at the firm with the mix of iDEN going down, that may be a bit more challenging the aggregate but if you exclude that piece of it, for sure, we're going to be driving operating margin improvement.

**<A – Greg Brown – Motorola Solutions, Inc.:** And he had a tax question, I think.

**<A – Ed Fitzpatrick – Motorola Solutions, Inc.:** And on the tax piece, we had guided previously the 34%. We had a 30% effective tax rate this quarter. About 2.5% of that was related to the discrete items that I had mentioned. It related to international and certain U.S. tax adjustments. Those aren't necessarily recurring; however, there's a 1.5% decline that we will be using to record our taxes going forward in the ongoing rate which we now expect to be from the 34% now down between 32% and 33% related to our assertion that in certain countries our earnings in those countries will be permanently reinvested based upon our assessments. This all goes to our overall strategy of ensuring we have cash where we need it when we need it, particularly in international jurisdictions, so that cash becomes much more fungible going forward.

**<Q – Stan Kovler – Morgan Stanley & Co. LLC:** Thank you.

**Operator:** And our next question comes from Simona Jankowski with Goldman Sachs.

**<Q – Simona Jankowski – Goldman Sachs & Co.:** Hi. Thank you very much. I just wanted to dig in a little bit more into the Enterprise segment just to make sure I understand the comments. So, I think you talked about some uncertainty in the installed base, which is virtually 100% of Microsoft and some of the products you're highlighting as addressing some of the interest in Android, such as the MC40 and the ET-1. They're more, as I understand them, a front of the store kind of product. So, can you just comment a little bit on whether the installed base is looking at Android as an operating system for the traditional back of the store, concrete floor types of applications where you've focused on? And if that's the case, then if you can just outline a bit more on the Android roadmap in that area.

**<A – Greg Brown – Motorola Solutions, Inc.:** I think, Simona, at the moment I would characterize the consideration for Android as more front-facing customer store. So – and we're also refreshing, the MC67 and MC9500 and some traditional products. Now, it all depends ultimately on the speed and pace of development of the new OS by Microsoft but I would – I'd characterize it more around customer facing. Mark, I don't know what you think.

**<A – Mark Moon – Motorola Solutions, Inc.:** Yeah, I completely agree. When you think about back office, rugged, you usually don't have touch screen kind of devices. You're not as worried about that, if you will, consumer user interface, and there's a lot of investment. As Greg has mentioned in the past, almost 100% of all vendors, not just Motorola, of those kinds of devices are Microsoft-based. Therein lies some of this delay, and the interest from the industry in the next generation from Microsoft of what they're going to go do. At the same time, though, we do want to provide options as we go forward, and that's what we're continuing to do.

I do think the exciting piece of all of this is while we have been slow to ramp up in our sales of large projects and we've talked about that for the last several quarters, it is encouraging both engagement with customers – I was also at a recent partner event with our top 100 partners, and there was excitement actually about their engagements, our new products, what we're talking about, roadmaps, and our actual funnel activity has really increased quarter over quarter, strong double digits. And in fact the large project funnels, those over \$15 million have increased 25%. So while we know we've got to go execute in Enterprise and we've talked about it being second-half driven, it is encouraging that we're seeing good signs that that will indeed happen.

**<Q – Simona Jankowski – Goldman Sachs & Co.:** Okay, and when you talked about having a new Microsoft released product piloted by the end of the year, can you just expand on that? Is that something that you're waiting on Microsoft to release, or is it something that you are going to release? And doesn't

that imply that, you know, we wouldn't really expect to see much improvement in that area until that product is out?

**<A – Greg Brown – Motorola Solutions, Inc.>:** Well again, so characterize it more as customer front facing, and we're already shipping product with the MC40 with Android and specific Enterprise features around that. Simona, yes, we will wait for Microsoft to give us a release of the successor to Windows Embedded Handheld, and then we will take it and test it and certify it along with the necessary wireless carriers here in the states like Verizon and AT&T. So, yeah, but we're working – the two development teams are working pretty closely on the architecture of the system, the chipset design, the timing of different releases, but yes, we are working with and primarily waiting on. But it is a very iterative discussion, again, that I referenced we had as late as yesterday and we'll continue to have over the next few months.

**<A – Mark Moon – Motorola Solutions, Inc.>:** The other important point around that though is, so that you don't think that they'll just wait on this new product, we talked about earlier and Greg mentioned that we are OS agnostic. And this solution with RhoMobile allows customers to not only move forward with Android but move forward as well with existing Microsoft products that we're offering as we're going forward. We talked about actually upgrading some of our good, strong sellers that are leading the industry. So, while there's this interest in the future roadmap, there's still compelling reasons right now to move forward.

**Operator:** And we'll take our next question from Keith Housum with Northcoast Research. Please go ahead.

**<Q – Keith Housum – Northcoast Research Partners LLC>:** Thanks, guys, for taking my call. First question has to do with the services. It appears that services increased as a percentage of business quite a bit over, I guess, last year. How should we look at this going forward? Should we expect to stay at this level or continue increasing?

**<A – Mark Moon – Motorola Solutions, Inc.>:** I think, we talked about last year both at the financial analyst meeting and through the quarters that we continued to expand our services capability, and we want to continue to do that. As we think about solutions for customers and as we talk to customers in the field, they're asking us to look at integrating more components of their overall needs. So our services piece is expanding, and we see that happening as we go forward.

With that said, I think when Ed talked earlier about the Enterprise mix, the increase in services as a percentage of equipment in Enterprise this past quarter was really driven not as much by strategy but more by the lack of sales volume of Enterprise equipment, which impacted the margin. So I think as we go forward what we've talked about is even with this increase in service, we continue to believe that we can maintain our operating margins in our course of continued operating margin improvement.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Yeah the thing I would add, Keith, is that we will stay close to the core on services. So we're not going to stray too far on things that are not core to our business. So I point you back to a great opportunity that we capitalized in Norway where we're operating under the services banner a multi-year TETRA network. I just returned from Australia last week. Australia is arguably probably the best managed services theater that we have in the world. Both on MMR land mobile radio as well as a mobile data network, and there's other opportunities there as well.

And then lastly the other opportunities both on Government and our rugged mobile computing I would characterize around life cycle managed services. So if some customers may opt to not buy mobile computing devices, but in turn have us do it, have us do the technology refresh, have us price a managed

services engagement that allow us to manage the device portfolio and provide them a cost per user or a monthly charge, we'll do that.

So things around public safety, public safety LTE, and the rugged mobile computing space represent a very good service opportunities that are adjacent to our core and that can be used to capitalize on our domain expertise.

Operator: And our next question comes from Kulbinder Garcha with Credit Suisse. Please go ahead.

**<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>:** Thanks. Just a quick question for Greg and I know you kind of touched upon this but on the Enterprise business it seems that over the last year to year and a half there's been various reasons why revenues haven't come through, whether it's macro or big deals being pushed out, now Wireless LAN and an OS transition. I'm just wondering is a more structural portfolio review being done, is that being considered? And I take the point that Ed made on maybe pulling back on the investments, but what about actually looking to actually lower the cost base in that business if it doesn't see the recovery in the second half? How do you see that playing out? Many thanks.

**<A – Greg Brown – Motorola Solutions, Inc.>:** So, Kulbinder, a couple of things. On rugged mobile computing, you're right, it's been sluggish for a few quarters. As we articulated, we expect a thoughtful second half return for the reasons we described. That said, it also really was very, very strong for probably six to eight quarters prior to this latest downturn.

So it's a great core business for us, but it does have more cyclical and swings that are more susceptible to the macroeconomic than the steady, stable, more predictable Government business where we have a stronger position and quite frankly we're between the age of the infrastructure, narrowbanding, the global move from analog to digital and a whole host of other reasons why that business is more stable. We still believe and I still believe that in the core of our Enterprise business this downturn is more cyclical than structural. Now, we'll always be mindful and be careful not to drink our own Kool-Aid and continually re-examine the different drivers of the business, but I still think it's more cyclical. WLAN to your point is different.

That's a business – that's an overall market that's north – that addressable market is north of \$4 billion or \$4.5 billion. We have consistently lost share in WLAN, and we just haven't executed that well. Now it is a little bit more embryonic in terms of our strategic change from product to managed services, but we've got to do a better job. So I distinguish when we talk about the "Enterprise business", I distinguish WLAN from rugged mobile computing and data capture. In rugged mobile computing and data capture, we're number one worldwide.

We've talked about the design expertise, the installed base, leading market share, a new product portfolio. WLAN is different and we've got to turn that corner relatively soon, and we're going to keep a close watch on that business over the next few months. Having said all that, we will continue to manage the cost structure appropriately. We're committed irrespective of revenue levels to get at the 18% operating margin that I think the business can yield from an operating leverage standpoint. And going forward, we will always look to expand that as well as operating earnings and operating margin expansion.

**Operator:** And we'll take our last question from Andrew Spinola with Wells Fargo. Please go ahead.

**<Q – Andrew Spinola – Wells Fargo Securities LLC>:** Thanks. I'll follow-up on that question actually, maybe more specifically if I think about the longer term operating margin in the Enterprise business. It's



obviously been trending down the last couple of years. How do you think about that? Are you willing to say – can that be a mid double-digit operating margin business, and what gets you back to that?

**<A – Greg Brown – Motorola Solutions, Inc.>**: I think it can be a double-digit operating margin business. What gets us back to that is return to growth at the top line. The traction and acceptance of new products, for us to take the expanded funnel that Mark described and convert it to sales, for us to capitalize in Asia as an example, the improvement of channel management and sales coverage in certain theaters there and the continued discipline around cost structure. So I think we can do that. By the way, just even though this isn't specific, you were talking more about Enterprise, I do want to just mention Government and Public Safety LTE that Mark referenced earlier, we had talked about Public Safety LTE being no more than \$100 million primarily in the second half of this year in 2013. And as we revised our total outlook for the year of 3% to 4% revenue growth, we have gone through what we think that yields on the Enterprise side.

We think that LTE overall is probably now no more than \$50 million for the full year, largely in the second half driven by taking a little bit longer to close some international sales and the continued elongated process with FirstNet here in the States. And I just wanted to make sure I communicated that all to you in a very open and transparent way.

**<Q – Andrew Spinola – Wells Fargo Securities LLC>**: Great. And can I ask one follow-up, just on Q2 the Government revenue growth rate is a little bit less than it was in Q1. And I know you got a tough comp there, that Q2 2012 is the strongest quarter. But I'm wondering if you can just put a little color around that, and I'm thinking sort of bigger picture. Is there any – are there any funding issues at the state and government levels, that sequester anything driving that? It sounds like Q1 was partly or largely due to this Asia-Pacific issue with the professional and commercial. Is it more of that in Q2, or what are some of the different trends that are slowing the growth rate in Q2?

**<A – Mark Moon – Motorola Solutions, Inc.>**: Yeah, so I think you hit on the first piece, is we talked about the slightly tougher comp, 14% growth in the previous year in Government. As we talked about while the business is very, very steady, given some of the very large projects, it can also be a little lumpy and we had a little bit of that when we talked about where still the full-year is solid. We saw a very strong first quarter. So we have a piece of that as well.

Also what you talked about around the PCR is you spoke of, that was primarily the driver. The Asia region of Government, but PCR also slowed as we've talked about in the end of the first quarter. So that's a little bit in second quarter as well. Also in the second quarter the impact of rebranding in the second quarter and as we go forward becomes a little bit more pronounced than it was in the first quarter when you talk about year-on-year comparables.

While we talked about last year rebranding impacting approximately 3% of our growth, it looks like as we – we're also working against that headwind, which also plays in the PCR market as well as some of our systems business. So all in all, I think as I said earlier, the Government business will continue to perform very resilient, but the second quarter in particular is really driven by comps, some large projects as we talk about the funnel still growing, and just the normal nature. Usually when we look at really volumes in the Government business, first quarter and second quarter historical natural volumes have been very similar. So coming against that comp really kind of moves to the difference in growth rates.

**Operator**: I will turn the floor back over to Mr. Shep Dunlap, Vice President of Investor Relations, for any additional or closing remarks.

**Shep Dunlap, Vice President, Investor Relations**

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All right, thanks. I just wanted to remind everyone of the details outlining highlighted items. Our GAAP to non-GAAP P&L reconciliations and other financial information can be found on the [motorolasolutions.com](http://motorolasolutions.com) investor website. Audio replay together with a copy of today's slides will also be available on the site. After the call, as mentioned at the outset, during the call we have made a number of forward-looking statements within the meaning of applicable federal securities law.

Such forward-looking statements include but are not limited to comments and answers relating to the following topics: future sales growth including segment and region, earnings per share outlook, future operating margins, our expected declines in iDEN, amount of other income and expense, future tax rates, capital allocation framework including movement to net debt, foreign exchange rates, refunds of foreign tax deposits, the timing and impact of new products and solutions introductions including OS developments, impact of regional organizational changes and improvements in our business, share repo and dividends. Because forward-looking statements involve risks and uncertainties, Motorola Solutions' actual results could differ materially from those stated in these forward-looking statements.

Info about the factors that could cause and in some cases have caused such differences can be found in this morning's press release on pages 8 through 12 and item 1-A of our 2012 annual report, Form 10-K, in our other SEC filings. Thanks and we'll talk to you soon.

Operator: Ladies and gentlemen, this does conclude today's teleconference. A replay of this call will be available over the Internet in approximately three hours. The website address is [www.motorolasolutions.com/investor](http://www.motorolasolutions.com/investor). We thank you for your participation and ask that you please disconnect your lines at this time. Have a wonderful day.