



Company Description:

Motorola Solutions spun out from the cellular business in 2011. Since then, the company has developed a strong platform consisting of Land, Mobile, Radio ("LMR"), Command Center Software, and Video. MSI has grown a strong presence in domestic and international markets and today has 75% of its revenue derived from public safety and 25% from the enterprise market.

Name	Ticker	Yield	Growth	D + G
Motorola Solutions, Inc.	MSI	0.54%	10.00%	10.54%

Highlights:

The stock has rightly reached new valuation levels as the durability of the business in an uncertain macro environment warrants a premium. However, we would note that execution becomes increasingly important as multiples expand and we are monitoring backlog trends to get a sense of how above-trend Product (PSI) growth might normalize. Backlog is a key indicator of this, in our view, and we did see PSI backlog decline as shipments improved; however, orders are at record levels across all three segments and backlog expectations ticked up for FY '24. All of this points to a soft landing at present, and the initial color on FY '25 suggests a return to the mid-single-digit growth compounding of years prior. Cash generation has been particularly strong, and the capital structure is very healthy, meaning incremental capital deployment is likely the next significant lever to create shareholder value and we view this as a core competency of MSI's best-in-class leadership team.

Bull Case:

- **Strong Future Growth** – It appears that fiscal 2025 budgets across 29 states and 19 of the largest cities in the U.S. support our bullish view on the business. Fiscal 2025 city budgets are projected to increase +7.0% Y/Y (Police +5.2%, Fire +5.7%) while State budgets are up +3.0% Y/Y (Police/Public Safety +5.5%). Also, there's traditionally been a 1-2 point upward drift on these numbers from the start to the finish of any fiscal year. We estimate that US State and Local budgets account for 40% of Motorola Solutions' sales.
- **Lots of Opportunities in LMR** - In recent years, they've worked hard to add other new offerings including Cyber protection and LMR network monitoring for LMR customers. The great thing about these services – they have very high margins. The company conveys these services via its NOCs. There's very little incremental cost for MSI as they onboard new customers. Further, penetration rates for these services are still quite low. They only started offering LMR network cyber protection three years ago. Lastly, there's a recognition that many of the people employed by state and local governments to run and operate LMR networks are aging out. Enhanced Service levels offer customers the ability to continue running these networks by relying more heavily on Motorola Solutions. We think investors don't fully appreciate this opportunity for the company.
- **Great Capital Allocation History** – To describe the company's capital allocation policy, let's take a direct quote from the CEO: *"We have bought back \$16B in stock at an average price under \$70, reducing the float by half. We have done close to 40 acquisitions, the majority of which we have gotten overwhelmingly right. We have increased the dividend by double digits for 11 years. But I know: No one cares what you did yesterday. Let's get back to work."*
- **Utilizing AI in the LMR Space** - AI is key to bridging the gap between public safety and enterprise security. Typically public safety gets involved in an incident via a 911 call, but MSI has been working to grow solutions to expand the lanes of information beyond just the call. Management highlighted that through both their hardware and software ecosystem across radio, video, and command center they have been working to democratize and expand the lanes of critical information available to key players in the life cycle of an incident. AI is key to these efforts as management remarked that incident management depends on having a large pool of data that can be brought to the surface in the moment of need. On the enterprise security side, the majority of customers do not have a dedicated security center. Management highlighted that AI solutions can allow these customers to focus attention and democratize security alerts beyond just a few players. Management brought up that usually in a school, it's the system administrator who gets the first notification of a security incident, but now with the company's Rave application and its panic button and PSAP communication abilities, it democratizes security, potentially shortening the time between the incident and first responder arrival.

Bear Case:

- **Government Austerity** - The newly created Department of Government Efficiency (DOGE) has become a marginal concern given Motorola Solutions' heavy focus on the public sector, but we note that most of this is focused on State/Local. Fed is ~\$900M, or less than 10% of total revenue and we find it unlikely that a Trump administration would focus on cutting spending related to Public Safety.
- **Dependence on Backlog** - Backlog is another focus area for investors given the continuous growth and concern over sustainability, but management remains confident in backlog growth for the future.
- **The Company Has Missed Out on an Opportunity Before** - In hindsight, Motorola missed a big opportunity to leverage its LMR incumbency to keep Axon from evolving beyond TASERS. On the flip side, there would have been an opportunity cost associated with chasing that market. During that time, Motorola began its pivot into fixed video, acquiring Avigilon in 2018 followed by a long list of technology tuck-ins – now representing almost 20% of sales. Fixed video represents a much higher portion (almost 90%) of their overall \$26B Video TAM.
- **Valuation** – Though the heightened valuation may be warranted, it remains high relative to its history.

Overall Thesis:

We remain Overweight on MSI as we expect continued public safety and enterprise security demand, as well as easing supply chain, could drive further upside. The meeting reaffirmed our confidence in the sustainability of the video and software segments' growth, the strength of demand drivers across the business, and how adroitly management is using its technology stack to provide a flywheel of opportunities across the business.



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