



# Allegion Fourth-Quarter 2018 Results

February 19, 2019

# Forward-Looking Statements

This presentation contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934, including statements regarding the Company's 2019 financial performance, the Company's growth strategy, the Company's capital allocation strategy, the Company's tax planning strategies, and the performance of the markets in which the Company operates. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "forecast," "outlook," "intend," "strategy," "future," "opportunity," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," or the negative thereof or variations thereon or similar expressions generally intended to identify forward-looking statements. Forward-looking statements are based on the Company's currently available information and our current assumptions, expectations and projections about future events. They are subject to future events, risks and uncertainties - many of which are beyond the Company's control - as well as potentially inaccurate assumptions, that could cause actual results to differ materially from those in the forward-looking statements. Further information on these factors and other risks that may affect the Company's business is included in filings it makes with the Securities and Exchange Commission from time to time, including its Form 10-K for the year ended Dec. 31, 2018, Form 10-Q for the quarters ended March 31, 2018, June 30, 2018, and Sept. 30, 2018, and in its other SEC filings. The Company undertakes no obligation to update these forward-looking statements.

# Reconciliation of Non-GAAP Measures

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

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

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

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

# 2018 Fourth Quarter / Full-Year Update

## Strong Revenue Growth

Strong double-digit total top-line growth (12.7%) and organic growth (6.7%) in the quarter – with strength across all regions

## Electronics

Americas electronics growth of ~7% in the quarter; Strong full-year growth of high-teens

## Healthy End Markets

Non-residential U.S. end markets remain healthy – continued strength in institutional verticals; Residential new construction softening, mitigated by strength in electronics

## Price / Productivity / Inflation

Continued inflationary pressures experienced in Q4; plans in place to mitigate in 2019

## EPS Performance

Adjusted EPS growth at nearly 10% in the quarter and ~14% for the full-year

## Substantial ACF Growth

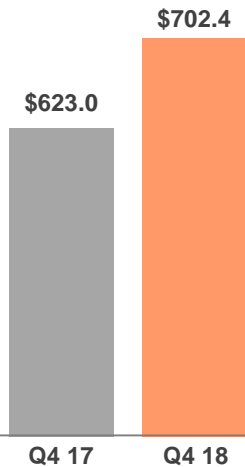
Full-year available cash flow of \$408.7 million, an increase of ~37%

# Fourth-Quarter Financial Summary

## Revenue

\$Millions

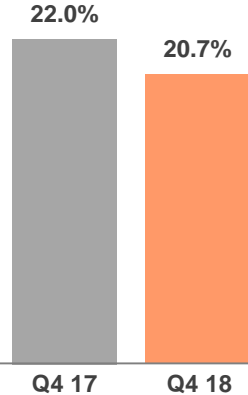
Up  
12.7%



- Organic growth up 6.7%
- Solid organic growth in all regions

## Adjusted OI Margin<sup>1</sup>

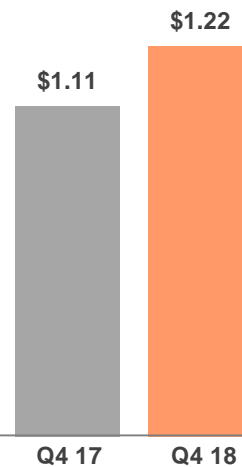
Down  
130 bps



- 2018 acquisitions dilutive to overall margins
- Adj. OI margins up +20 bps excl. 2018 acquisitions

## Adjusted EPS<sup>1</sup>

Up  
9.9%

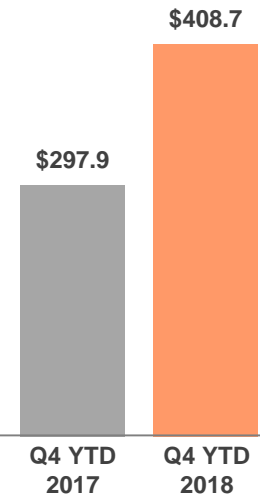


- Adjusted operating income up +5.9%
- Favorable year-over-year tax rate

## YTD ACF

\$Millions

Up  
37.2%



- Increased earnings
- \$50M discretionary pension funding in PY

**Strong Top-line Growth with ~10% EPS Growth**

# Connected Home Innovation

## Schlage Encode™

Next generation smart lock (presale)

The first-ever Wi-Fi-enabled deadbolt to work directly with Key by Amazon app and Ring devices

- Built-in Wi-Fi connectivity (no hub required)
- Secure, remote access from anywhere
- Amazon Cloud Cam delivery monitoring
- Voice assisted
- Ring app locking / unlocking

## Schlage Connect™ expands its reach

- Z-Wave Plus enhancement
- Zigbee-certified

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# Fourth-Quarter 2018 Allegion Revenue Results

<u>Q4 18</u>		<u>Q4 18</u> <u>Reported</u> <u>Growth</u>	<u>Q4 18</u> <u>Organic</u> <sup>1</sup> <u>Growth</u>	<u>FY 18</u> <u>Reported</u> <u>Growth</u>	<u>FY 18</u> <u>Organic</u> <sup>1</sup> <u>Growth</u>	
Price	1.5%	Americas	13.0%	7.6%	12.5%	6.8%
Volume	5.2%	EMEIA	4.4%	4.3%	12.7%	3.7%
<b>Organic</b>	<b>6.7%</b>	Asia Pacific	44.9%	4.6%	30.7%	3.1%
Acquisitions	7.3%					
Currency	-1.3%					
<b>Total</b>	<b>12.7%</b>	<b>Total Allegion</b>	<b>12.7%</b>	<b>6.7%</b>	<b>13.4%</b>	<b>6.0%</b>

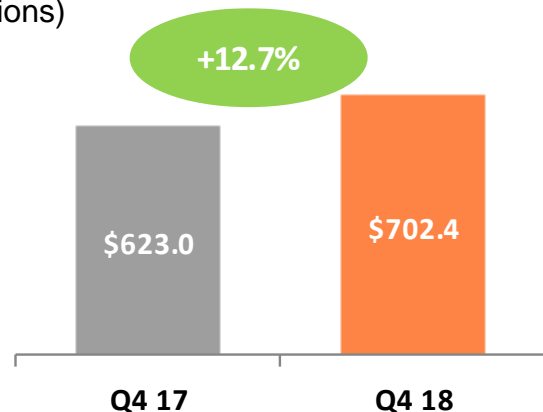
**Double-Digit Top-line Growth; Solid Organic Growth in all Regions**

<sup>1</sup> Organic excludes acquisitions and currency impacts

# Fourth-Quarter 2018 Allegion Results

## Revenue

(\$millions)

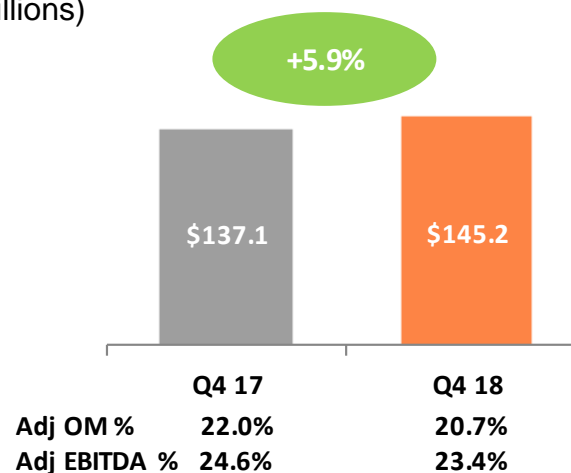


### Q4 Revenue Performance

- Total growth +12.7%; Organic growth +6.7%
- Solid volume in all three regions
- Acquisitions added \$45.8M or +7.3% growth
- Currency headwinds of (\$7.9M) or -1.3%

## Adjusted Operating Income<sup>1</sup>

(\$millions)



### Q4 Adjusted Operating Margin -130bps

- Margin declines primarily attributable to 2018 acquisitions which were dilutive to adjusted operating margins by 150 bps
- Inflation exceeded price and productivity; 70 bps margin dilution
- Incremental investments were a 40 bps headwind
- Strong volume leverage and positive mix



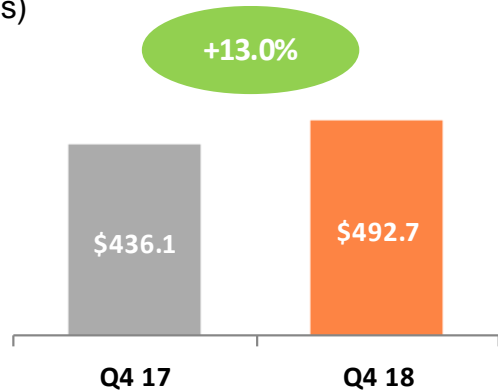
# Fourth-Quarter 2018 Allegion EPS Performance



# Fourth-Quarter 2018 Americas Results

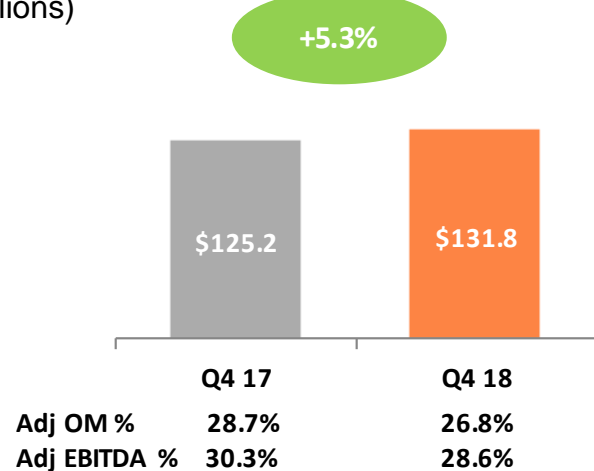
## Revenue

(\$millions)



## Adjusted Operating Income<sup>1</sup>

(\$millions)



### Q4 Revenue Performance

- Total revenue growth +13%; Organic growth +7.6%
- Year-over-year growth in electronics of ~7%; full-year electronics growth of high-teens
- Solid price realization +1.5%
- Low-double digit growth in non-residential (ex-acquisitions) and flat growth in residential

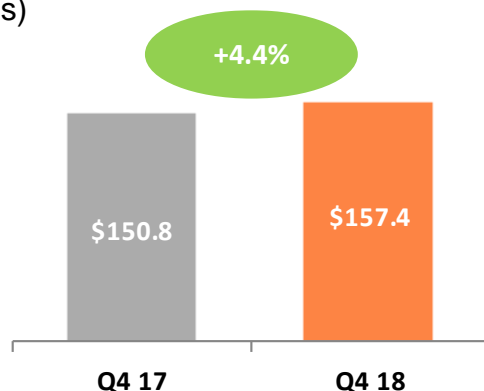
### Q4 Adjusted Operating Margin -190bps

- 2018 acquisitions dilutive to adjusted margins 120 bps; in-line with expectations
- Inflation and incremental investments exceeding price plus productivity
- Volume leverage and positive mix partially offsetting impacts above

# Fourth-Quarter 2018 EMEIA Results

## Revenue

(\$millions)

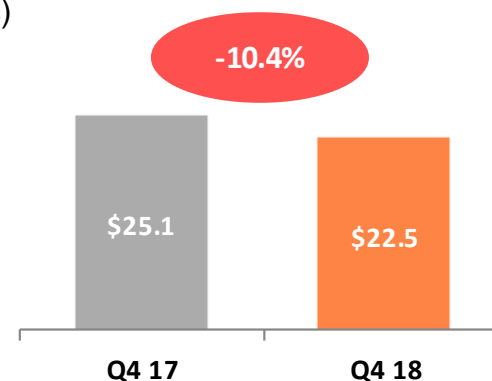


### Q4 Revenue Performance

- Total revenue growth +4.4%; Organic growth +4.3%
- Solid price and favorable volume driven by the SimonsVoss and Interflex businesses
- Acquisitions offset FX headwinds

## Adjusted Operating Income<sup>1</sup>

(\$millions)



	Q4 17	Q4 18
Adj OM %	16.6%	14.3%
Adj EBITDA %	21.7%	19.3%

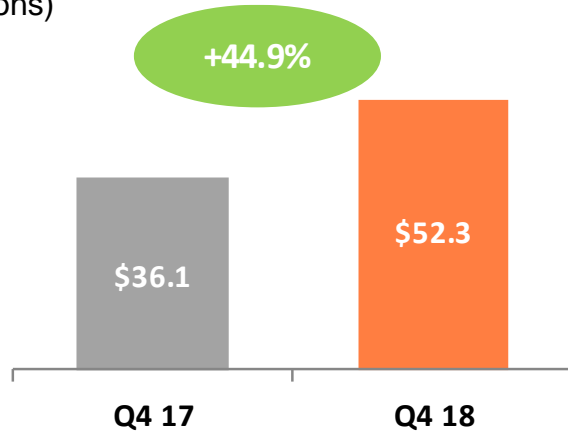
### Q4 Adjusted Operating Margin -230bps

- Margin declines primarily attributable to 2018 acquisitions which were dilutive to adjusted margins by 220 bps
- Operating loss of \$2.8 million at QMI (2018 acquisition)
- Inflation and incremental investments exceeding price plus productivity
- Strong volume leverage partially offsetting impacts above

# Fourth-Quarter 2018 Asia-Pacific Results

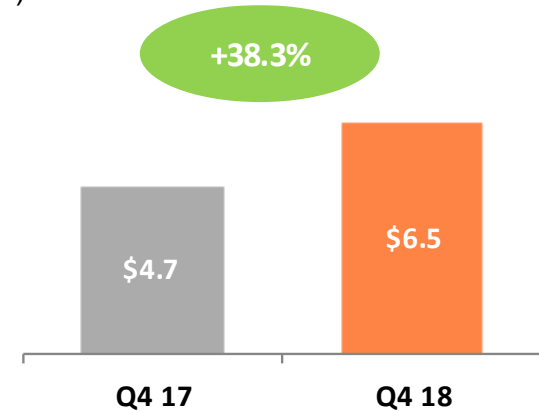
## Revenue

(\$millions)



## Adjusted Operating Income<sup>1</sup>

(\$millions)



Adj OM %	13.0%	12.4%
Adj EBITDA %	15.0%	14.7%

### Q4 Revenue Performance

- Total revenue growth +44.9%; Organic growth +4.6%
- Total growth driven by acquisitions and favorable volume offsetting FX headwinds

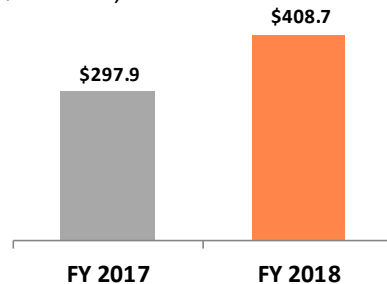
### Q4 Adjusted Operating Margin -60bps

- Margin declines primarily attributable to 2018 acquisitions which were dilutive to adjusted margins by 180 bps
- Productivity more than exceeds inflation and investments
- Volume leverage offset negative mix

# Fourth-Quarter 2018 Allegion ACF

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

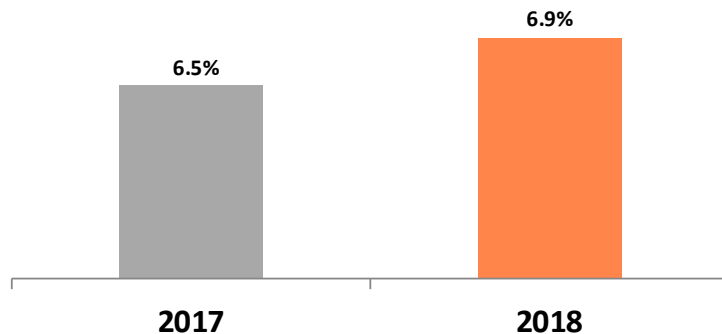
(\$millions)



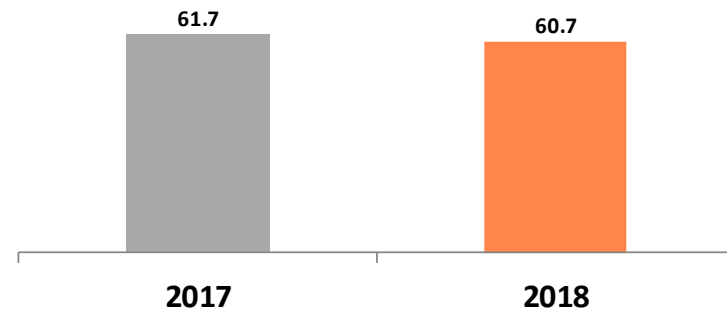
- Increase in ACF is primarily driven by higher earnings and the Q1 2017 \$50 million discretionary pension funding

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

### FY Working Capital % of Revenue






### FY Cash Conversion Cycle



**Exceeded Full-Year ACF Outlook Range of \$380–\$400 Million**

<sup>1</sup> Net cash from operating activities less capital expenditures  
<sup>2</sup> Working capital defined as accounts receivable plus inventories less accounts payable and other accrued expenses (calculated using 4pt quarter end WC average)  
<sup>3</sup> CCC = DSO + Inventory Days - DPO (calculated using 4pt quarter average)  
 See press release for non-GAAP reconciliations

# Full-Year 2019 Allegion Revenue Outlook

Region	Revenue Projection <sup>1</sup>	Markets
<b>Americas</b> 	Total: 5% to 6% Organic: 5% to 6%	<ul style="list-style-type: none"> <li>Continued strength in non-residential verticals, led by institutional</li> <li>Residential new construction softening mitigated by strength in electronics</li> <li>Electronics projected to outpace mechanical, with continued momentum in the residential market</li> </ul>
<b>EMEIA</b> 	Total: Flat to 2% Organic: 2.5% to 4.5%	<ul style="list-style-type: none"> <li>Electronics projected to outpace mechanical</li> <li>Currency headwinds offsetting organic growth</li> </ul>
<b>Asia Pacific</b> 	Total: 22% to 24% Organic: 4% to 6%	<ul style="list-style-type: none"> <li>Australia-New Zealand end markets softening</li> <li>Electronics projected to outpace mechanical</li> <li>Total growth includes full-year acquisition impact of Gainsborough Hardware and API</li> </ul>
<b>Total</b>	Total: 5% to 6% Organic: 5% to 6%	<ul style="list-style-type: none"> <li>Solid volume growth and price realization</li> <li>Acquisitions offset by FX headwinds</li> </ul>

**Key End-Markets and Electronics Drive Continued Strength in Organic Growth**

# Full-Year 2019 Allegion EPS Outlook

<b>2018 Reported EPS</b>	<b>\$4.54</b>
Adjustments <sup>1</sup>	(\$0.04)
<b>2018 Adjusted EPS</b>	<b>\$4.50</b>
Operational Improvements (Growth / OPEX / FX)	\$0.62 to \$0.77
Investments	~(\$0.15)
Interest Expense	(\$0.01)
Other Income	(\$0.07)
Tax Rate	(\$0.15)
Share Count	\$0.01
<b>2019 Adjusted EPS</b>	<b>\$4.75 to \$4.90</b>
Adjustments <sup>2</sup>	~(\$0.15)
<b>2019 Reported EPS</b>	<b>\$4.60 to \$4.75</b>

**Adj. Op. Income EPS impact**  
 +\$0.47 to \$0.62 or  
 ~10% to 14%

## Assumptions and Notes:

- Full-year effective tax rate assumption of approximately 16%
- Average diluted share count for the full year of approximately 95.5 million shares
- Other Income decline driven primarily by pension expense

**Adj. EPS Growth of ~6% to 9%; ACF \$430–\$450 Million**

# Summary

- Delivered strong 2018 full-year organic revenue growth of 6%
  - Strong electronics growth
- Full year adjusted EPS of \$4.50, up nearly 14% compared to prior year
- Strong cash generation of \$408.7 million, increased ~37%
- Continue to execute on flexible capital allocation strategy
- For 2019, forecasting continued growth in revenue and earnings and continued strong ACF performance
  - Total revenue growth 5% to 6%
  - Organic revenue growth 5% to 6%
  - Margin expansion anticipated in all regions
  - Reported EPS \$4.60 to \$4.75
  - Adjusted EPS \$4.75 to \$4.90; Increase of ~6% to 9%
  - ACF \$430–\$450 million

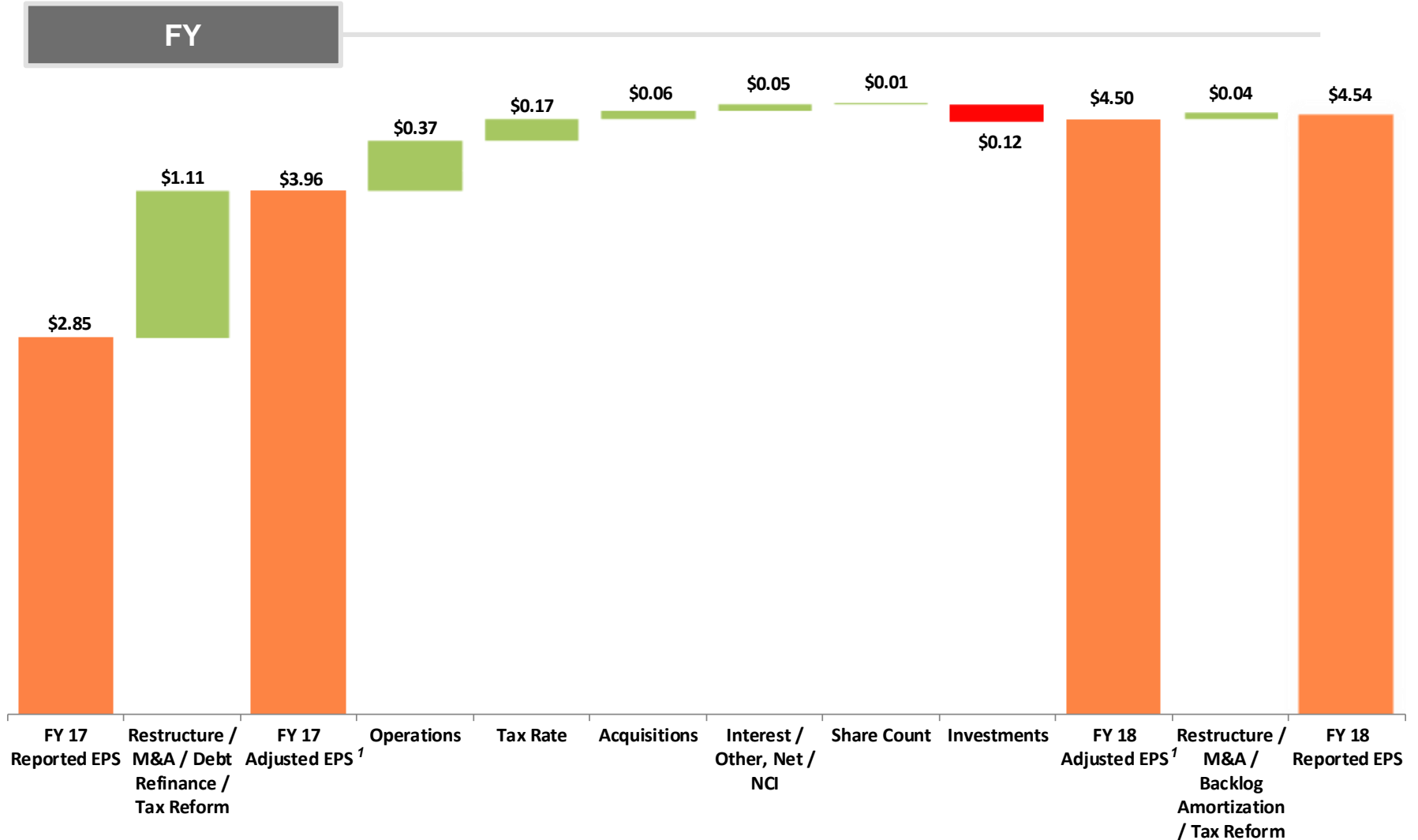
**Delivered on 2018 Commitments;  
Positioned Well for 2019**





# Appendix

# Full-Year 2018 Allegion EPS Performance





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