Motorola Solutions (MSI)

Updated November 28th, 2024 by Derek English

Key Metrics

Current Price:	$500	**5-Year CAGR Estimate:**	-4.1%	**Market Cap:**	$83.67B
Fair Value Price:	$260	**5-Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	12/13/24
% Fair Value:	193%	**5 Year Valuation Multiple Estimate:**	-12.3%	**Dividend Payment Date:**	01/15/25
Dividend Yield:	0.9%	**5 Year Price Target**	$381	**Years of Dividend Growth:**	12
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Sell

Overview & Current Events

Motorola Solutions offers purpose-built public safety and enterprise security solutions, providing technologies in Land Mobile Radio Communications (LMR), Video Security and Access Control, and Command Center software. The company serves 100,000 public safety and commercial customers in more than 100 countries through two segments: *Products and Systems Integration* and *Software and Services*. Motorola Solutions aims to integrate critical communications, video security, access control, data, and analytics to create connected systems that unify data, streamline workflows, and simplify operations.

Motorola Solutions reported results for Q3 2024 on November 7th, 2024. Sales reached $2.8 billion, reflecting a 9% increase from $2.57 billion in Q3 2023, driven by strong growth in North America and international markets. The Products and Systems Integration segment achieved an 11% rise in sales, fueled by demand for Land Mobile Radio Communications, while the Software and Services segment grew 7%, bolstered by Video Security and Command Center solutions. GAAP EPS increased 22% to $3.29, and non-GAAP EPS grew 17% to $3.74.

Operating cash flow improved to $759 million, up $45 million year-over-year, supported by higher earnings and lower material costs. The company announced an 11% dividend increase to $1.09, payable on January 15th, 2025. After another strong quarter, the company raised its full-year guidance, now projecting revenue growth of 8.25%, up from the prior 8% estimate.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$5.29	$3.02	$3.24	($0.95)	$5.62	$4.95	$5.45	$7.17	$7.93	$9.93	***$12.98***	***$19.07***
DPS	$1.30	$1.43	$1.70	$1.93	$2.13	$2.35	$2.63	$2.92	$3.25	$3.62	***$3.92***	***$5.25***
Shares	246	202	173	163	176	174	174	174	172	172	***170***	***166***

Since 2014, earnings per share have grown at an impressive average of 7.2% annually, with an even higher growth of 21.3% for the last five years. Sometimes, numbers can be misleading as earnings were stagnant from 2014 to 2020, with most of the growth happening from 2020 onwards driven by acquisitions. The company estimates that acquisitions made since 2015 will contribute to ~31% of revenue in 2024. Given the strong performance of these acquisitions and the growth in cloud and SaaS revenue, we believe an 8% growth rate is more than achievable. Our EPS target of $12.98 for 2024 is based on management projects and a solid year so far in 2024.

In relation to dividends, the company saw significant growth, with an average annual rate of 12.1% over the past nine years and 10.8% over the last five years. The company increased the quarterly dividend by 11% in November 2024 to $1.09 per share. However, we have aligned our dividend growth rate with the earnings growth rate and estimate an 8% dividend growth rate through 2029. Our 2029 target dividend per share is $5.25.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	11.1	18.9	19.9	-81.1	19.0	30.7	31.5	36.8	32.0	31.4	***38.5***	***20.0***
Avg. Yld.	2.4%	2.6%	2.7%	2.5%	2.0%	1.6%	1.8%	1.4%	1.4%	1.3%	***0.9%***	***1.4%***

Motorola Solutions expects high single-digit growth in 2024, driven by strength in video, software, and recurring services. Nearly half of the company's revenue is now recurring, which is enhanced by a $9.3 billion backlog of Software and Services multi-year agreements. The company is starting to see the benefits of expansion through acquisitions, leading to share price doubling from 2019 to date. Motorola is trading at a price-to-earnings ratio of 38.5, which is much higher than the 10-year average of 15. Based on an 8% growth rate, we estimate that the PE ratio will return to 20x earnings, which is similar to the values seen between 2016 and 2018. The stock is also trading at 193% of our fair value estimate of $260, and we currently have a five-year price target of $381.

Safety, Quality, Competitive Advantage, & Recession Resiliency

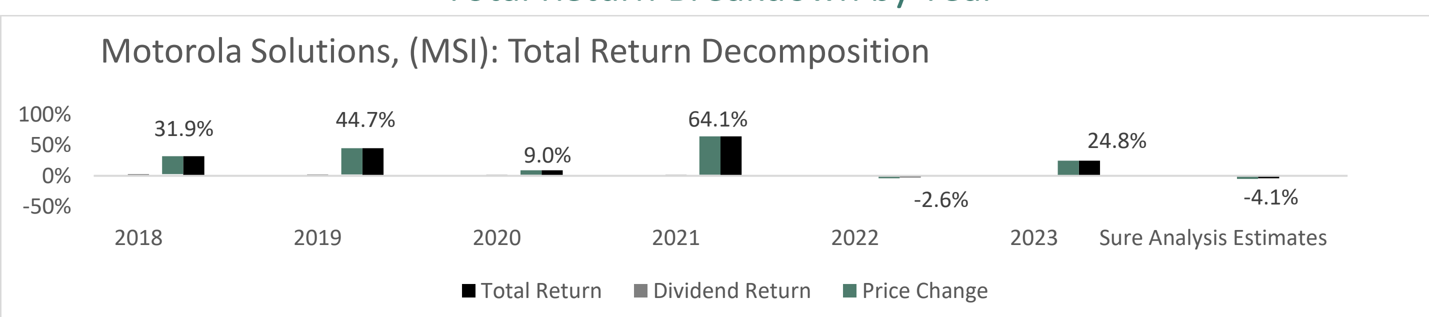
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	25%	47%	52%	-203%	38%	47%	48%	41%	41%	36%	***30%***	***28%***

Motorola Solutions offers several competitive advantages across its Command Center, LMR, and Video Security & Access Control segments. Approximately 60% of its customers use one or more cloud solutions, contributing to over $700 million in sales and double-digit growth within a $14 billion TAM. The transition to SaaS cloud offerings and platform rationalization drives margin expansion. In LMR, Motorola manages over 13,000 networks globally, with recurring services and regular device replacements every 6 to 8 years, supported by multi-year service agreements for software upgrades, cybersecurity, and remote monitoring. In Video Security & Access Control, Motorola is rapidly gaining market share with a portfolio including over 5 million fixed video cameras deployed across 300,000+ sites, with 90% featuring embedded AI capabilities. We expect Motorola Solutions to continue to have a ~30% payout ratio. Although we project that the dividend will continue to grow, it is important to note that in 2009, the business stopped its dividend because earnings fell. Fortunately, Motorola has a solid balance sheet, with current assets exceeding total liabilities. The business also has $1.5 billion in cash & cash equivalents, which is greater than what the company will pay out in dividends for the fiscal year 2024.

Final Thoughts & Recommendation

Motorola Solutions has stood the test of time, having been in business for nearly a century. The transformation into a SaaS model is driving growth, which has led to strong multiple expansion over the last five years. The downside is that the expected return over the next five years is -4.1%. Unfortunately, this is not a good enough return on investment, and based on current valuations, we would recommend Motorola as a sell.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5,881	5,695	6,038	6,380	7,343	7,887	7,414	8,171	9,112	9,978
Gross Profit	2,831	2,719	2,869	3,024	3,480	3,931	3,608	4,040	4,229	4,970
Gross Margin	48.1%	47.7%	47.5%	47.4%	47.4%	49.8%	48.7%	49.4%	46.4%	49.8%
SG&A Exp.	1,184	1,021	999	979	1,179	1,325	1,212	1,230	1,327	1,462
D&A Exp.	173	150	295	343	360	394	409	438	440	356
Operating Profit	962	1,070	1,204	1,326	1,419	1,711	1,495	1,840	1,866	2,458
Operating Margin	16.4%	18.8%	19.9%	20.8%	19.3%	21.7%	20.2%	22.5%	20.5%	24.6%
Net Profit	1,299	610	560	(155)	966	868	949	1,245	1,363	1,709
Net Margin	22.1%	10.7%	9.3%	-2.4%	13.2%	11.0%	12.8%	15.2%	15.0%	17.1%
Free Cash Flow	(723)	846	894	1,119	878	1,575	1,396	1,594	1,567	1,791
Income Tax	(465)	274	282	1,227	133	130	221	302	148	432

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	10,423	8,346	8,463	8,208	9,409	10,642	10,876	12,189	12,814	13,336
Cash & Equivalents	3,954	1,980	967	1,205	1,257	1,001	1,254	1,874	1,325	1,705
Accounts Receivable	1,409	1,362	1,410	1,523	1,293	1,412	1,390	1,386	1,518	1,710
Inventories	345	296	273	327	356	447	508	788	1,055	827
Goodwill & Int. Ass.	406	469	1,549	1,799	2,744	3,394	3,453	3,670	4,654	4,656
Total Liabilities	7,657	8,442	9,415	9,935	10,685	11,325	11,417	12,212	12,683	12,597
Accounts Payable	671	653	733	744	777	779	776	1,086	1,207	1,021
Long-Term Debt	3,400	4,349	4,396	4,471	5,320	5,129	5,175	5,693	6,014	6,018
Shareholder's Equity	2,735	(106)	(964)	(1,742)	(1,293)	(700)	(558)	(40)	116	724
D/E Ratio	1.24	(41.03)	(4.56)	(2.57)	(4.11)	(7.33)	(9.27)	(142.3)	51.84	8.31

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	11.7%	6.5%	6.7%	-1.9%	11.0%	8.7%	8.8%	10.8%	10.9%	13.1%
Return on Equity	40.2%	45.7%	-	-	-	-	-	-	N/A	393%
ROIC	21.1%	11.7%	14.6%	-5.0%	28.5%	20.4%	20.9%	24.2%	23.1%	26.5%
Shares Out.	246	202	173	163	176	174	174	174	172	172
Revenue/Share	23.95	28.22	34.88	39.17	42.69	44.91	42.58	47.07	53.01	57.98
FCF/Share	(2.94)	4.19	5.16	6.87	5.10	8.97	8.02	9.18	9.12	10.41

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.