



2016 Vertical Research Partners Industrial Conference

# 2016 Allegion Overview

## Pioneering Security Around the World

David D. Petratis, Chairman, President & CEO  
September 7, 2016

# Safe Harbor

This presentation contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding the Company's 2016 financial performance, the Company's growth strategy, the Company's capital allocation strategy, the Company's EMEIA strategy and the performance of the markets in which the Company operates. These forward-looking statements are based on the Company's currently available information and our current assumptions, expectations and projections about future events. They are subject to future events, risks and uncertainties – many of which are beyond our control – as well as potentially inaccurate assumptions that could cause actual results to differ materially from those in the forward-looking statements. Further information on these factors and other risks that may affect the Company's business is included in filings it makes with the Securities and Exchange Commission from time to time, including its Form 10-K for the year ended Dec. 31, 2015, Form 10-Qs for the quarters ended March 31, 2016 and June 30, 2016 and in its other SEC filings. The Company assumes no obligations to update these forward-looking statements.

This presentation also contains revenue, operating income, operating margin, EBITDA, EBITDA margin and diluted earnings per share (EPS) from continuing operations on both a U.S. GAAP basis and on an adjusted basis because the Company's management believes it may assist investors in evaluating the Company's ongoing operations. The Company believes these non-GAAP disclosures provide important supplemental information to management and investors regarding financial and business trends relating to the Company's financial condition and results of operations. Investors should not consider these non-GAAP measures as alternatives to the related GAAP measures. A reconciliation of the non-GAAP measures used to their most directly comparable GAAP measure is presented as an appendix to this presentation.

# Company Highlights



A leading global provider of security products and solutions



Serving residential and non-residential end markets



Strong brands with leading market positions



Industry-leading organic growth and EBITDA margins



High level of cash conversion performance



Broad distribution network



Balanced and flexible capital allocation strategy

# Global Reach

\$2,068 Million in 2015 Revenue

10,000+ Channel Partners

## AMERICAS

\$1,558.4 Million in 2015 Revenue

5,800+ Regional Employees

## EMEIA

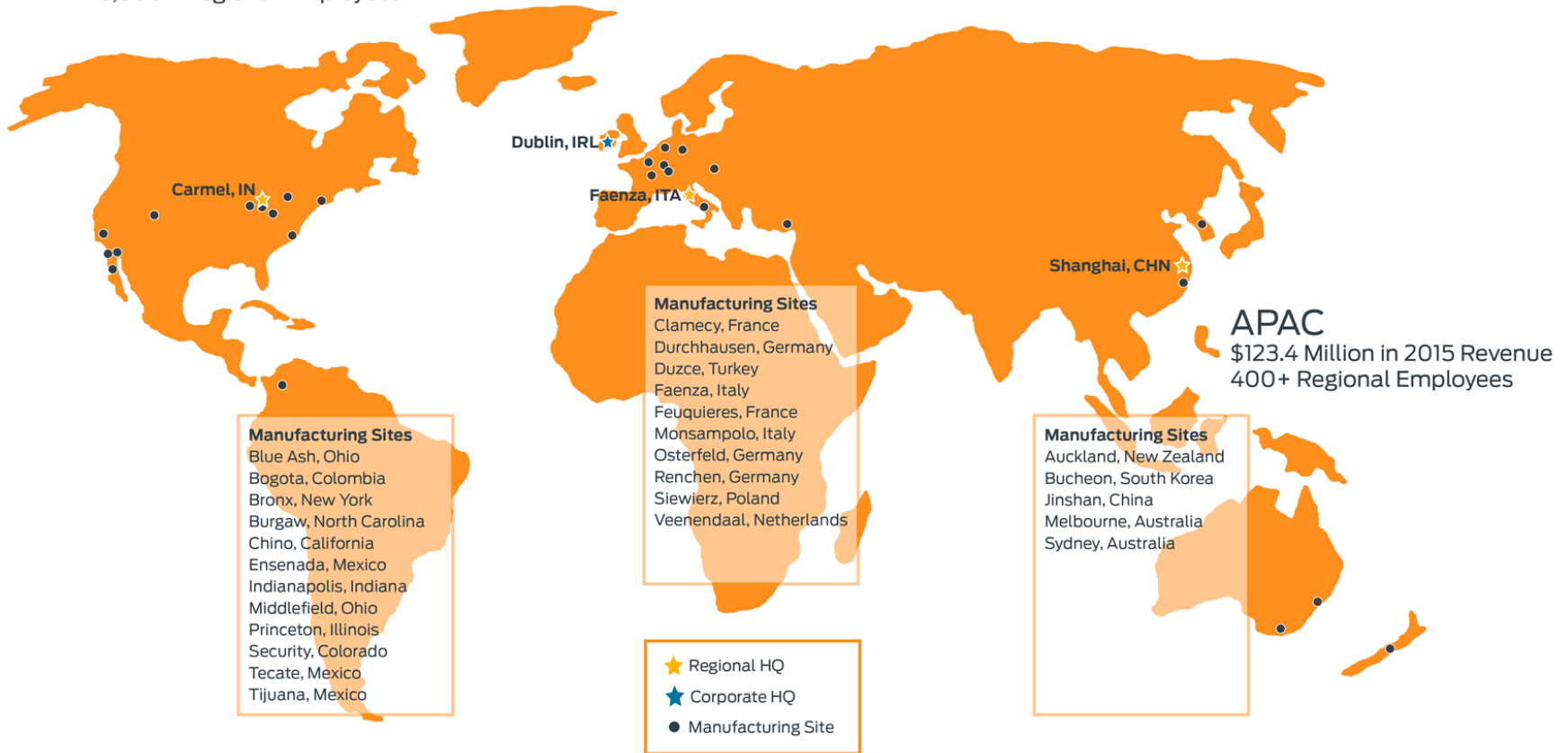
\$386.3 Million in 2015 Revenue

2,700+ Regional Employees

## APAC

\$123.4 Million in 2015 Revenue

400+ Regional Employees



# Our Brands

## Enterprise Brand



## Corporate Brands



A Long Legacy of Excellence

# What We Sell

## Secure the Door

- Exit devices
- Mechanical locks
- Key systems
- Electronic locks
- Readers
- Credentials
- Electronic strikes
- Doors and frames
- Hinges
- Accessories



## Control the Door

- Door closers
- Automatic operators
- Coordinators



## Protect the Door

- Kick plates
- Door pulls
- Edge guards



## Portable Security

- Padlocks
- Cable locks
- Bike locks



# Leading Electro-Mechanical Convergence

## Residential

1. AXA Remote 2.0 Window Opener
2. Milre Rim Lock 430 SD
3. Schlage (China) SEL 420 Electronic Anti-burglary Lock
4. Schlage Sense
5. Schlage Touch
6. Schlage Control

## Commercial

7. aptiQ Mobile
8. CISA eSIGNO
9. Interflex eVAYO WLAN Reader
10. Schlage AD-400
11. Schlage L909x
12. Schlage NDE with ENGAGE
13. SimonsVoss Smart Intego System
14. Von Duprin Quiet Electric Latch Retraction



# Key Strategies



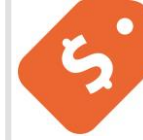
## Expand in Core Markets

- Channel management and demand creation
- Commercial retrofit and renovation
- Residential electronics and home automation adoption



## Innovation in Existing & New Product Categories

- Accelerate new product development / vitality index
- Growth of electronic product portfolio
- Global platforming



## Opportunistic Acquisitions

- Emerging markets
- Emerging technology
- Expand product portfolio



## Enterprise Excellence

- EMEIA transformation
- Enhanced customer experience and lead times
- Continuous improvement



## Growth in Emerging Markets

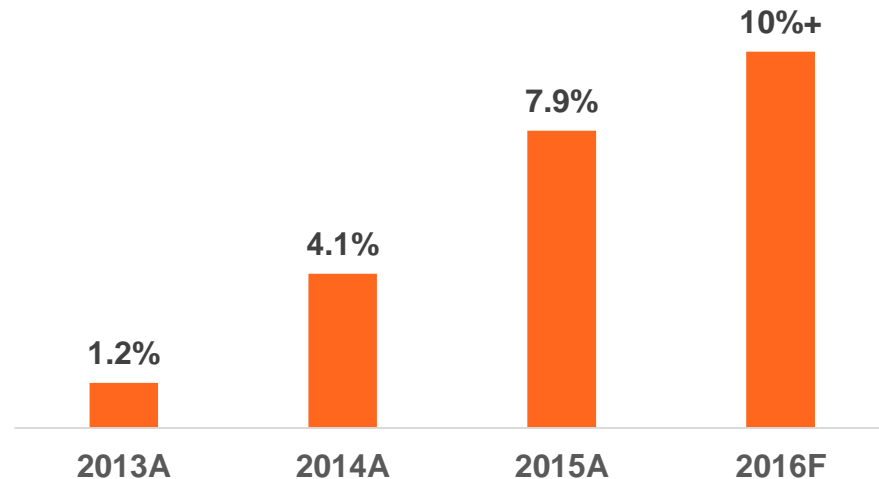
- Latin America
- Asia Pacific
- Investing in localized products and supply-chain capabilities

# EMEIA Business Transformation

## Restructuring / Transform Business

- Exited unprofitable business
- Resized regional headquarters
- Delivered operational efficiency
- Improved customer delivery/profitability

## EMEIA Adjusted<sup>1</sup> Operating Margin (%)



**Improved Operating Performance; Driving to Operating Margin >10%**

<sup>1</sup>See appendix for non-GAAP reconciliations

# Capital Allocation Strategy

## Leverage Management

- Target 2.75-3.25x of gross Debt/Adj. EBITDA
- June 30, 2016: 3.0x of gross Debt/Adj. EBITDA<sup>1</sup>
- Upgraded to investment grade by S&P during the second quarter 2016

### Organic Growth Investment

- Expand core portfolio and channel capability
- Accelerate new product development
- Enterprise excellence
- Self-funding

### M&A

- Product/market expansion and increased presence in emerging markets and technologies
- Disciplined approach to acquisition management

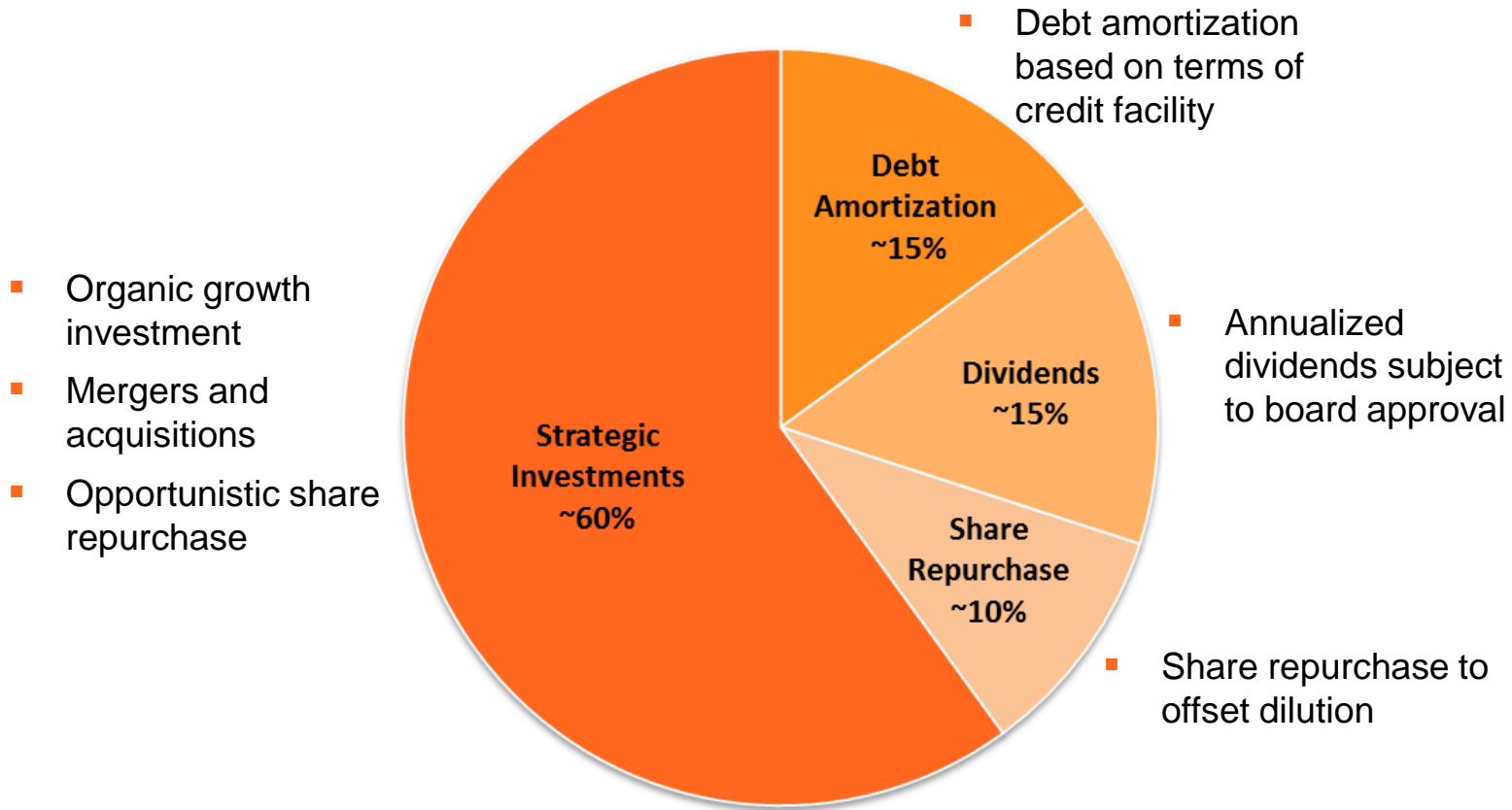
### Shareholder Distribution

- Q1 and Q2 2016 quarterly dividend \$0.12 per ordinary share; increased 20% versus 2015
- \$200 million share repurchase program announced. Executed \$110.3 million LTD

## Balanced & Flexible Capital Allocation Remains a Priority

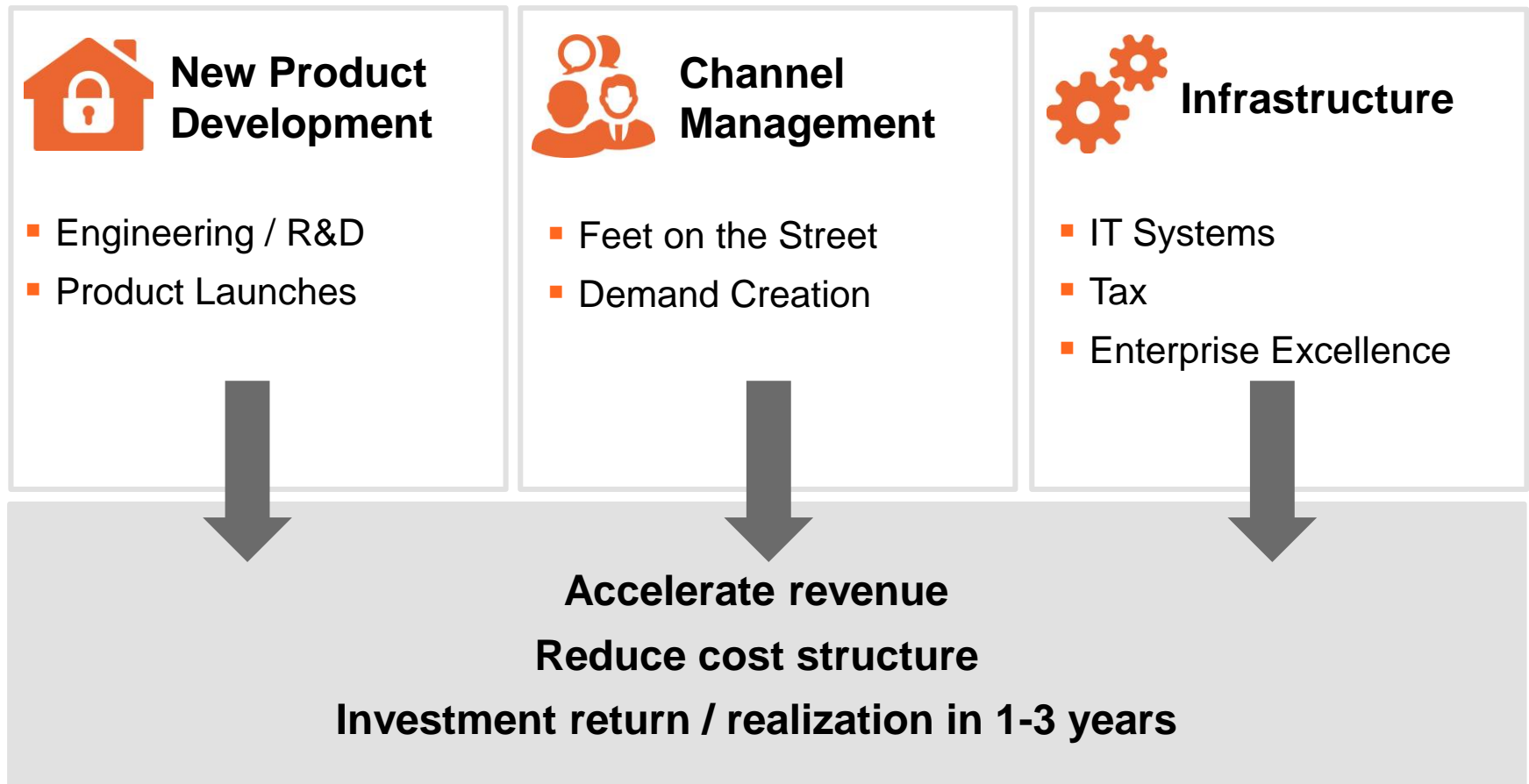
<sup>1</sup>Net Debt /Adjusted EBITDA of 2.7X as of June 30, 2016. See current and previous press releases for reconciliation of adjusted LTM EBITDA

# Capital Allocation Usage



**Significant Capital Available for Strategic Deployment**

# Organic Investments



**Standardized Process, Prioritization & Post-Implementation Review**

# M&A Platforms / Thresholds

## Platforms

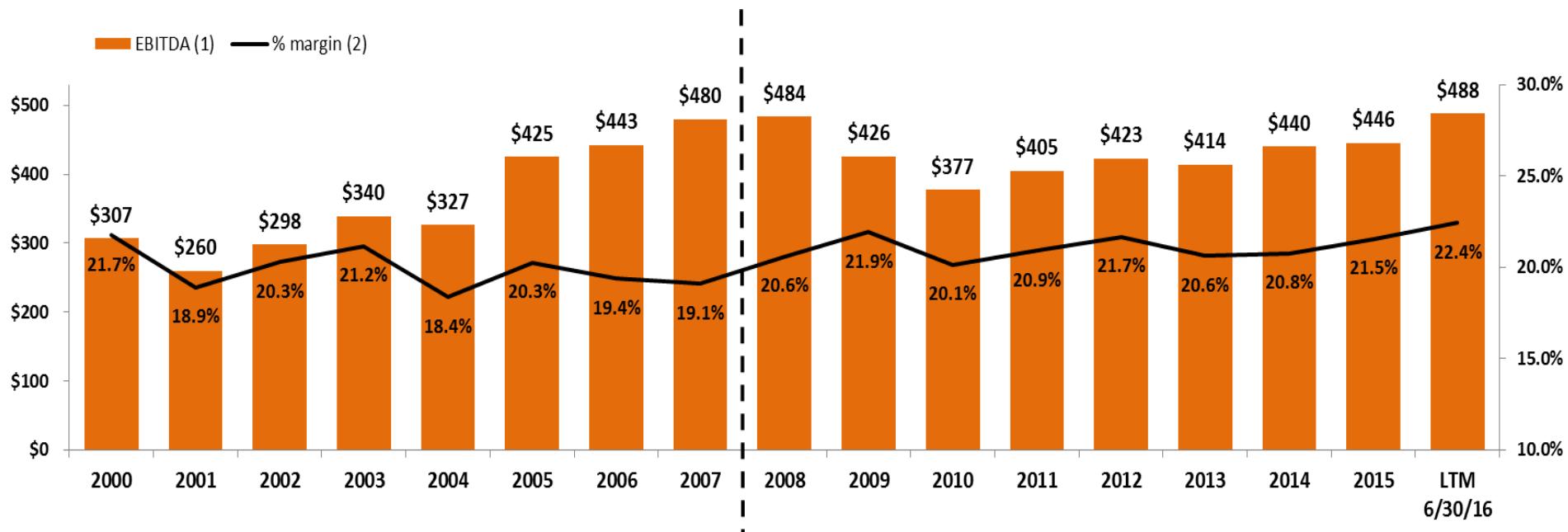


## Key Acquisition Criteria

- Aligned with strategic direction and in our core
  - Strong business and market fundamentals
  - Targets with leadership position and ability to scale
  - Clear synergy opportunities
- Return on Invested Capital >12% by year 3

**Focused & Disciplined Approach**

# Historical Adjusted EBITDA Margins



<sup>1</sup> Adjusted EBITDA defined as operating income plus depreciation and amortization, excluding discontinued operations, net of tax, other expense, net, goodwill impairment charges, gains on the sale of property, charges related to the devaluation of the Venezuelan bolivar, restructuring costs, acquisition expenses and costs incurred as part of our spin-off from Ingersoll Rand plc.

<sup>2</sup> Adjusted EBITDA Margin for 2008-2013 calculated using net revenue adjusted for Asia joint venture order flow change.

Adjusted EBITDA and margin presented prior to 2007 were derived from the Security & Safety or Security Technologies segments as reported in Ingersoll Rand's 10-K. These amounts do not reflect the impact of any divestitures that occurred after 2007, changes in accounting standards after 2007 or the impact of certain historical adjustments made to our financial results due to the spin-off from Ingersoll Rand.

2008-2013 net income is adjusted for LIFO to FIFO conversion.

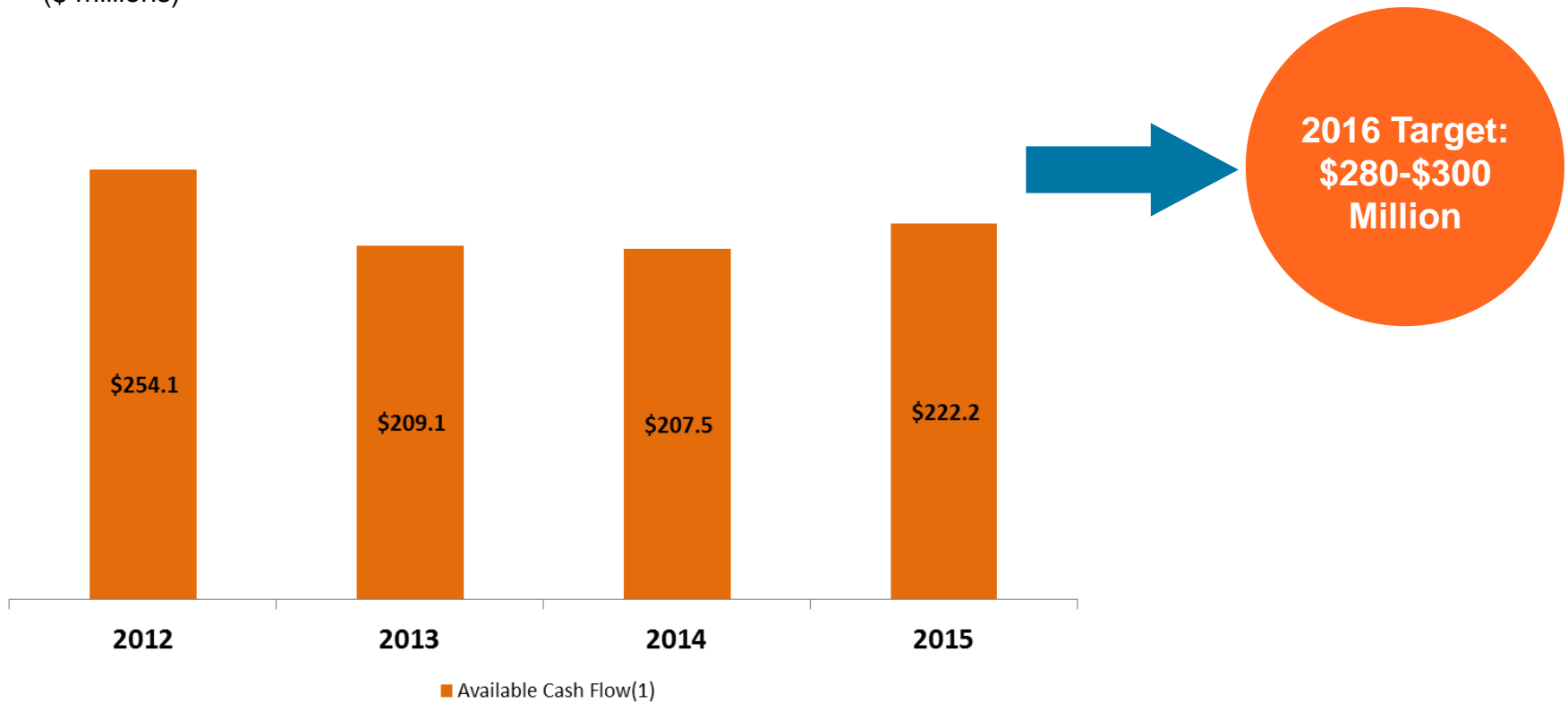
2009-2013 net revenues and net income are adjusted for the UK Door Business.

See appendix for reconciliation of GAAP net revenue and net income to adjusted revenue and adjusted EBITDA.

**Consistent EBITDA Margin Performance**

# Strong Cash Flow Generation

(\$ millions)



**Stable & Consistent Cash Generation**

<sup>1</sup>ACF is cash from continuing operating activities less capital expenditures

# Summary

- Executing strategy, delivering on commitments
- Delivering solid organic revenue growth
- Implementing successful M&A integrations
- Increasing operating margins net of incremental investments
- Continuing to invest in new products and channel development
- Driving EMEIA transformation to improve profitability
- High level of cash conversion performance



# Appendix

# Adjusted EBITDA Reconciliation

(in USD Millions)

	2008	2009	2010	2011	2012	2013	2014	2015	LTM 6/30/16
<b>Revenue</b>	<b>\$ 2,413.9</b>	<b>\$ 2,006.7</b>	<b>\$ 1,942.4</b>	<b>\$ 1,998.3</b>	<b>\$ 2,023.3</b>	<b>\$ 2,069.6</b>	<b>\$ 2,118.3</b>	<b>\$ 2,068.1</b>	<b>\$ 2,177.0</b>
Asia Joint Venture Revenue	(65.3)	(64.5)	(68.9)	(58.6)	(78.0)	(52.0)	0.0	0.0	0.0
<b>Adjusted Revenue</b>	<b>2,348.6</b>	<b>1,942.2</b>	<b>1,873.5</b>	<b>1,939.7</b>	<b>1,945.3</b>	<b>2,017.6</b>	<b>2,118.3</b>	<b>2,068.1</b>	<b>2,177.0</b>
<b>Net Income</b>	<b>(76.4)</b>	<b>175.6</b>	<b>194.1</b>	<b>218.9</b>	<b>220.1</b>	<b>32.3</b>	<b>175.2</b>	<b>153.9</b>	<b>197.2</b>
<i>Adjustments to arrive at operating income:</i>									
Income tax provision	145.0	144.2	126.8	130.7	136.7	175.0	84.2	54.6	60.4
Interest expense (income), net	(1.1)	1.2	1.8	1.4	1.5	10.2	53.8	52.9	62.8
Other (income) / expense	(0.7)	14.9	(3.5)	(4.6)	3.1	7.2	4.6	96.4	75.5
Noncontrolling interest	0.4	12.4	6.7	6.3	5.7	12.5	(2.6)	0.4	2.6
Discontinued operations	(0.6)	1.3	1.1	6.3	4.2	3.6	11.1	0.4	0.1
<b>Operating Income</b>	<b>66.4</b>	<b>349.6</b>	<b>327.1</b>	<b>359.1</b>	<b>371.3</b>	<b>240.8</b>	<b>326.3</b>	<b>358.6</b>	<b>398.7</b>
<i>% margin (Unadjusted Revenue)</i>	<i>2.8%</i>	<i>17.4%</i>	<i>16.8%</i>	<i>18.0%</i>	<i>18.4%</i>	<i>11.6%</i>	<i>15.4%</i>	<i>17.3%</i>	<i>18.3%</i>
Restructuring and Other Costs	13.1	25.2	3.0	0.3	8.2	5.8	7.1	16.1	21.6
Spin Costs	0.0	0.0	0.0	0.0	0.0	5.8	29.3	0.0	0.0
M&A Costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	17.8	10.3
Goodwill Impairment	356.8	5.0	0.0	0.0	0.0	137.6	0.0	0.0	0.0
Gain on Property Sale	0.0	0.0	0.0	0.0	0.0	(21.5)	0.0	0.0	0.0
Venezuela Inventory Impairment	0.0	0.0	0.0	0.0	0.0	0.0	33.3	4.2	0.0
<b>Adjusted Operating Income</b>	<b>436.3</b>	<b>379.8</b>	<b>330.1</b>	<b>359.4</b>	<b>379.5</b>	<b>368.5</b>	<b>396.0</b>	<b>396.7</b>	<b>430.6</b>
<i>% margin (Adjusted Revenue)</i>	<i>18.6%</i>	<i>19.6%</i>	<i>17.6%</i>	<i>18.5%</i>	<i>19.5%</i>	<i>18.3%</i>	<i>18.7%</i>	<i>19.2%</i>	<i>19.8%</i>
Depreciation & amortization	47.5	46.0	47.3	46.0	43.8	45.7	44.2	48.8	57.5
<b>Adjusted EBITDA</b>	<b>\$ 483.8</b>	<b>\$ 425.8</b>	<b>\$ 377.4</b>	<b>\$ 405.4</b>	<b>\$ 423.3</b>	<b>\$ 414.2</b>	<b>\$ 440.2</b>	<b>\$ 445.5</b>	<b>\$ 488.1</b>
<i>% margin (Adjusted Revenue)</i>	<i>20.6%</i>	<i>21.9%</i>	<i>20.1%</i>	<i>20.9%</i>	<i>21.7%</i>	<i>20.6%</i>	<i>20.8%</i>	<i>21.5%</i>	<i>22.4%</i>

# EMEIA Adjusted Operating Income Non-GAAP Reconciliation

	Year Ended December 31, 2013		Year Ended December 31, 2014		Year Ended December 31, 2015	
	As Reported	Margin	As Reported	Margin	As Reported	Margin
<b>EMEIA</b>						
Net revenues	\$ 425.3		\$ 393.4		\$ 386.3	
Operating income (GAAP)	\$ (140.7)	(33.1%)	\$ 4.9	1.2%	\$ 8.6	2.2%
Restructuring charges	\$ 5.7	1.3%	\$ 6.7	1.7%	\$ 14.8	3.8%
Spin-off related and other charges	\$ 2.4	0.6%	\$ 4.5	1.2%	\$ 0.5	0.2%
Goodwill impairment charge	\$ 137.6	32.4%	\$ -	-	\$ -	-
Merger and acquisition costs	\$ -	-	\$ -	-	\$ 6.5	1.7%
<b>Adjusted operating income</b>	<b>\$ 5.0</b>	<b>1.2%</b>	<b>\$ 16.1</b>	<b>4.1%</b>	<b>\$ 30.4</b>	<b>7.9%</b>

*Note: The 2013 results reflects business as originally reported. The 2014 and 2015 results reflect the divestiture of the UK Door Business.*



## About Allegion™

Allegion (NYSE: ALLE) is a global pioneer in safety and security, with leading brands like CISA®, Interflex®, LCN®, Schlage®, SimonsVoss® and Von Duprin®. Focusing on security around the door and adjacent areas, Allegion produces a range of solutions for homes, businesses, schools and other institutions. Allegion is a \$2 billion company, with products sold in almost 130 countries.

NYSE: ALLE

© 2016 Allegion plc. All rights reserved.