

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

FORM 10-Q

---

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2020

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-35971



Ireland

*(State or other jurisdiction of  
incorporation or organization)*

98-1108930

*(I.R.S. Employer  
Identification No.)*

Block D  
Iveagh Court  
Harcourt Road  
Dublin 2, Ireland

*(Address of principal executive offices, including zip code)*

+(353) (1) 2546200

*(Registrant's telephone number, including area code)*

---

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading symbol</u>	<u>Name of exchange on which registered</u>
Ordinary shares, par value \$0.01 per share	ALLE	New York Stock Exchange
3.500% Senior Notes due 2029	ALLE 3 ½	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

---

[Table of Contents](#)

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of ordinary shares outstanding of Allegion plc as of October 19, 2020 was 92,039,015.

---

ALLEGION PLC

FORM 10-Q

INDEX

<b><a href="#">PART I FINANCIAL INFORMATION</a></b>		<b><a href="#">1</a></b>
Item 1 -	<a href="#">Financial Statements</a>	<a href="#">1</a>
	<a href="#">Condensed and Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2020 and 2019 (Unaudited)</a>	<a href="#">1</a>
	<a href="#">Condensed and Consolidated Balance Sheets at September 30, 2020 and December 31, 2019 (Unaudited)</a>	<a href="#">2</a>
	<a href="#">Condensed and Consolidated Statements of Cash Flows for the nine months ended September 30, 2020 and 2019 (Unaudited)</a>	<a href="#">3</a>
	<a href="#">Notes to Condensed and Consolidated Financial Statements (Unaudited)</a>	<a href="#">4</a>
Item 2 -	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">23</a>
Item 3 -	<a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	<a href="#">40</a>
Item 4 -	<a href="#">Controls and Procedures</a>	<a href="#">40</a>
<b><a href="#">PART II OTHER INFORMATION</a></b>		<b><a href="#">41</a></b>
Item 1 -	<a href="#">Legal Proceedings</a>	<a href="#">41</a>
Item 1A -	<a href="#">Risk Factors</a>	<a href="#">41</a>
Item 2 -	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">41</a>
Item 6 -	<a href="#">Exhibits</a>	<a href="#">42</a>
<b><a href="#">SIGNATURES</a></b>		<b><a href="#">43</a></b>

---

## PART I-FINANCIAL INFORMATION

**Item 1 – Financial Statements****Allegion plc****Condensed and Consolidated Statements of Comprehensive Income**

(Unaudited)

<i>In millions, except per share amounts</i>	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net revenues	\$ 728.4	\$ 748.3	\$ 1,992.6	\$ 2,134.5
Cost of goods sold	409.2	412.8	1,133.7	1,201.4
Selling and administrative expenses	156.2	167.4	474.2	511.3
Impairment of goodwill and intangible assets	2.6	—	98.9	—
Operating income	160.4	168.1	285.8	421.8
Interest expense	12.9	15.6	38.8	42.7
Other (income) expense, net	(12.2)	2.0	(12.6)	1.6
Earnings before income taxes	159.7	150.5	259.6	377.5
Provision for income taxes	12.8	18.8	38.5	56.1
Net earnings	146.9	131.7	221.1	321.4
Less: Net earnings attributable to noncontrolling interests	—	0.1	0.1	0.3
Net earnings attributable to Allegion plc	\$ 146.9	\$ 131.6	\$ 221.0	\$ 321.1
<b>Earnings per share attributable to Allegion plc ordinary shareholders:</b>				
Basic net earnings	\$ 1.59	\$ 1.41	\$ 2.39	\$ 3.42
Diluted net earnings	\$ 1.58	\$ 1.40	\$ 2.38	\$ 3.40
Weighted-average shares outstanding				
Basic	92.3	93.3	92.4	93.8
Diluted	92.7	94.0	92.9	94.5
Total comprehensive income	\$ 171.4	\$ 90.8	\$ 232.8	\$ 270.9
Less: Total comprehensive income (loss) attributable to noncontrolling interests	0.3	(0.9)	—	(0.7)
<b>Total comprehensive income attributable to Allegion plc</b>	<b>\$ 171.1</b>	<b>\$ 91.7</b>	<b>\$ 232.8</b>	<b>\$ 271.6</b>

See accompanying notes to condensed and consolidated financial statements.

**Allegion plc**  
**Condensed and Consolidated Balance Sheets**  
(Unaudited)

<i>In millions</i>	September 30, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 428.9	\$ 355.3
Restricted cash	1.9	3.4
Accounts and notes receivable, net	350.9	329.8
Inventories	289.6	269.9
Other current assets	49.7	43.4
Total current assets	1,121.0	1,001.8
Property, plant and equipment, net	293.7	291.4
Goodwill	790.1	873.3
Intangible assets, net	494.3	510.9
Other noncurrent assets	328.6	289.8
Total assets	\$ 3,027.7	\$ 2,967.2
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 191.1	\$ 221.0
Accrued expenses and other current liabilities	297.8	285.9
Short-term borrowings and current maturities of long-term debt	0.2	0.1
Total current liabilities	489.1	507.0
Long-term debt	1,428.9	1,427.6
Other noncurrent liabilities	282.6	272.2
Total liabilities	2,200.6	2,206.8
<b>Equity:</b>		
Allegion plc shareholders' equity:		
Ordinary shares, \$0.01 par value (92,250,392 and 92,723,682 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively)	0.9	0.9
Capital in excess of par value	6.8	—
Retained earnings	1,023.4	975.1
Accumulated other comprehensive loss	(206.8)	(218.6)
Total Allegion plc shareholders' equity	824.3	757.4
Noncontrolling interests	2.8	3.0
Total equity	827.1	760.4
Total liabilities and equity	\$ 3,027.7	\$ 2,967.2

See accompanying notes to condensed and consolidated financial statements.

**Allegion plc**  
**Condensed and Consolidated Statements of Cash Flows**  
(Unaudited)

<i>In millions</i>	Nine months ended September 30,	
	2020	2019
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 221.1	\$ 321.4
Adjustments to arrive at net cash provided by operating activities:		
Depreciation and amortization	60.3	62.6
Impairment of goodwill and intangible assets	98.9	—
Changes in assets and liabilities and other non-cash items	(90.9)	(104.6)
Net cash provided by operating activities	289.4	279.4
<b>Cash flows from investing activities:</b>		
Capital expenditures	(33.3)	(49.4)
Acquisition of and equity investments in businesses, net of cash acquired	—	(4.6)
Other investing activities, net	(6.0)	(2.0)
Net cash used in investing activities	(39.3)	(56.0)
<b>Cash flows from financing activities:</b>		
Short-term repayments, net	—	(0.3)
Proceeds from issuance of senior notes	—	400.0
Payments of other long-term debt	(0.1)	(417.7)
Debt repayments, net	(0.1)	(18.0)
Debt issuance costs	—	(3.0)
Dividends paid to ordinary shareholders	(88.3)	(75.5)
Repurchase of ordinary shares	(94.1)	(179.7)
Other financing activities, net	3.2	1.8
Net cash used in financing activities	(179.3)	(274.4)
<b>Effect of exchange rate changes on cash, cash equivalents and restricted cash</b>	1.3	(3.3)
Net increase (decrease) in cash, cash equivalents and restricted cash	72.1	(54.3)
Cash, cash equivalents and restricted cash - beginning of period	358.7	290.6
Cash, cash equivalents and restricted cash - end of period	\$ 430.8	\$ 236.3

*See accompanying notes to condensed and consolidated financial statements.*

**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Condensed and Consolidated Financial Statements of Allegion plc, an Irish public limited company, and its consolidated subsidiaries ("Allegion" or the "Company"), reflect the consolidated operations of the Company and have been prepared in accordance with United States ("U.S.") Securities and Exchange Commission ("SEC") interim reporting requirements. Accordingly, the accompanying Condensed and Consolidated Financial Statements do not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for full financial statements and should be read in conjunction with the Consolidated Financial Statements included in the Allegion Annual Report on Form 10-K for the year ended December 31, 2019. In the opinion of management, the accompanying Condensed and Consolidated Financial Statements contain all adjustments, which include normal recurring adjustments, necessary to state fairly the consolidated unaudited results for the interim periods presented.

**NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS**

***Recently Adopted Accounting Pronouncements:***

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The new guidance within ASU 2016-13, along with related updates (collectively "ASC 326") introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. The new guidance became effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Accordingly, the Company adopted ASC 326 on January 1, 2020, using the modified retrospective transition method through a \$2.2 million cumulative-effect decrease to retained earnings (see Note 11). The Company has also made updates to its policies and internal controls over financial reporting as a result of adoption.

In August 2018, the FASB issued ASU 2018-15, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." The new guidance aligns the requirements for capitalizing implementation costs incurred in a cloud-based hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). ASU 2018-15 became effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Accordingly, the Company adopted ASU 2018-15 on January 1, 2020, using the prospective method of adoption, and the adoption did not have a material impact to the Condensed and Consolidated Financial Statements.

***Recently Issued Accounting Pronouncements***

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." The new guidance is intended to simplify the accounting for income taxes by removing certain exceptions and by updating accounting requirements around franchise taxes, goodwill recognized for tax purposes, the allocation of current and deferred tax expense among legal entities, among other minor changes. The ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted. The Company is assessing what impact ASU 2019-12 will have on the Condensed and Consolidated Financial Statements.

In January 2020, the FASB issued ASU 2020-01, "Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815." The amendments in ASU 2020-01 clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting. The ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted. The Company is assessing what impact ASU 2020-01 will have on the Condensed and Consolidated Financial Statements.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." This ASU provides temporary optional expedients and exceptions for applying GAAP to contract modifications, hedging relationships and other transactions if certain criteria are met in order to ease the potential accounting and financial reporting burden associated with the expected market transition away from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. The ASU is currently effective and may be applied prospectively at any point through December 31, 2022 at the Company's option. The Company is assessing what impact ASU 2020-04 will have on the Condensed and Consolidated Financial Statements.

**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**NOTE 3 - INVENTORIES**

Inventories are stated at the lower of cost and net realizable value using the first-in, first-out (FIFO) method.

The major classes of inventories were as follows:

<i>In millions</i>	September 30, 2020	December 31, 2019
Raw materials	\$ 131.2	\$ 116.8
Work-in-process	38.2	33.1
Finished goods	120.2	120.0
Total	<u>\$ 289.6</u>	<u>\$ 269.9</u>

**NOTE 4 - GOODWILL**

The changes in the carrying amount of goodwill for the nine months ended September 30, 2020, were as follows:

<i>In millions</i>	Americas	EMEA	Asia Pacific	Total
December 31, 2019 (gross)	\$ 485.0	\$ 764.1	\$ 109.7	\$ 1,358.8
Accumulated impairment	—	(478.6)	(6.9)	(485.5)
December 31, 2019 (net)	485.0	285.5	102.8	873.3
Impairment charge	—	—	(88.1)	(88.1)
Currency translation	(0.1)	12.1	(7.1)	4.9
September 30, 2020 (net)	<u>\$ 484.9</u>	<u>\$ 297.6</u>	<u>\$ 7.6</u>	<u>\$ 790.1</u>

As a result of the global economic disruption and uncertainty due to the novel coronavirus ("COVID-19") pandemic, the Company concluded a triggering event had occurred as of March 31, 2020, and accordingly, performed interim impairment testing on the goodwill balances of its EMEA and Asia Pacific reporting units. As quoted market prices were not available for these reporting units, the calculations of their estimated fair values were based on a discounted cash flow model (income approach). This was a change in estimate, as historically the Company's determination of reporting unit fair values has been estimated based on two valuation techniques, a discounted cash flow model (income approach) and a market multiple of earnings (market approach), with each method being weighted in the calculation. Given the high degree of market volatility and lack of reliable market data that existed as of March 31, 2020, the Company determined that a discounted cash flow model (income approach) provided the best approximation of fair value of the EMEA and Asia Pacific reporting units for the purpose of performing these interim impairment tests.

This approach relied on numerous assumptions and judgments that were subject to various risks and uncertainties. Principal assumptions utilized, all of which are considered Level 3 inputs under the fair value hierarchy (see Note 10), included the Company's estimates of future revenue and terminal growth rates, margin assumptions and discount rates to estimate future cash flows. The calculations explicitly addressed factors such as timing, with due consideration given to forecasting risk. While assumptions utilized are subject to a high degree of judgment and complexity, the Company made every effort to estimate future cash flows as accurately as possible, given the high degree of economic uncertainty that existed as of March 31, 2020. The results of the interim impairment testing indicated that the estimated fair value of the Asia Pacific reporting unit was less than its carrying value. Consequently, a goodwill impairment charge was recorded for the Asia Pacific reporting unit, as reflected in the table above. If the ongoing economic impact of the pandemic proves to be more severe than estimated, or if the economic recovery takes longer to materialize or does not materialize as strongly as anticipated, this could result in future impairment charges.



**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**NOTE 5 - INTANGIBLE ASSETS**

The gross amount of the Company's intangible assets and related accumulated amortization were as follows:

<i>In millions</i>	September 30, 2020			December 31, 2019		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Completed technologies/patents	\$ 59.4	\$ (23.8)	\$ 35.6	\$ 59.3	\$ (19.2)	\$ 40.1
Customer relationships	425.4	(127.4)	298.0	412.7	(107.5)	305.2
Trade names (finite-lived)	86.5	(54.2)	32.3	82.5	(49.4)	33.1
Other	22.6	(9.7)	12.9	17.6	(8.1)	9.5
Total finite-lived intangible assets	593.9	\$ (215.1)	378.8	572.1	\$ (184.2)	387.9
Trade names (indefinite-lived)	115.5		115.5	123.0		123.0
Total	<u>\$ 709.4</u>		<u>\$ 494.3</u>	<u>\$ 695.1</u>		<u>\$ 510.9</u>

Intangible asset amortization expense was \$23.2 million and \$23.3 million for the nine months ended September 30, 2020 and 2019, respectively. Future estimated amortization expense on existing intangible assets in each of the next five years amounts to approximately \$30.6 million for full year 2020, \$29.4 million for 2021, \$29.4 million for 2022, \$29.3 million for 2023 and \$28.9 million for 2024.

During the first quarter of 2020, the Company concluded the global economic disruption and uncertainty due to the COVID-19 pandemic to be a triggering event. Accordingly, interim impairment tests on certain indefinite-lived trade names were performed as of March 31, 2020. Based on these tests, it was determined that three of the Company's indefinite-lived trade names in the EMEA and Asia Pacific segments were impaired, and impairment charges totaling \$8.2 million were recorded. If the ongoing economic impact of the COVID-19 pandemic proves to be more severe than estimated, or if the economic recovery takes longer to materialize or does not materialize as strongly as anticipated, this could result in future impairment charges.

During the three months ended September 30, 2020, a subsidiary in the Asia Pacific segment experienced supply chain disruptions, which have reduced one of its brand's expected future cash flows. As a result, an impairment charge of \$2.6 million was recorded, consisting of the write-off of the brand's indefinite-lived trade name and other related assets.

**NOTE 6 - DEBT AND CREDIT FACILITIES**

Long-term debt and other borrowings consisted of the following:

<i>In millions</i>	September 30, 2020	December 31, 2019
Term Facility	\$ 238.8	\$ 238.8
Revolving Facility	—	—
3.200% Senior Notes due 2024	400.0	400.0
3.550% Senior Notes due 2027	400.0	400.0
3.500% Senior Notes due 2029	400.0	400.0
Other debt	0.6	0.7
Total borrowings outstanding	1,439.4	1,439.5
Less discounts and debt issuance costs, net	(10.3)	(11.8)
Total debt	1,429.1	1,427.7
Less current portion of long-term debt	0.2	0.1
Total long-term debt	<u>\$ 1,428.9</u>	<u>\$ 1,427.6</u>

**Unsecured Credit Facilities**

As of September 30, 2020, the Company has an unsecured Credit Agreement in place, consisting of a \$700.0 million term loan facility (the "Term Facility"), of which \$238.8 million is outstanding at September 30, 2020, and a \$500.0 million revolving

**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

credit facility (the "Revolving Facility" and, together with the Term Facility, the "Credit Facilities"). The Credit Facilities mature on September 12, 2022, and are unconditionally guaranteed jointly and severally on an unsecured basis by the Company and Allegion US Holding Company Inc. ("Allegion US Hold Co"), the Company's wholly-owned subsidiary.

At inception, the Term Facility was scheduled to amortize in quarterly installments at the following rates: 1.25% per quarter starting December 31, 2017 through December 31, 2020, 2.5% per quarter from March 31, 2021 through June 30, 2022, with the balance due on September 12, 2022. Principal amounts repaid on the Term Facility may not be reborrowed. During the third quarter of 2019, the Company made a \$400.0 million principal payment to partially pay down the outstanding Term Facility balance. As a result of this payment, the Company has satisfied its obligation to make quarterly installments on the Term Facility up to the maturity date, with the remaining outstanding balance due on September 12, 2022. In conjunction with the principal pay down, the Company recognized a \$2.7 million charge related to the write-off of previously deferred financing costs related to the Term Facility, which is included within Interest expense in the Condensed and Consolidated Statements of Comprehensive Income for both the three and nine months ended September 30, 2019.

The Revolving Facility provides aggregate commitments of up to \$500.0 million, which includes up to \$100.0 million for the issuance of letters of credit. At September 30, 2020, there were no borrowings outstanding on the Revolving Facility and the Company had \$15.0 million of letters of credit outstanding. Commitments under the Revolving Facility may be reduced at any time without premium or penalty, and amounts repaid may be reborrowed.

Outstanding borrowings under the Credit Facilities accrue interest, at the option of the Company, of (i) a LIBOR rate plus the applicable margin or (ii) a base rate plus the applicable margin. The applicable margin ranges from 1.125% to 1.500% depending on the Company's credit ratings. At September 30, 2020, the Company's outstanding borrowings under the Credit Facilities accrue interest at LIBOR plus a margin of 1.250%, resulting in an interest rate of 1.480%. The Credit Facilities also contain negative and affirmative covenants and events of default that, among other things, limit or restrict the Company's ability to enter into certain transactions. In addition, the Credit Facilities require the Company to comply with a maximum leverage ratio and a minimum interest expense coverage ratio, as defined within the agreement. As of September 30, 2020, the Company was in compliance with all covenants.

#### **Senior Notes**

As of September 30, 2020, Allegion US Hold Co has \$400.0 million outstanding of its 3.200% Senior Notes due 2024 (the "3.200% Senior Notes") and \$400.0 million outstanding of its 3.550% Senior Notes due 2027 (the "3.550% Senior Notes"), while Allegion plc has \$400.0 million outstanding of its 3.500% Senior Notes due 2029 (the "3.500% Senior Notes"). The 3.200% Senior Notes, 3.550% Senior Notes and 3.500% Senior Notes (collectively, the "Senior Notes") all require semi-annual interest payments on April 1 and October 1 of each year, and will mature on October 1, 2024, October 1, 2027, and October 1, 2029, respectively. The 3.200% Senior Notes and the 3.550% Senior Notes are senior unsecured obligations of Allegion US Hold Co and rank equally with all of Allegion US Hold Co's existing and future senior unsecured and unsubordinated indebtedness. The guarantee of the 3.200% Senior Notes and the 3.550% Senior Notes is the senior unsecured obligation of the Company and ranks equally with all of the Company's existing and future senior unsecured and unsubordinated indebtedness. The 3.500% Senior Notes are senior unsecured obligations of Allegion plc, are guaranteed by Allegion US Hold Co and rank equally with all of the Company's existing and future senior unsecured indebtedness.

#### **NOTE 7 - FINANCIAL INSTRUMENTS**

In the normal course of business, the Company uses various financial instruments, including derivative instruments, to manage the risks associated with interest and currency rate exposures. These financial instruments are not used for trading or speculative purposes.

When a derivative contract is entered into, the Company designates the derivative instrument as a cash flow hedge of a forecasted transaction, a cash flow hedge of a recognized asset or liability or as an undesignated derivative. The Company formally documents its hedge relationships, including identification of the derivative instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. This process includes linking derivative instruments that are designated as hedges to specific assets, liabilities or forecasted transactions.

**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

The fair market value of derivative instruments is determined through market-based valuations and may not be representative of the actual gains or losses that will be recorded when these instruments mature due to future fluctuations in the markets in which they are traded.

The Company assesses at inception and at least quarterly thereafter, whether the derivatives used in cash flow hedging transactions are effective in offsetting the changes in the cash flows of the hedged item. To the extent the derivative is deemed to be an effective hedge, the fair market value changes of the instrument are recorded to Accumulated other comprehensive income (AOCI) and subsequently reclassified into Net earnings when the hedged transaction affects earnings. Changes in the fair market value of derivatives not deemed to be an effective hedge are recorded in Net earnings in the period of change. If the hedging relationship ceases to be effective subsequent to inception, or it becomes probable that a forecasted transaction is no longer expected to occur, the hedging relationship will be undesignated and any future gains and losses on the derivative instrument will be recorded in Net earnings.

***Currency Hedging Instruments***

The gross notional amount of the Company's currency derivatives was \$191.1 million and \$146.4 million at September 30, 2020 and December 31, 2019, respectively. At September 30, 2020 and December 31, 2019, a gain of \$0.1 million and a loss of \$0.1 million, net of tax, respectively, were included in Accumulated other comprehensive loss related to the fair value of the Company's currency derivatives designated as cash flow hedges. The amount expected to be reclassified into Net earnings over the next twelve months is a gain of \$0.1 million. The actual amounts that will be reclassified to Net earnings may vary from this amount as a result of changes in market conditions. Gains and losses associated with the Company's currency derivatives not designated as hedges are recorded in Net earnings as changes in fair value occur. At September 30, 2020, the maximum term of the Company's currency derivatives was less than one year.

***Interest Rate Swaps***

As of December 31, 2019, and through their expiration in September 2020, the Company had interest rate swaps to fix the interest rate paid during the contract period related to \$200.0 million of the Company's variable rate Term Facility. Prior to expiration, these swaps met the criteria to be accounted for as cash flow hedges of variable rate interest payments.

The fair values of derivative instruments included within the Condensed and Consolidated Balance Sheets were as follows:

<i>In millions</i>	Balance Sheet classification	Designated as hedge instruments		Not designated as hedge instruments	
		September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
<b>Asset derivatives</b>					
Currency derivatives	Other current assets	\$ 0.1	\$ —	\$ 2.0	\$ 0.4
Interest rate swaps	Other current assets	—	0.7	—	—
Total asset derivatives		\$ 0.1	\$ 0.7	\$ 2.0	\$ 0.4
<b>Liability derivatives</b>					
Currency derivatives	Accrued expenses and other current liabilities	\$ 0.8	\$ 0.8	\$ 0.5	\$ 0.7
Total liability derivatives		\$ 0.8	\$ 0.8	\$ 0.5	\$ 0.7

The amounts associated with derivatives designated as hedges affecting Net earnings and Accumulated other comprehensive loss for the three months ended September 30 were as follows:

<i>In millions</i>	Amount of gain recognized in Accumulated other comprehensive loss		Location of gain recognized in Net earnings	Amount of gain reclassified from Accumulated other comprehensive loss and recognized into Net earnings	
	2020	2019		2020	2019
Currency derivatives	\$ 0.9	\$ 0.6	Cost of goods sold	\$ 1.7	\$ 0.2
Interest rate swaps	0.6	0.1	Interest expense	0.1	1.0
Total	\$ 1.5	\$ 0.7		\$ 1.8	\$ 1.2

**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

The amounts associated with derivatives designated as hedges affecting Net earnings and Accumulated other comprehensive loss for the nine months ended September 30 were as follows:

<i>In millions</i>	Amount of gain (loss) recognized in Accumulated other comprehensive loss		Location of gain recognized in Net earnings	Amount of gain reclassified from Accumulated other comprehensive loss and recognized into Net earnings	
	2020	2019		2020	2019
Currency derivatives	\$ 3.9	\$ 1.6	Cost of goods sold	\$ 3.8	\$ 3.5
Interest rate swaps	(0.2)	(2.1)	Interest expense	0.5	2.7
Total	\$ 3.7	\$ (0.5)		\$ 4.3	\$ 6.2

The gains and losses associated with the Company's non-designated currency derivatives, which are offset by changes in the fair value of the underlying transactions, are included within Other (income) expense, net in the Condensed and Consolidated Statements of Comprehensive Income.

***Concentration of Credit Risk***

The counterparties to the Company's forward contracts consist of a number of investment grade major international financial institutions. The Company could be exposed to losses in the event of nonperformance by the counterparties. However, the credit ratings and the concentration of risk in these financial institutions are monitored on a continuous basis and present no significant credit risk to the Company.

**NOTE 8 - LEASES**

The Company records a right-of-use ("ROU") asset and lease liability for substantially all leases for which it is a lessee, in accordance with ASC 842. At inception of a contract, the Company considers all relevant facts and circumstances to assess whether or not the contract represents a lease by determining whether or not the contract conveys a right to control the use of an identified asset, either explicit or implicit, for a period of time in exchange for consideration. The Company has no significant lease agreements in place for which the Company is a lessor, and substantially all of the Company's leases for which the Company is a lessee are classified as operating leases. Total rental expense for the nine months ended September 30, 2020 and 2019, was \$32.5 million and \$32.2 million, respectively, and is classified within Cost of goods sold and Selling and administrative expenses within the Condensed and Consolidated Statements of Comprehensive Income. Rental expense related to short-term leases, variable lease payments or other leases or lease components not included within the ROU asset or lease liability totaled \$7.1 million and \$7.5 million, respectively, for the nine months ended September 30, 2020 and 2019. No material lease costs have been capitalized on the Condensed and Consolidated Balance Sheets as of September 30, 2020 or December 31, 2019.

If at the lease commencement date, a lease has a term of less than 12 months and does not include a purchase option that is reasonably certain to be exercised, the Company does not include the lease as part of its ROU asset or lease liability. If the Company enters into a large number of leases in the same month with the same terms and conditions, these are considered a group (portfolio), assuming the lease model under this approach does not materially differ from applying ASC 842 to each individual lease. When available, the Company will utilize the rate implicit in the lease as the discount rate to determine the lease liability. However, as this rate is not available for most leases, the Company will use its incremental borrowing rate as the discount rate, which is the rate at inception of the lease the Company would hypothetically incur to borrow over a similar term the funds needed to purchase the leased asset.

As a lessee, the Company categorizes its leases into two general categories: real estate leases and equipment leases.

The Company's real estate leases include leased production and assembly facilities, warehouses and distribution centers, office space and to a lesser degree, employee housing. The terms and conditions of real estate leases can vary significantly from lease to lease. The Company has assessed the specific terms and conditions of each real estate lease to determine the amount of the lease payments and the length of the lease term, which includes the minimum period over which lease payments are required plus any renewal options that are both within the Company's control to exercise and reasonably certain of being exercised upon lease commencement. The Company assesses all relevant factors to determine if sufficient incentives exist as of lease commencement to conclude whether or not renewal is reasonably certain. There are no material residual value guarantees provided by the Company nor any restrictions or covenants imposed by the real estate leases to which the Company is a party.

**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

In determining the lease liability, the Company utilizes its incremental borrowing rate for debt instruments with terms approximating the weighted-average term for its real estate leases to discount the future lease payments over the lease term to present value. The Company does incur variable lease payments for certain of its real estate leases, such as reimbursements of property taxes, maintenance and other operational costs to the lessor. In general, these variable lease payments are not captured as part of the lease liability or ROU asset, but rather are expensed as incurred.

The Company's equipment leases include vehicles, material handling equipment, other machinery and equipment utilized in the Company's production and assembly facilities, warehouses and distribution centers, laptops and other IT equipment, and other miscellaneous leased equipment. Most of the equipment leases are for terms ranging from two to five years, although terms and conditions can vary from lease to lease. The Company applies similar estimates and judgments to its equipment lease portfolio in determining the lease payments and lease term as it does to its real estate lease portfolio. There are no material residual value guarantees provided by the Company nor any restrictions or covenants imposed by the equipment leases to which the Company is a party. In determining the lease liability, the Company utilizes its incremental borrowing rate for debt instruments with terms approximating the weighted-average term for its equipment leases to discount the future lease payments over the lease term to present value. The Company does not typically incur variable lease payments related to its equipment leases.

Amounts included within the Condensed and Consolidated Balance Sheet related to the Company's ROU asset and lease liability were as follows:

<i>In millions</i>	Balance Sheet classification	September 30, 2020			December 31, 2019		
		Real estate	Equipment	Total	Real estate	Equipment	Total
ROU asset	Other noncurrent assets	\$ 63.1	\$ 32.1	\$ 95.2	\$ 57.5	\$ 23.9	\$ 81.4
Lease liability - current	Accrued expenses and other current liabilities	15.2	12.3	27.5	15.4	10.4	25.8
Lease liability - noncurrent	Other noncurrent liabilities	48.5	19.8	68.3	42.1	13.5	55.6

**Other information:**

Weighted-average remaining term (years)	7.1	3.2	6.5	2.8
Weighted-average discount rate	4.0 %	2.9 %	4.5 %	3.8 %

The following table summarizes additional information related to the Company's leases for the nine months ended September 30:

<i>In millions</i>	2020			2019		
	Real estate	Equipment	Total	Real estate	Equipment	Total
Cash paid for amounts included in the measurement of lease liabilities	\$ 14.4	\$ 11.0	\$ 25.4	\$ 14.2	\$ 10.5	\$ 24.7
ROU assets obtained in exchange for new lease liabilities	18.3	18.3	36.6	8.5	12.1	20.6

The Company frequently enters into both real estate and equipment leases in the normal course of business. While there have been lease agreements entered into that have not yet commenced as of September 30, 2020, none of these leases provide new rights or obligations to the Company that are material individually or in the aggregate.

**Future Repayments**

Scheduled minimum lease payments required under non-cancellable operating leases for both the real estate and equipment lease portfolios for the remainder of 2020 and for each of the years thereafter as of September 30, 2020, are as follows:

<i>In millions</i>	Remainder of 2020	2021	2022	2023	2024	Thereafter	Total
Real estate leases	\$ 4.3	\$ 16.8	\$ 13.5	\$ 8.9	\$ 6.3	\$ 24.0	\$ 73.8
Equipment leases	3.5	12.3	8.6	4.6	2.8	1.6	33.4
<b>Total</b>	<b>\$ 7.8</b>	<b>\$ 29.1</b>	<b>\$ 22.1</b>	<b>\$ 13.5</b>	<b>\$ 9.1</b>	<b>\$ 25.6</b>	<b>\$ 107.2</b>

**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

The difference between the total undiscounted minimum lease payments and the combined current and noncurrent lease liabilities as of September 30, 2020, is due to imputed interest of \$11.4 million.

**NOTE 9 - PENSIONS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS**

The Company sponsors several U.S. defined benefit and defined contribution plans covering substantially all of its U.S. employees. Additionally, the Company has non-U.S. defined benefit and defined contribution plans covering eligible non-U.S. employees. Postretirement benefits, other than pensions, provide healthcare benefits, and in some instances, life insurance benefits, for certain eligible employees.

***Pension Plans***

The noncontributory defined benefit pension plans covering non-collectively bargained U.S. employees provide benefits on an average pay formula while most plans for collectively bargained U.S. employees provide benefits on a flat dollar benefit formula. The non-U.S. pension plans generally provide benefits based on earnings and years of service. The Company also maintains additional other supplemental plans for officers and other key employees.

The components of the Company's Net periodic pension benefit cost (income) for the three and nine months ended September 30 were as follows:

<i>In millions</i>	U.S.			
	Three months ended		Nine months ended	
	2020	2019	2020	2019
Service cost	\$ 1.2	\$ 1.9	\$ 5.0	\$ 4.9
Interest cost	2.3	3.1	7.2	8.8
Expected return on plan assets	(3.5)	(3.1)	(10.8)	(9.4)
Administrative costs and other	0.2	0.5	1.1	1.3
Net amortization of:				
Prior service costs	0.1	—	0.2	0.2
Plan net actuarial losses	0.7	1.4	2.7	3.5
Net periodic pension benefit cost	<u>\$ 1.0</u>	<u>\$ 3.8</u>	<u>\$ 5.4</u>	<u>\$ 9.3</u>

<i>In millions</i>	Non-U.S.			
	Three months ended		Nine months ended	
	2020	2019	2020	2019
Service cost	\$ 0.5	\$ 0.4	\$ 1.5	\$ 1.2
Interest cost	1.7	2.1	5.1	6.5
Expected return on plan assets	(3.3)	(3.2)	(9.8)	(9.7)
Administrative costs and other	0.4	0.3	1.1	1.0
Net amortization of:				
Prior service costs	0.1	0.1	0.1	0.2
Plan net actuarial losses	0.3	0.3	1.0	1.0
Net curtailment and settlement losses	—	0.1	—	1.5
Net periodic pension benefit (income) cost	<u>\$ (0.3)</u>	<u>\$ 0.1</u>	<u>\$ (1.0)</u>	<u>\$ 1.7</u>

Service cost is recorded in Cost of goods sold and Selling and administrative expenses, while the remaining components of Net periodic pension benefit cost (income) are recorded in Other (income) expense, net within the Condensed and Consolidated Statements of Comprehensive Income.

The Company made employer contributions of \$7.0 million and \$6.8 million during the nine months ended September 30, 2020 and 2019, respectively, to its defined benefit pension plans. Contributions of approximately \$4 million are expected during the remainder of 2020.

**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

***Postretirement Benefits Other Than Pensions***

The Company sponsors a postretirement ("OPEB") plan that provides for healthcare benefits, and in some instances, life insurance benefits, that cover certain eligible retired employees. The Company funds postretirement benefit obligations principally on a pay-as-you-go basis. Generally, postretirement health benefits are contributory with contributions adjusted annually. Life insurance plans for retirees are primarily noncontributory. Net periodic postretirement benefit cost (income) is included within Other (income) expense, net within the Condensed and Consolidated Statements of Comprehensive Income.

**NOTE 10 - FAIR VALUE MEASUREMENTS**

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value measurements are based on a framework that utilizes the inputs market participants use to determine the fair value of an asset or liability and establishes a fair value hierarchy to prioritize those inputs. The fair value hierarchy is comprised of three levels that are described below:

- Level 1 – Inputs based on quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
- Level 3 – Unobservable inputs based on little or no market activity and that are significant to the fair value of the assets and liabilities.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are obtained from independent sources and can be validated by a third party, whereas unobservable inputs reflect assumptions regarding what a third party would use in pricing an asset or liability based on the best information available under the circumstances. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and liabilities measured at fair value at September 30, 2020, were as follows:

<i>In millions</i>	Fair value measurements			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
<b>Recurring fair value measurements</b>				
<i>Assets:</i>				
Investments	\$ —	\$ 21.3	\$ —	\$ 21.3
Derivative instruments	—	2.1	—	2.1
Total asset recurring fair value measurements	\$ —	\$ 23.4	\$ —	\$ 23.4
<i>Liabilities:</i>				
Derivative instruments	\$ —	\$ 1.3	\$ —	\$ 1.3
Deferred compensation and other retirement plans	—	23.0	—	23.0
Total liability recurring fair value measurements	\$ —	\$ 24.3	\$ —	\$ 24.3
<b>Financial instruments not carried at fair value</b>				
Total debt	\$ —	\$ 1,525.1	\$ —	\$ 1,525.1
Total financial instruments not carried at fair value	\$ —	\$ 1,525.1	\$ —	\$ 1,525.1

**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

Assets and liabilities measured at fair value at December 31, 2019, were as follows:

<i>In millions</i>	Fair value measurements				Total fair value
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
<b>Recurring fair value measurements</b>					
<i>Assets:</i>					
Investments	\$ —	\$ 17.4	\$ —	\$ —	\$ 17.4
Derivative instruments	—	1.1	—	—	1.1
Total asset recurring fair value measurements	\$ —	\$ 18.5	\$ —	\$ —	\$ 18.5
<i>Liabilities:</i>					
Derivative instruments	\$ —	\$ 1.5	\$ —	\$ —	\$ 1.5
Deferred compensation and other retirement plans	—	23.1	—	—	23.1
Total liability recurring fair value measurements	\$ —	\$ 24.6	\$ —	\$ —	\$ 24.6
<b>Financial instruments not carried at fair value</b>					
Total debt	\$ —	\$ 1,474.0	\$ —	\$ —	\$ 1,474.0
Total financial instruments not carried at fair value	\$ —	\$ 1,474.0	\$ —	\$ —	\$ 1,474.0

The Company determines the fair value of its financial assets and liabilities using the following methodologies:

- *Investments* – These instruments include equity mutual funds and corporate bond funds. The fair value is obtained based on observable market prices quoted on public exchanges for similar instruments.
- *Derivative instruments* – These instruments include foreign currency contracts for non-functional currency balance sheet exposures, including both those that are and are not designated as cash flow hedges. As of December 31, 2019, these instruments also included interest rate swap contracts, which expired in September 2020, related to the Company’s variable rate Term Facility. The fair value of the foreign currency contracts is determined based on a pricing model that uses spot rates and forward prices from actively quoted currency markets that are readily accessible and observable. The fair value of the interest rate swap contracts was determined based on quoted prices for the Company’s swaps, which was not considered an active market.
- *Deferred compensation and other retirement plans* – These include obligations related to deferred compensation and other retirement plans adjusted for market performance. The fair value is obtained based on observable market prices quoted on public exchanges for similar instruments.
- *Debt* – These instruments are recorded at cost and include senior notes maturing through 2029. The fair value of the long-term debt instruments is obtained based on observable market prices quoted on public exchanges for similar instruments.

The carrying values of Cash and cash equivalents, Restricted cash, Accounts and notes receivable, Accounts payable and Accrued expenses and other current liabilities are a reasonable estimate of their fair value due to the short-term nature of these instruments.

The Company had investments in debt and equity securities without readily determinable fair values of \$18.2 million and \$18.1 million as of September 30, 2020 and December 31, 2019, respectively, which are classified as Other noncurrent assets within the Condensed and Consolidated Balance Sheets. These investments are measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer and are qualitatively assessed for impairment indicators at each reporting period. These investments are considered to be nonrecurring fair value measurements, and thus, are not included in the fair value tables above.

The methodologies used by the Company to determine the fair value of its financial assets and liabilities at September 30, 2020, are the same as those used at December 31, 2019.



**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**NOTE 11 - EQUITY**

The changes in the components of Equity for the nine months ended September 30, 2020, were as follows:

<i>In millions</i>	<b>Allegion plc shareholders' equity</b>						
	<b>Total equity</b>	<b>Ordinary shares</b>		<b>Capital in excess of par value</b>	<b>Retained earnings</b>	<b>Accumulated other comprehensive loss</b>	<b>Noncontrolling interests</b>
		<b>Amount</b>	<b>Shares</b>				
Balance at December 31, 2019	\$ 760.4	\$ 0.9	92.7	\$ —	\$ 975.1	\$ (218.6)	\$ 3.0
Cumulative effect of adoption of ASC 326 (see Note 2)	(2.2)	—	—	—	(2.2)	—	—
Net earnings	0.5	—	—	—	0.4	—	0.1
Other comprehensive loss, net	(33.4)	—	—	—	—	(32.8)	(0.6)
Share-based compensation activity	12.2	—	0.4	12.2	—	—	—
Dividends to ordinary shareholders (\$0.32 per share)	(29.6)	—	—	—	(29.6)	—	—
Repurchase of ordinary shares	(94.1)	—	(0.9)	(12.2)	(81.9)	—	—
Balance at March 31, 2020	613.8	0.9	92.2	—	861.8	(251.4)	2.5
Net earnings	73.7	—	—	—	73.7	—	—
Other comprehensive income, net	20.6	—	—	—	—	20.4	0.2
Share-based compensation activity	1.6	—	—	1.6	—	—	—
Dividends to noncontrolling interests	(0.2)	—	—	—	—	—	(0.2)
Dividends to ordinary shareholders (\$0.32 per share)	(29.5)	—	—	—	(29.5)	—	—
Balance at June 30, 2020	680.0	0.9	92.2	1.6	906.0	(231.0)	2.5
Net earnings	146.9	—	—	—	146.9	—	—
Other comprehensive income, net	24.5	—	—	—	—	24.2	0.3
Share-based compensation activity	5.2	—	0.1	5.2	—	—	—
Dividends to ordinary shareholders (\$0.32 per share)	(29.5)	—	—	—	(29.5)	—	—
Balance at September 30, 2020	\$ 827.1	\$ 0.9	92.3	\$ 6.8	\$ 1,023.4	\$ (206.8)	\$ 2.8

**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

The changes in the components of Equity for the nine months ended September 30, 2019, were as follows:

<i>In millions</i>	Allegion plc shareholders' equity						
	Total equity	Ordinary shares		Capital in excess of par value	Retained earnings	Accumulated other comprehensive loss	Noncontrolling interests
		Amount	Shares				
Balance at December 31, 2018	\$ 654.0	\$ 0.9	94.6	\$ —	\$ 873.6	\$ (223.5)	\$ 3.0
Net earnings	80.3	—	—	—	80.2	—	0.1
Other comprehensive (loss) income, net	(14.7)	—	—	—	—	(15.3)	0.6
Share-based compensation activity	7.1	—	0.2	7.1	—	—	—
Dividends to ordinary shareholders (\$0.27 per share)	(25.5)	—	—	—	(25.5)	—	—
Repurchase of ordinary shares	(63.8)	—	(0.7)	(7.1)	(56.7)	—	—
Balance at March 31, 2019	637.4	0.9	94.1	—	871.6	(238.8)	3.7
Net earnings	109.4	—	—	—	109.3	—	0.1
Other comprehensive income (loss), net	5.1	—	—	—	—	5.7	(0.6)
Share-based compensation activity	6.8	—	0.1	6.8	—	—	—
Dividends to noncontrolling interests	(0.1)	—	—	—	—	—	(0.1)
Dividends to ordinary shareholders (\$0.27 per share)	(25.2)	—	—	—	(25.2)	—	—
Repurchase of ordinary shares	(69.8)	—	(0.7)	(6.8)	(63.0)	—	—
Balance at June 30, 2019	663.6	0.9	93.5	—	892.7	(233.1)	3.1
Net earnings	131.7	—	—	—	131.6	—	0.1
Other comprehensive loss, net	(40.9)	—	—	—	—	(39.9)	(1.0)
Share-based compensation activity	4.2	—	—	4.2	—	—	—
Dividends to ordinary shareholders (\$0.27 per share)	(25.1)	—	—	—	(25.1)	—	—
Repurchase of ordinary shares	(46.1)	—	(0.5)	(4.2)	(41.9)	—	—
Other	(0.2)	—	—	—	(0.2)	—	—
Balance at September 30, 2019	\$ 687.2	\$ 0.9	93.0	\$ —	\$ 957.1	\$ (273.0)	\$ 2.2

In February 2017, the Company's Board of Directors approved a share repurchase authorization of up to \$500 million of the Company's ordinary shares (the "2017 Share Repurchase Authorization"). On February 6, 2020, the Company's Board of Directors approved a new share repurchase authorization of up to, and including, \$800 million of the Company's ordinary shares (the "2020 Share Repurchase Authorization"), replacing the existing 2017 Share Repurchase Authorization. During the nine months ended September 30, 2020 and 2019, the Company paid \$94.1 million and \$179.7 million, respectively, to repurchase the ordinary shares reflected in the tables above on the open market under these share repurchase authorizations.

**Accumulated Other Comprehensive Loss**

The changes in Accumulated other comprehensive loss for the nine months ended September 30, 2020, were as follows:

<i>In millions</i>	Cash flow hedges	Pension and OPEB items	Foreign currency items	Total
December 31, 2019	\$ 0.5	\$ (126.2)	\$ (92.9)	\$ (218.6)
Other comprehensive income before reclassifications	3.7	1.6	21.3	26.6
Amounts reclassified from accumulated other comprehensive loss <sup>(a)</sup>	(4.3)	3.8	(14.0)	(14.5)
Tax benefit (expense)	0.2	(0.5)	—	(0.3)
September 30, 2020	\$ 0.1	\$ (121.3)	\$ (85.6)	\$ (206.8)

**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

The changes in Accumulated other comprehensive loss for the nine months ended September 30, 2019, were as follows:

<i>In millions</i>	Cash flow hedges	Pension and OPEB items	Foreign currency items	Total
December 31, 2018	\$ 6.1	\$ (123.2)	\$ (106.4)	\$ (223.5)
Other comprehensive (loss) income before reclassifications	(0.5)	2.8	(51.2)	(48.9)
Amounts reclassified from accumulated other comprehensive loss <sup>(a)</sup>	(6.2)	4.7	—	(1.5)
Tax benefit (expense)	1.7	(0.8)	—	0.9
September 30, 2019	<u>\$ 1.1</u>	<u>\$ (116.5)</u>	<u>\$ (157.6)</u>	<u>\$ (273.0)</u>

- (a) Amounts reclassified from Accumulated other comprehensive loss and recognized into Net earnings related to cash flow hedges are recorded in Cost of goods sold and Interest expense. Amounts reclassified from Accumulated other comprehensive loss and recognized into Net earnings related to pension and OPEB items and foreign currency items are recorded in Other (income) expense, net.

**NOTE 12 - SHARE-BASED COMPENSATION**

The Company records share-based compensation awards using a fair value method and recognizes compensation expense for an amount equal to the fair value of the share-based payment issued in its financial statements. The Company's share-based compensation plans include programs for stock options, restricted stock units ("RSUs"), performance stock units ("PSUs") and deferred compensation.

**Compensation Expense**

Share-based compensation expense is included in Cost of goods sold and Selling and administrative expenses within the Condensed and Consolidated Statements of Comprehensive Income. The following table summarizes the expenses recognized for the three and nine months ended September 30:

<i>In millions</i>	Three months ended		Nine months ended	
	2020	2019	2020	2019
Stock options	\$ 0.4	\$ 0.4	\$ 3.4	\$ 3.2
RSUs	2.0	1.6	9.6	8.0
PSUs	2.6	1.7	3.0	5.1
Deferred compensation	1.0	(0.1)	1.2	2.1
Pre-tax expense	6.0	3.6	17.2	18.4
Tax benefit <sup>(a)</sup>	(0.8)	(0.5)	(2.2)	(2.3)
After-tax expense	<u>\$ 5.2</u>	<u>\$ 3.1</u>	<u>\$ 15.0</u>	<u>\$ 16.1</u>

- (a) Tax benefit reflected in the table above does not include the excess benefit from exercises and vesting of share based compensation of \$4.0 million and \$1.2 million during the nine months ended September 30, 2020 and 2019, respectively.

**Stock Options / RSUs**

Eligible participants may receive (i) stock options, (ii) RSUs or (iii) a combination of both stock options and RSUs. Grants issued during the nine months ended September 30 were as follows:

	2020		2019	
	Number granted	Weighted-average fair value per award	Number granted	Weighted-average fair value per award
Stock options	161,600	\$ 25.62	195,675	\$ 19.58
RSUs	81,053	\$ 125.13	129,835	\$ 90.91

**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

The fair value of each of the Company's stock option and RSU awards is expensed on a straight-line basis over the required service period, which is generally the three-year vesting period. However, for stock options and RSUs granted to retirement eligible employees, the Company recognizes expense for the fair value at the grant date.

The average fair value of the stock options granted is determined using the Black-Scholes option-pricing model. The following assumptions were used during the nine months ended September 30:

	2020	2019
Dividend yield	0.99 %	1.23 %
Volatility	20.70 %	21.44 %
Risk-free rate of return	1.41 %	2.53 %
Expected life (years)	6.0	6.0

Expected volatility is based on the Company's historic volatility for the prior six years. The risk-free rate of return is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the award is granted with a maturity equal to the expected term of the award. The expected life of the Company's stock option awards is derived from the simplified approach based on the weighted-average time to vest and the remaining contractual term and represents the period of time that awards are expected to be outstanding.

***Performance Stock***

The Company has a Performance Stock Program ("PSP") for key employees which provides awards in the form of PSUs based on performance against pre-established objectives. The annual target award level is expressed as a number of the Company's ordinary shares. All PSUs are settled in the form of ordinary shares unless deferred. During the nine months ended September 30, 2020, the Company granted PSUs with a maximum award level of approximately 0.1 million shares.

In February 2018, 2019 and 2020, the Company's Compensation Committee granted PSUs that were earned based 50% upon a performance condition, measured at each reporting period by earnings per share ("EPS") performance in relation to pre-established targets set by the Compensation Committee, and 50% upon a market condition, measured by the Company's relative total shareholder return ("TSR") against the S&P 400 Capital Goods Index over a three-year performance period. The fair values of the market conditions are estimated using a Monte Carlo Simulation approach in a risk-neutral framework to model future stock price movements based upon historical volatility, risk-free rates of return and correlation matrix.

***Deferred Compensation***

Prior to 2019, the Company allowed key employees to defer a portion of their eligible granted PSUs and/or compensation into a number of investment choices including its ordinary share equivalents. Any amounts invested in ordinary share equivalents will be settled in ordinary shares of the Company at the time of distribution.

**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**NOTE 13 - RESTRUCTURING ACTIVITIES**

Restructuring charges recorded during the three and nine months ended September 30, 2020 and 2019, associated with restructuring activities were as follows:

<i>In millions</i>	Three months ended		Nine months ended	
	2020	2019	2020	2019
Americas	\$ 1.6	\$ —	\$ 4.9	\$ 1.3
EMEA	3.4	4.1	11.2	12.1
Asia Pacific	0.7	0.3	4.2	0.8
Corporate	0.2	—	2.1	—
<b>Total</b>	<b>\$ 5.9</b>	<b>\$ 4.4</b>	<b>\$ 22.4</b>	<b>\$ 14.2</b>
Cost of goods sold	\$ 1.9	\$ 2.9	\$ 4.4	\$ 9.3
Selling and administrative expenses	4.0	1.5	18.0	4.9
<b>Total</b>	<b>\$ 5.9</b>	<b>\$ 4.4</b>	<b>\$ 22.4</b>	<b>\$ 14.2</b>

Restructuring charges across all regions are primarily related to workforce reductions intended to optimize and simplify operations and cost structure. Restructuring charges in EMEA also included costs related to the prior year closure of the Company's production facility in Turkey.

The changes in the restructuring reserve during the nine months ended September 30, 2020, were as follows:

<i>In millions</i>	<b>Total</b>
December 31, 2019	\$ 1.2
Additions, net of reversals	21.8
Cash payments	(16.7)
Currency translation	0.2
September 30, 2020	\$ 6.5

The majority of the costs accrued as of September 30, 2020, are expected to be paid within one year.

The Company also incurred other non-qualified restructuring charges of \$0.5 million and \$0.4 million, during the three months ended September 30, 2020 and 2019, respectively, and \$0.9 million and \$4.5 million, during the nine months ended September 30, 2020 and 2019, respectively, in conjunction with restructuring plans, which represent costs that are directly attributable to restructuring activities, but that do not fall into the severance, exit or disposal category. These expenses are included in Cost of goods sold and Selling and administrative expenses within the Condensed and Consolidated Statements of Comprehensive Income.

The Company anticipates additional future restructuring charges of approximately \$10 to \$15 million related to certain of the restructuring actions initiated during the nine months ended September 30, 2020, primarily across several businesses and functions intended to optimize and simplify the Company's non-U.S. operations and cost structure. These future costs include charges expected to be classified as both qualified and non-qualified restructuring. Of these future expected costs, approximately \$5 to \$10 million is expected to be incurred during the remainder of fiscal year 2020 with the remainder expected to be incurred during fiscal year 2021. Approximately \$10 to \$15 million of these future expected costs are anticipated to be cash expenditures.

**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**NOTE 14 - OTHER (INCOME) EXPENSE, NET**

The components of Other (income) expense, net for the three and nine months ended September 30 were as follows:

<i>In millions</i>	Three months ended		Nine months ended	
	2020	2019	2020	2019
Interest income	\$ (0.2)	\$ (0.4)	\$ (0.8)	\$ (1.1)
Foreign currency exchange loss	0.2	0.8	1.0	1.1
Loss from equity method investments	0.1	0.1	0.6	0.5
Net periodic pension and postretirement benefit (income) cost, less service cost	(1.0)	1.4	(2.0)	3.2
Other	(11.3)	0.1	(11.4)	(2.1)
Other (income) expense, net	\$ (12.2)	\$ 2.0	\$ (12.6)	\$ 1.6

Other (income) expense, net for the three and nine months ended September 30, 2020, included a gain of \$14.0 million related to the reclassification to earnings of accumulated foreign currency translation adjustments upon the liquidation of a legal entity in EMEA. This gain is included within Other in the table above.

**NOTE 15 - INCOME TAXES**

The effective income tax rates for the three months ended September 30, 2020 and 2019, were 8.0% and 12.5%, respectively. The decrease in the effective tax rate compared to 2019 is primarily due to the favorable mix of income earned in lower tax rate jurisdictions and the favorable year-over-year change in the amounts recognized for uncertain tax positions.

The effective income tax rates for the nine months ended September 30, 2020 and 2019, were 14.8% and 14.9%, respectively. The decrease in the effective tax rate compared to 2019 is primarily due to the favorable benefit of excess share-based compensation deductions, the favorable mix of income earned in lower tax rate jurisdictions and the favorable year-over-year change in the amounts recognized for uncertain tax positions, partially offset by the unfavorable tax impact related to the goodwill and intangible asset impairment charges.

**NOTE 16 - EARNINGS PER SHARE (EPS)**

Basic EPS is calculated by dividing Net earnings attributable to Allegion plc by the weighted-average number of ordinary shares outstanding for the applicable period. Diluted EPS is calculated after adjusting the denominator of the basic EPS calculation for the effect of all potentially dilutive ordinary shares, which in the Company's case, includes shares issuable under share-based compensation plans.

The following table summarizes the weighted-average number of ordinary shares outstanding for basic and diluted EPS calculations for the three and nine months ended September 30:

<i>In millions</i>	Three months ended		Nine months ended	
	2020	2019	2020	2019
Weighted-average number of basic shares	92.3	93.3	92.4	93.8
Shares issuable under share-based compensation plans	0.4	0.7	0.5	0.7
Weighted-average number of diluted shares	92.7	94.0	92.9	94.5

At September 30, 2020, 0.1 million stock options were excluded from the computation of weighted-average diluted shares outstanding because the effect of including these shares would have been anti-dilutive.

**NOTE 17 - NET REVENUES**

Net revenues are recognized based on the satisfaction of performance obligations under the terms of a contract. A performance obligation is a promise in a contract to transfer control of a distinct product or to provide a service, or a bundle of products or services, to a customer, and is the unit of account under ASC Topic 606, "Revenue from Contracts with Customers" (ASC 606). The Company has two principal revenue streams, tangible product sales and services. Approximately 99% of consolidated Net revenues involve contracts with a single performance obligation, which is the transfer of control of a product or bundle of

**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

products to a customer. Transfer of control typically occurs when goods are shipped from the Company's facilities or at other predetermined control transfer points (for instance, destination terms). Net revenues are measured as the amount of consideration expected to be received in exchange for transferring control of the products and takes into account variable consideration, such as sales incentive programs including discounts and volume rebates. The existence of these programs does not preclude revenue recognition but does require the Company's best estimate of the variable consideration to be made based on expected activity, as these items are reserved for as a deduction to Net revenues over time based on the Company's historical rates of providing these incentives and annual forecasted sales volumes. The Company also offers a standard warranty with most product sales, and the value of such warranty is included in the contractual price. The corresponding expense of the warranty obligation is accrued as a liability (see Note 19).

The Company's remaining Net revenues involve services, including installation and consulting. Unlike the single performance obligation to ship a product or bundle of products, revenue recognition related to services is delayed until the service performance obligations are satisfied. In some instances, customer acceptance provisions are included in sales arrangements to give the buyer the ability to ensure the service meets the criteria established in the order. In these instances, revenue recognition is deferred until the performance obligations are satisfied, which could include acceptance terms specified in the arrangement being fulfilled through customer acceptance or a demonstration that established criteria have been satisfied. During the nine months ended September 30, 2020 and 2019, no adjustments were recorded related to performance obligations satisfied in previous periods.

The Company applies the practical expedients allowed under ASC 606 to omit the disclosure of remaining performance obligations for contracts with an original expected duration of one year or less and for contracts where the Company has the right to invoice for performance completed to date. The transaction price is not adjusted for the effects of a significant financing component, as the time period between control transfer of goods and services is less than one year. Sales, value-added and other similar taxes collected by the Company are excluded from Net revenues. The Company has also elected to account for shipping and handling activities that occur after control of the related goods transfers as fulfillment activities instead of performance obligations. These activities are included in Cost of goods sold in the Condensed and Consolidated Statements of Comprehensive Income. The Company's payment terms are generally consistent with the industries in which its businesses operate.

The following tables show the Company's Net revenues related to both tangible product sales and services for the three and nine months ended September 30, 2020 and 2019, respectively, disaggregated by business segment. Net revenues are shown by tangible product sales and services, as contract terms, conditions and economic factors affecting the nature, amount, timing and uncertainty around revenue recognition and cash flows are substantially similar within each of these two principal revenue streams:

<i>In millions</i>	Three months ended September 30, 2020				Nine months ended September 30, 2020			
	Americas	EMEA	Asia Pacific	Total	Americas	EMEA	Asia Pacific	Consolidated
<b>Net revenues</b>								
Products	\$ 539.1	\$ 143.2	\$ 39.2	\$ 721.5	\$ 1,495.5	\$ 374.8	\$ 102.7	\$ 1,973.0
Services	—	5.2	1.7	6.9	—	14.5	5.1	19.6
Total Net revenues	\$ 539.1	\$ 148.4	\$ 40.9	\$ 728.4	\$ 1,495.5	\$ 389.3	\$ 107.8	\$ 1,992.6

<i>In millions</i>	Three months ended September 30, 2019				Nine months ended September 30, 2019			
	Americas	EMEA	Asia Pacific	Total	Americas	EMEA	Asia Pacific	Consolidated
<b>Net revenues</b>								
Products	\$ 567.8	\$ 130.5	\$ 40.7	\$ 739.0	\$ 1,588.2	\$ 406.3	\$ 117.2	\$ 2,111.7
Services	—	7.3	2.0	9.3	—	16.6	6.2	22.8
Total Net revenues	\$ 567.8	\$ 137.8	\$ 42.7	\$ 748.3	\$ 1,588.2	\$ 422.9	\$ 123.4	\$ 2,134.5

As of September 30, 2020, neither the contract assets related to the Company's right to consideration for work completed but not billed, nor the contract liabilities associated with contract revenue were material. As a practical expedient, the Company recognizes incremental costs of obtaining a contract, if any, as an expense when incurred if the amortization period of the asset would have been one year or less. The Company does not have any costs to obtain or fulfill a contract that are capitalized.

**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**NOTE 18 - BUSINESS SEGMENT INFORMATION**

The Company classifies its business into the following three reportable segments based on industry and market focus: Americas, Europe, Middle East and Africa ("EMEA") and Asia Pacific. Beginning in the second quarter of 2020, results for the Company's India operations are now included within the Asia Pacific segment results, due to an operational change. This change did not result, and is not expected to result, in a material impact to Segment results of operations for either the EMEA or Asia Pacific segment.

The Company largely evaluates performance based on Segment operating income (loss) and Segment operating margins. Segment operating income (loss) is the measure of profit and loss that the Company's chief operating decision maker uses to evaluate the financial performance of the business and as the basis for resource allocation, performance reviews and compensation. For these reasons, the Company believes that Segment operating income (loss) represents the most relevant measure of segment profit and loss. The Company's chief operating decision maker may exclude certain charges or gains, such as corporate charges and other special charges, from Operating income (loss) to arrive at a Segment operating income (loss) that is a more meaningful measure of profit and loss upon which to base operating decisions. The Company defines Segment operating margin as Segment operating income (loss) as a percentage of the segment's Net revenues.

A summary of operations by reportable segment for the three and nine months ended September 30 was as follows:

<i>In millions</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Net revenues</b>				
Americas	\$ 539.1	\$ 567.8	\$ 1,495.5	\$ 1,588.2
EMEA	148.4	137.8	389.3	422.9
Asia Pacific	40.9	42.7	107.8	123.4
Total	<u>\$ 728.4</u>	<u>\$ 748.3</u>	<u>\$ 1,992.6</u>	<u>\$ 2,134.5</u>
<b>Segment operating income (loss)</b>				
Americas	\$ 165.0	\$ 175.6	\$ 432.4	\$ 457.7
EMEA	13.5	7.5	9.0	19.9
Asia Pacific	(0.3)	4.1	(101.8)	3.9
Total	<u>178.2</u>	<u>187.2</u>	<u>339.6</u>	<u>481.5</u>
<b>Reconciliation to Operating income</b>				
Unallocated corporate expense	(17.8)	(19.1)	(53.8)	(59.7)
Operating income	<u>160.4</u>	<u>168.1</u>	<u>285.8</u>	<u>421.8</u>
<b>Reconciliation to earnings before income taxes</b>				
Interest expense	12.9	15.6	38.8	42.7
Other (income) expense, net	(12.2)	2.0	(12.6)	1.6
Earnings before income taxes	<u>\$ 159.7</u>	<u>\$ 150.5</u>	<u>\$ 259.6</u>	<u>\$ 377.5</u>

**NOTE 19 - COMMITMENTS AND CONTINGENCIES**

The Company is involved in various litigation, claims and administrative proceedings, including those related to environmental and product warranty matters. Amounts recorded for identified contingent liabilities are estimates, which are reviewed periodically and adjusted to reflect additional information when it becomes available. Subject to the uncertainties inherent in estimating future costs for contingent liabilities, except as expressly set forth in this note, management believes that any liability which may result from these legal matters would not have a material adverse effect on the financial condition, results of operations, liquidity or cash flows of the Company.

***Environmental Matters***

The Company is dedicated to an environmental program to reduce the utilization and generation of hazardous materials during the manufacturing process and to remediate identified environmental concerns. As to the latter, the Company is currently engaged in site investigations and remediation activities to address environmental cleanup from past operations at current and



**ALLEGION PLC**  
**NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

former production facilities. The Company regularly evaluates its remediation programs and considers alternative remediation methods that are in addition to, or in replacement of, those currently utilized by the Company based upon enhanced technology and regulatory changes. Changes to the Company's remediation programs may result in increased expenses and increased environmental reserves.

The Company is sometimes a party to environmental lawsuits and claims and has received notices of potential violations of environmental laws and regulations from the U.S. Environmental Protection Agency and similar state authorities. It has also been identified as a potentially responsible party ("PRP") for cleanup costs associated with off-site waste disposal at federal Superfund and state remediation sites. For all such sites, there are other PRPs and, in most instances, the Company's involvement is minimal.

In estimating its liability, the Company has assumed it will not bear the entire cost of remediation of any site to the exclusion of other PRPs who may be jointly and severally liable. The ability of other PRPs to participate has been taken into account, based on our understanding of the parties' financial condition and probable contributions on a per site basis. Additional lawsuits and claims involving environmental matters are likely to arise from time to time in the future.

During the three months ended September 30, 2020 and 2019, the Company incurred \$1.0 million and \$0.6 million, respectively, of expenses for environmental remediation at sites presently or formerly owned or leased by the Company. During the nine months ended September 30, 2020 and 2019, the Company incurred \$1.8 million and \$1.6 million, respectively, of expenses for environmental remediation at sites presently or formerly owned or leased by the Company. As of September 30, 2020 and December 31, 2019, the Company has recorded reserves for environmental matters of \$17.6 million and \$19.3 million, respectively. The total reserve at September 30, 2020 and December 31, 2019, included \$3.7 million and \$4.2 million, respectively, related to remediation of sites previously disposed by the Company. Environmental reserves are classified as Accrued expenses and other current liabilities or Other noncurrent liabilities within the Condensed and Consolidated Balance Sheets based on their expected term. The Company's total current environmental reserve at September 30, 2020 and December 31, 2019, was \$6.3 million and \$6.2 million, respectively, and the remainder is classified as noncurrent. Given the evolving nature of environmental laws, regulations and technology, the ultimate cost of future compliance is uncertain.

***Warranty Liability***

Standard product warranty accruals are recorded at the time of sale and are estimated based upon product warranty terms and historical experience. The Company assesses the adequacy of its liabilities and will make adjustments as necessary based on known or anticipated warranty claims, or as new information becomes available.

The changes in the standard product warranty liability for the nine months ended September 30 were as follows:

<i>In millions</i>	2020	2019
Balance at beginning of period	\$ 15.9	\$ 14.5
Reductions for payments	(5.3)	(6.6)
Accruals for warranties issued during the current period	6.2	8.4
Changes to accruals related to preexisting warranties	(0.3)	(0.4)
Currency translation	0.1	(0.2)
Balance at end of period	<u>\$ 16.6</u>	<u>\$ 15.7</u>

Standard product warranty liabilities are classified as Accrued expenses and other current liabilities within the Condensed and Consolidated Balance Sheets.

## **Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*The following Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that may cause a difference include, but are not limited to, those discussed under Part I, Item 1A – Risk Factors in the Annual Report on Form 10-K for the fiscal year ended December 31, 2019, and under Part II, Item 1A – Risk Factors of the Company’s Form 10-Q for the quarterly period ended June 30, 2020. The following section is qualified in its entirety by the more detailed information, including our Condensed and Consolidated Financial Statements and the notes thereto, which appears elsewhere in this Quarterly Report.*

### **Overview**

#### **Organization**

Allegion plc ("Allegion," "the Company", "we," "our," or "us") is a leading global provider of security products and solutions operating in three geographic regions: Americas, EMEA and Asia Pacific. We sell a wide range of security products and solutions for end-users in commercial, institutional and residential facilities worldwide, including the education, healthcare, government, hospitality, commercial office and single and multi-family residential markets. Our leading brands include CISA®, Interflex®, LCN®, Schlage®, SimonsVoss® and Von Duprin®.

#### **Recent Developments**

##### **COVID-19 Pandemic**

In March 2020, a global pandemic was declared by the World Health Organization (“WHO”) related to COVID-19. The impacts of the COVID-19 pandemic negatively affected the global economy, disrupted supply chains and created significant volatility and disruption in financial markets. The outbreak and spread of COVID-19 also resulted in a substantial curtailment of business activities worldwide, including the major geographic markets we serve. As part of the efforts to contain the spread of COVID-19, federal, state and local governments have imposed various restrictions on the conduct of business and travel, such as stay-at-home orders, travel restrictions and quarantines. These measures, as well as changes in employee health and safety concerns and consumer spending patterns, trends and preferences, have led to widespread business closures and lower demand for our products, although the negative impacts of these measures on our results of operations have been less pronounced in the third quarter, as we have not experienced any closures of our production facilities during the quarter and have seen demand rebound for many of our product categories, most notably our residential and portable security products. However, changes in commercial real estate occupancy, constraints on government and institutional budgets and the uncertain business climate have led to declines and delays in new construction activity, including in many of the commercial and institutional construction markets we serve.

As the pandemic and resulting economic challenges have adversely impacted and will likely continue to adversely impact Allegion, we continue to closely monitor their effects on all aspects of our business and the markets in which we operate. Throughout the pandemic, our primary focus has been, and continues to be, the health and safety of employees, our business continuity plan, evolving customer needs and the well-being of the many communities around the world in which we operate. We have adopted numerous health and safety measures in accordance with best-practice safe hygiene guidelines issued by recognized health experts like the U.S. Centers for Disease Control and Prevention ("CDC"), the European Centre for Disease Prevention and Control ("ECDC") and the WHO, as well as any applicable government mandates, in order to protect our employees, customers, suppliers and other business partners. These health and safety measures include, but are not limited to:

- Work-from-home arrangements for employees, where possible;
- Continuous safe hygiene education in accordance with evolving guidelines;
- Regular communication updates to leadership and team members;
- Aggressive and regular deep cleaning and disinfecting schedules;
- Social distancing measures, such as signage and physical barriers or reconfigurations of work spaces;
- Reduced density measures, such as staggering work shifts and breaks;
- Mask use requirements and expectations at our facilities;
- Temperature and health screenings prior to entering facilities, touchless and viral-resistant solutions at perimeter access points and throughout our buildings;
- Increased supplies available for employees, like masks, cleaning solutions, hand sanitizers, thermometers and gloves; and
- Temporary travel and in-person meeting restrictions.

During the early months of the pandemic, Allegion did experience temporary production shut-downs due either to government mandate or to help ensure employee safety, most notably in Italy and the Baja region of Mexico. However, the vast majority of our manufacturing facilities have remained open and operational throughout the pandemic, in part due to the above noted measures and because many of our global operations have been deemed essential businesses. All of our facilities are operational as of September 30, 2020, and have been operational throughout the entirety of the third quarter. We remain focused on business continuity and ensuring our facilities remain operational where safe and appropriate to do so. We will also continue to serve our customers when needed through our channel partners or inventory on hand. Allegion currently expects that our global manufacturing facilities will remain operational throughout the remainder of 2020; however, such expectation is dependent upon future governmental actions, demand for our products, the stability of our global supply chain and our ability to continue to operate in a safe manner. To the extent any additional temporary closures or adjustments to production are necessary, such measures will be implemented in a way that allows us to resume operations in an efficient and safe manner, while also minimizing disruption to customers and our overall business, including prudent measures to mitigate, to the extent possible, any financial impacts, although any additional local orders or decrees resulting in new temporary shut-downs will drive further unfavorable impacts to our operations, ability to serve our customers, and potentially, our financial position and liquidity. We will continue to closely monitor the impact of COVID-19 on our business, employees, customers, suppliers, distribution channels and other business partners. The pandemic will likely continue to impact Allegion in numerous and evolving ways that we may not be able to accurately predict; however, we believe that our actions taken to date, our financial flexibility and potential measures within our control will allow us to maintain a sound financial position, as well as provide for adequate resources to fund our ongoing operating and financing needs.

Additionally, as a response to the COVID-19 pandemic, on March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was enacted and signed into law, which included measures to assist companies in response to the COVID-19 pandemic. One of these measures was a provision allowing companies to defer the remittance of the employer portion of the social security tax, with half the amount deferred in 2020 required to be paid by December 31, 2021 and the other half by December 31, 2022. Through September 30, 2020, we have elected to defer approximately \$10 million under this provision, which is classified in Other noncurrent liabilities within our Condensed and Consolidated Balance Sheet. This deferral has also resulted in a benefit to our cash flows from operations for the nine months ended September 30, 2020. We do not currently anticipate any of the provisions of the CARES Act to impact our annual effective tax rate, and no income tax effects have been recorded during the nine months ended September 30, 2020.

The Company updated its Risk Factors in Part II, Item 1A of the Company's Form 10-Q for the quarterly period ended June 30, 2020, in light of the COVID-19 pandemic and its potential impact on our business, results of operations, financial condition and cash flows.

#### ***Impairment of Goodwill and Intangible Assets***

As a result of the global economic disruption and uncertainty due to the COVID-19 pandemic, we performed interim impairment tests on the goodwill balances for our EMEA and Asia Pacific reporting units, as well as on certain indefinite-lived trade name assets in these two regions, during the first quarter of 2020. As discussed in Notes 4 and 5 to the Condensed and Consolidated Financial Statements, the results of these interim impairment tests indicated that the estimated fair value of the Asia Pacific reporting unit, as well as three indefinite-lived trade names in the EMEA and Asia Pacific segments, were impaired. Consequently, goodwill and intangible asset impairment charges totaling \$96.3 million were recorded during the first quarter. If the ongoing economic impact of the pandemic proves to be more severe than estimated, or if the economic recovery takes longer to materialize or does not materialize as strongly as anticipated, this could result in future impairment charges.

Additional impairment charges were recorded during the third quarter relating to supply chain disruptions for a subsidiary in the Asia Pacific segment, which reduced one of its brand's expected future cash flows. As a result, an impairment charge of \$2.6 million was recorded, consisting of the write-off of the brand's indefinite-lived trade name and other related assets.

#### ***2020 Dividends***

During the nine months ended September 30, 2020, we paid dividends of \$0.96 per ordinary share to shareholders.

#### ***Share Repurchases***

During the nine months ended September 30, 2020, we repurchased approximately 0.9 million shares for approximately \$94.1 million.

**Results of Operations – Three months ended September 30**

<i>In millions, except per share amounts</i>	2020	% of revenues	2019	% of revenues
Net revenues	\$ 728.4		\$ 748.3	
Cost of goods sold	409.2	56.2 %	412.8	55.2 %
Selling and administrative expenses	156.2	21.4 %	167.4	22.4 %
Impairment of goodwill and indefinite-lived trade names	2.6	0.4 %	—	— %
Operating income	160.4	22.0 %	168.1	22.5 %
Interest expense	12.9		15.6	
Other (income) expense, net	(12.2)		2.0	
Earnings before income taxes	159.7		150.5	
Provision for income taxes	12.8		18.8	
Net earnings	146.9		131.7	
Less: Net earnings attributable to noncontrolling interests	—		0.1	
Net earnings attributable to Allegion plc	\$ 146.9		\$ 131.6	
<b>Diluted net earnings per ordinary share attributable to Allegion plc ordinary shareholders:</b>	<b>\$ 1.58</b>		<b>\$ 1.40</b>	

The discussions that follow describe the significant factors contributing to the changes in our results of operations for the periods presented and form the basis used by management to evaluate the financial performance of the business.

**Net Revenues**

Net revenues for the three months ended September 30, 2020, decreased by 2.7%, or \$19.9 million, compared with the same period in 2019, due to the following:

Pricing	0.8 %
Volume	(4.2)%
Divestitures	(0.3)%
Currency exchange rates	1.0 %
<b>Total</b>	<b>(2.7)%</b>

The decrease in Net revenues was principally driven by lower volumes primarily due to the economic challenges stemming from the ongoing COVID-19 pandemic, as well as the impact of the divestitures of our Colombia and Turkey businesses in 2019. These decreases were partially offset by improved pricing and the impact of foreign currency exchange rate movements.

Pricing includes increases or decreases of price, including discounts, surcharges and/or other sales deductions, on our existing products and services. Volume includes increases or decreases of revenue due to changes in unit volume of existing products and services, as well as new products and services.

**Operating Income/Margin**

Operating income for the three months ended September 30, 2020, decreased \$7.7 million compared to the same period in 2019. Operating margin, which we define as Operating income as a percentage of total Net revenues, for the three months ended September 30, 2020, decreased to 22.0% from 22.5% for the same period in 2019, due to the following:

[Table of Contents](#)

<i>In millions</i>	<b>Operating Income</b>	<b>Operating Margin</b>
September 30, 2019	\$ 168.1	22.5 %
Pricing and productivity in excess of inflation	14.2	1.7 %
Volume / product mix	(20.7)	(1.9) %
Restructuring / acquisition expenses	(1.5)	(0.2) %
Currency exchange rates	3.3	0.2 %
Investment spending	(0.5)	(0.1) %
Divestitures	0.1	0.1 %
Impairment of intangible assets	(2.6)	(0.3) %
September 30, 2020	<u>\$ 160.4</u>	<u>22.0 %</u>

The decreases in Operating income and Operating margin were primarily due to unfavorable volume/product mix, year-over-year increases in restructuring and acquisition expenses, increased investment spending and an intangible asset impairment charge in the current quarter. These decreases were partially offset by pricing improvements and productivity in excess of inflation, foreign currency exchange rate movements and the impact of the divestitures of our Colombia and Turkey businesses during the prior year.

Pricing and productivity in excess of inflation includes the impact to both Operating income and Operating margin from pricing, as defined above, in addition to productivity and inflation. Productivity represents improvements in unit costs of materials, cost reductions related to improvements to our manufacturing design and processes and reductions in selling and administrative expenses due to productivity projects. Inflation includes both unit costs for the current period compared to the average actual cost for the prior period, multiplied by current year volumes, and current period costs of ongoing selling and administrative functions compared by the same ongoing expenses in the prior period. Expenses related to increased head count for strategic initiatives, new facilities or significant improvements for strategic initiatives and new product development, are captured in Investment spending in the table above. Pricing and productivity in excess of inflation includes the benefits of certain non-U.S. government incentives, reductions in variable compensation and reductions or delays of other business spending in response to the COVID-19 pandemic.

Volume/product mix represents the impact to both Operating income and Operating margin due to increases or decreases of revenue due to changes in unit volume, including new products and services, including the effect of changes in the mix of products and services sold on Cost of goods sold.

**Interest Expense**

Interest expense for the three months ended September 30, 2020, decreased \$2.7 million compared with the same period in 2019, which is a result of a \$2.7 million prior year charge related to the write-off of previously deferred financing costs related to the Term Facility, which did not recur in the current period.

**Other (Income) Expense, Net**

The components of Other (income) expense, net for the three months ended September 30, 2020 and 2019, were as follows:

<i>In millions</i>	<b>2020</b>	<b>2019</b>
Interest income	\$ (0.2)	\$ (0.4)
Foreign currency exchange loss	0.2	0.8
Loss from equity method investments	0.1	0.1
Net periodic pension and postretirement benefit (income) cost, less service cost	(1.0)	1.4
Other	(11.3)	0.1
Other (income) expense, net	<u>\$ (12.2)</u>	<u>\$ 2.0</u>

For the three months ended September 30, 2020, Other (income) expense, net was favorable \$14.2 million compared with the same period in 2019, primarily due to a gain of \$14.0 million related to the reclassification to earnings of accumulated foreign currency translation adjustments upon the liquidation of a legal entity in our EMEA region. This gain is included within Other in the table above.

### Provision for Income Taxes

The effective income tax rates for the three months ended September 30, 2020 and 2019, were 8.0% and 12.5%, respectively. The decrease in the effective tax rate compared to 2019 is primarily due to the favorable mix of income earned in lower tax rate jurisdictions and the favorable year-over-year change in the amounts recognized for uncertain tax positions.

### Results of Operations - Nine months ended September 30

<i>In millions, except per share amounts</i>	2020	% of revenues	2019	% of revenues
Net revenues	\$ 1,992.6		\$ 2,134.5	
Cost of goods sold	1,133.7	56.9 %	1,201.4	56.3 %
Selling and administrative expenses	474.2	23.8 %	511.3	24.0 %
Goodwill impairment charge	98.9	5.0 %	—	— %
Operating income	285.8	14.3 %	421.8	19.8 %
Interest expense	38.8		42.7	
Other (income) expense, net	(12.6)		1.6	
Earnings before income taxes	259.6		377.5	
Provision for income taxes	38.5		56.1	
Net earnings	221.1		321.4	
Less: Net earnings attributable to noncontrolling interests	0.1		0.3	
Net earnings attributable to Allegion plc	\$ 221.0		\$ 321.1	
<b>Diluted net earnings per ordinary share attributable to Allegion plc ordinary shareholders:</b>	<b>2.38</b>		<b>3.40</b>	

The discussions that follow describe the significant factors contributing to the changes in our results of operations for the periods presented and form the basis used by management to evaluate the financial performance of the business.

### Net Revenues

Net revenues for the nine months ended September 30, 2020, decreased by 6.6%, or \$141.9 million, compared with the same period in 2019, due to the following:

Pricing	0.9 %
Volume	(7.1)%
Divestitures	(0.3)%
Currency exchange rates	(0.1)%
<b>Total</b>	<b>(6.6)%</b>

The decrease in Net revenues was principally driven by lower volumes across all regions primarily due to the economic challenges stemming from the ongoing COVID-19 pandemic, particularly during the second quarter. Additional decreases were due to the impact of the divestitures of our Colombia and Turkey businesses in 2019 and foreign currency exchange rate movements. These decreases were slightly offset by improved pricing.

### Operating Income/Margin

Operating income for the nine months ended September 30, 2020, decreased \$136.0 million compared to the same period in 2019, and Operating margin for the nine months ended September 30, 2020, decreased to 14.3% from 19.8% for the same period in 2019 due to the following:

[Table of Contents](#)

<i>In millions</i>	<u>Operating Income</u>	<u>Operating Margin</u>
September 30, 2019	\$ 421.8	19.8 %
Pricing and productivity in excess of inflation	49.3	2.1 %
Volume / product mix	(86.8)	(2.8) %
Restructuring / acquisition expenses	(3.5)	(0.2) %
Currency exchange rates	4.7	0.2 %
Investment spending	(1.4)	(0.1) %
Divestitures	0.6	0.1 %
Impairment of goodwill and intangible assets	(98.9)	(4.8) %
September 30, 2020	<u>\$ 285.8</u>	<u>14.3 %</u>

These decreases in Operating income and Operating margin were primarily due to the goodwill and intangible asset impairment charges discussed above and unfavorable volume/product mix, and to a lesser extent due to year-over-year increases in restructuring and acquisition expenses and increased investment spending. These decreases were partially offset by pricing improvements and productivity in excess of inflation, foreign currency exchange rate movements and the impact of the divestitures of our Colombia and Turkey businesses during the prior year. As a result of the ongoing COVID-19 pandemic, certain of our facilities experienced productivity challenges, particularly during the second quarter, due to temporary closures and lower volume and demand; however, these productivity decreases were more than offset by the benefits of certain non-U.S. government incentives, reductions in variable compensation and reductions or delays of other business spending in response to the COVID-19 pandemic.

**Interest Expense**

Interest expense for the nine months ended September 30, 2020, decreased \$3.9 million compared with the same period in 2019, which is due to a lower weighted-average interest rate during the current year on our outstanding indebtedness and a \$2.7 million prior year charge related to the write-off of previously deferred financing costs related to the Term Facility, which did not recur in the current period.

**Other (Income) Expense, Net**

The components of Other (income) expense, net for the nine months ended September 30, 2020 and 2019, were as follows:

<i>In millions</i>	<u>2020</u>	<u>2019</u>
Interest income	\$ (0.8)	\$ (1.1)
Foreign currency exchange loss	1.0	1.1
Loss from equity method investments	0.6	0.5
Net periodic pension and postretirement benefit (income) cost, less service cost	(2.0)	3.2
Other	(11.4)	(2.1)
Other (income) expense, net	<u>\$ (12.6)</u>	<u>\$ 1.6</u>

For the nine months ended September 30, 2020, Other (income) expense, net was favorable \$14.2 million compared with the same period in 2019, primarily due to a gain of \$14.0 million related to the reclassification to earnings of accumulated foreign currency translation adjustments upon the liquidation of a legal entity in our EMEA region. This gain is included within Other in the table above.

**Provision for Income Taxes**

The effective income tax rates for the nine months ended September 30, 2020 and 2019, were 14.8% and 14.9%, respectively. The decrease in the effective tax rate compared to 2019 is primarily due to the favorable benefit of excess share-based compensation deductions, the favorable mix of income earned in lower tax rate jurisdictions, and the favorable year-over-year change in the amounts recognized for uncertain tax positions, partially offset by the unfavorable tax impact related to the goodwill and intangible asset impairment charges.

## Review of Business Segments

We operate in and report financial results for three segments: Americas, EMEA and Asia Pacific. These segments represent the level at which our chief operating decision maker reviews our financial performance and makes operating decisions.

Segment operating income (loss) is the measure of profit and loss that our chief operating decision maker uses to evaluate the financial performance of the business and as the basis for resource allocation, performance reviews and compensation. For these reasons, we believe that Segment operating income (loss) represents the most relevant measure of Segment profit and loss. Our chief operating decision maker may exclude certain charges or gains, such as corporate charges and other special charges, to arrive at a Segment operating income (loss) that is a more meaningful measure of profit and loss upon which to base our operating decisions. We define Segment operating margin as Segment operating income (loss) as a percentage of the segment's Net revenues.

The segment discussions that follow describe the significant factors contributing to the changes in results for each segment included in Net earnings.

### Segment Results of Operations - For the three and nine months ended September 30

<i>In millions</i>	Three months ended			Nine months ended		
	2020	2019	% Change	2020	2019	% Change
<b>Net revenues</b>						
Americas	\$ 539.1	\$ 567.8	(5.1)%	\$ 1,495.5	\$ 1,588.2	(5.8)%
EMEA	148.4	137.8	7.7 %	389.3	422.9	(7.9)%
Asia Pacific	40.9	42.7	(4.2)%	107.8	123.4	(12.6)%
Total	\$ 728.4	\$ 748.3		\$ 1,992.6	\$ 2,134.5	
<b>Segment operating income (loss)</b>						
Americas	\$ 165.0	\$ 175.6	(6.0)%	\$ 432.4	\$ 457.7	(5.5)%
EMEA	13.5	7.5	80.0 %	9.0	19.9	(54.8)%
Asia Pacific	(0.3)	4.1	(107.3)%	(101.8)	3.9	N/M
Total	\$ 178.2	\$ 187.2		\$ 339.6	\$ 481.5	
<b>Segment operating margin</b>						
Americas	30.6 %	30.9 %		28.9 %	28.8 %	
EMEA	9.1 %	5.4 %		2.3 %	4.7 %	
Asia Pacific	(0.7)%	9.6 %		(94.4)%	3.2 %	

"N/M" = not meaningful

#### **Americas**

Our Americas segment is a leading provider of security products and solutions in approximately 30 countries throughout North America, Central America, the Caribbean and South America. The segment sells a broad range of products and solutions including locks, locksets, portable locks, key systems, door closers, exit devices, doors and door systems, electronic products and access control systems to end-users in commercial, institutional and residential facilities, including the education, healthcare, government, hospitality, commercial office and single and multi-family residential markets. This segment's primary brands are LCN, Schlage, Steelcraft, Technical Glass Products ("TGP") and Von Duprin.

#### Net Revenues

Net revenues for the three months ended September 30, 2020, decreased by 5.1%, or \$28.7 million, compared to the same period in 2019, due to the following:



[Table of Contents](#)

Pricing	0.8 %
Volume	(5.4)%
Divestitures	(0.4)%
Currency exchange rates	(0.1)%
<b>Total</b>	<b>(5.1)%</b>

The decrease in Net revenues was principally driven by lower volumes due to the economic challenges stemming from the ongoing COVID-19 pandemic. Additional decreases were due to the impact of the divestiture of our Colombia business in 2019 and foreign currency exchange rate movements. These decreases were slightly offset by improved pricing. Net revenues from non-residential products for the three months ended September 30, 2020, decreased low double digits compared to the same period in the prior year, primarily driven by lower volumes. Net revenues from residential products for the three months ended September 30, 2020, increased low double digits compared to the same period in the prior year, primarily driven by higher volumes.

Additionally, as end-users have continued to adopt newer technologies in their facilities and homes, accelerated by the increasing adoption of the Internet of Things ("IoT"), growth in electronic security products and solutions has become an increased metric monitored by management and of focus to our investors. For the three months ended September 30, 2020, Net revenues from the sale of electronic products in the Americas segment decreased mid-single digits compared to the same period in the prior year, primarily driven by lower volumes due to delays in discretionary projects. Electronic products include all electrified product categories including, but not limited to, electronic locks, access controls and electrified exit devices.

Net revenues for the nine months ended September 30, 2020, decreased by 5.8%, or \$92.7 million, compared to the same period in 2019, due to the following:

Pricing	1.0 %
Volume	(6.4)%
Divestitures	(0.4)%
<b>Total</b>	<b>(5.8)%</b>

The decrease in Net revenues was principally driven by lower volumes due to the economic challenges stemming from the ongoing COVID-19 pandemic, as well as the impact of the divestiture of our Colombia business in 2019. These decreases were partially offset by improved pricing. Net revenues from non-residential products for the nine months ended September 30, 2020, decreased high single digits compared to the same period in the prior year, primarily driven by lower volumes. Net revenues from residential products for the nine months ended September 30, 2020, decreased low single digits compared to the same period in the prior year, driven by lower pricing and volumes. For the nine months ended September 30, 2020, Net revenues from the sale of electronic products in the Americas segment decreased high single digits compared to the same period in the prior year, primarily driven by lower volumes due to delays in discretionary projects.

Operating income/margin

Segment operating income for the three months ended September 30, 2020, decreased \$10.6 million compared to the same period in 2019, and Segment operating margin for the three months ended September 30, 2020, decreased to 30.6% from 30.9%, due to the following:

<i>In millions</i>	<b>Operating Income</b>	<b>Operating Margin</b>
September 30, 2019	\$ 175.6	30.9 %
Pricing and productivity in excess of inflation	7.5	1.1 %
Volume / product mix	(18.2)	(1.6) %
Currency exchange rates	2.0	0.4 %
Investment spending	(0.3)	(0.1) %
Divestitures	0.1	0.1 %
Restructuring expenses	(1.7)	(0.2) %
September 30, 2020	\$ 165.0	30.6 %

The decreases in Segment operating income and Segment operating margin were primarily due to unfavorable volume/product mix, as well as year-over-year increases in restructuring expenses and investment spending. These decreases were partially offset by pricing improvements and productivity in excess of inflation, foreign currency exchange rate movements and the

[Table of Contents](#)

impact of the divestiture of our Colombia business in 2019. Pricing and productivity in excess of inflation includes the benefits of reductions in variable compensation and reductions or delays of other business spending in response to the COVID-19 pandemic.

Segment operating income for the nine months ended September 30, 2020, decreased \$25.3 million compared to the same period in 2019, and Segment operating margin for the nine months ended September 30, 2020, increased to 28.9% from 28.8%, due to the following:

<i>In millions</i>	<b>Operating Income</b>	<b>Operating Margin</b>
September 30, 2019	\$ 457.7	28.8 %
Pricing and productivity in excess of inflation	28.6	1.5 %
Volume / product mix	(55.4)	(1.7) %
Currency exchange rates	4.4	0.3 %
Investment spending	(2.1)	(0.1) %
Divestitures	0.7	0.2 %
Restructuring / acquisition expenses	(1.5)	(0.1) %
September 30, 2020	<u>\$ 432.4</u>	<u>28.9 %</u>

Segment operating income decreased primarily due to unfavorable volume/product mix, as well as increased investment spending and year-over-year increases in restructuring and acquisition expenses. These decreases were partially offset by pricing improvements and productivity in excess of inflation, foreign currency exchange rate movements and the impact of the divestiture of our Colombia business in 2019. As a result of the ongoing COVID-19 pandemic, certain of our facilities in the Americas experienced productivity challenges due to temporary closures and lower volume and demand, particularly during the second quarter; however, these productivity decreases were more than offset by reductions in variable compensation and reductions or delays of other business spending.

Segment operating margin increased primarily due to pricing improvements and productivity in excess of inflation, foreign currency exchange rate movements and the impact of the divestiture of our Colombia business in 2019. These increases were partially offset by unfavorable volume/product mix, increased investment spending and year-over-year increases in restructuring and acquisition expenses.

### **EMEA**

Our EMEA segment provides security products, services and solutions in approximately 85 countries throughout Europe, the Middle East and Africa. The segment offers end-users a broad range of products, services and solutions including locks, locksets, portable locks, key systems, door closers, exit devices, doors and door systems, electronic products and access control systems, as well as time and attendance and workforce productivity solutions. This segment's primary brands are AXA, Bricard, Briton, CISA, Interflex and SimonsVoss. This segment also resells LCN, Schlage and Von Duprin products, primarily in the Middle East.

### Net Revenues

Net revenues for the three months ended September 30, 2020, increased by 7.7%, or \$10.6 million, compared to the same period in 2019, due to the following:

Pricing	1.0 %
Volume	1.9 %
Divestitures	(0.1)%
Currency exchange rates	4.9 %
Total	<u>7.7 %</u>

The increase in Net revenues was driven by higher volumes, improved pricing and favorable foreign currency exchange rate movements. These increases were slightly offset by the divestiture of our Turkey business in the prior year. During the third quarter, our EMEA segment experienced a rebound in demand from the second quarter and the related economic challenges from the COVID-19 pandemic across most product categories, most notably portable security products.

[Table of Contents](#)

Net revenues for the nine months ended September 30, 2020, decreased by 7.9%, or \$33.6 million, compared to the same period in 2019, due to the following:

Pricing	0.8 %
Volume	(8.8)%
Divestitures	(0.3)%
Currency exchange rates	0.4 %
<b>Total</b>	<b>(7.9)%</b>

The decrease in Net revenues was principally driven by lower volumes due to the economic challenges stemming from the ongoing COVID-19 pandemic, particularly during the second quarter, as well as the divestiture of our Turkey business in the prior year. These decreases were slightly offset by improved pricing and favorable foreign currency exchange rate movements.

Operating income/margin

Segment operating income for the three months ended September 30, 2020, increased \$6.0 million compared to the same period in 2019, and Segment operating margin for the three months ended September 30, 2020, increased to 9.1% from 5.4%, due to the following:

<i>In millions</i>	Operating Income	Operating Margin
September 30, 2019	\$ 7.5	5.4 %
Pricing and productivity in excess of inflation	4.9	3.5 %
Volume / product mix	(0.8)	(0.7) %
Currency exchange rates	1.3	0.5 %
Investment spending	(0.3)	(0.2) %
Restructuring expenses	0.9	0.6 %
<b>September 30, 2020</b>	<b>\$ 13.5</b>	<b>9.1 %</b>

The increases in Segment operating income and Segment operating margin were primarily due to pricing improvements and productivity in excess of inflation, favorable foreign currency exchange rate movements and year-over-year decreases in restructuring expenses. These increases were partially offset by unfavorable volume/product mix and increased investment spending. Pricing and productivity in excess of inflation includes the benefits of government incentives and reductions in variable compensation and other business spending in response to the COVID-19 pandemic.

Segment operating income for the nine months ended September 30, 2020, decreased \$10.9 million compared to the same period in 2019, and Segment operating margin for the nine months ended September 30, 2020, decreased to 2.3% from 4.7%, due to the following:

<i>In millions</i>	Operating Income	Operating Margin
September 30, 2019	\$ 19.9	4.7 %
Pricing and productivity in excess of inflation	10.3	2.4 %
Volume / product mix	(24.5)	(5.9) %
Currency exchange rates	0.6	0.2 %
Investment spending	0.5	0.2 %
Divestitures	(0.1)	— %
Restructuring / acquisition expenses	3.8	1.0 %
Impairment of intangible assets	(1.5)	(0.3) %
<b>September 30, 2020</b>	<b>\$ 9.0</b>	<b>2.3 %</b>

Segment operating income decreased primarily due to unfavorable volume/product mix, as well as the impact of the divestiture of our Turkey business in 2019 and an intangible asset impairment charge. These decreases were partially offset by pricing improvements and productivity in excess of inflation, favorable foreign currency exchange rate movements, decreased investment spending and year-over-year decreases in restructuring and acquisition expenses. As a result of the ongoing COVID-19 pandemic, certain of our facilities in EMEA experienced productivity challenges due to temporary closures and

[Table of Contents](#)

lower volume and demand, particularly during the second quarter in Italy; however, this was more than offset by the benefits of certain government incentives and reductions in variable compensation and other business spending.

Segment operating margin decreased primarily due to unfavorable volume/product mix and an impairment of an indefinite-lived trade name. These decreases were partially offset by pricing improvements and productivity in excess of inflation, favorable foreign currency exchange rate movements, decreased investment spending and year-over-year decreases in restructuring and acquisition expenses.

***Asia Pacific***

Our Asia Pacific segment provides security products, services and solutions in approximately 15 countries throughout the Asia Pacific region. The segment offers end-users a broad range of products, services and solutions including locks, locksets, portable locks, key systems, door closers, exit devices, electronic products and access control systems. This segment's primary brands are Brio, Briton, FSH, Gainsborough, Legge, Milre and Schlage.

**Net Revenues**

Net revenues for the three months ended September 30, 2020, decreased by 4.2%, or \$1.8 million, compared to the same period in 2019, due to the following:

Pricing	0.4 %
Volume	(7.2)%
Currency exchange rates	2.6 %
Total	<u>(4.2)%</u>

The decrease in Net revenues was principally driven by lower volumes due to the economic challenges stemming from the ongoing COVID-19 pandemic and weakness in Korea. This decrease was partially offset by favorable foreign currency exchange rate movements and improved pricing.

Net revenues for the nine months ended September 30, 2020, decreased by 12.6%, or \$15.6 million, compared to the same period in 2019, due to the following:

Pricing	(0.3)%
Volume	(9.9)%
Currency exchange rates	(2.4)%
Total	<u>(12.6)%</u>

The decrease in Net revenues was principally driven by lower volumes due to the economic challenges stemming from the ongoing COVID-19 pandemic and weakness in end markets throughout the region, as well as unfavorable foreign currency exchange rate movements and lower pricing.

**Operating income (loss)/margin**

Segment operating income (loss) for the three months ended September 30, 2020, was unfavorable \$4.4 million compared to the same period in 2019, and Segment operating margin for the three months ended September 30, 2020, decreased to (0.7)% from 9.6%, due to the following:

<i>In millions</i>	<b>Operating Income (Loss)</b>	<b>Operating Margin</b>
September 30, 2019	\$ 4.1	9.6 %
Pricing and productivity in excess of inflation	0.2	0.5 %
Volume / product mix	(1.7)	(3.5) %
Currency exchange rates	0.2	0.1 %
Investment spending	0.2	0.4 %
Restructuring expenses	(0.7)	(1.8) %
Impairment of intangible assets	(2.6)	(6.0) %
September 30, 2020	<u>\$ (0.3)</u>	<u>(0.7) %</u>

## [Table of Contents](#)

The decreases in Segment operating income (loss) and Segment operating margin were primarily due to unfavorable volume/product mix, intangible asset impairment charges and year-over-year increases in restructuring expenses. These decreases were partially offset by pricing improvements and productivity in excess of inflation, favorable foreign currency exchange rate movements and decreased investment spending. Pricing and productivity improvements in excess of inflation were partially offset by the impact of a \$1.1 million recovery of previously remitted non-income taxes in the prior year, which did not recur in the current year.

Segment operating income (loss) for the nine months ended September 30, 2020, was unfavorable \$105.7 million compared to the same period in 2019, and Segment operating margin for the nine months ended September 30, 2020, decreased to (94.4)% from 3.2%, due to the following:

<i>In millions</i>	<b>Operating Income (Loss)</b>	<b>Operating Margin</b>
September 30, 2019	\$ 3.9	3.2 %
Pricing and productivity in excess of inflation	1.4	1.2 %
Volume / product mix	(6.9)	(5.7) %
Currency exchange rates	(0.2)	(0.1) %
Investment spending	0.6	0.5 %
Restructuring / acquisition expenses	(3.2)	(2.6) %
Impairment of goodwill and intangible assets	(97.4)	(90.9) %
September 30, 2020	\$ (101.8)	(94.4) %

The decreases in Segment operating income (loss) and Segment operating margin were primarily due to an \$88.1 million goodwill impairment charge for the Asia Pacific reporting unit in the first quarter of 2020 and intangible asset impairment charges of \$9.3 million in 2020. Additional factors contributing to the decreases include unfavorable volume/product mix, year-over-year increases in restructuring and acquisition expenses and unfavorable foreign currency exchange rate movements. These decreases were partially offset by productivity improvements in excess of lower pricing and inflation and decreased investment spending. Pricing and productivity improvements in excess of inflation includes the benefits of government incentives and reductions in variable compensation and other business spending, particularly in the second quarter, in response to the COVID-19 pandemic, which were partially offset by a \$1.8 million charge related to a product quality dispute during the second quarter and the impact of a \$1.1 million recovery of previously remitted non-income taxes in the prior year, which did not recur in the current year.

## **Liquidity and Capital Resources**

### *Sources and uses of liquidity*

Our primary source of liquidity is cash provided by operating activities. Cash provided by operating activities is used to invest in new product development and fund capital expenditures and working capital requirements and is expected to be adequate to service any future debt, pay any declared dividends and potentially fund acquisitions and share repurchases. Our ability to fund these capital needs depends on our ongoing ability to generate cash provided by operating activities and to access our borrowing facilities (including unused availability under our Revolving Facility) and capital markets.

As discussed above, we continue to closely monitor developments regarding the COVID-19 pandemic, including the resulting uncertainties around customer demand, supply chain disruption, the availability and cost of materials, customer and supplier financial condition, levels of liquidity and our ongoing compliance with debt covenants. While the COVID-19 pandemic and the resulting global economic slowdown has negatively impacted our business and results of operations, we have no required principal payments on our long-term debt until September 2022, maintain cash and cash equivalents of \$428.9 million and have unused availability of \$485.0 million under our Revolving Facility as of September 30, 2020. Further, our business operates with low capital intensity, providing flexibility during this time of continued uncertainty. We believe that our actions taken to date, future cash provided by operating activities, availability under our Revolving Facility, access to funds on hand and capital markets, as well as other potential measures within the Company's control to maintain a sound financial position and liquidity, will provide adequate resources to fund our operating and financing needs.

The following table reflects the major categories of cash flows for the nine months ended September 30. For additional details, see the Condensed and Consolidated Statements of Cash Flows in the Condensed and Consolidated Financial Statements.

[Table of Contents](#)

<i>In millions</i>	2020	2019
Net cash provided by operating activities	\$ 289.4	\$ 279.4
Net cash used in investing activities	(39.3)	(56.0)
Net cash used in financing activities	(179.3)	(274.4)

*Operating Activities*

Net cash provided by operating activities during the nine months ended September 30, 2020, increased \$10.0 million compared to the same period in 2019, primarily driven by improvements in working capital and our election to defer the employer portion of social security tax in the U.S. under the CARES Act.

*Investing Activities*

Net cash used in investing activities during the nine months ended September 30, 2020, decreased \$16.7 million compared to the same period in 2019, primarily due to a decrease in capital expenditures.

*Financing Activities*

Net cash used in financing activities during the nine months ended September 30, 2020, decreased \$95.1 million compared to the same period in 2019. This decrease was primarily due to an \$85.6 million year-over-year decrease in cash used to repurchase shares. Cash used for debt repayments also decreased due to satisfying our obligation to make quarterly installments on our Term Facility up to the maturity date, as further discussed below.

*Capitalization*

Long-term debt and other borrowings consisted of the following:

<i>In millions</i>	September 30, 2020	December 31, 2019
Term Facility	\$ 238.8	\$ 238.8
Revolving Facility	—	—
3.200% Senior Notes due 2024	400.0	400.0
3.550% Senior Notes due 2027	400.0	400.0
3.500% Senior Notes due 2029	400.0	400.0
Other debt	0.6	0.7
<b>Total borrowings outstanding</b>	<b>1,439.4</b>	<b>1,439.5</b>
Less discounts and debt issuance costs, net	(10.3)	(11.8)
<b>Total debt</b>	<b>1,429.1</b>	<b>1,427.7</b>
Less current portion of long-term debt	0.2	0.1
<b>Total long-term debt</b>	<b>\$ 1,428.9</b>	<b>\$ 1,427.6</b>

As of September 30, 2020, we have an unsecured Credit Agreement in place, consisting of a \$700.0 million term loan facility (the “Term Facility”), of which \$238.8 million is outstanding at September 30, 2020, and a \$500.0 million revolving credit facility (the “Revolving Facility” and, together with the Term Facility, the “Credit Facilities”). The Credit Facilities mature on September 12, 2022.

At inception, the Term Facility was scheduled to amortize in quarterly installments at the following rates: 1.25% per quarter starting December 31, 2017 through December 31, 2020, 2.5% per quarter from March 31, 2021 through June 30, 2022, with the balance due on September 12, 2022. Principal amounts repaid on the Term Facility may not be reborrowed. During the third quarter of 2019, we made a \$400.0 million principal payment to partially pay down the outstanding Term Facility balance. As a result of this payment, we have satisfied our obligation to make quarterly installments on the Term Facility up to the maturity date, with the remaining outstanding balance due on September 12, 2022.

The Revolving Facility provides aggregate commitments of up to \$500.0 million, which includes up to \$100.0 million for the issuance of letters of credit. At September 30, 2020, there were no borrowings outstanding on the Revolving Facility, and we

had \$15.0 million of letters of credit outstanding. Commitments under the Revolving Facility may be reduced at any time without premium or penalty, and amounts repaid may be reborrowed.

Outstanding borrowings under the Credit Facilities accrue interest at our option of (i) a LIBOR rate plus the applicable margin or (ii) a base rate plus the applicable margin. The applicable margin ranges from 1.125% to 1.500% depending on our credit ratings. Outstanding borrowings under the Credit Facilities accrue interest at LIBOR plus a margin of 1.250%, resulting in an interest rate of 1.480% at September 30, 2020. The Credit Facilities contain negative and affirmative covenants and events of default that, among other things, limit or restrict our ability to enter into certain transactions. In addition, the Credit Facilities require us to comply with a maximum leverage ratio and a minimum interest expense coverage ratio, as defined within the agreement. As of September 30, 2020, we were in compliance with all covenants.

As of September 30, 2020, we also have \$400.0 million outstanding of 3.200% Senior Notes due 2024, \$400.0 million outstanding of 3.550% Senior Notes due 2027 and \$400.0 million outstanding of 3.500% Senior Notes due 2029 (collectively, the "Senior Notes"). The Senior Notes require semi-annual interest payments on April 1 and October 1 of each year, and will mature on October 1, 2024, October 1, 2027 and October 1, 2029, respectively.

Historically, the majority of our earnings were considered to be permanently reinvested in jurisdictions where we have made, and intend to continue to make, substantial investments to support the ongoing development and growth of our global operations. At September 30, 2020, we analyzed our working capital requirements and the potential tax liabilities that would be incurred if certain subsidiaries made distributions and concluded that no material changes to our historic permanent reinvestment assertions are required.

### ***Guarantor Financial Information***

In March 2020, the SEC adopted amendments to the financial disclosure requirements applicable to registered debt offerings that include credit enhancements, such as subsidiary guarantees, in Rule 3-10 of Regulation S-X. The amended rules focus on providing material, relevant and decision-useful information regarding guarantees and other credit enhancements, while eliminating certain prescriptive requirements. We adopted these amendments on March 31, 2020. Accordingly, summarized financial information has been presented only for the issuers and guarantors of our registered securities for the most recent fiscal year and the year-to-date interim period, and the location of the required disclosures has been moved outside the Notes to Condensed and Consolidated Financial Statements and is provided below.

Allegion US Holding Company Inc. ("Allegion US Hold Co") is the issuer of the 3.200% Senior Notes and 3.550% Senior Notes and is the guarantor of the 3.500% Senior Notes (all three senior notes, collectively, the "Senior Notes"). Allegion plc (the "Parent") is the issuer of the 3.500% Senior Notes and is the guarantor of the 3.200% Senior Notes and 3.550% Senior Notes. Allegion US Hold Co is 100% owned by the Parent and each of the guarantees of Allegion US Hold Co and the Parent is full and unconditional and joint and several.

The 3.200% Senior Notes and the 3.550% Senior Notes are senior unsecured obligations of Allegion US Hold Co and rank equally with all of Allegion US Hold Co's existing and future senior unsecured and unsubordinated indebtedness. The guarantee of the 3.200% Senior Notes and the 3.550% Senior Notes is the senior unsecured obligation of the Parent and ranks equally with all of Allegion plc's existing and future senior unsecured and unsubordinated indebtedness. The 3.500% Senior Notes are senior unsecured obligations of the Parent, are guaranteed by Allegion US Hold Co and rank equally with all of Allegion plc's existing and future senior unsecured indebtedness.

Each guarantee is effectively subordinated to any secured indebtedness of the Guarantor to the extent of the value of the assets securing such indebtedness. The Senior Notes are structurally subordinated to indebtedness and other liabilities of the subsidiaries of the Guarantor, none of which guarantee the notes. The obligations of the Guarantor under its Guarantee are limited as necessary to prevent such Guarantee from constituting a fraudulent conveyance under applicable law and, therefore, are limited to the amount that the Guarantor could guarantee without such Guarantee constituting a fraudulent conveyance; this limitation, however, may not be effective to prevent such Guarantee from constituting a fraudulent conveyance. If the Guarantee was rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the Guarantor, and, depending on the amount of such indebtedness, the Guarantor's liability on its Guarantee could be reduced to zero. In such an event, the notes would be structurally subordinated to the indebtedness and other liabilities of the Guarantor.

For further details, terms and conditions of the Senior Notes refer to the Company's Form 8-K filed October 2, 2017 and Form 8-K filed September 27, 2019.

[Table of Contents](#)

The following tables present the summarized financial information specified in Rule 1-02(bb)(1) of Regulation S-X for each issuer and guarantor. The summarized financial information has been prepared in accordance with Rule 13-01 of Regulation S-X.

*Selected Condensed Statement of Comprehensive Income Information*

<i>In millions</i>	Nine months ended September 30, 2020		Year ended December 31, 2019	
	Allegion plc	Allegion US Hold Co	Allegion plc	Allegion US Hold Co
Net revenues	\$ —	\$ —	\$ —	\$ —
Gross profit	—	—	—	—
Operating loss	(5.3)	(0.1)	(6.5)	(0.3)
Equity earnings in affiliates, net of tax	254.1	151.6	448.3	281.9
Transactions with related parties and subsidiaries <sup>(a)</sup>	(11.1)	(4.4)	(9.5)	(106.4)
Net earnings	221.0	131.7	401.8	182.7
Net earnings attributable to the entity	221.0	131.7	401.8	182.7

(a) Transactions with related parties and subsidiaries include intercompany interest and fees.

*Selected Condensed Balance Sheet Information*

<i>In millions</i>	September 30, 2020		December 31, 2019	
	Allegion plc	Allegion US Hold Co	Allegion plc	Allegion US Hold Co
<b>Current assets:</b>				
Amounts due from related parties and subsidiaries	\$ —	\$ 443.3	\$ —	\$ 1,408.6
Total current assets	143.4	464.3	6.1	1,443.9
<b>Noncurrent assets:</b>				
Amounts due from related parties and subsidiaries	—	1,644.2	30.2	416.6
Total noncurrent assets	1,793.4	1,708.8	1,825.5	456.0
<b>Current liabilities:</b>				
Amounts due to related parties and subsidiaries	\$ 165.2	\$ 1,782.4	\$ 1.6	\$ 2,672.4
Total current liabilities	175.2	1,796.1	8.1	2,679.1
<b>Noncurrent liabilities:</b>				
Amounts due to related parties and subsidiaries	507.3	1,283.1	364.6	287.3
Total noncurrent liabilities	1,144.3	2,084.0	1,000.5	1,087.8

***Pension Plans***

Our investment objective in managing defined benefit plan assets is to ensure that all present and future benefit obligations are met as they come due. We seek to achieve this goal while trying to mitigate volatility in plan funded status, contributions and expense by better matching the characteristics of the plan assets to that of the plan liabilities. Global asset allocation decisions are based on a dynamic approach whereby a plan's allocation to fixed income assets increases as the funded status increases. We monitor plan funded status, asset allocation and the impact of market conditions on our defined benefit plans regularly in addition to investment manager performance. For further details on pension plan activity, see Note 9 to the Condensed and Consolidated Financial Statements.

For a further discussion of Liquidity and Capital Resources, refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," contained in our Annual Report on Form 10-K for the year ended December 31, 2019.



## **Critical Accounting Policies**

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our Condensed and Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with those accounting principles requires management to use judgments in making estimates and assumptions based on the relevant information available at the end of each period. These estimates and assumptions have a significant effect on reported amounts of assets and liabilities, revenue and expenses, as well as the disclosure of contingent assets and liabilities because they result primarily from the need to make estimates and assumptions on matters that are inherently uncertain. Actual results may differ from estimates.

Management believes there have been no significant changes during the nine months ended September 30, 2020, to the items we disclosed as our critical accounting policies in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2019, except for the valuation technique we utilized to perform our interim goodwill impairment tests as of March 31, 2020, as disclosed in Note 4 to the Condensed and Consolidated Financial Statements. As discussed in our critical accounting policies section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K, during our annual goodwill test, reporting unit fair values are estimated based on two valuation techniques, a discounted cash flow model (income approach) and a market multiple of earnings (market approach), with each method being weighted in the calculation. Our interim impairment tests, though, relied solely on the discounted cash flow model (income approach).

Our market approach requires the determination of an appropriate peer group and reflects the market's expectations for future growth and risk, with adjustments to account for differences between the selected peer group companies and the subject reporting units. Enterprise values are then estimated by multiplying historical and anticipated financial metrics of the reporting units by multiples derived from an analysis of peer companies. Given the high degree of economic uncertainty due to the COVID-19 pandemic, management believed that historical performance was temporarily not a reliable indicator of market valuations as of March 31, 2020, as evidenced by the significant decline in global financial markets in the weeks preceding this date. Additionally, given the significant uncertainty and variation among peer companies in terms of projected results in light of the COVID-19 pandemic, as well as many peer companies withdrawing financial outlooks, management did not believe that anticipated financial metrics of our peer companies provided a reasonable basis for estimating the fair value of our reporting units, either. Due to these reasons, it was determined that a discounted cash flow model (income approach) alone, provided the best approximation of fair value of the EMEA and Asia Pacific reporting units as of March 31, 2020.

The results of our interim impairment tests indicated that the estimated fair value of the EMEA reporting unit exceeded its carrying value as of March 31, 2020, by approximately 9%; however, the estimated fair value of the Asia Pacific reporting unit was less than its carrying value, and as such, a goodwill impairment charge was recorded. The interim goodwill impairment tests took into consideration management's best estimates of the COVID-19 pandemic's disruption to its businesses, end market conditions and recovery timelines. If the ongoing economic impact of the pandemic proves to be more severe than estimated, or if the economic recovery takes longer to materialize or does not materialize as strongly as anticipated, this could result in future impairment charges.

## **Recent Accounting Pronouncements**

See Note 2 to our Condensed and Consolidated Financial Statements for a discussion of recently issued and adopted accounting pronouncements.

## **Forward-Looking Statements**

Certain statements in this report, other than purely historical information, are "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. 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 may relate to such matters as potential impacts of the COVID-19 pandemic, projections of revenue, margins, expenses, tax provisions, earnings, cash flows, benefit obligations, dividends, share purchases or other financial items; any statements of the plans, strategies and objectives of management for future operations, including those relating to any statements concerning expected development, performance or market share relating to our products and services; any statements regarding future economic conditions or our performance; any statements regarding pending investigations, claims

or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. These statements are based on currently available information and our current assumptions, expectations and projections about future events. While we believe that our assumptions, expectations and projections are reasonable in view of the currently available information, you are cautioned not to place undue reliance on our forward-looking statements. You are advised to review any further disclosures we make on related subjects in materials we file with or furnish to the SEC. Forward-looking statements speak only as of the date they are made and are not guarantees of future performance. They are subject to future events, risks and uncertainties - many of which are beyond our control - as well as potentially inaccurate assumptions that could cause actual results to differ materially from our expectations and projections. We do not undertake to update any forward-looking statements.

Factors that might affect our forward-looking statements include, among other things:

- economic, political and business conditions in the markets in which we operate, including changes to trade agreements, sanctions, import and export regulations and custom duties;
- conditions of the institutional, commercial and residential construction and remodeling markets;
- competitive factors in the industry in which we compete, including technological developments and increased competition from private label brands;
- the development, commercialization and acceptance of new products and services;
- the demand for our products and services, including changes in customer and consumer preferences, and our ability to maintain beneficial relationships with large customers;
- the ability to protect our brand reputation and trademarks;
- fluctuations in currency exchange rates;
- the ability to complete and integrate any acquisitions and/or losses related to our investments in external companies;
- business opportunities that diverge from our core business;
- our ability to operate efficiently and productively;
- the results of our restructuring plans;
- the outcome of any litigation, governmental investigations or proceedings;
- claims of infringement of intellectual property rights by third parties;
- adverse publicity or improper conduct by any of our employees, agents or business partners;
- disruptions in our global supply chain, including product manufacturing and logistical services provided by outsourcing partners;
- the effects of global climate change or other unexpected events, including global health crises, that may disrupt our operations and have a negative impact on our business;
- adverse impacts due to the global COVID-19 pandemic, including the pace of global economic recovery from the pandemic;
- our ability to manage risks related to our information technology and operational technology systems and cybersecurity, including implementation of new processes that may cause disruptions and be more difficult, costly or time consuming than expected;
- our reliance on third-party vendors for many of the critical elements of our global information and operational technology infrastructure and their failure to provide effective support for such infrastructure;
- disruption and breaches of our information systems;
- availability of and fluctuations in the prices of key commodities and the impact of higher energy prices;
- potential further impairment of our goodwill, indefinite-lived intangible assets and/or our long-lived assets;
- ability to recruit and retain a highly qualified and diverse workforce;
- changes to, or changes in interpretations of, current laws and regulations;
- interest rate fluctuations and other changes in borrowing costs, in addition to risks associated with our outstanding and future indebtedness;

- uncertainty and inherent subjectivity related to transfer pricing regulations;
- changes in tax requirements, including tax rate changes, the adoption of new U.S. or non-U.S. tax legislation or exposure to additional tax liabilities and revised tax law interpretations;
- the impact our outstanding indebtedness may have on our business and operations, and other capital market conditions, including availability of funding sources and currency exchange rate fluctuations; and
- risks related to our incorporation in Ireland, including the possible effects on us of future legislation or interpretations in the U.S. that may limit or eliminate potential U.S. tax benefits resulting from our incorporation in a non-U.S. jurisdiction, such as Ireland, or deny U.S. government contracts to us based upon our incorporation in such non-U.S. jurisdiction.

Some of the significant risks and uncertainties that could cause actual results to differ materially from our expectations and projections are described more fully in the “Risk Factors” section of this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, and Part II, Item 1A of the Company’s Form 10-Q for the quarterly period ended June 30, 2020. There may also be other factors that have not been anticipated or that are not described in our periodic filings with the SEC, generally because we did not believe them to be significant at the time, which could cause results to differ materially from our expectations.

### **Item 3 – Quantitative and Qualitative Disclosures about Market Risk**

There have been no material changes in our exposure to market risk during the third quarter of 2020. For a discussion of the Company’s exposure to market risk, refer to Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

### **Item 4 – Controls and Procedures**

The Company’s management, including its Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded as of September 30, 2020, that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this Quarterly Report on Form 10-Q has been recorded, processed, summarized and reported when required and the information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There have not been any changes in the Company’s internal control over financial reporting that occurred during the third quarter of 2020 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## PART II – OTHER INFORMATION

### **Item 1 – Legal Proceedings**

In the normal course of business, we are involved in a variety of lawsuits, claims and legal proceedings, including commercial and contract disputes, labor and employment matters, product liability claims, environmental liabilities, antitrust and trade regulation matters, intellectual property disputes and tax-related matters. In our opinion, pending legal matters are not expected to have a material adverse impact on our results of operations, financial condition, liquidity or cash flows.

### **Item 1A – Risk Factors**

There have been no material changes to our risk factors contained in our Annual Report on Form 10-K for the period ended December 31, 2019, and Part II, Item 1A of the Company's Form 10-Q for the quarterly period ended June 30, 2020. For a further discussion of our Risk Factors, refer to the "Risk Factors" discussion contained in our Annual Report on Form 10-K for the year ended December 31, 2019, and Part II, Item 1A of the Company's Form 10-Q for the quarterly period ended June 30, 2020.

### **Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds**

#### **Issuer Purchases of Equity Securities**

Period	Total number of shares purchased (000s)	Average price paid per share	Total number of shares purchased as part of Authorization (000s)	Approximate dollar value of shares still available to be purchased under the Authorization (000s)
July 1 - July 31	—	—	—	\$ 728,890
August 1 - August 31	—	—	—	728,890
September 1 - September 30	—	—	—	728,890
Total	—	\$ —	—	\$ 728,890

In February 2017, our Board of Directors approved a stock repurchase authorization of up to \$500 million of the Company's ordinary shares (the "2017 Share Repurchase Authorization"). On February 6, 2020, our Board of Directors approved a new share repurchase authorization of up to, and including, \$800 million of the Company's ordinary shares (the "2020 Share Repurchase Authorization"), replacing the existing 2017 Share Repurchase Authorization. The 2020 Share Repurchase Authorization does not have a prescribed expiration date. Based on market conditions, share repurchases are made from time to time in the open market at the discretion of management.

**Item 6 – Exhibits**

**(a) Exhibits**

<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
<a href="#">3.1</a>	Amended and restated Memorandum and Articles of Association of Allegion plc.	Incorporated by reference to Exhibit 3.1 to the Company’s Form 8-K filed with the SEC on June 13, 2016 (File No. 001-35971).
<a href="#">31.1</a>	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
<a href="#">31.2</a>	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
<a href="#">32.1</a>	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.
101.INS	XBRL Instance Document.	The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document.	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Filed herewith.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed herewith.
104	Cover Page Interactive Data File.	Formatted as Inline XBRL and contained in Exhibit 101.

**ALLEGION PLC**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALLEGION PLC  
(Registrant)

Date: October 22, 2020

/s/ Patrick S. Shannon

---

**Patrick S. Shannon, Senior Vice President  
and Chief Financial Officer  
Principal Financial Officer**

Date: October 22, 2020

/s/ Douglas P. Ranck

---

**Douglas P. Ranck, Vice President,  
Controller and Chief Accounting Officer  
Principal Accounting Officer**

## CERTIFICATION

I, David D. Petratis, certify that:

1. I have reviewed the Quarterly Report on Form 10-Q of Allegion plc for the three and nine months ended September 30, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 22, 2020

/s/ David D. Petratis

---

David D. Petratis

Principal Executive Officer

## CERTIFICATION

I, Patrick S. Shannon, certify that:

1. I have reviewed the Quarterly Report on Form 10-Q of Allegion plc for the three and nine months ended September 30, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 22, 2020

/s/ Patrick S. Shannon

Patrick S. Shannon

Principal Financial Officer



**Section 1350 Certifications**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**  
**(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Allegion plc (the Company), does hereby certify that:

The Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2020 (the Form 10-Q) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David D. Petratis

---

David D. Petratis

Principal Executive Officer

October 22, 2020

/s/ Patrick S. Shannon

---

Patrick S. Shannon

Principal Financial Officer

October 22, 2020