

Motorola Solutions (MSI)

\$184.41 (As of 02/14/20)

Price Target (6-12 Months): **\$194.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/10/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: D

Growth: A

Momentum: F

Summary

Motorola reported solid fourth-quarter 2019 results, ending the year with record sales, cash flow and backlog driven by strength in both segments and diligent execution of operational plans. The company aims to augment its position in the public safety domain by entering into strategic alliances with other players in the ecosystem. It is well positioned to benefit from organic growth and acquisition initiatives, disciplined capital distribution and a favorable macroeconomic environment. However, adverse currency translations remain headwind as Motorola generates significant revenues outside the United States. Debt-laden balance sheet and lower cash flow yield portray lapses in sound financial management. Brexit could further result in higher tariff and non-tariff barriers to trade between the U.K. and the European Union, lowering its productivity.

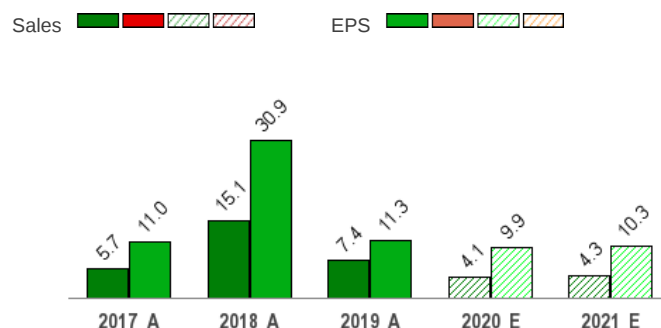
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$186.97 - \$135.97
20 Day Average Volume (sh)	871,488
Market Cap	\$31.6 B
YTD Price Change	14.4%
Beta	0.50
Dividend / Div Yld	\$2.56 / 1.4%
Industry	Wireless Equipment
Zacks Industry Rank	Top 40% (103 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.4%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	2.0%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	23.2
P/E F1	21.1
PEG F1	2.8
P/S TTM	4.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,806 E	2,024 E	2,178 E	2,585 E	8,558 E
2020	1,694 E	1,944 E	2,090 E	2,498 E	8,207 E
2019	1,657 A	1,860 A	1,994 A	2,377 A	7,887 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.55 E	\$2.14 E	\$2.48 E	\$3.44 E	\$9.65 E
2020	\$1.33 E	\$1.90 E	\$2.25 E	\$3.26 E	\$8.75 E
2019	\$1.28 A	\$1.69 A	\$2.04 A	\$2.94 A	\$7.96 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/14/2020. The reports text is as of 02/17/2020.

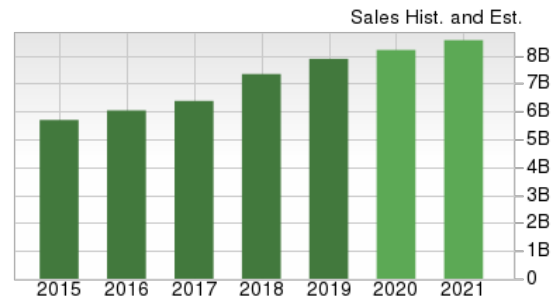
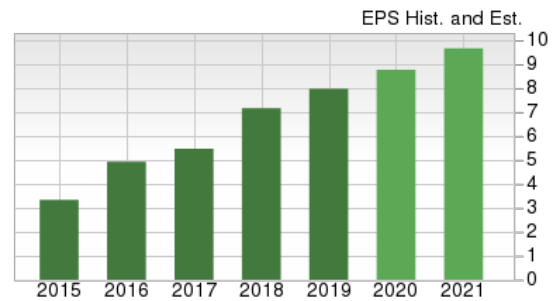
Overview

Based in Chicago, IL Motorola Solutions, Inc. is a leading communications equipment manufacturer and has strong market positions in bar code scanning, wireless infrastructure gear, and government communications. The company was formed following the split-off from its parent company Motorola, Inc. on Jan 4, 2011. Motorola Solutions generally provides services and solutions to the government segments and public safety programs together with large enterprises and wireless infrastructure service providers. It develops and services both analog and digital two-way radio, voice and data communications products and systems for private networks, wireless broadband systems and end-to-end enterprise mobility solutions to a wide range of enterprise markets.

Motorola reorganized its operating segments during second-quarter 2018. The new segments of the company are Products and Systems Integration, and Services and Software. The change reflects moving Systems Integration business from the erstwhile Services segment into the newly formed Products and Systems Integration segment and moving Software from the former Products segment into the new Services and Software segment.

Products and Systems Integration (70.4% of fourth-quarter 2019 net sales): The segment comprises of a wide portfolio of infrastructure, devices and accessories along with systems integration. The segment's primary customers are government, public safety and first-responder agencies, municipalities, and commercial and industrial customers who operate private communications networks and manage a mobile workforce.

Services and Software (29.6%): The segment offers a wide range of services and software to government, public safety and commercial communication networks. These include: (i) Software, (ii) Lifecycle Support services, (iii) Managed services, (iv) Smart Public Safety Solutions, and (v) iDEN services.



Reasons To Buy:

- ▲ As a leading provider of mission-critical communication products and services worldwide, Motorola has ensured a steady revenue stream from this niche market. The communications equipment maker intends to boost its position in the public safety domain by entering into strategic alliances with other players in the ecosystem. Motorola reported solid fourth-quarter 2019 results, ending the year with record sales, cash flow and backlog driven by strength in both segments and diligent execution of operational plans. The company is well poised to sustain its momentum throughout 2020 with healthy demand across its portfolio and record order backlog.
- ▲ Motorola expects to gain from robust organic growth, disciplined capital deployment and a favorable global macroeconomic environment. The company expects to record strong demand across land mobile radio products, services and software while benefiting from a solid foundation. Furthermore, its competitive position and attractive portfolio for large addressable markets and healthy balance sheet augur well for future growth.
- ▲ The acquisition of WatchGuard, Inc., which manufactures in-car video systems and body-worn cameras along with evidence management software, has added new capabilities to Motorola's video security solutions portfolio. It has further expanded its video security product line, which includes fixed cameras and advanced analytics from Avigilon as well as license plate recognition cameras and software from Vigilant Solutions.
- ▲ The company has introduced the Si200 body-worn camera to facilitate agencies in investigation while providing footage of incidents. The Si200 body-worn camera captures high-definition video and boasts advanced capabilities, helping integration across the public safety workflow. It combines with CommandCentral Vault — Motorola's digital evidence management solution — that enables investigating agencies to manage content from in-field capture to judicial process under an integrated platform. Motorola has also successfully integrated CommandCentral Aware software with Avigilon Blue — its cloud video security platform. The integration enables public safety agencies to better manage and monitor video feeds and camera networks through the latest software-as-a-service offering. Such innovative products are likely to generate a steady revenue stream for the company.

Motorola remains poised to benefit from organic growth and acquisition initiatives by entering into strategic alliances with other players in the ecosystem and strengthen its market position.

Reasons To Sell:

- ▼ Although we remain optimistic on Motorola's growth-by-acquisition strategy, costs associated with the mergers are limiting bottom-line growth. Gross margin has decreased at a CAGR of 5.1% from 2013 to 2019, reflecting higher operating expenses. The company's debt-laden balance sheet also remains a cause of concern. As of Sep 30, 2019, the company had \$1,138 million in cash and equivalents with \$5,112 million of long-term debt.
- ▼ Higher working capital requirement due to the implementation of new ERP system is hurting the company's cash from operations. Motorola's cash flow yield has declined from 9.52% at year-end 2014 to 4.46% at year-end 2019, indicating under-utilization of resources and lapses in sound financial management.
- ▼ Headwinds in currency translation could add to the woes as Motorola generates significant revenues outside the United States. Presently, when the economy of Europe is highly unpredictable post the Brexit referendum, it becomes difficult for the company to increase revenues and reduce costs. In addition, Motorola is likely to be stifled by the renegotiated deals and restrictions imposed on trade with other European Union members. Brexit could further result in higher tariff and non-tariff barriers to trade between the U.K. and the European Union, lowering productivity of the company. All these are likely to undermine its growth potential to some extent.

Costs associated with mergers are limiting bottom-line growth and affecting margins, while risks associated with the Brexit referendum are undermining Motorola's growth potential to some extent.

Last Earnings Report

Motorola Q4 Earnings Beat Estimates on Top-Line Growth

Motorola reported solid fourth-quarter 2019 results, ending the year with record sales, cash flow and backlog driven by strength in both segments and diligent execution of operational plans. The company is well poised to sustain the momentum in 2020 with healthy demand across its portfolio and large addressable markets.

Net Earnings

On GAAP basis, net earnings in the reported quarter were \$244 million or \$1.39 per share compared with \$423 million or \$2.44 per share in the year-earlier quarter. The drastic decline, despite top-line growth, was primarily attributable to expenses related to pension obligations.

Non-GAAP earnings in the quarter were \$2.94 per share compared with \$2.63 in the year-ago quarter. The bottom line beat the Zacks Consensus Estimate by 15 cents.

In full-year 2019, net earnings decreased to \$868 million or \$4.95 per share compared with \$966 million or \$5.62 per share in 2018 owing to expenses related to pension obligations. Non-GAAP earnings were \$7.96 per share compared with \$7.15 a year ago.

Revenues

Quarterly net sales were \$2,377 million compared with \$2,254 million in the year-ago quarter, driven by growth in both the segments and solid performance in the Americas. The top line exceeded the Zacks Consensus Estimate of \$2,372 million.

In full-year 2019, net sales improved 7.4% year over year to \$7,887 million led by strength in the Americas.

Organic growth in the quarter was 2%, and acquisitions contributed \$82 million to incremental revenues, partially offset by \$17 million currency headwinds. Region wise, revenues improved 10% in the Americas to \$1,715 million driven by growth in Land Mobile Radio, Video Security, and Command Center Software. This was partially offset by 9% decline in EMEA (Europe, Middle East and Africa) to \$448 million owing to adverse foreign currency translation and large system deployments in the Middle East in the prior year. Asia Pacific revenues were up 6% year over year to \$214 million led by growth in Australia.

Segmental Performance

Net sales from **Products and Systems Integration** were relatively flat at \$1,673 million as growth in the Americas and Asia Pacific were offset by decline in the Middle East and Africa. The segment's backlog was down \$40 million to \$3.2 billion primarily due to two large system deployments in the Middle East and Africa.

Net sales from **Services and Software** totaled \$704 million compared with \$584 million a year ago, with growth in all regions. The segment's backlog increased \$699 million to \$8.1 billion, primarily due to multi-year agreements in the Americas and Emergency Services Network extension.

Other Quarter Details

GAAP operating earnings increased to \$590 million from \$516 million in the prior-year quarter, while non-GAAP operating earnings were up 9% to \$707 million. The company ended the quarter with total backlog of \$11.3 billion, up \$659 million.

Overall GAAP operating margin jumped to 24.8% from 22.9% in the prior-year quarter, primarily due to higher revenues. Non-GAAP operating margin was 29.7% compared with 28.8% in the year-ago quarter.

Non-GAAP operating earnings for Products and Systems Integration were flat at \$484 million for corresponding margin of 28.9%. Non-GAAP operating earnings for Services and Software were \$223 million, up 34% year over year driven by gross margin expansion and higher sales led by strong demand for Command Center Software solutions and continued growth in services business. This resulted in non-GAAP operating margin of 31.7% for the segment, up from 28.6%.

Cash Flow and Liquidity

Motorola generated \$795 million of cash from operating activities during the quarter compared with \$812 million a year ago, bringing the respective tallies for 2019 and 2018 to \$1,823 million and \$1,075 million. Free cash flow in the fourth quarter was \$736 million.

As of Dec 31, 2019, the company had \$1,001 million of cash and cash equivalents with \$5,113 million of long-term debt compared with respective tallies of \$1,257 million and \$5,289 million a year ago.

Outlook

First-quarter 2020 non-GAAP earnings are expected to be in the \$1.30-\$1.35 per share range on year-over-year revenue growth of about 2%.

Full-year 2020 non-GAAP earnings are currently anticipated to lie within the \$8.65-\$8.80 per share range on revenue growth of 4%.

Moving Forward

Motorola is poised to gain from robust organic growth, disciplined capital deployment and a favorable global macroeconomic environment. The

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	0.20%
EPS Surprise	5.38%
Quarterly EPS	2.94
Annual EPS (TTM)	7.95

company expects to record strong demand across land mobile radio products, video security portfolio, services and software while benefiting from a solid foundation. Furthermore, Motorola's competitive position and attractive portfolio for large addressable markets and healthy balance sheet augur well.

Recent News

On Jan 22, 2020, Motorola announced its ongoing development of a 900 MHz private broadband solution that will offer critical infrastructure entities high-power and interoperable communications. Demonstrating its adaptability in both defense and first responder markets, the company will leverage its Land Mobile Radio communication for easier access, enhanced coverage and stronger security across oil, gas and utility sectors. These sectors utilize 900 MHz broadband spectrum for the deployment of unified voice and narrowband data transmission and long-range data communications with reduced encumbrance to its LTE space.

On Jan 16, 2020, Motorola communicated that it has been chosen by SFR, a leading French telecommunications company, to provide the latter with a third-generation partnership project mission critical push-to-talk (PTT) solution. The broadband PTT service will be deployed by SFR through its nationwide network. This, in turn, will help the customers to improve productivity. SFR's offering include Motorola's LTE LEX 11 device suite, which has been designed for critical operations.

On Jan 14, 2020, Motorola announced that it has augmented the security capabilities of Oakland, CA, with the deployment of Disaster Recovery as a Service (DRaaS) solution of its PremierOne CAD software. The cloud-based DRaaS system is likely to offer all-permissive fully functional connectivity to the city residents to enable emergency communication services during disasters. The software from Motorola equips Oakland with a cost-effective backup system in the cloud for on-premise CAD operations, which would otherwise have been too expensive in a duplicate on-premise backup setup. The DRaaS system is activated through a virtual communications center in case of any outage during disasters to ensure uninterrupted public safety operations.

On Dec 17, 2019, Motorola announced that it has inked an agreement with Marino's Market, a leading supermarket in Alabama, to improve the security measures at its two store locations. The company will deploy improved video safety and security solutions from Avigilon Corporation – one of its operating units – to offer greater visibility to the stores and augment operational efficiency.

Valuation

Motorola shares are up 33% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer and Technology sector are up 19.6% and 29.6% over the past year, respectively.

The S&P 500 Index is up 21% in the past year.

The stock is currently trading at 15.05X trailing 12-month EV/EBITDA, which compares to 21.15X for the Zacks sub-industry, 13.02X for the Zacks sector and 12.31X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 36.45X and as low as 6.85X, with a 5-year median of 12.03X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$194 price target reflects 9.33X forward 12-month earnings.

The table below shows summary valuation data for MSI

Valuation Multiples - MSI					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	15.05	21.15	13.02	12.31
	5-Year High	36.45	25.55	13.02	12.85
	5-Year Low	6.85	10.1	7.68	8.47
	5-Year Median	12.03	15.8	10.53	10.7
P/E F12M	Current	20.8	19.48	23.17	19.35
	5-Year High	23.1	30.47	23.17	19.35
	5-Year Low	14.27	13.61	16.87	15.18
	5-Year Median	17.5	18.24	19.32	17.47
P/S F12M	Current	3.83	3.32	3.79	3.58
	5-Year High	3.83	3.51	3.79	3.58
	5-Year Low	1.82	2.07	2.3	2.54
	5-Year Median	2.33	2.8	3.02	3

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Top 40% (103 out of 255)



Top Peers

Clearfield, Inc. (CLFD)	Neutral
Comtech Telecommunications Corp. (CMTL)	Neutral
Ericsson (ERIC)	Neutral
InterDigital, Inc. (IDCC)	Neutral
Juniper Networks, Inc. (JNPR)	Neutral
Nokia Corporation (NOK)	Neutral
Sierra Wireless, Inc. (SWIR)	Neutral
Viasat Inc. (VSAT)	Neutral

Industry Comparison Industry: Wireless Equipment				Industry Peers		
	MSI Neutral	X Industry	S&P 500	CMTL Neutral	ERIC Neutral	JNPR Neutral
VGM Score	C	-	-	D	C	D
Market Cap	31.60 B	573.46 M	24.61 B	817.55 M	30.01 B	8.11 B
# of Analysts	6	2	13	2	4	9
Dividend Yield	1.39%	0.00%	1.78%	1.19%	0.72%	3.14%
Value Score	D	-	-	C	C	B
Cash/Price	0.03	0.21	0.04	0.06	0.19	0.25
EV/EBITDA	22.42	12.12	14.06	11.95	13.62	10.55
PEG Ratio	2.75	2.27	2.09	5.06	NA	2.05
Price/Book (P/B)	NA	2.03	3.29	1.52	3.46	1.76
Price/Cash Flow (P/CF)	18.57	14.84	13.65	10.73	22.44	12.82
P/E (F1)	21.08	21.13	19.21	25.30	17.21	13.83
Price/Sales (P/S)	4.01	1.67	2.70	1.20	1.25	1.83
Earnings Yield	4.74%	4.34%	5.19%	3.97%	5.84%	7.22%
Debt/Equity	-8.21	0.24	0.71	0.37	0.44	0.37
Cash Flow (\$/share)	9.93	0.57	6.92	3.12	0.40	1.89
Growth Score	A	-	-	C	B	F
Hist. EPS Growth (3-5 yrs)	27.03%	-5.89%	10.85%	3.03%	-40.08%	-0.59%
Proj. EPS Growth (F1/F0)	9.95%	23.14%	7.17%	28.64%	379.55%	1.87%
Curr. Cash Flow Growth	10.81%	-8.77%	8.56%	18.78%	33.76%	-8.77%
Hist. Cash Flow Growth (3-5 yrs)	17.32%	6.97%	8.36%	14.59%	-16.71%	-15.41%
Current Ratio	1.21	1.94	1.23	1.95	1.32	2.08
Debt/Capital	NA%	25.49%	42.91%	26.79%	30.45%	26.75%
Net Margin	11.02%	2.82%	11.81%	4.10%	1.02%	7.76%
Return on Equity	-136.86%	3.26%	16.86%	6.64%	4.41%	9.16%
Sales/Assets	0.77	0.77	0.54	0.76	0.80	0.50
Proj. Sales Growth (F1/F0)	4.05%	4.05%	3.85%	7.32%	2.19%	1.21%
Momentum Score	F	-	-	C	F	D
Daily Price Chg	0.16%	-0.30%	0.06%	-1.99%	0.00%	-2.81%
1 Week Price Chg	1.39%	1.79%	2.47%	2.70%	11.58%	3.57%
4 Week Price Chg	6.68%	-2.65%	0.59%	-8.54%	0.00%	-2.65%
12 Week Price Chg	11.72%	0.00%	6.98%	-6.86%	1.00%	-4.27%
52 Week Price Chg	34.42%	-8.38%	16.62%	24.38%	-2.78%	-10.09%
20 Day Average Volume	871,488	85,059	2,020,569	298,955	10,520,655	4,689,860
(F1) EPS Est 1 week change	1.53%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	2.04%	-1.20%	-0.05%	0.00%	-2.77%	-2.82%
(F1) EPS Est 12 week change	1.79%	-2.77%	-0.17%	-1.38%	-2.77%	-4.64%
(Q1) EPS Est Mthly Chg	-2.76%	0.00%	-0.24%	0.00%	-30.30%	-19.41%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	F
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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