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Aug 20, 2020

Motorola Solutions (MSI)

$150.46 (As of 08/19/20)

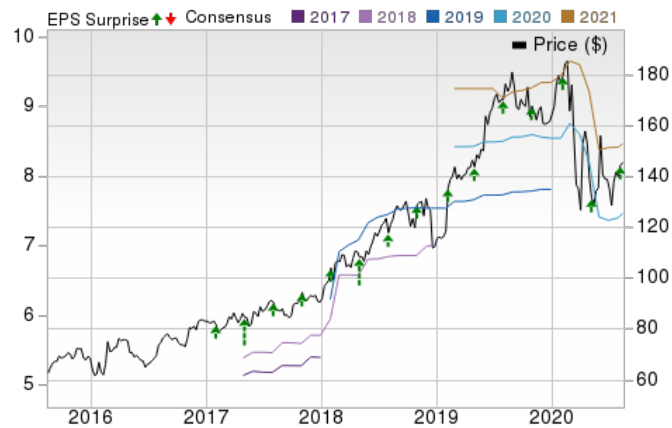
Price Target (6-12 Months): **$158.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/11/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: C | Growth: C | Momentum: C	**2-Buy** VGM:B

Summary

Motorola reported relatively healthy second-quarter 2020 results, driven by diligent execution of operational plans. Despite surpassing the respective Zacks Consensus Estimate, revenues and adjusted earnings decreased year over year due to coronavirus-induced adversities. Nevertheless, Motorola aims to expand its position in the public safety domain by entering into strategic alliances with other players in the ecosystem. An attractive portfolio for a large addressable market is a major tailwind. However, the coronavirus-induced pandemic is likely to dent overall demand, thereby hampering its long-term growth potential to some extent. Adverse currency translations are headwinds for Motorola as it generates significant revenues outside the United States. A debt-laden balance sheet position is another concern for the company.

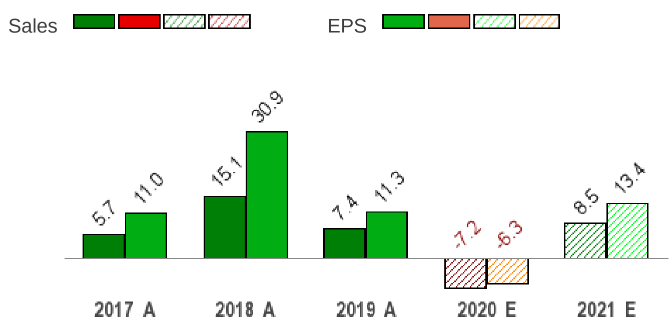
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$187.33 - $120.77**
20 Day Average Volume (sh)	**1,247,758**
Market Cap	**$25.5 B**
YTD Price Change	**-6.6%**
Beta	**0.63**
Dividend / Div Yld	**$2.56 / 1.7%**
Industry	**Wireless Equipment**
Zacks Industry Rank	**Top 45% (114 out of 252)**
Last EPS Surprise	**15.8%**
Last Sales Surprise	**2.8%**
EPS F1 Est- 4 week change	**6.3%**
Expected Report Date	**11/04/2020**
Earnings ESP	**0.0%**
P/E TTM	**19.1**
P/E F1	**20.2**
PEG F1	**2.2**
P/S TTM	**3.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,752 E	1,894 E	2,020 E	2,370 E	7,939 E
2020	1,655 A	1,618 A	1,824 E	2,221 E	7,317 E
2019	1,657 A	1,860 A	1,994 A	2,377 A	7,887 A

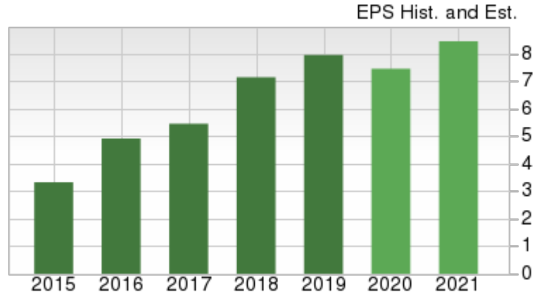
EPS Estimates

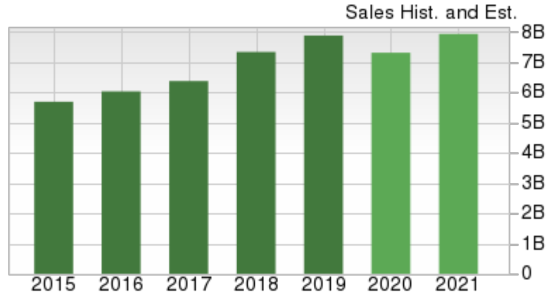
	Q1	Q2	Q3	Q4	Annual*
2021	$1.49 E	$1.82 E	$2.21 E	$3.10 E	$8.46 E
2020	$1.49 A	$1.39 A	$1.76 E	$2.80 E	$7.46 E
2019	$1.28 A	$1.69 A	$2.04 A	$2.94 A	$7.96 A

*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 08/19/2020. The reports text is as of 08/20/2020.

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 (59.8% of second-quarter 2020 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 (40.2%): 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:

> 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.

- 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. Despite coronavirus-induced adversities, Motorola reported solid second-quarter 2020 results, driven by diligent execution of operational plans. The company witnessed a healthy demand for video security products and services during the quarter and remains well poised to tide over the storm with a diversified portfolio.

- Motorola expects to record strong demand across video security and services, land mobile radio products, and related software while benefiting from a solid foundation. Furthermore, its competitive position and attractive portfolio for large addressable markets and healthy cash flow 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. Markedly, the company also completed the acquisition of Fresno, CA-based video security solutions provider, Pelco, in an all-cash transaction worth $110 million on Aug 3, 2020. The deal is likely to be a win-win situation for both the companies, while bolstering operational efficiencies, public safety and geographical footprint with an accretive customer base.

- 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.

Reasons To Sell:

> 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.

- The company's debt-laden balance sheet remains a cause of concern. As of Jun 30, 2020, the company had $1,341 million of cash and cash equivalents with $5,111 million of long-term debt compared with respective tallies of $1,672 million and $5,111 million in the previous quarter. Although Motorola has no near-term debt maturities in 2020 or 2021 and no pension debt obligations until 2023, the stock looks relatively more leveraged than the sub-industry. Motorola currently has a debt-to-capital ratio of 1.16 compared with 0.38 of the sub-industry. A highly leveraged balance sheet can inflate the company's financial obligations and hurt profitability. The times interest earned has decreased over the past few quarters to 5.3 at present relative to 8.7 for the sub-industry. Motorola has a dividend payout rate of 34.1% compared with 57.3% of the sub-industry. The rate has increased sequentially, indicating that the company is sharing more of its earnings with stockholders. It remains to be seen whether Motorola can turn the tables in the coming days amid disruptions caused by the COVID-19 pandemic.

- 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. 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. The global coronavirus pandemic is likely to dent its overall demand as the world grapples with an adverse economic effect. Management also withdrew the guidance for 2020 as the virus outbreak impacted its professional commercial radio business, and delayed engagement and deployments in certain cases, likely affecting the future revenue trend. All these are likely to undermine its growth potential to some extent.

Last Earnings Report

Motorola Beats on Q2 Earnings Despite Lower Revenues

Quarter Ending	06/2020
Report Date	Aug 06, 2020
Sales Surprise	2.78%
EPS Surprise	15.83%
Quarterly EPS	1.39
Annual EPS (TTM)	7.86

Motorola reported relatively healthy second-quarter 2020 results, driven by diligent execution of operational plans. Despite surpassing the respective Zacks Consensus Estimate, revenues and adjusted earnings decreased year over year due to coronavirus-induced adversities. The company remains well poised to tide over the storm with a solid cash flow and balance sheet position.

Net Earnings

On a GAAP basis, net earnings in the reported quarter were $135 million or 78 cents per share compared with $207 million or $1.18 in the year-earlier quarter. The decline was primarily attributable to top-line contraction due to demand-related challenges amid the virus outbreak.

Excluding non-recurring items, non-GAAP earnings in the quarter were $1.39 per share compared with $1.69 in the year-ago quarter. The bottom line beat the Zacks Consensus Estimate by 19 cents.

Revenues

Quarterly net sales fell 13% year over year to $1,618 million due to lower demand in the Americas and the International business, triggered by the coronavirus pandemonium. The top line, however, exceeded the Zacks Consensus Estimate of $1,574 million.

Organic revenues decreased 15% year over year to $1,578 million. Acquisitions contributed $40 million to incremental revenues, while currency headwinds aggregated $30 million in the quarter. Region-wise, revenues were down 13% in North America to $1,093 million, driven by lower sales of professional and commercial radio products, partially offset by growth in video security and services. International revenues were down 14% to $525 million due to a decline in professional and commercial radio products.

Segmental Performance

Net sales from Products and Systems Integration fell 22% year over year to $968 million, largely due to a significant decline in demand for professional and commercial radio products across all geographical regions. However, the segment witnessed solid demand for video security solutions from utility firms and government sectors. The segment's backlog was down $228 million to $2.8 billion, primarily due to unfavorable foreign currency translation and a decline in the international backlog.

Net sales from Services and Software totaled $650 million compared with $622 million a year ago, with solid performance across Command Center Software and services. The segment's backlog decreased $148 million to $7.7 billion, primarily due to adverse foreign exchange effects, partially offset by multi-year agreements in the Americas.

Other Quarterly Details

GAAP operating earnings decreased to $218 million from $349 million in the prior-year quarter, while non-GAAP operating earnings were down 19% to $359 million. The company ended the quarter with a total backlog of $10.5 billion, down from $10.9 billion a year ago. Overall GAAP operating margin was 13.5%, down 530 basis points due to lower revenues. Non-GAAP operating margin was 22.2% compared with 23.9% in the year-ago quarter.

Non-GAAP operating earnings for Products and Systems Integration were down 46% to $131 million for the corresponding margin of 13.5%. Non-GAAP operating earnings for Services and Software were $228 million, up 13% year over year, driven by gross margin expansion and higher sales led by strong demand for Command Center Software solutions and continued growth in the services business. This resulted in non-GAAP operating margin of 35.1% for the segment, up from 32.5%.

Cash Flow and Liquidity

Motorola generated $517 million of cash from operating activities during the first six months of 2020 compared with $502 million a year ago. Free cash flow in the first half of the year was $415 million. The company repurchased $83 million worth of stock during the quarter.

As of Jun 30, 2020, the company had $1,341 million of cash and cash equivalents with $5,111 million of long-term debt. Motorola repaid $300 million of its unsecured revolving credit facility during the quarter. Notably, the company has no near-term debt maturities in 2020 or 2021 and no pension debt obligations until 2023.

Guidance

Despite the lack of clarity regarding the impact of the coronavirus pandemic on the business, the company offered guidance for the third quarter. Third-quarter 2020 non-GAAP earnings are expected in the $1.72-$1.78 per share range on a year-over-year revenue decline of 8-9%.

For 2020, non-GAAP earnings are expected in the $7.40-$7.52 per share range on a year-over-year revenue decline of 7% as the virus outbreak continues to impact its professional commercial radio business and delay engagement and deployments in certain cases, affecting the future revenue trend.

Moving Forward

Nevertheless, Motorola is poised to gain from disciplined capital deployment and a solid cash flow position. The company expects to see strong demand across land mobile radio products, the video security portfolio, services and software while benefiting from a solid foundation.

Recent News

On Aug 3, 2020, Motorola announced the launch of MOTOTRBO DP540 two-way radio, which has been specifically designed for small and medium businesses in Sub Saharan Africa. The latest entry-level digital radio is an affordable device that provides seamless communications infrastructure. It is considered as an ideal choice for cost-conscious businesses.

On Aug 3, Motorola completed the acquisition of Fresno, CA-based video security solutions provider, Pelco, in an all-cash transaction worth $110 million. The deal is likely to be a win-win situation for both the companies, while bolstering operational efficiencies, public safety and geographical footprint with an accretive customer base.

On Jul 23, Motorola partnered with Co-op, U.K.'s largest consumer co-operative, to equip the retailer with its VT100 body-worn cameras. The state-of-the-art cameras will tackle the rising rate of criminal activities, while prioritizing safety in the retail industry. Apart from encumbering in-store crimes, the move will help Co-op in the investigation, providing real-time footage of incidents and protecting frontline employees.

On Jul 15, Motorola announced the launch of WAVE PTX solution. As a perfect solution for on-the-go workforce, the avant-garde product is a latest addition to the WAVE portfolio. WAVE is a subscription-based group communication service. Markedly, the product will streamline business operations and enable employees to experience the perks of push-to-talk workgroup communications in an economical manner with best-in-class network capabilities.

On Jun 30, Motorola announced that it has deployed its avant-garde and integrated cloud-based control room system to benefit U.K.'s Bedfordshire Fire and Rescue Service with fully reliable end-to-end workflow and streamlined processes. The collaboration will likely enhance the public safety communications infrastructure with enhanced operational efficiency and safety, thereby strengthening Motorola's position in the global domain.

On Jun 17, Motorola announced that it has completed the acquisition of IndigoVision. Based in Edinburgh, Scotland, the acquiree develops video security solutions, including cameras, video management software, encoders and storage devices. Complementing Motorola's video portfolio, which includes fixed cameras, in-car and body-worn cameras and advanced analytics and software, the transaction will provide greater go-to-market reach across a broader customer base.

On May 20, Motorola announced that it has launched the latest cloud-based emergency response offerings from its CommandCentral software portfolio to reinforce low-latency data communication infrastructure. These solutions are known for enhancing the public safety communications infrastructure with utmost operational efficiency and safety. Markedly, the latest move is expected to boost the mission-critical ecosystem of the company and render fast response times to mitigate operating risks.

Valuation

Motorola shares are down 16% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 20.2% over the past year, while stocks in the Zacks Computer and Technology sector are up 35.6% in the same time frame.

The S&P 500 Index is up 16.2% in the past year.

The stock is currently trading at 13.06X trailing 12-month EV/EBITDA, which compares to 28.18X for the Zacks sub-industry, 13.51X for the Zacks sector and 12.83X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 34.63X and as low as 6.73X, with a 5-year median of 11.83X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $158 price target reflects 8.5X 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	13.06	28.18	13.51	12.83
	5-Year High	34.63	28.78	13.51	12.85
	5-Year Low	6.73	9.84	7.59	8.25
	5-Year Median	11.83	16.75	10.93	10.91
P/E F12M	Current	18.59	19.76	26.53	22.9
	5-Year High	23	30.47	26.53	22.9
	5-Year Low	14.27	13.61	16.72	15.25
	5-Year Median	17.44	18.64	19.61	17.58
P/S F12M	Current	3.31	3.74	4.12	3.72
	5-Year High	3.86	3.74	4.12	3.72
	5-Year Low	1.82	2.07	2.32	2.53
	5-Year Median	2.44	2.8	3.14	3.05

As of 08/19/2020

Industry Analysis **Zacks Industry Rank:** Top 45% (114 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Clearfield, Inc. **(CLFD)**	Outperform	1
Comtech Telecommunications Corp. **(CMTL)**	Neutral	3
Ericsson **(ERIC)**	Neutral	3
Juniper Networks, Inc. **(JNPR)**	Neutral	3
Sierra Wireless, Inc. **(SWIR)**	Neutral	3
Ubiquiti Inc. **(UI)**	Neutral	3
InterDigital, Inc. **(IDCC)**	Underperform	5
Viasat Inc. **(VSAT)**	Underperform	3

Industry Comparison Industry: Wireless Equipment

Industry Peers

	MSI	X Industry	S&P 500	ERIC	JNPR	VSAT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	B	-	-	A	C	B
Market Cap	25.55 B	455.03 M	23.61 B	38.67 B	7.90 B	2.76 B
# of Analysts	6	3	14	4	8	4
Dividend Yield	1.70%	0.00%	1.65%	0.41%	3.36%	0.00%
Value Score	C	-	-	B	B	C
Cash/Price	0.05	0.18	0.07	0.14	0.23	0.08
EV/EBITDA	18.39	11.02	13.36	19.36	12.43	12.11
PEG Ratio	2.24	1.92	2.99	0.78	1.92	NA
Price/Book (P/B)	NA	1.68	3.16	4.77	1.77	1.32
Price/Cash Flow (P/CF)	15.15	14.81	12.71	29.05	12.60	7.44
P/E (F1)	20.17	20.17	21.82	20.53	15.35	NA
Price/Sales (P/S)	3.34	1.42	2.47	1.63	1.79	1.20
Earnings Yield	4.96%	4.17%	4.37%	4.83%	6.51%	-0.37%
Debt/Equity	-6.74	0.19	0.76	0.38	0.39	1.00
Cash Flow ($/share)	9.93	0.49	6.94	0.40	1.89	5.50
Growth Score	C	-	-	A	D	B
Hist. EPS Growth (3-5 yrs)	21.89%	-6.20%	10.44%	-37.70%	-7.06%	-97.89%
Proj. EPS Growth (F1/F0)	-6.28%	11.96%	-5.97%	413.64%	-9.81%	NA
Curr. Cash Flow Growth	10.81%	-14.66%	5.22%	33.18%	-8.77%	36.25%
Hist. Cash Flow Growth (3-5 yrs)	17.32%	5.53%	8.52%	-16.79%	-15.41%	5.53%
Current Ratio	1.17	1.88	1.33	1.22	1.88	1.63
Debt/Capital	NA%	22.60%	44.50%	27.64%	27.81%	49.98%
Net Margin	11.03%	2.76%	10.13%	1.21%	7.89%	-0.05%
Return on Equity	-145.69%	4.86%	14.67%	5.81%	8.71%	-0.06%
Sales/Assets	0.73	0.73	0.51	0.80	0.51	0.49
Proj. Sales Growth (F1/F0)	-7.24%	0.00%	-1.54%	4.63%	-0.89%	1.71%
Momentum Score	C	-	-	B	B	B
Daily Price Chg	0.44%	0.00%	-0.38%	-0.68%	-0.63%	-0.53%
1 Week Price Chg	0.77%	0.00%	1.09%	-0.60%	-4.32%	-1.71%
4 Week Price Chg	6.56%	3.91%	2.23%	-1.78%	-2.74%	7.43%
12 Week Price Chg	12.27%	12.27%	6.91%	32.12%	-0.29%	-7.12%
52 Week Price Chg	-16.04%	9.57%	2.28%	39.59%	-0.17%	-48.05%
20 Day Average Volume	1,247,758	111,353	1,899,976	8,886,826	3,170,250	633,801
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	1.35%	0.00%	0.00%
(F1) EPS Est 4 week change	6.34%	0.67%	1.70%	1.35%	3.08%	-219.61%
(F1) EPS Est 12 week change	4.31%	1.54%	3.08%	11.88%	3.08%	-12.96%
(Q1) EPS Est Mthly Chg	6.91%	0.00%	0.83%	2.04%	2.86%	50.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Growth Score	C
Momentum Score	C
VGM Score	B

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.

Disclosures

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.