



# Allegion Second-Quarter 2018 Results

July 26, 2018

# Safe Harbor

This presentation contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, 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 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, and June 30, 2018, and in its other SEC filings. The Company assumes no obligations to update these forward-looking statements.

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 basis, organic revenue growth on a U.S. GAAP basis, and also presents adjusted EBITDA and adjusted EBITDA margin. The Company presents these 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.

# Safe Harbor

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, 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](http://www.allegion.com).

# Second-Quarter Highlights

## Strong Revenue Growth

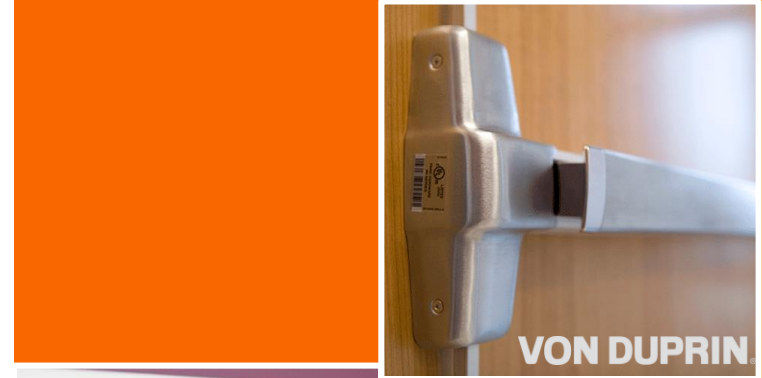
- Led by Americas
- Acquisitions contributing nicely
- Growth in Electronics continues to be strong globally

## Slight Margin Declines

- Inflationary pressures continue
- Acquisitions dilutive to margins, as expected
- Adjusted operating margins excluding acquisitions flat year-over-year

## Double-Digit Adjusted EPS growth

## Solid Cash Flow



# Second-Quarter Financial Summary

- Revenue of \$704.7 million increased +12.4%, +5.2% on an organic basis<sup>1</sup>
  - Americas organic revenue growth +6.6%
  - EMEIA organic revenue growth +1.4%
  - Asia-Pacific organic revenue growth +0.7%
- Adjusted<sup>2</sup> operating income of \$150.1 million increased +9.6%; Adjusted operating margin of 21.3% decreased 50 bps versus prior year
  - Inflationary pressure across all three regions
  - Acquisitions reduced margins 50 bps; Incremental investment headwind 70 bps
- Adjusted EPS of \$1.25 increased +12.6%
- Updating full-year revenue outlook and affirming full-year adjusted EPS outlook:
  - Reported revenue growth of +12.5% to +13.5% and organic revenue growth of +4% to +5%
  - Reported full-year EPS of \$4.15 to \$4.35 and adjusted full-year EPS of \$4.35 to \$4.50, reflecting growth of ~+ 10% to +14%

**Double-Digit Top-Line & Adjusted EPS Growth**



# Acquisitions



## GWA Door & Access Business

- Adds market-leading residential brand, Gainsborough



- Significantly increases scale in Asia Pacific



- Accelerates development of electronic security solutions



## ISONAS

- Adds innovative electronic access control and power over ethernet



- Expands Allegion's non-residential technology and intellectual property



- Brings strong pipeline to benefit from Allegion's expertise and extensive market coverage

**Expanding Portfolio & Electronics Offering; Adds \$70 to \$80 Million of Annual Revenue & Accretive to Adjusted EPS**

# Second-Quarter 2018 Allegion Revenue Results

	<u>Q2-18</u>		<u>Q2</u> <u>Reported</u> <u>Growth</u>	<u>Q2</u> <u>Organic</u> <sup>1</sup> <u>Growth</u>
Price	1.3%	Americas	12.4%	6.6%
Volume	3.9%	EMEIA	14.4%	1.4%
<b>Organic</b>	<b>5.2%</b>	Asia Pacific	3.1%	0.7%
Acquisitions	5.4%			
Currency	1.8%			
<b>Total</b>	<b>12.4%</b>	<b>Total Allegion</b>	<b>12.4%</b>	<b>5.2%</b>

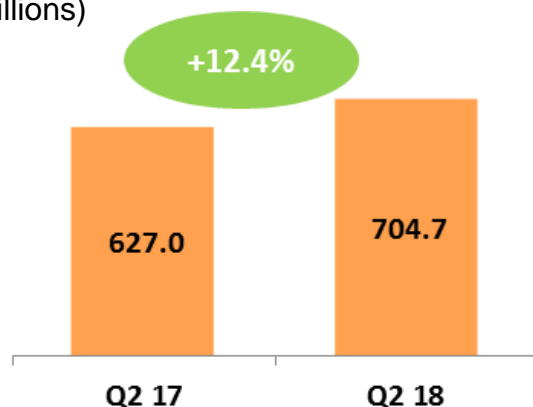
**Double-Digit Top-line Growth with Solid Volume & Price**

<sup>1</sup> Organic excludes acquisitions and currency impacts  
See press release for non-GAAP reconciliations

# Second-Quarter 2018 Allegion Results

## Revenue

(\$millions)

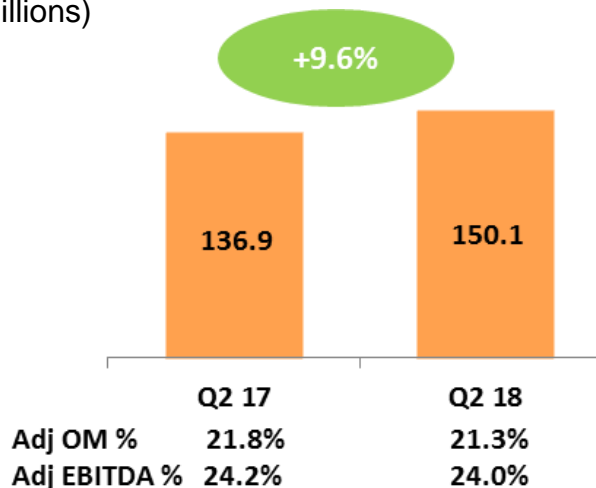


## Q2 Revenue Performance

- Total revenue growth +12.4%; Organic growth +5.2%
- Strong organic growth in Americas driven by volume, price and electronics growth
- Acquisitions added 5.4% growth or ~\$34 million

## Adjusted Operating Income

(\$millions)



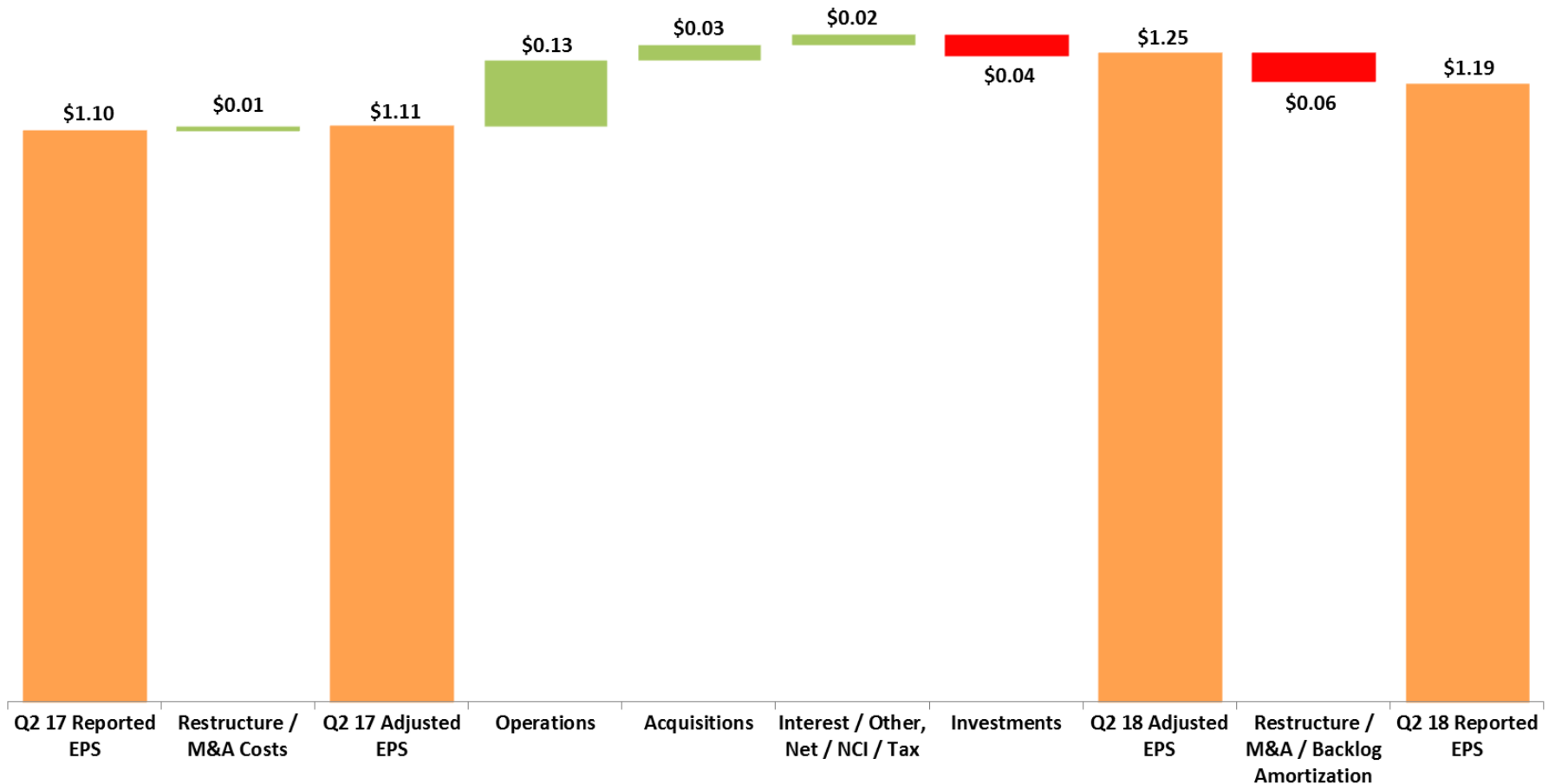
## Q2 Adjusted Operating Margin -50bps

- Inflation slightly exceeded price and productivity (less than \$1 million)
- Incremental investments a 70 bps headwind
- Acquisitions dilutive to consolidated adjusted operating margins 50 bps, accretive to adjusted EPS



# Second-Quarter 2018 Allegion EPS Performance

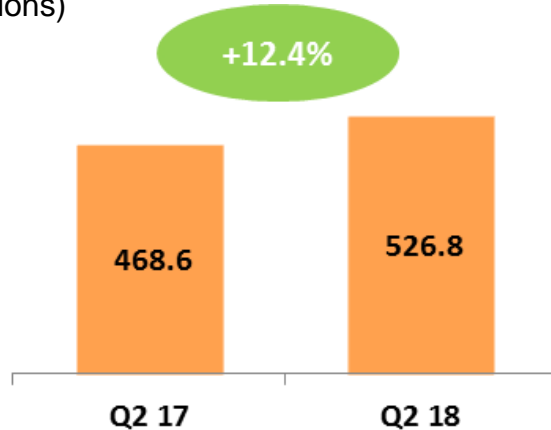
Q2



# Second-Quarter 2018 Americas Results

## Revenue

(\$millions)

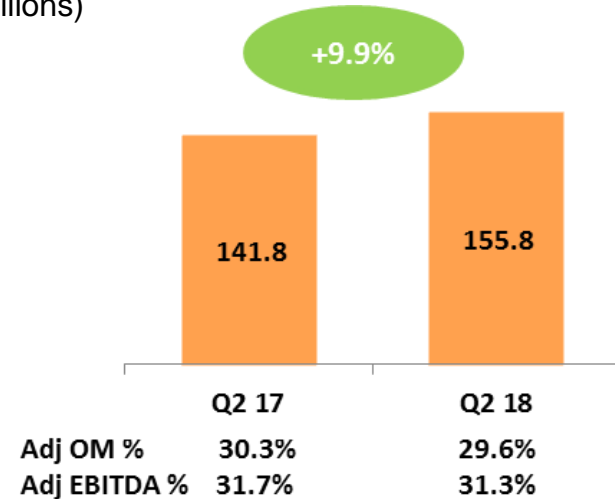


## Q2 Revenue Performance

- Total revenue growth +12.4%; Organic growth +6.6%
- High-single digit growth in Non-Residential (ex-acquisitions) and mid-single digit growth in Residential
- Acquisitions adding 5.6% to total growth
- High-teens year-over-year growth in Electronics

## Adjusted Operating Income

(\$millions)



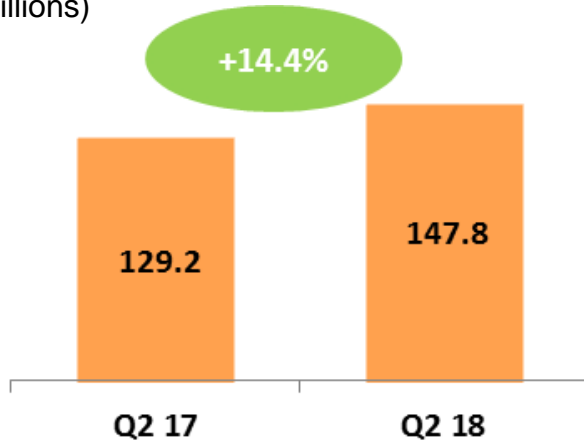
## Q2 Adjusted Operating Margin -70bps

- Favorable product and business mix more than offset the impact of inflation in excess of price and productivity
- Incremental investment a 60 bps headwind
- Acquisitions dilutive to adjusted margins 90 bps, as expected

# Second-Quarter 2018 EMEIA Results

## Revenue

(\$millions)

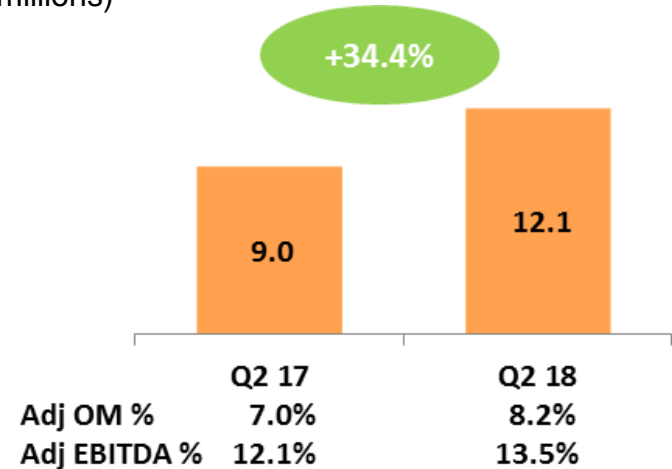


### Q2 Revenue Performance

- Total revenue growth +14.4%; Organic growth +1.4%
- Solid price for the quarter
- Total growth driven by organic growth, FX tailwinds and benefits of acquisition

## Adjusted Operating Income

(\$millions)



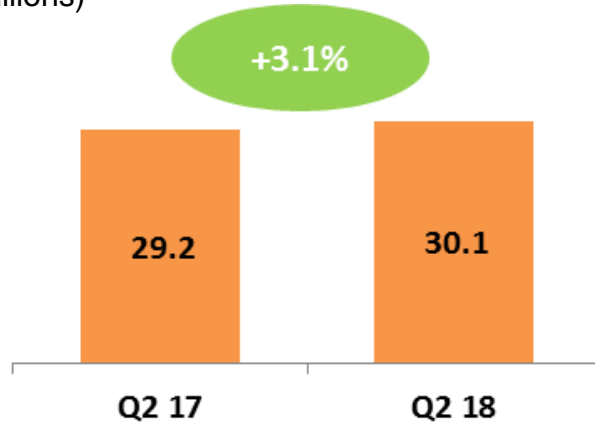
### Q2 Adjusted Operating Margin +120bps

- Price and productivity more than offset inflation and investments
- Incremental investment a 70 bps headwind
- Adjusted margin dilution from acquisition of 30 bps for the quarter

# Second-Quarter 2018 Asia-Pacific Results

## Revenue

(\$millions)

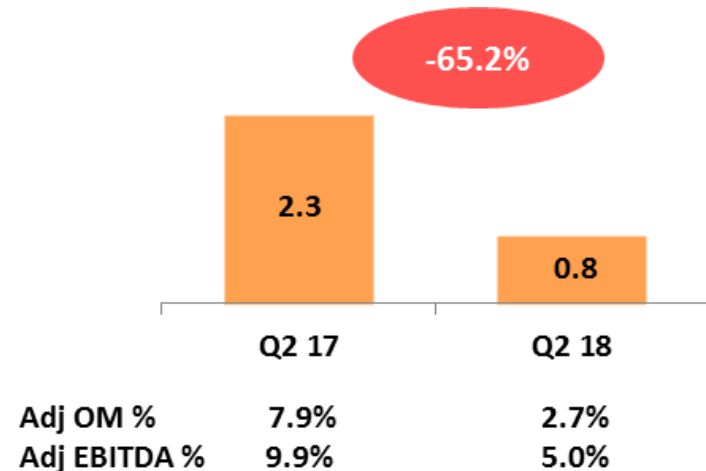


### Q2 Revenue Performance

- Total revenue growth +3.1%; Organic growth +0.7%
- Total growth driven by FX tailwinds

## Adjusted Operating Income

(\$millions)



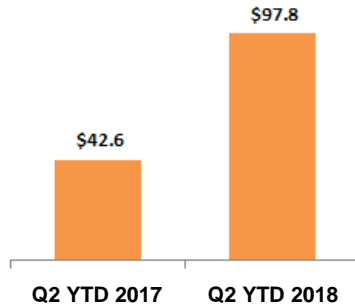
### Q2 Adjusted Operating Margin -520bps

- Inflation exceeded price and productivity
- Unfavorable product and geographic mix
- Incremental investment a 110 bps headwind
- Restructuring actions commenced in late Q2

# Second-Quarter 2018 Allegion ACF

## Available Cash Flow<sup>1</sup>

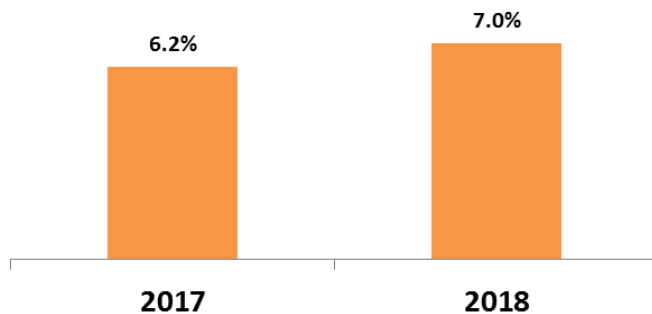
(\$millions)



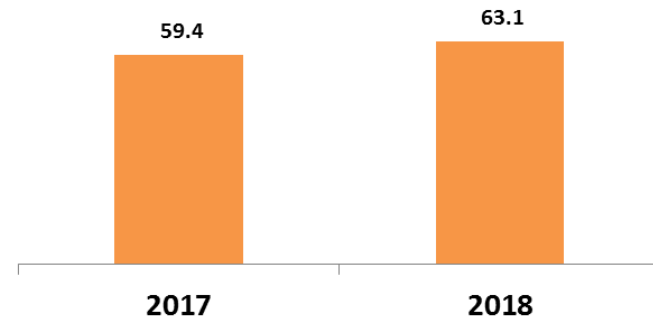
- Improvement in ACF is due to Q1 2017 \$50 million discretionary pension funding and higher net income; Partially offset by increased working capital

## Working Capital<sup>2</sup> & Cash Conversion Cycle (CCC)<sup>3</sup>

### Q2 Working Capital % of Revenue



### Q2 Cash Conversion Cycle



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

<sup>1</sup> Net cash from operating activities less capital expenditures

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

<sup>3</sup> 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>
<b>Total</b>	<b>Americas</b>	10.5% to 11.5%	10% to 11%
<b>Organic</b>	<b>Americas</b>	4.5% to 5.5%	4% to 5%
<b>Total</b>	<b>EMEIA</b>	14% to 15%	13% to 15%
<b>Organic</b>	<b>EMEIA</b>	3% to 4%	2% to 4%
<b>Total</b>	<b>AP</b>	38% to 40%	8% to 10%
<b>Organic</b>	<b>AP</b>	5% to 6%	6% to 8%
<b>Total</b>	<b>Allegion</b>	12.5% to 13.5%	10.5% to 11.5%
<b>Organic</b>	<b>Allegion</b>	4% to 5%	4% to 5%

## EPS

	<u>FY Outlook</u>	<u>Prior FY Outlook</u>
<b>2018 Reported EPS</b>	<b>\$4.15 to \$4.35</b>	<b>\$4.20 to \$4.35</b>
Adjustments <sup>1</sup>	~\$0.15 to \$0.20	~\$0.15
<b>2018 Adjusted EPS</b>	<b>\$4.35 to \$4.50</b>	<b>\$4.35 to \$4.50</b>

### Assumptions and Notes:

- Both revenue and EPS outlooks include impact from recent acquisitions of GWA's Door and Access Business and ISONAS
- Investment spend approximately \$0.15 per share
- Full-year adjusted effective tax rate assumption of approximately 15% to 16%
- Average diluted share count for the full year of approximately 96 million shares
- Affirming Available Cash Flow outlook of \$380 to \$400 Million

**Adj. EPS Growth ~+10% to +14%; ACF \$380 to \$400 Million**

<sup>1</sup> Adjustments include costs related to restructuring and M&A  
See press release for non-GAAP reconciliations

# Summary

- Q2 revenue increased \$77.7 million, +12.4% versus prior year
  - Organic revenue growth +5.2%
  - Acquisitions and currency also contributing to total revenue growth
- Q2 2018 adjusted operating margins decreased -50 bps; flat excluding acquisitions
- Adjusted EPS of \$1.25 increased +12.6%
- Consolidated full-year revenue outlook
  - Total revenue growth of +12.5% to +13.5%; Inclusive of recently announced acquisitions
  - Organic revenue growth of +4% to +5%
- Full-year EPS outlook
  - Reported EPS \$4.15 to \$4.35 per share
  - Adjusted EPS \$4.35 to \$4.50 per share, growth of ~+ 10% to +14%
- Affirming Available Cash Flow outlook \$380 to \$400 million

**Raising Total Revenue Outlook; Affirming Adjusted EPS Outlook**



**ALLEGION**<sup>TM</sup>