



Allegion Third-Quarter 2018 Results

October 25, 2018

Forward-Looking Statements

This presentation contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934, including statements regarding the Company's 2018 financial performance, the Company's growth strategy, the Company's capital allocation strategy, the Company's tax planning strategies, and the performance of the markets in which the Company operates. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "forecast," "outlook," "intend," "strategy," "future," "opportunity," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," or the negative thereof or variations thereon or similar expressions generally intended to identify forward-looking statements. Forward-looking statements are based on the Company's currently available information and our current assumptions, expectations and projections about future events. They are subject to future events, risks and uncertainties - many of which are beyond the Company's control - as well as potentially inaccurate assumptions, that could cause actual results to differ materially from those in the forward-looking statements. Further information on these factors and other risks that may affect the Company's business is included in filings it makes with the Securities and Exchange Commission from time to time, including its Form 10-K for the year ended Dec. 31, 2017, Form 10-Q for the quarters ended March 31, 2018, June 30, 2018, and Sept. 30, 2018, and in its other SEC filings. The Company undertakes no obligation to update these forward-looking statements.

Reconciliation of Non-GAAP Measures

The Company presents operating income, operating margin, net earnings, diluted earnings per share (EPS), on both a U.S. GAAP basis and on an adjusted (non-GAAP) basis, revenue growth on a U.S. GAAP basis and organic revenue growth (non-GAAP), and also presents adjusted (non-GAAP) EBITDA and EBITDA margin. The Company presents these non-GAAP measures because management believes they provide useful perspective of the Company's underlying business results, trends and a more comparable measure of period-over-period results. These measures are also used to evaluate senior management and are a factor in determining at-risk compensation. Investors should not consider non-GAAP measures as alternatives to the related GAAP measures.

The Company defines the presented non-GAAP measures as follows:

- Adjustments to operating income, operating margin, net earnings, EPS and EBITDA include items such as goodwill impairment charges, restructuring charges, asset impairments, merger and acquisitions costs, debt refinancing costs, adjustments to provisional amounts related to the enactment of tax reform, and charges related to the divestiture of businesses.
- Organic revenue growth is defined as U.S. GAAP revenue growth excluding the impact of divestitures, acquisitions and currency effects.
- Available cash flow is defined as U.S. GAAP net cash from operating activities less capital expenditures.

These non-GAAP measures may not be defined and calculated the same as similar measures used by other companies. A reconciliation of the non-GAAP measures used to their most directly comparable GAAP measure is presented as a supplemental schedule in the earnings release that can be found at www.allegion.com.

2018 Third-Quarter Update

Strong Revenue Growth

Strong organic growth and double-digit total top-line growth – with strength across all regions

Electronics

Excellent growth in electronic products globally; Americas electronics growth at nearly 30%

Healthy End Markets

U.S. End markets remain healthy – continued strength in institutional verticals

Managing Price/Inflation

Driving price realization and productivity actions to mitigate significant inflationary pressures

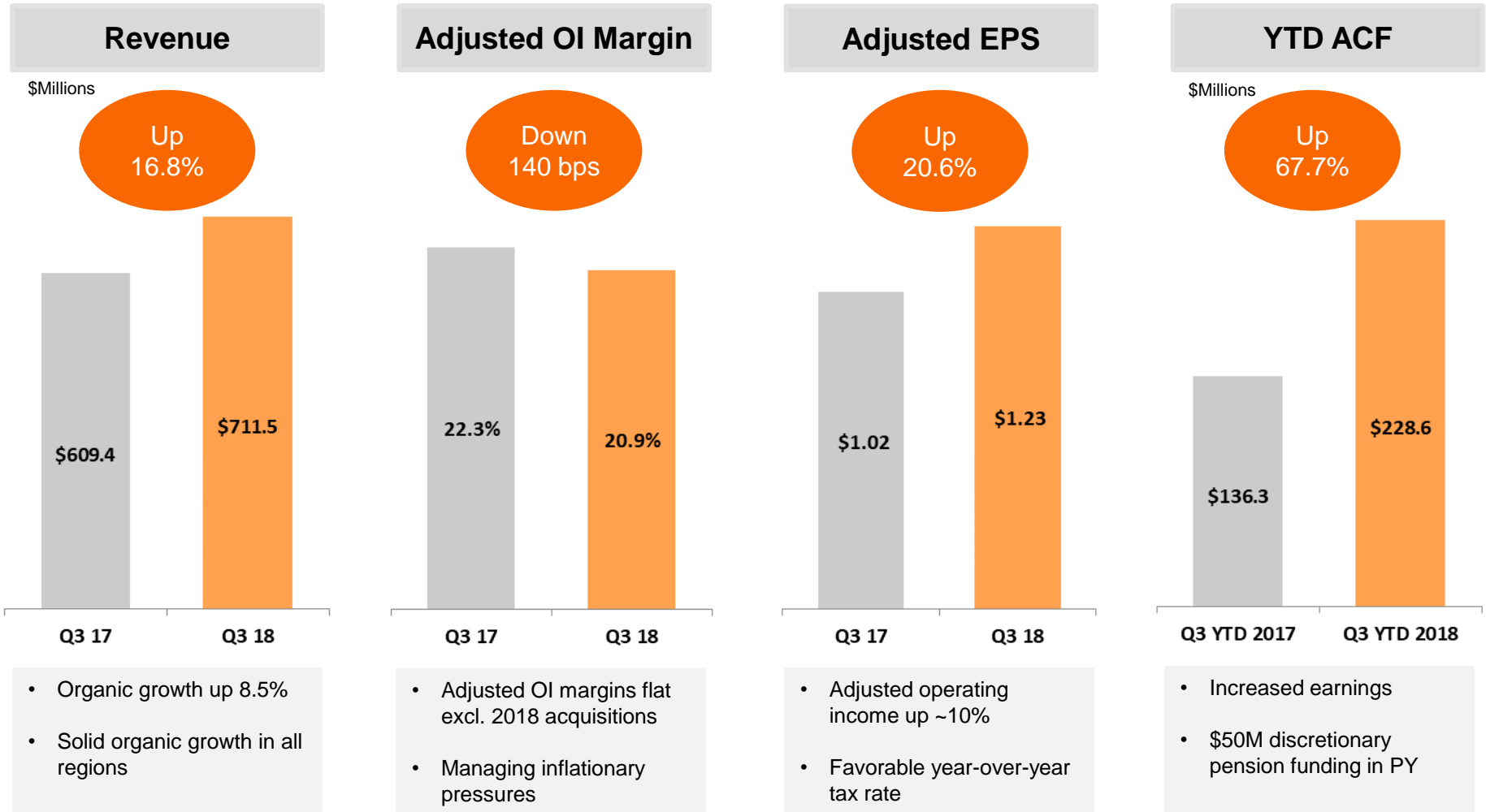
EPS Performance

Both reported and adjusted EPS growth was robust – up 28.7% and 20.6%, respectively

Outlook Updated

Outlook for total revenue growth updated to a range of 13% to 13.5%; Organic revenue outlook of 5% to 5.5%; Adjusted EPS outlook updated to a range of \$4.43 to \$4.50 per share

Third-Quarter Financial Summary



Strong Performance in High Inflationary Environment

SimonsVoss SmartHandle AX

- Flexible design with ability to be leveraged globally
- Easy installation
- Up to 10 years of battery life
- Enhanced security architecture with built in Smart features
- Launched during Q3



Design, Security & Compatibility

Third-Quarter 2018 Allegion Revenue Results

| | <u>Q3-18</u> | | <u>Q3</u> <u>Reported</u> <u>Growth</u> | <u>Q3</u> <u>Organic</u> ¹ <u>Growth</u> |
|----------------|--------------|-----------------------|---|---|
| Price | 2.2% | Americas | 16.5% | 10.1% |
| Volume | 6.3% | EMEIA | 7.4% | 3.4% |
| Organic | 8.5% | Asia Pacific | 61.5% | 5.9% |
| Acquisitions | 9.0% | | | |
| Currency | -0.7% | | | |
| Total | 16.8% | Total Allegion | 16.8% | 8.5% |

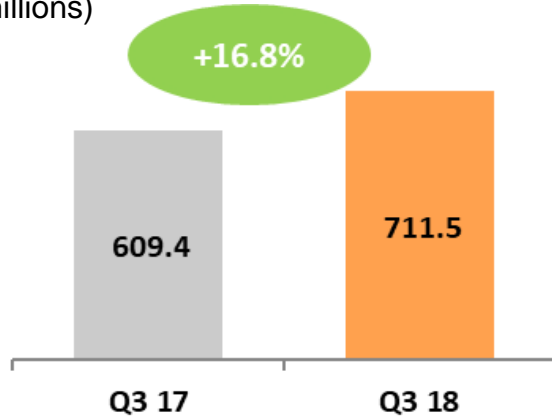
**Double-Digit Top-line Growth with Strong Volume & Price
along with Contributions from Acquisitions**

¹ Organic excludes acquisitions and currency impacts
See press release for non-GAAP reconciliations

Third-Quarter 2018 Allegion Results

Revenue

(\$millions)

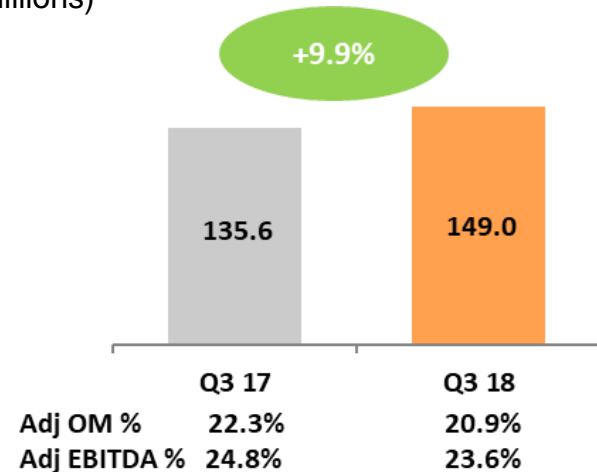


Q3 Revenue Performance

- Total revenue growth +16.8%; Organic growth +8.5%
- Double digit organic growth in Americas driven by volume, price and electronics
- Solid organic growth in both EMEIA and Asia Pacific
- Acquisitions added 9.0% growth or ~\$55 million

Adjusted Operating Income

(\$millions)

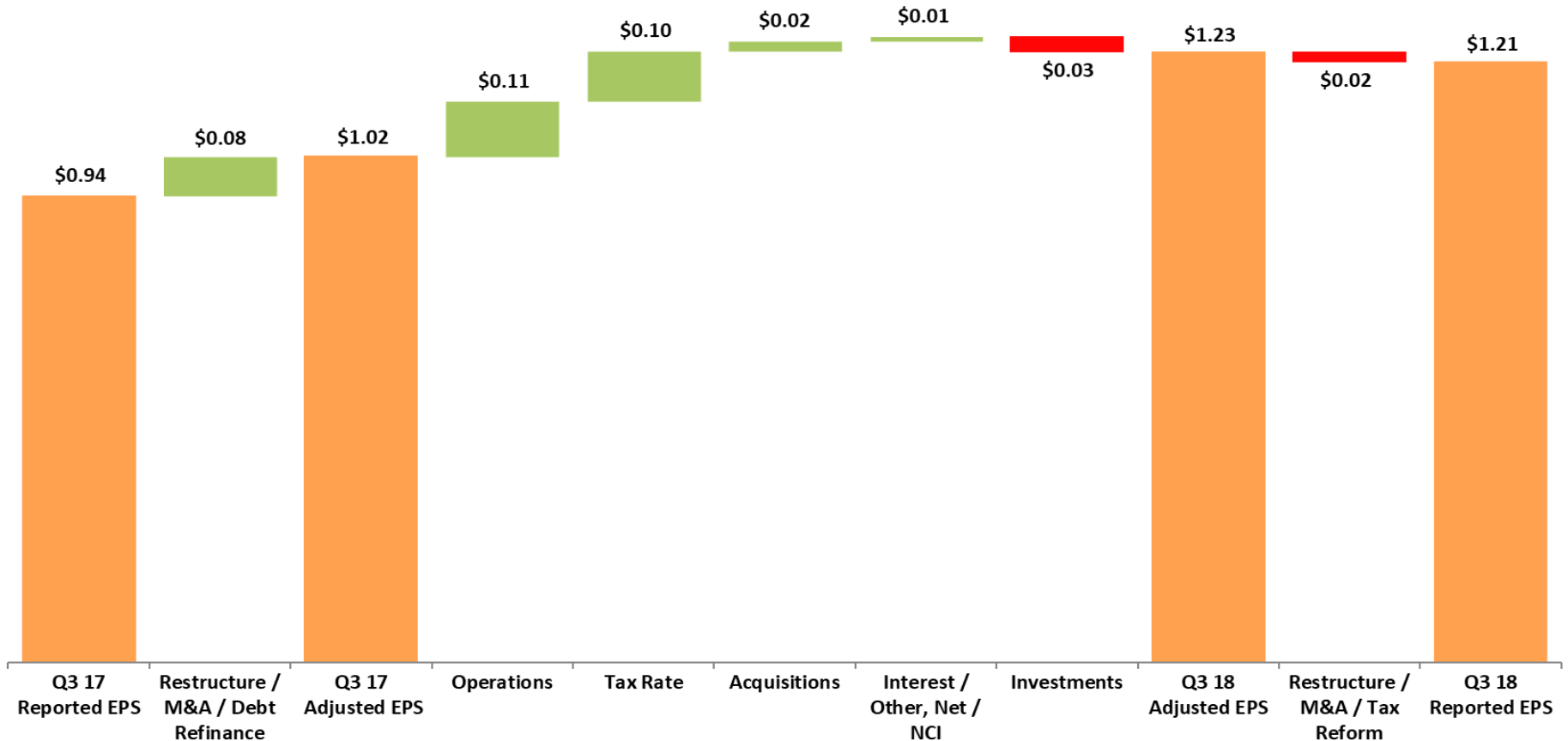


Q3 Adjusted Operating Margin -140bps

- Inflation slightly exceeded price and productivity
- Incremental investments a 50 bps headwind
- Adjusted operating margins, excluding 2018 acquisitions, were flat
- 2018 acquisitions accretive to adjusted EPS

Third-Quarter 2018 Allegion EPS Performance

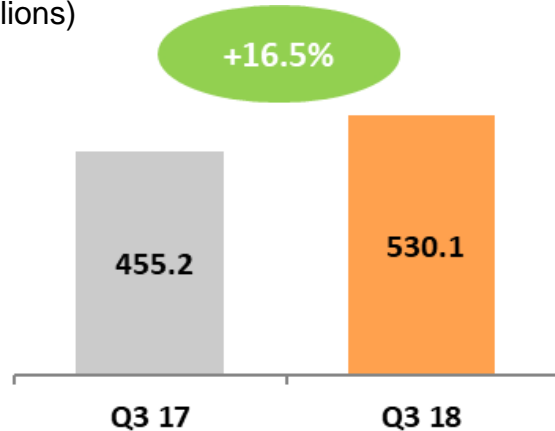
Q3



Third-Quarter 2018 Americas Results

Revenue

(\$millions)



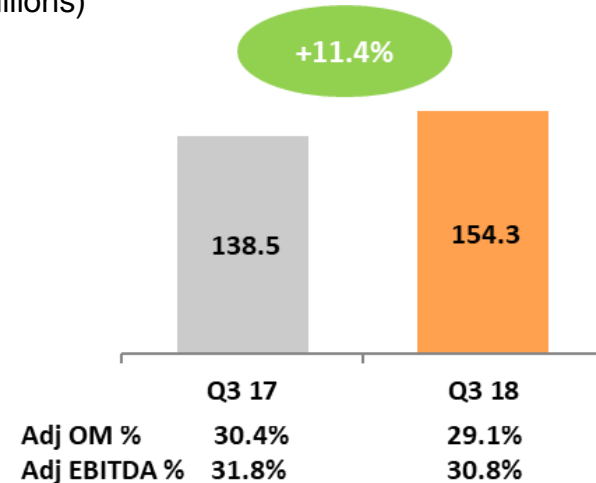
Q3 Revenue Performance

- Total revenue growth +16.5%; Organic growth +10.1%
- Strong year-over-year growth in electronics at nearly 30%
- Very strong pricing in the quarter at +2.5%
- Low-double digit growth in Non-Residential (ex-acquisitions) and high-single digit growth in Residential
- Acquisitions adding 6.6% to total growth

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Adjusted Operating Income

(\$millions)



Q3 Adjusted Operating Margin -130bps

- Price plus productivity slightly exceeded inflation
- Incremental investments a 40 bps headwind
- 2018 acquisitions dilutive to adjusted margins 120 bps

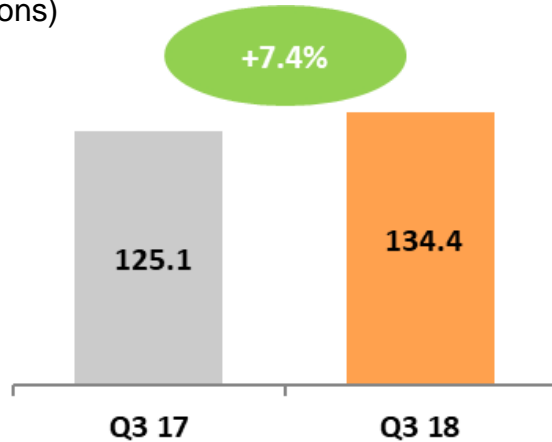
See press release for non-GAAP reconciliations



Third-Quarter 2018 EMEIA Results

Revenue

(\$millions)

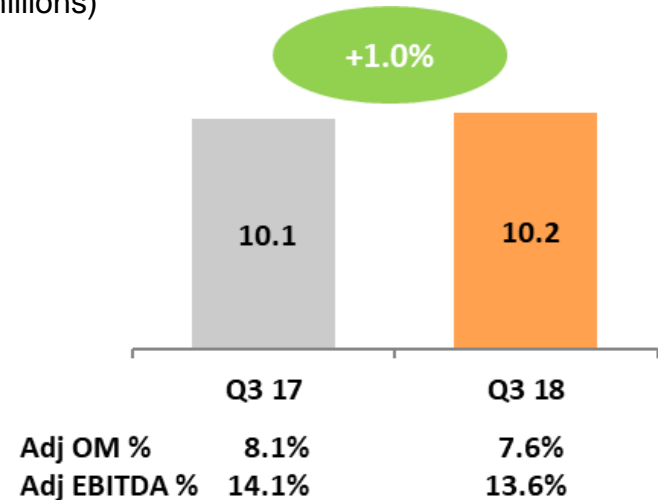


Q3 Revenue Performance

- Total revenue growth +7.4%; Organic growth +3.4%
- Total growth driven by acquisitions, favorable volume and price offsetting FX headwinds
- Strength in electronics driven by the SimonsVoss and Interflex businesses

Adjusted Operating Income

(\$millions)



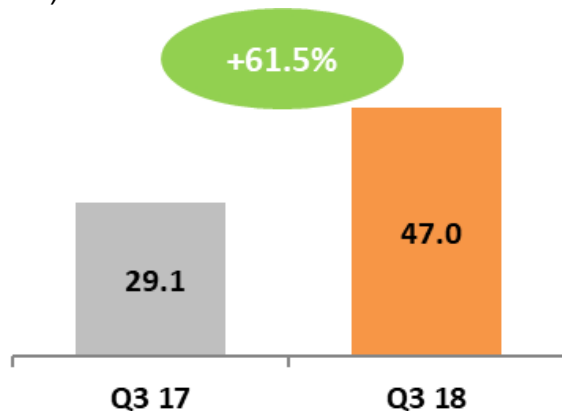
Q3 Adjusted Operating Margin -50bps

- Price plus productivity slightly exceeded inflation
- Incremental investments an 80 bps headwind
- 2018 acquisitions dilutive to adjusted margins 110 bps

Third-Quarter 2018 Asia-Pacific Results

Revenue

(\$millions)

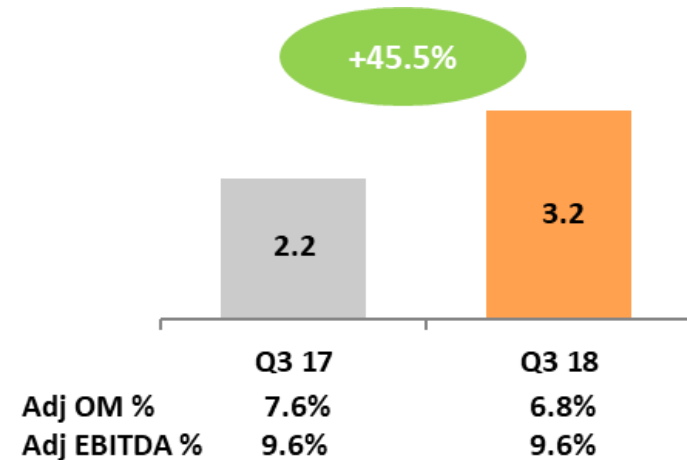


Q3 Revenue Performance

- Total revenue growth +61.5%; Organic growth +5.9%
- Total growth driven by acquisitions and favorable volume offsetting FX headwinds

Adjusted Operating Income

(\$millions)



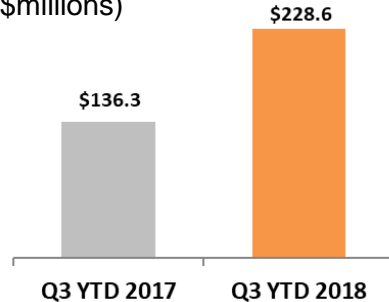
Q3 Adjusted Operating Margin -80bps

- Price plus productivity slightly exceeded inflation
- Unfavorable product and geographic mix
- Incremental investments a 40 bps headwind

Third-Quarter 2018 Allegion ACF

Available Cash Flow¹

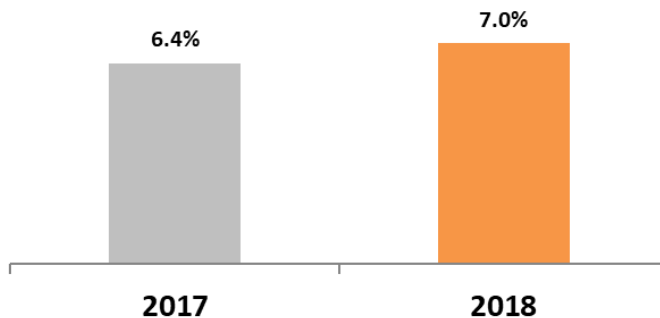
(\$millions)



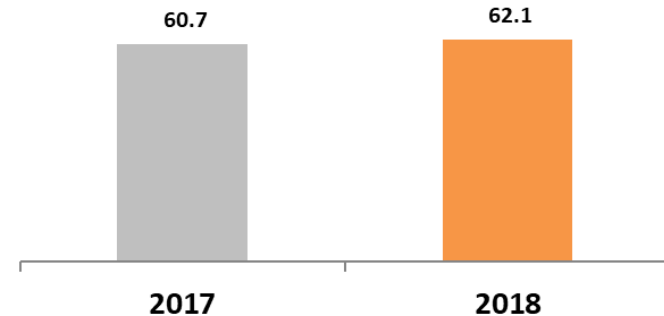
- Improvement in ACF is due to Q1 2017 \$50 million discretionary pension funding, higher net income, and favorable working capital changes

Working Capital² & Cash Conversion Cycle (CCC)³

Q3 Working Capital % of Revenue



Q3 Cash Conversion Cycle



Affirming Full-Year ACF Outlook Range of \$380 to \$400 Million

¹ Net cash from operating activities less capital expenditures

² Working capital defined as accounts receivable plus inventories less accounts payable and other accrued expenses (calculated using 4pt quarter end WC average)

³ CCC = DSO + Inventory Days - DPO (calculated using 4pt quarter average)
See press release for non-GAAP reconciliations

Full-Year 2018 Outlook

Revenue

| | | <u>FY Outlook</u> | <u>Prior FY Outlook</u> |
|----------------|-----------------|-------------------|-------------------------|
| Total | Americas | 12% to 12.5% | 10.5% to 11.5% |
| Organic | Americas | 6% to 6.5% | 4.5% to 5.5% |
| Total | EMEIA | 12% to 13% | 14% to 15% |
| Organic | EMEIA | 2.5% to 3.5% | 3% to 4% |
| Total | AP | 33% to 35% | 38% to 40% |
| Organic | AP | 3% to 4% | 5% to 6% |
| Total | Allegion | 13% to 13.5% | 12.5% to 13.5% |
| Organic | Allegion | 5% to 5.5% | 4% to 5% |

EPS

| | <u>FY Outlook</u> | <u>Prior FY Outlook</u> |
|--------------------------|-------------------------|-------------------------|
| 2018 Reported EPS | \$4.23 to \$4.35 | \$4.15 to \$4.35 |
| Adjustments ¹ | ~\$0.15 to \$0.20 | ~\$0.15 to \$0.20 |
| 2018 Adjusted EPS | \$4.43 to \$4.50 | \$4.35 to \$4.50 |

Assumptions and Notes:

- Full-year adjusted effective tax rate assumption of ~14.5%
- Average diluted share count for the full year of ~96 million shares
- Affirming Available Cash Flow outlook of \$380 to \$400 Million
- No change to investment spend which continues to be \$0.15 per share

Adj. EPS Growth ~+12% to +14%; ACF \$380 to \$400 Million

¹ Adjustments include costs related to restructuring, M&A, and adjustments to provisions related to the enactment of tax reform
See press release for non-GAAP reconciliations

Summary

- Q3 revenue increased \$102.1 million, +16.8% versus prior year
 - Organic revenue growth +8.5%
 - Acquisitions contributing +9% to total revenue growth
- Q3 2018 adjusted operating margins decreased -140 bps; flat excluding 2018 acquisitions
- Adjusted EPS of \$1.23 increased +20.6%
- Consolidated full-year revenue outlook
 - Total revenue growth of +13% to +13.5%
 - Organic revenue growth of +5% to +5.5%
- Full-year EPS outlook
 - Reported EPS \$4.23 to \$4.35 per share
 - Adjusted EPS \$4.43 to \$4.50 per share, growth of ~+ 12% to +14%
- Affirming Available Cash Flow outlook \$380 to \$400 million

Raising Organic Growth Outlook; Raising Mid-Point Outlooks for Total Revenue and Adjusted EPS



ALLEGIONTM