

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, 2021

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



ALLEGION PUBLIC LIMITED COMPANY
(Exact name of registrant as specified in its charter)

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, D02 VH94, 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

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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.

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 18, 2021 was 89,695,862.

ALLEGION PLC

FORM 10-Q

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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		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Net revenues	\$ 717.0	\$ 728.4	\$ 2,158.2	\$ 1,992.6
Cost of goods sold	416.5	409.2	1,239.8	1,133.7
Selling and administrative expenses	162.1	156.2	503.3	474.2
Impairment of goodwill and intangible assets	—	2.6	—	98.9
Operating income	138.4	160.4	415.1	285.8
Interest expense	12.3	12.9	37.0	38.8
Other income, net	(14.7)	(12.2)	(21.4)	(12.6)
Earnings before income taxes	140.8	159.7	399.5	259.6
(Benefit from) provision for income taxes	(2.8)	12.8	28.9	38.5
Net earnings	143.6	146.9	370.6	221.1
Less: Net earnings attributable to noncontrolling interests	0.1	—	0.4	0.1
Net earnings attributable to Allegion plc	\$ 143.5	\$ 146.9	\$ 370.2	\$ 221.0
Earnings per share attributable to Allegion plc ordinary shareholders:				
Basic net earnings	\$ 1.60	\$ 1.59	\$ 4.11	\$ 2.39
Diluted net earnings	\$ 1.59	\$ 1.58	\$ 4.08	\$ 2.38
Weighted-average shares outstanding:				
Basic	89.7	92.3	90.1	92.4
Diluted	90.3	92.7	90.7	92.9
Total comprehensive income	\$ 121.2	\$ 171.4	\$ 326.7	\$ 232.8
Less: Total comprehensive income attributable to noncontrolling interests	—	0.3	0.4	—
Total comprehensive income attributable to Allegion plc	\$ 121.2	\$ 171.1	\$ 326.3	\$ 232.8

See accompanying notes to condensed and consolidated financial statements.

Allegion plc
Condensed and Consolidated Balance Sheets
(Unaudited)

<i>In millions, except share amounts</i>	September 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 503.9	\$ 480.4
Accounts and notes receivable, net	307.4	321.8
Inventories	345.7	283.1
Other current assets	45.4	53.9
Assets held for sale	—	5.8
Total current assets	1,202.4	1,145.0
Property, plant and equipment, net	278.6	294.9
Goodwill	808.7	819.0
Intangible assets, net	459.8	487.1
Other noncurrent assets	367.2	323.4
Total assets	<u>\$ 3,116.7</u>	<u>\$ 3,069.4</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 212.4	\$ 220.4
Accrued expenses and other current liabilities	343.1	293.7
Short-term borrowings and current maturities of long-term debt	238.4	0.2
Liabilities held for sale	—	7.2
Total current liabilities	793.9	521.5
Long-term debt	1,192.5	1,429.4
Other noncurrent liabilities	262.7	285.9
Total liabilities	<u>2,249.1</u>	<u>2,236.8</u>
Equity:		
Allegion plc shareholders' equity:		
Ordinary shares, \$0.01 par value (89,695,508 and 91,212,741 shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively)	0.9	0.9
Capital in excess of par value	2.8	—
Retained earnings	1,061.5	985.6
Accumulated other comprehensive loss	(201.0)	(157.1)
Total Allegion plc shareholders' equity	864.2	829.4
Noncontrolling interests	3.4	3.2
Total equity	867.6	832.6
Total liabilities and equity	<u>\$ 3,116.7</u>	<u>\$ 3,069.4</u>

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,	
	2021	2020
Cash flows from operating activities:		
Net earnings	\$ 370.6	\$ 221.1
Adjustments to arrive at net cash provided by operating activities:		
Depreciation and amortization	62.0	60.3
Impairment of goodwill and intangible assets	—	98.9
Changes in assets and liabilities and other non-cash items	(76.2)	(90.9)
Net cash provided by operating activities	<u>356.4</u>	<u>289.4</u>
Cash flows from investing activities:		
Capital expenditures	(28.7)	(33.3)
Acquisition of and equity investments in businesses, net of cash acquired	(6.5)	—
Proceeds from sale of equity method investment	7.6	—
Other investing activities, net	12.7	(6.0)
Net cash used in investing activities	<u>(14.9)</u>	<u>(39.3)</u>
Cash flows from financing activities:		
Debt repayments, net	(0.1)	(0.1)
Dividends paid to ordinary shareholders	(96.9)	(88.3)
Repurchase of ordinary shares	(212.7)	(94.1)
Other financing activities, net	0.4	3.2
Net cash used in financing activities	<u>(309.3)</u>	<u>(179.3)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	<u>(8.7)</u>	<u>1.3</u>
Net increase in cash, cash equivalents and restricted cash	23.5	72.1
Cash, cash equivalents and restricted cash - beginning of period	480.4	358.7
Cash, cash equivalents and restricted cash - end of period	<u>\$ 503.9</u>	<u>\$ 430.8</u>

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, 2020. 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 December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." The new guidance was 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. This ASU became effective for fiscal years beginning after December 15, 2020, and interim periods within those annual periods. Accordingly, the Company adopted ASU 2019-12 on January 1, 2021, and the adoption did not have a material impact to 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. This ASU became effective for fiscal years beginning after December 15, 2020, and interim periods within those annual periods. Accordingly, the Company adopted ASU 2020-01 on January 1, 2021, and the adoption did not have a material impact to the Condensed and Consolidated Financial Statements.

Recently Issued Accounting Pronouncements

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, along with related updates, 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, if adopted, ASU 2020-04 would have on the Condensed and Consolidated Financial Statements.

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, 2021	December 31, 2020
Raw materials	\$ 131.9	\$ 114.0
Work-in-process	42.4	42.3
Finished goods	171.4	126.8
Total	<u>\$ 345.7</u>	<u>\$ 283.1</u>

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

NOTE 4 - GOODWILL

The changes in the carrying amount of goodwill for the nine months ended September 30, 2021, were as follows:

<i>In millions</i>	Allegion Americas	Allegion International	Total
December 31, 2020 (gross)	\$ 501.1	\$ 891.5	\$ 1,392.6
Accumulated impairment	—	(573.6)	(573.6)
December 31, 2020 (net)	501.1	317.9	819.0
Acquisitions and adjustments	0.1	4.6	4.7
Currency translation	—	(15.0)	(15.0)
September 30, 2021 (net)	<u>\$ 501.2</u>	<u>\$ 307.5</u>	<u>\$ 808.7</u>

As a result of the global economic disruption and uncertainty due to the COVID-19 pandemic arising during the first quarter of 2020, the Company concluded a triggering event had occurred as of March 31, 2020, and performed interim impairment tests on the goodwill balances, at that time, of its previous EMEA and Asia Pacific reporting units (which were combined to form the new Allegion International segment effective January 1, 2021). The results of the interim impairment testing indicated that the estimated fair value of the former Asia Pacific reporting unit was less than its carrying value. Consequently, a goodwill impairment charge of \$88.1 million was recorded, which is included in Impairment of goodwill and intangible assets in the Condensed and Consolidated Statement of Comprehensive Income for the nine months ended September 30, 2020.

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, 2021			December 31, 2020		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Completed technologies/patents	\$ 58.3	\$ (27.9)	\$ 30.4	\$ 59.9	\$ (25.1)	\$ 34.8
Customer relationships	401.0	(138.6)	262.4	415.5	(130.2)	285.3
Trade names (finite-lived)	85.5	(57.1)	28.4	90.2	(57.4)	32.8
Other	44.9	(21.2)	23.7	27.0	(11.1)	15.9
Total finite-lived intangible assets	589.7	\$ (244.8)	344.9	592.6	\$ (223.8)	368.8
Trade names (indefinite-lived)	114.9		114.9	118.3		118.3
Total	<u>\$ 704.6</u>		<u>\$ 459.8</u>	<u>\$ 710.9</u>		<u>\$ 487.1</u>

Intangible asset amortization expense was \$25.2 million and \$23.2 million for the nine months ended September 30, 2021 and 2020, respectively. Future estimated amortization expense on existing intangible assets in each of the next five years amounts to approximately \$32.1 million for full year 2021, \$27.8 million for 2022, \$27.6 million for 2023, \$27.6 million for 2024 and \$26.7 million for 2025.

As a result of the global economic disruption and uncertainty due to the COVID-19 pandemic arising during the first quarter of 2020, the Company concluded a triggering event had occurred as of March 31, 2020, and performed interim impairment testing on certain indefinite-lived trade names. Based on these tests, it was determined that three of the Company's indefinite-lived trade names were impaired, and impairment charges of \$8.2 million were recorded, which are included in Impairment of goodwill and intangible assets in the Condensed and Consolidated Statement of Comprehensive Income for the nine months ended September 30, 2020.

During the three months ended September 30, 2020, a subsidiary in the former Asia Pacific segment experienced supply chain disruptions, which reduced one of its brand's expected future cash flows. As a result, an impairment charge of \$2.6 million was recorded, which is included in Impairment of goodwill and intangible assets in the Condensed and Consolidated Statement of Comprehensive Income for the three and nine months ended September 30, 2020.

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

NOTE 6 - ACQUISITIONS

In July 2021, the Company acquired, through its subsidiaries, certain assets of Astrum Benelux B.V. ("Astrum Benelux") and 100% of the equity of WorkforceIT B.V. in the Netherlands ("WorkforceIT"), both of which were previously held under common control and offer workforce management technology products and solutions in the Benelux region of Europe. Neither the assets acquired from Astrum Benelux nor the acquisition of WorkforceIT had a material impact on the Condensed and Consolidated Financial Statements for the three or nine months ended September 30, 2021. Both WorkforceIT and the assets acquired from Astrum Benelux have been accounted for as a business combination and have been integrated into the Allegion International segment.

NOTE 7 - DIVESTITURES

As previously disclosed, during the fourth quarter of 2020, the net assets of the Company's Qatar Metal Industries ("QMI") business, met the criteria to be classified as held for sale, and accordingly, were written down to fair value, resulting in a Loss on assets held for sale in the fourth quarter of 2020 of \$37.9 million.

On February 28, 2021, the Company completed its divestiture of QMI. The completion of the divestiture did not have a material impact to the Condensed and Consolidated Financial Statements for the nine months ended September 30, 2021.

NOTE 8 - DEBT AND CREDIT FACILITIES

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

<i>In millions</i>	September 30, 2021	December 31, 2020
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	0.4	0.6
Total borrowings outstanding	1,439.2	1,439.4
Discounts and debt issuance costs, net	(8.3)	(9.8)
Total debt	1,430.9	1,429.6
Less current portion of long-term debt	238.4	0.2
Total long-term debt	\$ 1,192.5	\$ 1,429.4

Unsecured Credit Facilities

As of September 30, 2021, 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, 2021, 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, 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. Principal amounts repaid on the Term Facility may not be reborrowed, and 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.

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, 2021, there were no borrowings outstanding on the Revolving Facility and the Company had \$14.1 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, 2021, the Company's outstanding borrowings under the Credit

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NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Facilities accrue interest at LIBOR plus a margin of 1.250%, resulting in an interest rate of 1.34%. 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, 2021, the Company was in compliance with all covenants.

Senior Notes

As of September 30, 2021, 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 9 - 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.

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 loss and subsequently reclassified to Net earnings when the hedged transaction affects earnings, while 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. 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. 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 \$181.6 million and \$218.9 million at September 30, 2021 and December 31, 2020, respectively. The fair values of currency derivatives included within the Condensed and Consolidated Balance Sheets as of September 30, 2021 and December 31, 2020 were not material, nor were either the balances included in Accumulated other comprehensive loss or the amount expected to be reclassified into Net earnings over the next twelve months related to currency derivatives designated as cash flow hedges, although the actual amounts that will be reclassified to Net earnings may vary as a result of future changes in market conditions.

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

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

<i>In millions</i>	Amount of gain recognized in Accumulated other comprehensive loss		Location of (loss) gain recognized in Net earnings	Amount of (loss) gain reclassified from Accumulated other comprehensive loss and recognized into Net earnings	
	2021	2020		2021	2020
Currency derivatives	\$ 0.4	\$ 0.9	Cost of goods sold	\$ (1.0)	\$ 1.7

The amounts associated with currency 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 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	
	2021	2020		2021	2020
Currency derivatives	\$ 2.8	\$ 3.9	Cost of goods sold	\$ 0.2	\$ 3.8

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, net in the Condensed and Consolidated Statements of Comprehensive Income. At September 30, 2021, the maximum term of the Company's currency derivatives, both those that are designated as cash flow hedges and those that are not, was less than one year.

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 10 - 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, 2021 and 2020, was \$33.6 million and \$32.5 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 \$6.0 million and \$7.1 million, respectively, for the nine months ended September 30, 2021 and 2020. No material lease costs have been capitalized on the Condensed and Consolidated Balance Sheets as of September 30, 2021 or December 31, 2020.

If at 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

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

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. 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 Sheets related to the Company's ROU asset and lease liability were as follows:

<i>In millions</i>	Balance Sheet classification	September 30, 2021			December 31, 2020		
		Real estate	Equipment	Total	Real estate	Equipment	Total
ROU asset	Other noncurrent assets	\$ 58.1	\$ 31.7	\$ 89.8	\$ 59.5	\$ 32.5	\$ 92.0
Lease liability - current	Accrued expenses and other current liabilities	14.4	13.4	27.8	14.7	12.9	27.6
Lease liability - noncurrent	Other noncurrent liabilities	45.5	18.4	63.9	46.5	19.8	66.3
Other information:							
	Weighted-average remaining term (years)	6.8	2.8		7.0	3.2	
	Weighted-average discount rate	3.6 %	2.2 %		3.9 %	2.7 %	

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

<i>In millions</i>	2021			2020		
	Real estate	Equipment	Total	Real estate	Equipment	Total
Cash paid for amounts included in the measurement of lease liabilities	\$ 14.7	\$ 12.9	\$ 27.6	\$ 14.4	\$ 11.0	\$ 25.4
ROU assets obtained in exchange for new lease liabilities	12.0	8.8	20.8	18.3	18.3	36.6

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, 2021, 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 2021 and for each of the years thereafter as of September 30, 2021, are as follows:

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<i>In millions</i>	Remainder of 2021	2022	2023	2024	2025	Thereafter	Total
Real estate leases	\$ 4.1	\$ 15.9	\$ 11.7	\$ 8.7	\$ 7.4	\$ 20.5	\$ 68.3
Equipment leases	3.9	13.0	8.8	4.7	2.1	0.2	32.7
Total	\$ 8.0	\$ 28.9	\$ 20.5	\$ 13.4	\$ 9.5	\$ 20.7	\$ 101.0

The difference between the total undiscounted minimum lease payments and the combined current and noncurrent lease liabilities as of September 30, 2021, is due to imputed interest of \$9.3 million.

NOTE 11 - DEFINED BENEFIT PLANS

The Company sponsors several U.S. and non-U.S. defined benefit pension plans to eligible employees and retirees. 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 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	
	2021	2020	2021	2020
Service cost	\$ 1.6	\$ 1.2	\$ 5.0	\$ 5.0
Interest cost	1.7	2.3	5.1	7.2
Expected return on plan assets	(3.6)	(3.5)	(10.5)	(10.8)
Administrative costs and other	0.3	0.2	0.9	1.1
Net amortization of:				
Prior service costs	0.1	0.1	0.2	0.2
Plan net actuarial losses	0.8	0.7	2.6	2.7
Net periodic pension benefit cost	<u>\$ 0.9</u>	<u>\$ 1.0</u>	<u>\$ 3.3</u>	<u>\$ 5.4</u>
	Non-U.S.			
	Three months ended		Nine months ended	
	2021	2020	2021	2020
Service cost	\$ 0.6	\$ 0.5	\$ 1.7	\$ 1.5
Interest cost	1.3	1.7	3.8	5.1
Expected return on plan assets	(3.4)	(3.3)	(10.3)	(9.8)
Administrative costs and other	0.4	0.4	1.4	1.1
Net amortization of:				
Prior service costs	—	0.1	0.1	0.1
Plan net actuarial losses	0.4	0.3	1.1	1.0
Net periodic pension benefit income	<u>\$ (0.7)</u>	<u>\$ (0.3)</u>	<u>\$ (2.2)</u>	<u>\$ (1.0)</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, net within the Condensed and Consolidated Statements of Comprehensive Income.

The Company made employer contributions of \$7.7 million and \$7.0 million during the nine months ended September 30, 2021 and 2020, respectively, to its defined benefit pension plans. Contributions of approximately \$4 million are expected during the remainder of 2021.

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NOTE 12 - 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, 2021, 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
Recurring fair value measurements				
<i>Assets:</i>				
Investments	\$ —	\$ 23.5	\$ —	\$ 23.5
Derivative instruments	—	1.3	—	1.3
Total asset recurring fair value measurements	\$ —	\$ 24.8	\$ —	\$ 24.8
<i>Liabilities:</i>				
Derivative instruments	\$ —	\$ 1.1	\$ —	\$ 1.1
Deferred compensation and other retirement plans	—	24.8	—	24.8
Total liability recurring fair value measurements	\$ —	\$ 25.9	\$ —	\$ 25.9
Financial instruments not carried at fair value				
Total debt	\$ —	\$ 1,525.6	\$ —	\$ 1,525.6
Total financial instruments not carried at fair value	\$ —	\$ 1,525.6	\$ —	\$ 1,525.6

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Assets and liabilities measured at fair value at December 31, 2020, 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)	
Recurring fair value measurements				
<i>Assets:</i>				
Investments	\$ —	\$ 23.5	\$ —	\$ 23.5
Derivative instruments	—	1.6	—	1.6
Total asset recurring fair value measurements	\$ —	\$ 25.1	\$ —	\$ 25.1
<i>Liabilities:</i>				
Derivative instruments	\$ —	\$ 3.4	\$ —	\$ 3.4
Deferred compensation and other retirement plans	—	25.1	—	25.1
Total liability recurring fair value measurements	\$ —	\$ 28.5	\$ —	\$ 28.5
Financial instruments not carried at fair value				
Total debt	\$ —	\$ 1,541.4	\$ —	\$ 1,541.4
Total financial instruments not carried at fair value	\$ —	\$ 1,541.4	\$ —	\$ 1,541.4

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. 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.
- *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, 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 \$12.4 million and \$13.7 million as of September 30, 2021 and December 31, 2020, 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, 2021, are the same as those used at December 31, 2020.

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NOTE 13 - EQUITY

The changes in the components of Equity for the nine months ended September 30, 2021, 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, 2020	\$ 832.6	\$ 0.9	91.2	\$ —	\$ 985.6	\$ (157.1)	\$ 3.2
Net earnings	108.2	—	—	—	108.0	—	0.2
Other comprehensive loss, net	(32.0)	—	—	—	—	(32.0)	—
Repurchase of ordinary shares	(149.7)	—	(1.3)	(4.4)	(145.3)	—	—
Share-based compensation activity	4.4	—	0.1	4.4	—	—	—
Dividends to ordinary shareholders (\$0.36 per share)	(32.5)	—	—	—	(32.5)	—	—
Other	—	—	—	—	0.1	—	(0.1)
Balance at March 31, 2021	731.0	0.9	90.0	—	915.9	(189.1)	3.3
Net earnings	118.8	—	—	—	118.7	—	0.1
Other comprehensive income, net	10.5	—	—	—	—	10.4	0.1
Repurchase of ordinary shares	(50.1)	—	(0.4)	(9.7)	(40.4)	—	—
Share-based compensation activity	9.7	—	0.2	9.7	—	—	—
Dividends to noncontrolling interests	(0.1)	—	—	—	—	—	(0.1)
Dividends to ordinary shareholders (\$0.36 per share)	(32.4)	—	—	—	(32.4)	—	—
Balance at June 30, 2021	787.4	0.9	89.8	—	961.8	(178.7)	3.4
Net earnings	143.6	—	—	—	143.5	—	0.1
Other comprehensive loss, net	(22.4)	—	—	—	—	(22.3)	(0.1)
Repurchase of ordinary shares	(12.9)	—	(0.1)	(1.4)	(11.5)	—	—
Share-based compensation activity	4.2	—	—	4.2	—	—	—
Dividends to ordinary shareholders (\$0.36 per share)	(32.3)	—	—	—	(32.3)	—	—
Balance at September 30, 2021	<u>\$ 867.6</u>	<u>\$ 0.9</u>	<u>89.7</u>	<u>\$ 2.8</u>	<u>\$ 1,061.5</u>	<u>\$ (201.0)</u>	<u>\$ 3.4</u>

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The changes in the components of Equity for the nine months ended September 30, 2020, 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, 2019	\$ 760.4	\$ 0.9	92.7	\$ —	\$ 975.1	\$ (218.6)	\$ 3.0
Cumulative effect of adoption of ASC 326, <i>Financial Instruments – Credit Losses</i>	(2.2)	—	—	—	(2.2)	—	—
Net earnings	0.5	—	—	—	0.4	—	0.1
Other comprehensive loss, net	(33.4)	—	—	—	—	(32.8)	(0.6)
Repurchase of ordinary shares	(94.1)	—	(0.9)	(12.2)	(81.9)	—	—
Share-based compensation activity	12.2	—	0.4	12.2	—	—	—
Dividends to ordinary shareholders (\$0.32 per share)	(29.6)	—	—	—	(29.6)	—	—
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	<u>\$ 827.1</u>	<u>\$ 0.9</u>	<u>92.3</u>	<u>\$ 6.8</u>	<u>\$ 1,023.4</u>	<u>\$ (206.8)</u>	<u>\$ 2.8</u>

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, 2021 and 2020, the Company paid \$212.7 million and \$94.1 million, respectively, to repurchase the ordinary shares reflected in the tables above on the open market under these share repurchase authorizations. As of September 30, 2021, the Company has approximately \$401.4 million still available to be repurchased under the 2020 Share Repurchase Authorization.

Accumulated Other Comprehensive Loss

The changes in Accumulated other comprehensive loss for the nine months ended September 30, 2021, were as follows:

<i>In millions</i>	Cash flow hedges	Pension and OPEB items	Foreign currency items	Total
December 31, 2020	\$ (0.9)	\$ (120.3)	\$ (35.9)	\$ (157.1)
Other comprehensive income (loss) before reclassifications	2.8	1.5	(50.8)	(46.5)
Amounts reclassified from accumulated other comprehensive loss ^(a)	(0.2)	3.5	—	3.3
Tax expense	(0.7)	—	—	(0.7)
September 30, 2021	<u>\$ 1.0</u>	<u>\$ (115.3)</u>	<u>\$ (86.7)</u>	<u>\$ (201.0)</u>

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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 ^(a)	(4.3)	3.8	(14.0)	(14.5)
Tax benefit (expense)	0.2	(0.5)	—	(0.3)
September 30, 2020	<u>\$ 0.1</u>	<u>\$ (121.3)</u>	<u>\$ (85.6)</u>	<u>\$ (206.8)</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 postretirement benefits other than pensions ("OPEB") items and foreign currency items are recorded in Other income, net.

NOTE 14 - 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	
	2021	2020	2021	2020
Stock options	\$ 0.5	\$ 0.4	\$ 3.7	\$ 3.4
RSUs	2.2	2.0	10.1	9.6
PSUs	0.5	2.6	4.4	3.0
Deferred compensation	(0.1)	1.0	1.3	1.2
Pre-tax expense	3.1	6.0	19.5	17.2
Tax benefit ^(a)	(0.4)	(0.8)	(2.4)	(2.2)
After-tax expense	<u>\$ 2.7</u>	<u>\$ 5.2</u>	<u>\$ 17.1</u>	<u>\$ 15.0</u>

- (a) Tax benefit reflected in the table above does not include the excess benefit from exercises and vesting of share based compensation of \$0.2 million during the three months ended September 30, 2021, and \$1.5 million and \$4.0 million during the nine months ended September 30, 2021 and 2020, 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:

	2021		2020	
	Number granted	Weighted-average fair value per award	Number granted	Weighted-average fair value per award
Stock options	179,743	\$ 24.99	161,600	\$ 25.62
RSUs	130,126	\$ 112.21	81,053	\$ 125.13

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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:

	2021	2020
Dividend yield	1.32 %	0.99 %
Volatility	27.14 %	20.70 %
Risk-free rate of return	0.75 %	1.41 %
Expected life (years)	6.0	6.0

Volatility is based on the Company's historic volatility. 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, 2021, the Company granted PSUs with a maximum award level of approximately 0.1 million shares.

In February 2019, 2020 and 2021, 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.

NOTE 15 - RESTRUCTURING ACTIVITIES

During the three months ended September 30, 2021 and 2020, the Company recorded \$0.6 million and \$5.9 million, respectively, of expenses associated with restructuring activities. During the nine months ended September 30, 2021 and 2020, the Company recorded \$3.8 million and \$22.4 million, respectively, of expenses associated with restructuring activities. Restructuring activities in both 2021 and 2020 were primarily associated with the Allegion International segment and related to workforce reductions intended to optimize and simplify operations and cost structure, although approximately \$7 million of the restructuring charges incurred during the nine months ended September 30, 2020 related to the Allegion Americas segment and Corporate. Restructuring charges for both the three and nine month periods ended September 30, 2021 and 2020, respectively, are primarily included within Selling and administrative expenses within the Condensed and Consolidated Statements of Comprehensive Income.

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The changes in the restructuring reserve during the nine months ended September 30, 2021, were as follows:

<i>In millions</i>	Total
December 31, 2020	\$ 5.3
Additions, net of reversals	3.3
Cash payments	(7.8)
Currency translation	(0.1)
September 30, 2021	\$ 0.7

The majority of the costs accrued as of September 30, 2021, are expected to be paid within one year.

The Company also incurred other non-qualified restructuring charges of \$0.4 million and \$0.9 million, during the nine months ended September 30, 2021 and 2020, 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.

NOTE 16 - OTHER INCOME, NET

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

<i>In millions</i>	Three months ended		Nine months ended	
	2021	2020	2021	2020
Interest income	\$ (0.3)	\$ (0.2)	\$ (0.4)	\$ (0.8)
Foreign currency exchange loss	0.8	0.2	2.0	1.0
(Earnings and gains from the sale of) losses from equity method investments	(6.3)	0.1	(6.0)	0.6
Net periodic pension and postretirement benefit income, less service cost	(2.1)	(1.0)	(6.0)	(2.0)
Other	(6.8)	(11.3)	(11.0)	(11.4)
Other income, net	\$ (14.7)	\$ (12.2)	\$ (21.4)	\$ (12.6)

Other income, net for the three and nine months ended September 30, 2021, included a gain of \$6.4 million from the sale of the Company's equity method investment in Nuki Home Solutions GmbH, which is included within (Earnings and gains from the sale of) losses from equity method investments in the table above.

Other income, 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 our former EMEA segment. This gain is included within Other in the table above.

NOTE 17 - INCOME TAXES

The effective income tax rates for the three months ended September 30, 2021 and 2020, were (2.0)% and 8.0%, respectively. The decrease in the effective tax rate compared to 2020 is primarily due to favorable settlements of uncertain tax positions, a current quarter benefit related to the mix of income earned in lower tax rate jurisdictions and the unfavorable tax impact recognized in 2020 related to the recording of valuation allowances.

The effective income tax rates for the nine months ended September 30, 2021 and 2020, were 7.2% and 14.8%, respectively. The decrease in the effective tax rate compared to 2020 is primarily due to the unfavorable tax impact recognized in 2020 related to goodwill and intangible asset impairment charges, favorable settlements of uncertain tax positions and the unfavorable tax impact recognized in 2020 related to the recording of valuation allowances, which were partially offset by an unfavorable year-over-year change in share-based compensation deductions.

NOTE 18 - 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

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(Unaudited)

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	
	2021	2020	2021	2020
Weighted-average number of basic shares	89.7	92.3	90.1	92.4
Shares issuable under share-based compensation plans	0.6	0.4	0.6	0.5
Weighted-average number of diluted shares	90.3	92.7	90.7	92.9

At September 30, 2021, 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 19 - 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. 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 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 21).

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, 2021 and 2020, no adjustments were recorded related to performance obligations satisfied in previous periods.

The Company applies the practical expedients allowed under ASC 606, "Revenue from Contracts with Customers", 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, 2021 and 2020, 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:

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

<i>In millions</i>	Three months ended September 30, 2021			Nine months ended September 30, 2021		
	Allegion Americas	Allegion International	Total	Allegion Americas	Allegion International	Consolidated
Net revenues						
Products	\$ 524.1	\$ 185.5	\$ 709.6	\$ 1,571.2	\$ 563.9	\$ 2,135.1
Services	0.3	7.1	7.4	1.5	21.6	23.1
Total Net revenues	\$ 524.4	\$ 192.6	\$ 717.0	\$ 1,572.7	\$ 585.5	\$ 2,158.2
<i>In millions</i>	Three months ended September 30, 2020			Nine months ended September 30, 2020		
	Allegion Americas	Allegion International	Total	Allegion Americas	Allegion International	Consolidated
Net revenues						
Products	\$ 539.1	\$ 182.4	\$ 721.5	\$ 1,495.5	\$ 477.5	\$ 1,973.0
Services	—	6.9	6.9	—	19.6	19.6
Total Net revenues	\$ 539.1	\$ 189.3	\$ 728.4	\$ 1,495.5	\$ 497.1	\$ 1,992.6

As of September 30, 2021, 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.

NOTE 20 - BUSINESS SEGMENT INFORMATION

The Company classifies its business into the following two reportable segments based on industry and market focus: Allegion Americas and Allegion International. The Company largely evaluates performance based on Segment operating income and Segment operating margins. Segment operating income 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 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 to arrive at a Segment operating income 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.

As previously announced, effective January 1, 2021, the Company combined its previous operations in Europe, the Middle East and Africa ("EMEA") and Asia Pacific into a new segment named Allegion International, in addition to renaming its Americas segment "Allegion Americas". Business segment information for EMEA and Asia Pacific for the three and nine months ended September 30, 2020, has been combined in the table below to reflect this change in reportable segments.

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

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

<i>In millions</i>	Three months ended		Nine months ended	
	2021	2020	2021	2020
Net revenues				
Allegion Americas	\$ 524.4	\$ 539.1	\$ 1,572.7	\$ 1,495.5
Allegion International	192.6	189.3	585.5	497.1
Total	<u>\$ 717.0</u>	<u>\$ 728.4</u>	<u>\$ 2,158.2</u>	<u>\$ 1,992.6</u>
Segment operating income (loss)				
Allegion Americas	\$ 133.7	\$ 165.0	\$ 419.5	\$ 432.4
Allegion International	20.5	13.2	54.0	(92.8)
Total	<u>154.2</u>	<u>178.2</u>	<u>473.5</u>	<u>339.6</u>
Reconciliation to Operating income				
Unallocated corporate expense	(15.8)	(17.8)	(58.4)	(53.8)
Operating income	<u>138.4</u>	<u>160.4</u>	<u>415.1</u>	<u>285.8</u>
Reconciliation to earnings before income taxes				
Interest expense	12.3	12.9	37.0	38.8
Other income, net	(14.7)	(12.2)	(21.4)	(12.6)
Earnings before income taxes	<u>\$ 140.8</u>	<u>\$ 159.7</u>	<u>\$ 399.5</u>	<u>\$ 259.6</u>

NOTE 21 - 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 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 past operations. 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 the Company's 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 nine months ended September 30, 2021 and 2020, the Company incurred \$0.9 million and \$1.8 million, respectively, of expenses for environmental remediation at sites presently or formerly owned or leased by the Company. Environmental

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

remediation costs are recorded in Costs of goods sold within the Condensed and Consolidated Statements of Comprehensive Income.

As of September 30, 2021 and December 31, 2020, the Company has recorded reserves for environmental matters of \$17.1 million and \$21.1 million, respectively. The total reserve at September 30, 2021 and December 31, 2020, included \$4.5 million and \$4.4 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 the timing of their expected future payment. The Company's total current environmental reserve at September 30, 2021 and December 31, 2020, was \$3.9 million and \$6.1 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>	2021	2020
Balance at beginning of period	\$ 16.5	\$ 15.9
Reductions for payments	(7.5)	(5.3)
Accruals for warranties issued during the current period	9.1	6.2
Changes to accruals related to preexisting warranties	—	(0.3)
Currency translation	(0.2)	0.1
Balance at end of period	<u>\$ 17.9</u>	<u>\$ 16.6</u>

Standard product warranty liabilities are classified as either Accrued expenses and other current liabilities or Other noncurrent liabilities within the Condensed and Consolidated Balance Sheets based on the timing of the expected future payments.

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, 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 two segments: Allegion Americas and Allegion International. 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 and Industry Trends and Outlook

The COVID-19 pandemic and uneven economic recovery continue to create volatility in the global economy and on our business. During the third quarter of 2021, we continued to see strong and accelerating demand for our products and services in most of the markets we serve. However, we have also experienced an acceleration of several macroeconomic challenges in the current quarter that have negatively impacted our ability to meet this robust demand, such as supply chain disruptions and delays; shortages in materials including reductions in allocations of electronic components and other parts from key suppliers; labor shortages; and increased commodity, material component, packaging, freight and labor inflation. These challenges have also created inefficiencies, including periodic production interruptions, that have negatively impacted our productivity and margin performance during the quarter. While these challenges are impacting all our global businesses, to date they have had a more pronounced impact on our Allegion Americas operating segment.

While we currently anticipate these industry-wide challenges to continue beyond 2021, we are rapidly adapting to navigate these challenges, and we expect to be well-positioned to convert demand to revenue once conditions normalize. We remain focused on providing exceptional service to our customers; implementing measures to mitigate operational and distribution inefficiencies and reduce backlogs, such as aligning resources to re-engineer product designs and configurations and developing alternate sources of supply; implementing pricing initiatives to address rising production, material and freight costs; and investing in business initiatives to drive future growth. We will continue to explore various options to control costs and enhance financial performance, while minimizing disruption to customers and the overall business; however, the full impacts of the pandemic and the on-going macroeconomic challenges on our business, results of operations, financial condition and cash flows remain uncertain.

The pandemic and related macroeconomic challenges stemming from the uneven economic recovery will likely continue to impact us in numerous and evolving ways that we may not be able to accurately predict. The full impact of the pandemic will continue to depend on future developments such as the continued spread and duration of the pandemic, the emergence of future variant strains of the COVID-19 virus which may be more contagious or severe, the availability and distribution of effective medical treatments and vaccines, vaccination rates, as well as any government-imposed restrictions or mandates. Further, any new or strengthened government-imposed restrictions or mandates on the conduct of business and travel could adversely impact our ability to carry out business as usual in certain markets. The challenges and uncertainties related to the COVID-19 pandemic and its potential impact on our business, results of operations, financial condition and cash flows, as well as other challenges and uncertainties that could affect our businesses are described further under Part I, Item 1A. "Risk Factors" contained in our Annual Report on Form 10-K for the year ended December 31, 2020.

Acquisitions

In July 2021, we acquired certain assets of Astrum Benelux B.V. ("Astrum Benelux") as well as 100% of the equity of WorkforceIT B.V. in the Netherlands ("WorkforceIT"), both of which were previously held under common control and offer workforce management technology products and solutions in the Benelux region of Europe. Both WorkforceIT and the assets acquired from Astrum Benelux have been integrated into our Allegion International segment.

QMI Divestiture

As previously disclosed, during the fourth quarter of 2020, the net assets of our Qatar Metal Industries ("QMI") business, met the criteria to be classified as held for sale, and accordingly, were written down to fair value, resulting in a Loss on assets held for sale in the fourth quarter of 2020 of \$37.9 million.

On February 28, 2021, we completed our divestiture of QMI. The impacts of this divestiture on our results of operations for the three and six months ended September 30, 2021 are reflected in the discussions below.

2021 Dividends and Share Repurchases

During the nine months ended September 30, 2021, we paid dividends of \$1.08 per ordinary share to shareholders and repurchased approximately 1.8 million shares for \$212.7 million.

Results of Operations – Three months ended September 30

<i>In millions, except per share amounts</i>	2021	% of revenues	2020	% of revenues
Net revenues	\$ 717.0		\$ 728.4	
Cost of goods sold	416.5	58.1 %	409.2	56.2 %
Selling and administrative expenses	162.1	22.6 %	156.2	21.4 %
Impairment of goodwill and intangible assets	—	— %	2.6	0.4 %
Operating income	138.4	19.3 %	160.4	22.0 %
Interest expense	12.3		12.9	
Other income, net	(14.7)		(12.2)	
Earnings before income taxes	140.8		159.7	
(Benefit from) provision for income taxes	(2.8)		12.8	
Net earnings	143.6		146.9	
Less: Net earnings attributable to noncontrolling interests	0.1		—	
Net earnings attributable to Allegion plc	\$ 143.5		\$ 146.9	
Diluted net earnings per ordinary share attributable to Allegion plc ordinary shareholders:	\$ 1.59		\$ 1.58	

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, 2021, decreased by 1.6%, or \$11.4 million, compared with the same period in 2020, due to the following:

Pricing	1.4 %
Volume	(3.0)%
Acquisitions / divestitures	(0.6)%
Currency exchange rates	0.6 %
Total	(1.6)%

The decrease in Net revenues was principally due to lower volumes in our Allegion Americas segment, resulting from the supply chain disruptions and delays and shortages in materials, components and labor discussed above. Also contributing to the decrease in Net revenues was the divestiture of our QMI business in February 2021. 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, 2021, decreased \$22.0 million compared to the same period in 2020. Operating margin, which we define as Operating income as a percentage of total Net revenues, for the three months ended September 30, 2021, decreased to 19.3% from 22.0% for the same period in 2020, due to the following:

<i>In millions</i>	Operating Income	Operating Margin
September 30, 2020	\$ 160.4	22.0 %
Inflation in excess of pricing and productivity	(11.2)	(1.9) %
Volume / product mix	(10.5)	(0.8) %
Restructuring / acquisition expenses	1.7	0.2 %
Currency exchange rates	0.4	— %
Investment spending	(6.5)	(0.9) %
Acquisitions / divestitures	1.5	0.4 %
Impairment of intangible assets	2.6	0.3 %
September 30, 2021	<u>\$ 138.4</u>	<u>19.3 %</u>

The decrease in Operating income was primarily due to inflation and productivity challenges in excess of pricing improvements, unfavorable volume/product mix and increased investment spending. These decreases were partially offset by a year-over-year decrease in restructuring and acquisition expenses, currency exchange rate movements, the impact of our QMI divestiture and a prior year intangible asset impairment charge that did not recur in the current year.

The decrease in Operating margin was primarily due to inflation and productivity challenges in excess of pricing improvements, unfavorable volume/product mix and increased investment spending. These decreases were partially offset by a year-over-year decrease in restructuring and acquisition expenses, the impact of our QMI divestiture and a prior year intangible asset impairment charge that did not recur in the current year.

Inflation in excess of pricing and productivity 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 other significant spending for strategic initiatives or new product and channel development, are captured in Investment spending in the table above. Inflation in excess of pricing and productivity in the third quarter of 2021 reflects the impacts of the increased commodity, material component, packaging, freight and labor inflation, as well as the inefficiencies caused by more acute supply chain challenges and shortages of materials, components and labor discussed above.

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, 2021, decreased \$0.6 million compared with the same period in 2020, primarily due to a lower weighted-average interest rate on our outstanding indebtedness.

Other Income, Net

The components of Other income, net for the three months ended September 30, 2021 and 2020, were as follows:

<i>In millions</i>	2021	2020
Interest income	\$ (0.3)	\$ (0.2)
Foreign currency exchange loss	0.8	0.2
(Earnings and gains from the sale of) losses from equity method investments	(6.3)	0.1
Net periodic pension and postretirement benefit income, less service cost	(2.1)	(1.0)
Other	(6.8)	(11.3)
Other income, net	<u>\$ (14.7)</u>	<u>\$ (12.2)</u>

Other income, net for the three months ended September 30, 2021, included a gain of \$6.4 million from the sale of the our equity method investment in Nuki Home Solutions GmbH ("Nuki"), which is included within (Earnings and gains from the sale of) losses from equity method investments and \$6.8 million of other investment gains and income, which are included in Other in the table above.

Other income, net for the three 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 our former EMEA segment, which is included within Other in the table above.

(Benefit from) Provision for Income Taxes

The effective income tax rates for the three months ended September 30, 2021 and 2020, were (2.0)% and 8.0%, respectively. The decrease in the effective tax rate compared to 2020 is primarily due to favorable settlements of uncertain tax positions, a current quarter benefit related to the mix of income earned in lower tax rate jurisdictions and the unfavorable tax impact recognized in 2020 related to the recording of valuation allowances.

Results of Operations – Nine months ended September 30

<i>In millions, except per share amounts</i>	2021	% of revenues	2020	% of revenues
Net revenues	\$ 2,158.2		\$ 1,992.6	
Cost of goods sold	1,239.8	57.4 %	1,133.7	56.9 %
Selling and administrative expenses	503.3	23.3 %	474.2	23.8 %
Impairment of goodwill and intangible assets	—	— %	98.9	5.0 %
Operating income	415.1	19.2 %	285.8	14.3 %
Interest expense	37.0		38.8	
Other income, net	(21.4)		(12.6)	
Earnings before income taxes	399.5		259.6	
Provision for income taxes	28.9		38.5	
Net earnings	370.6		221.1	
Less: Net earnings attributable to noncontrolling interests	0.4		0.1	
Net earnings attributable to Allegion plc	<u>\$ 370.2</u>		<u>\$ 221.0</u>	
Diluted net earnings per ordinary share attributable to Allegion plc ordinary shareholders:	<u>\$ 4.08</u>		<u>\$ 2.38</u>	

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, 2021, increased by 8.3%, or \$165.6 million, compared with the same period in 2020, due to the following:

Pricing	1.4 %
Volume	5.2 %
Acquisitions / divestitures	(0.6)%
Currency exchange rates	2.3 %
Total	8.3 %

The increase in Net revenues was principally driven by higher volumes, particularly during the second quarter given the impact of the comparison to the muted demand and temporary plant shut-downs we experienced in the second quarter of 2020 due to the COVID-19 pandemic. Improved pricing and the impact of foreign currency exchange rate movements also contributed to the increase in Net revenues. These increases were slightly offset by the divestiture of our QMI business in February 2021.

Operating Income/Margin

Operating income for the nine months ended September 30, 2021, increased \$129.3 million compared to the same period in 2020, and Operating margin for the nine months ended September 30, 2021, increased to 19.2% from 14.3% for the same period in 2020, due to the following:

<i>In millions</i>	Operating Income	Operating Margin
September 30, 2020	\$ 285.8	14.3 %
Inflation in excess of pricing and productivity	(11.2)	(0.9) %
Volume / product mix	27.8	0.3 %
Restructuring / acquisition expenses	15.8	0.8 %
Currency exchange rates	8.6	0.1 %
Investment spending	(13.6)	(0.7) %
Acquisitions / divestitures	3.0	0.3 %
Impairment of goodwill and intangible assets	98.9	5.0 %
September 30, 2021	\$ 415.1	19.2 %

The increases in Operating income and Operating margin were primarily due to the prior year goodwill and intangible asset impairment charges, which did not recur in the current year, favorable volume/product mix and a year-over-year decrease in restructuring and acquisition expenses. Also contributing to the increases were foreign currency exchange rate movements and the impact of our QMI divestiture. These increases were partially offset by inflation in excess of pricing and productivity improvements and increased investment spending.

Interest Expense

Interest expense for the nine months ended September 30, 2021, decreased \$1.8 million compared with the same period in 2020, primarily due to a lower weighted-average interest rate on our outstanding indebtedness.

Other Income, Net

The components of Other income, net for the nine months ended September 30, 2021 and 2020, were as follows:

<i>In millions</i>	2021	2020
Interest income	\$ (0.4)	\$ (0.8)
Foreign currency exchange loss	2.0	1.0
(Earnings and gains from the sale of) losses from equity method investments	(6.0)	0.6
Net periodic pension and postretirement benefit income, less service cost	(6.0)	(2.0)
Other	(11.0)	(11.4)
Other income, net	<u>\$ (21.4)</u>	<u>\$ (12.6)</u>

For the nine months ended September 30, 2021, Other income, net increased \$8.8 million compared with the same period in 2020, primarily due to investment gains and income in 2021, which are reflected in Other in the table above, increased Net periodic pension and postretirement benefit income, less service cost and the gain of \$6.4 million on the sale of our equity method investment in Nuki, which exceeded the prior year impact of a \$14.0 million gain related to the reclassification to earnings of accumulated foreign currency translation adjustments upon the liquidation of a legal entity in our former EMEA segment.

Provision for Income Taxes

The effective income tax rates for the nine months ended September 30, 2021 and 2020, were 7.2% and 14.8%, respectively. The decrease in the effective tax rate compared to 2020 is primarily due to the unfavorable tax impact recognized in 2020 related to goodwill and intangible asset impairment charges, favorable settlements of uncertain tax positions and the unfavorable tax impact recognized in 2020 related to the recording of valuation allowances, which were partially offset by an unfavorable year-over-year change in share-based compensation deductions.

Review of Business Segments

We operate in and report financial results for two segments: Allegion Americas and Allegion International. These segments represent the level at which our chief operating decision maker reviews our financial performance and makes operating decisions.

Segment operating income 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 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 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. As previously announced, effective January 1, 2021, we combined our previous operations in EMEA and Asia Pacific into a new segment named Allegion International, in addition to renaming our Americas segment "Allegion Americas". Business segment information for EMEA and Asia Pacific for the three and nine months ended September 30, 2020, has been combined in the segment results of operations presented below to reflect this change in reportable segments.

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

<i>In millions</i>	2021	2020	% Change	2021	2020	% Change
Net revenues						
Allegion Americas	\$ 524.4	\$ 539.1	(2.7)%	\$ 1,572.7	\$ 1,495.5	5.2 %
Allegion International	192.6	189.3	1.7 %	585.5	497.1	17.8 %
Total	\$ 717.0	\$ 728.4		\$ 2,158.2	\$ 1,992.6	
Segment operating income (loss)						
Allegion Americas	\$ 133.7	\$ 165.0	(19.0)%	\$ 419.5	\$ 432.4	(3.0)%
Allegion International	20.5	13.2	55.3 %	54.0	(92.8)	158.2 %
Total	\$ 154.2	\$ 178.2		\$ 473.5	\$ 339.6	
Segment operating margin						
Allegion Americas	25.5 %	30.6 %		26.7 %	28.9 %	
Allegion International	10.6 %	7.0 %		9.2 %	(18.7)%	

Allegion Americas

Our Allegion Americas segment is a leading provider of security products and solutions 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, 2021, decreased by 2.7%, or \$14.7 million, compared to the same period in 2020, due to the following:

Pricing	1.5 %
Volume	(4.5)%
Currency exchange rates	0.3 %
Total	(2.7)%

The decrease in Net revenues was driven by lower volumes resulting from the supply chain disruptions and delays and shortages of materials, components and labor discussed above. This decrease was partially offset by improved pricing and the impact of foreign currency exchange rate movements.

Net revenues from non-residential products for the three months ended September 30, 2021, decreased by a low single-digits percent compared to the same period in the prior year. While we continued to see strong demand for our non-residential products during the current quarter, the persistent and widespread supply chain challenges and shortages in material, components (including electronic components) and labor discussed above have led to the current quarter Net revenues decline. Further, the combination of these factors have also culminated in our highest non-residential product backlog to date as a company.

Net revenues from residential products for the three months ended September 30, 2021, decreased by a high single digits percent compared to the same period in the prior year. This decrease was primarily driven by supply chain challenges and shortages in labor, material and components, particularly electronic components, in addition to the comparative impact to the third quarter of 2020, which saw a strong rebound in demand after a muted second quarter due to the COVID-19 pandemic. Nonetheless, we continue to see strong demand for our residential products due to a sustained level of DIY home projects and a robust residential housing construction market.

Additionally, growth in electronic security products and solutions has become an increased metric monitored by management and a focus of our investors. Electronic products encompass both residential and non-residential products, and include all electrified product categories including, but not limited to, electronic locks, access controls and electrified exit devices. For the

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three months ended September 30, 2021, Net revenues from the sale of electronic products in the Allegion Americas segment decreased by a high single digits percent compared to the same period in the prior year. As previously disclosed, a surge in global demand for electronic components has led to supply chain challenges and component shortages, which further accelerated during the third quarter. This has led to a reduction in the allocations of electronic components we receive from key suppliers, periodic production interruptions and delays in our ability to meet the elevated level of demand for our electronic products during the current quarter. While considered temporary, we expect these challenges around the availability of electronic components to continue beyond 2021. As a result, we are actively implementing measures to mitigate the operational and distribution inefficiencies these component shortages and other challenges are creating, such as re-engineering product designs and configurations and developing alternate sources of supply.

Net revenues for the nine months ended September 30, 2021, increased by 5.2%, or \$77.2 million, compared to the same period in 2020, due to the following:

Pricing	1.5 %
Volume	3.2 %
Currency exchange rates	0.5 %
Total	5.2 %

The increase in Net revenues was principally driven by higher volumes, particularly during the second quarter given the impact of the comparison to the muted demand and temporary plant shut-downs we experienced in the second quarter of 2020 due to the COVID-19 pandemic. Improved pricing and the impact of foreign currency exchange rate movements also contributed to the increase in Net revenues.

Net revenues from non-residential products for the nine months ended September 30, 2021, decreased by a low-single digits percent compared to the same period in the prior year, while Net revenues from residential products for the nine months ended September 30, 2021, increased by greater than twenty percent compared to the same period in the prior year, driven principally by higher volumes in the second quarter of the current year. Net revenues from the sale of electronic products in the Allegion Americas segment for the nine months ended September 30, 2021, increased by a mid-single digits percent compared to the same period in the prior year.

Operating income/margin

Segment operating income for the three months ended September 30, 2021, decreased \$31.3 million compared to the same period in 2020, and Segment operating margin for the three months ended September 30, 2021, decreased to 25.5% from 30.6%, due to the following:

<i>In millions</i>	Operating Income	Operating Margin
September 30, 2020	\$ 165.0	30.6 %
Inflation in excess of pricing and productivity	(15.6)	(3.4) %
Volume / product mix	(11.3)	(0.8) %
Currency exchange rates	(0.4)	(0.2) %
Investment spending	(5.6)	(1.0) %
Restructuring / acquisition expenses	1.6	0.3 %
September 30, 2021	\$ 133.7	25.5 %

The decreases in Segment operating income and Segment operating margin were primarily driven by inflation and productivity challenges in excess of pricing improvements, unfavorable volume/product mix, increased investment spending and foreign currency exchange rate movements. These decreases were partially offset by a year-over-year decrease in restructuring and acquisition expenses. Inflation in excess of pricing and productivity reflects the impacts of the increased commodity, material component, packaging, freight and labor inflation, as well as the inefficiencies caused by more acute supply chain challenges and shortages of materials, components and labor discussed above.

Segment operating income for the nine months ended September 30, 2021, decreased \$12.9 million compared to the same period in 2020, and Segment operating margin for the nine months ended September 30, 2021, decreased to 26.7% from 28.9%, due to the following:

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<i>In millions</i>	Operating Income	Operating Margin
September 30, 2020	\$ 432.4	28.9 %
Inflation in excess of pricing and productivity	(13.6)	(1.4) %
Volume / product mix	3.9	(0.6) %
Currency exchange rates	1.4	— %
Investment spending	(9.3)	(0.6) %
Restructuring / acquisition expenses	4.7	0.4 %
September 30, 2021	<u>\$ 419.5</u>	<u>26.7 %</u>

The decrease in Segment operating income was primarily driven by inflation in excess of pricing and productivity improvements and increased investment spending. These decreases were partially offset by the impacts of volume/product mix, foreign currency exchange rate movements and a year-over-year decrease in restructuring and acquisition expenses.

The decrease in Segment operating margin was primarily driven by inflation in excess of pricing and productivity improvements, increased investment spending and the dilutive impact of product mix, which exceeded the benefits from higher volumes. These decreases were partially offset by the year-over-year decrease in restructuring and acquisition expenses.

Allegion International

Our Allegion International segment provides security products, services and solutions primarily throughout Europe, Asia and Oceania. 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, Gainsborough, Interflex and SimonsVoss.

Net Revenues

Net revenues for the three months ended September 30, 2021, increased by 1.7%, or \$3.3 million, compared to the same period in 2020, due to the following:

Pricing	1.2 %
Volume	1.3 %
Acquisitions / divestitures	(2.4)%
Currency exchange rates	1.6 %
Total	<u>1.7 %</u>

The increase in Net revenues was driven by higher volumes, improved pricing and foreign currency exchange rate movements. These increases were partially offset by the divestiture of our QMI business in February 2021.

Net revenues for the nine months ended September 30, 2021, increased by 17.8%, or \$88.4 million, compared to the same period in 2020, due to the following:

Pricing	0.9 %
Volume	11.4 %
Acquisitions / divestitures	(2.3)%
Currency exchange rates	7.8 %
Total	<u>17.8 %</u>

The increase in Net revenues was principally driven by higher volumes and foreign currency exchange rate movements, in addition to improved pricing. These increases were partially offset by the divestiture of our QMI business.

Operating income (loss)/margin

Segment operating income for the three months ended September 30, 2021, increased \$7.3 million compared to the same period in 2020, and Segment operating margin for the three months ended September 30, 2021, increased to 10.6% from 7.0%, due to the following:

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<i>In millions</i>	<u>Operating Income</u>	<u>Operating Margin</u>
September 30, 2020	\$ 13.2	7.0 %
Inflation in excess of pricing and productivity	(1.3)	(0.8) %
Volume / product mix	0.7	0.2 %
Currency exchange rates	0.9	0.2 %
Investment spending	(0.8)	(0.4) %
Acquisitions / divestitures	1.5	1.1 %
Restructuring expenses	3.7	2.0 %
Impairment of intangible assets	2.6	1.3 %
September 30, 2021	<u>\$ 20.5</u>	<u>10.6 %</u>

The increases in Segment operating income and Segment operating margin were primarily due to favorable volume/product mix, a year-over-year decrease in restructuring expenses, foreign currency exchange rate movements, the impact of the divestiture of our QMI business in February 2021 and a prior year intangible asset impairment charge that did not recur in the current year. These increases were partially offset by inflation in excess of pricing and productivity improvements and increased investment spending.

Segment operating income (loss) for the nine months ended September 30, 2021, was favorable \$146.8 million compared to the same period in 2020, and Segment operating margin for the nine months ended September 30, 2021, improved to 9.2% from (18.7)%, due to the following:

<i>In millions</i>	<u>Operating Income (Loss)</u>	<u>Operating Margin</u>
September 30, 2020	\$ (92.8)	(18.7) %
Pricing and productivity in excess of inflation	2.6	0.5 %
Volume / product mix	23.9	3.8 %
Currency exchange rates	7.2	0.9 %
Investment spending	(1.2)	(0.3) %
Acquisitions / divestitures	3.0	0.7 %
Restructuring expenses	12.4	2.4 %
Impairment of goodwill and intangible assets	98.9	19.9 %
September 30, 2021	<u>\$ 54.0</u>	<u>9.2 %</u>

The improvements in Segment operating income (loss) and Segment operating margin were primarily due to the prior year goodwill and intangible asset impairment charges, which did not recur in the current year, favorable volume/product mix and a year-over-year decrease in restructuring expenses. Also contributing to the improvements were pricing and productivity improvements in excess of inflation, foreign currency exchange rate movements and the impact of the divestiture of our QMI business. These improvements were slightly offset by increased investment spending.

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 of September 30, 2021, we maintain cash and cash equivalents of \$503.9 million, have no required principal payments on our long-term debt until September 2022, and have unused availability of \$485.9 million under our Revolving Facility. Further, our business operates with low capital intensity, providing financial flexibility. We believe that future cash provided by operating activities, availability under our Revolving Facility, access to funds on hand and capital markets, as well as other

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potential measures within our control will provide adequate resources to fund our operating and financing needs and maintain a sound financial position and liquidity.

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.

<i>In millions</i>	2021	2020
Net cash provided by operating activities	\$ 356.4	\$ 289.4
Net cash used in investing activities	(14.9)	(39.3)
Net cash used in financing activities	(309.3)	(179.3)

Operating Activities

Net cash provided by operating activities during the nine months ended September 30, 2021, increased \$67.0 million compared to the same period in 2020, primarily driven by increased Net earnings and improvements in working capital.

Investing Activities

Net cash used in investing activities during the nine months ended September 30, 2021, decreased \$24.4 million compared to the same period in 2020, primarily due to cash proceeds from the sales of our equity method investment in Nuki and other investments, as well as a decrease in capital expenditures. Partially offsetting these decreases was an increase due to cash paid for our acquisition of Workforce IT and the assets acquired from Astrum Benelux.

Financing Activities

Net cash used in financing activities during the nine months ended September 30, 2021, increased \$130.0 million compared to the same period in 2020, primarily due to an increase of \$118.6 million in cash used to repurchase shares.

Capitalization

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

<i>In millions</i>	September 30, 2021	December 31, 2020
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	0.4	0.6
Total borrowings outstanding	1,439.2	1,439.4
Discounts and debt issuance costs, net	(8.3)	(9.8)
Total debt	1,430.9	1,429.6
Less current portion of long-term debt	238.4	0.2
Total long-term debt	\$ 1,192.5	\$ 1,429.4

As of September 30, 2021, 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, 2021, 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. Principal amounts repaid on the Term Facility may not be reborrowed, and 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, 2021, there were no borrowings outstanding on the Revolving Facility, and we

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had \$14.1 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. At September 30, 2021, outstanding borrowings under the Credit Facilities accrue interest at LIBOR plus a margin of 1.250%, resulting in an interest rate of 1.34%. The Credit Facilities also 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, 2021, we were in compliance with all covenants.

As of September 30, 2021, we also have \$400.0 million outstanding of 3.200% Senior Notes due 2024 (the "3.200% Senior Notes"), \$400.0 million outstanding of 3.550% Senior Notes due 2027 (the "3.550% Senior Notes") and \$400.0 million outstanding of 3.500% Senior Notes due 2029 (the "3.500% Senior Notes", and all three senior notes 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, 2021, 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.

Defined Benefit 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 11 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, 2020.

Guarantor Financial Information

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. 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

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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.

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, 2021		Year ended December 31, 2020	
	Allegion plc	Allegion US Hold Co	Allegion plc	Allegion US Hold Co
Net revenues	\$ —	\$ —	\$ —	\$ —
Gross profit	—	—	—	—
Operating loss	(5.3)	(0.4)	(7.5)	(0.2)
Equity earnings in affiliates, net of tax	396.2	111.5	358.8	216.5
Transactions with related parties and subsidiaries ^(a)	(5.8)	(63.6)	(15.3)	(39.3)
Net earnings	370.2	47.0	314.3	164.7
Net earnings attributable to the entity	370.2	47.0	314.3	164.7

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

Selected Condensed Balance Sheet Information

<i>In millions</i>	September 30, 2021		December 31, 2020	
	Allegion plc	Allegion US Hold Co	Allegion plc	Allegion US Hold Co
Current assets:				
Amounts due from related parties and subsidiaries	\$ —	\$ 713.4	\$ —	\$ 20.0
Total current assets	20.6	750.0	19.0	38.7
Noncurrent assets:				
Amounts due from related parties and subsidiaries	—	1,240.9	—	1,644.2
Total noncurrent assets	1,792.7	1,324.8	1,793.3	1,671.8
Current liabilities:				
Amounts due to related parties and subsidiaries	\$ 33.0	\$ 233.4	\$ 197.5	\$ 183.9
Total current liabilities	282.1	247.5	204.4	190.7
Noncurrent liabilities:				
Amounts due to related parties and subsidiaries	516.4	2,624.3	507.3	2,463.9
Total noncurrent liabilities	914.0	3,427.7	1,143.2	3,267.3

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.

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Management believes there have been no significant changes during the nine months ended September 30, 2021, 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, 2020.

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: statements regarding the continued impacts of the global COVID-19 pandemic, supply chain constraints, electronic component and labor shortages, inflation, rising freight and material costs, 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:

- adverse impacts to our normal business operations due to the global COVID-19 pandemic;
- 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 that meet the varied and evolving needs of our customers;
- the demand for our products and services, including changes in customer and consumer preferences, and our ability to maintain beneficial relationships with large customers;
- our products or solutions fail to meet certification and specification requirements, are defective or otherwise fall short of customers' needs and expectations;
- 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;
- our ability to effectively manage and implement restructuring initiatives and other organizational changes;
- disruptions in our global supply chain, including supply chain constraints, electronic component and labor shortages, inflation and product manufacturing and logistical services provided by supplier partners;
- the effects of global climate change or other unexpected events, including global health crises, that may disrupt our operations;

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- 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;
- ability to recruit and retain a highly qualified and diverse workforce;
- 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, including the impact of work-from-home trends;
- fluctuations in currency exchange rates;
- 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;
- interest rate fluctuations and other changes in borrowing costs, in addition to risks associated with our outstanding and future indebtedness;
- 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;
- risks related to corporate social responsibility and reputational matters;
- the ability to protect our brand reputation and trademarks;
- 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;
- changes to, or changes in interpretations of, current laws and regulations;
- uncertainty and inherent subjectivity related to transfer pricing regulations;
- changes in tax requirements, including tax rate changes, the adoption of new tax legislation or exposure to additional tax liabilities and revised tax law interpretations; 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 and our Annual Report on Form 10-K for the fiscal year ended December 31, 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 2021. 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, 2020.

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

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September 30, 2021, 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 2021 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, 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, 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	94	\$ 138.31	94	\$ 401,445
August 1 - August 31	—	—	—	401,445
September 1 - September 30	—	—	—	401,445
Total	94	\$ 138.31	94	\$ 401,445

On February 6, 2020, our Board of Directors approved a share repurchase authorization of up to, and including, \$800 million of the Company’s ordinary shares (the “2020 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>
3.1	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).
31.1	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.
31.2	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.
32.1	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 21, 2021

/s/ Patrick S. Shannon

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

Date: October 21, 2021

/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, 2021;
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 21, 2021

/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, 2021;
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 21, 2021

/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, 2021 (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 21, 2021

/s/ Patrick S. Shannon

Patrick S. Shannon
Principal Financial Officer
October 21, 2021