



**ALLEGION™**

PIONEERING SAFETY

# Fourth-Quarter 2021

## Financial Results

February 15, 2022

# 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 continued impacts of the global COVID-19 pandemic, supply chain constraints, electronic component and labor shortages, inflation, rising freight and material costs, the Company's 2022 financial performance, the Company's business plans and strategy, 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 may relate to such matters as 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 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, 2021, Form 10-Q for the quarters ended March 31, 2021, June 30, 2021, and Sept. 30, 2021, 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 and 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 on a non-GAAP basis, and adjusted EBITDA and adjusted EBITDA margin (both non-GAAP measures). 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, indefinite-lived trade name and other asset impairment charges, restructuring charges, acquisition and integration costs, debt refinancing costs, gains or losses related to the divestiture of businesses or equity method investments and significant non-operating investment gains or losses.
- 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).

# Business Review

## *Market / Demand*

Continued strength in market demand; leading indicators across all market segments remain positive (specifications, ABI, Dodge, retail POS, etc.)

## *Supply Chain / Electronics*

Good progress on product redesign and alternative sourcing; revenue constrained in the near term; electronic component challenges expected to continue throughout 2022

## *Price vs Cost*

Higher inflationary costs and operational inefficiencies continued; pricing lagged inflation; additional price increases in Q4-2021 and Q1-2022; pricing expected to exceed inflation in 2022

## *Allegion International*

Allegion International business completed a strong year in organic revenue<sup>1</sup> growth and operating margins

## *2022 Outlook*

Record backlog and market demand support high organic revenue<sup>1</sup> growth in 2022; operating margin expansion expected; will exit 2022 with a glide path to peak performance

# Fourth-Quarter 2021 Financial Summary

## Revenue<sup>1</sup> \$Millions

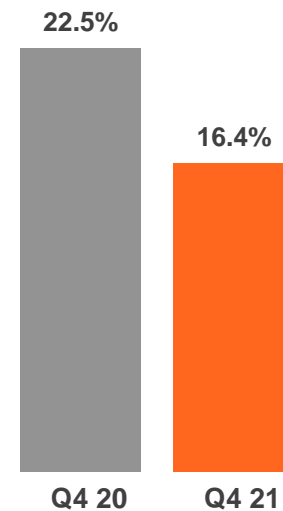
**-2.5%**



- Organic revenue decline of 1.4%
- Lower volume due to continued electronic and other component shortages in the Americas region
- Highest quarter of price realization in 2021

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

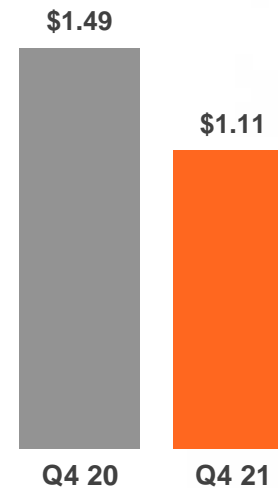
**-610 bps**



- Margin decline driven by continued inflationary pressures, productivity challenges, volume de-leverage
- Incremental investments were an 80-bps headwind

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

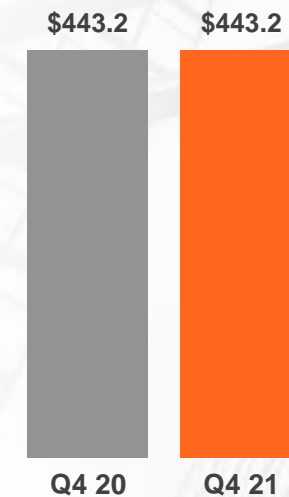
**-25.5%**



- Adjusted operating income down 28.9%
- Unfavorable adjusted operating income, partially offset by favorable tax, share count and interest/other

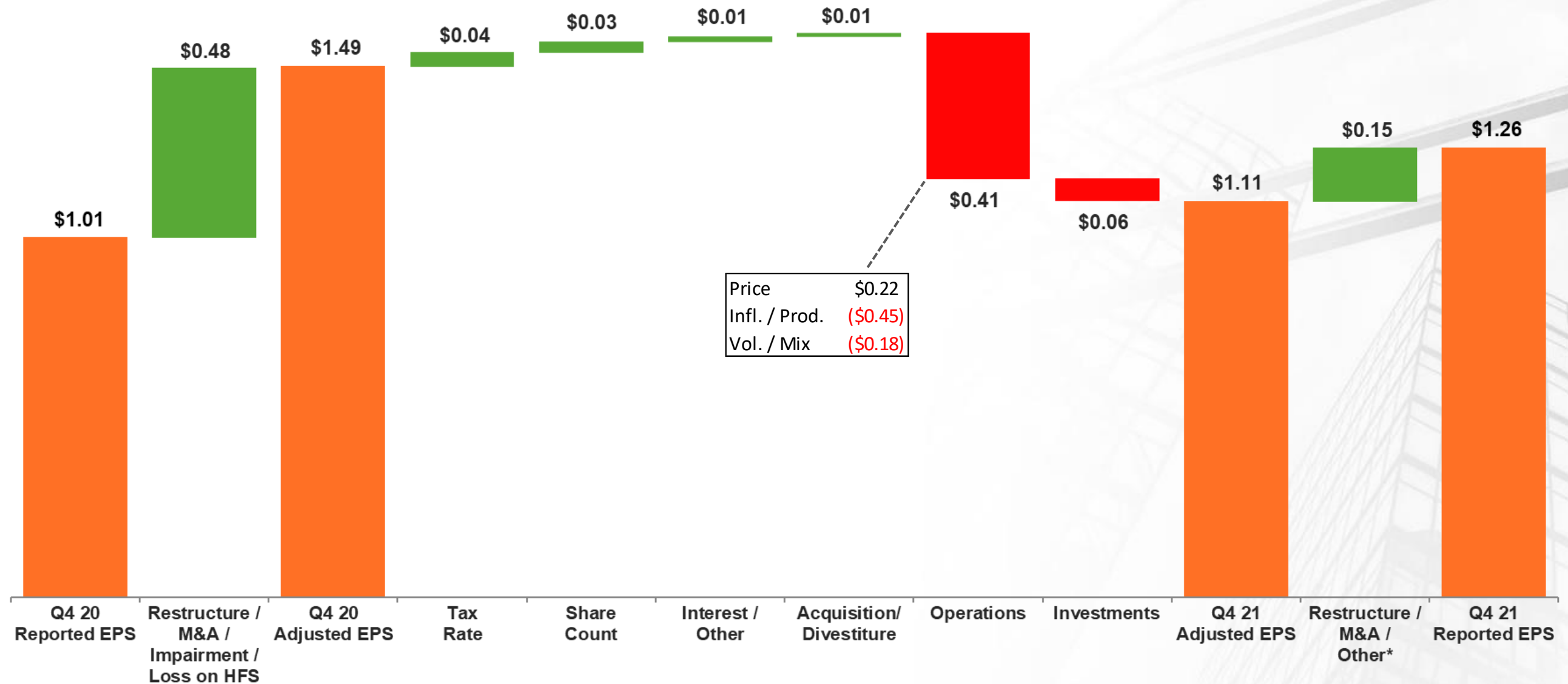
## YTD ACF<sup>1</sup> \$Millions

**Flat**

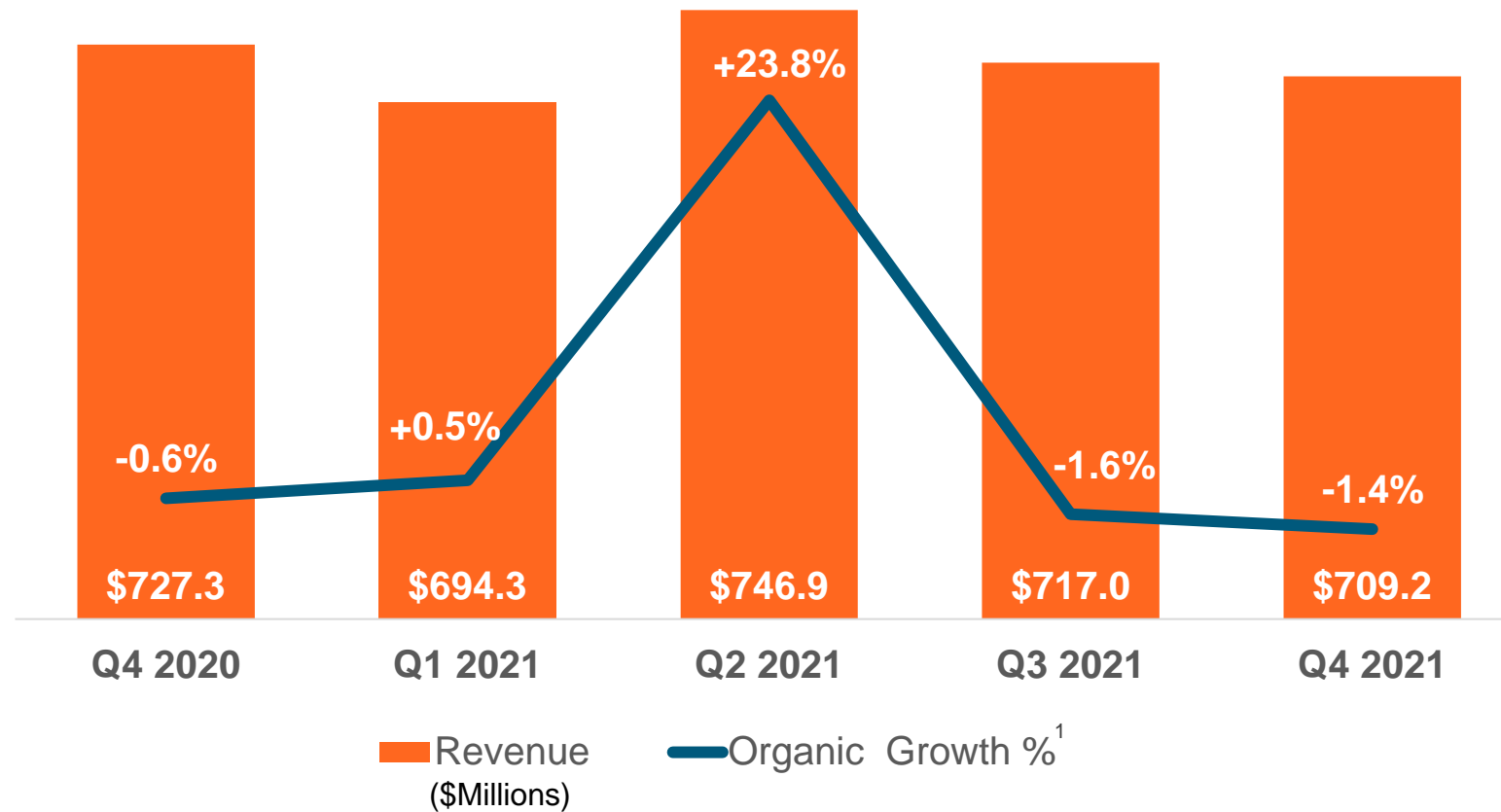


- Lower adjusted net earnings
- Lower capital expenditures
- Increased inventory build offset by other working capital items

# Fourth-Quarter 2021 Allegion EPS Performance



# Fourth-Quarter 2021 Revenue Results

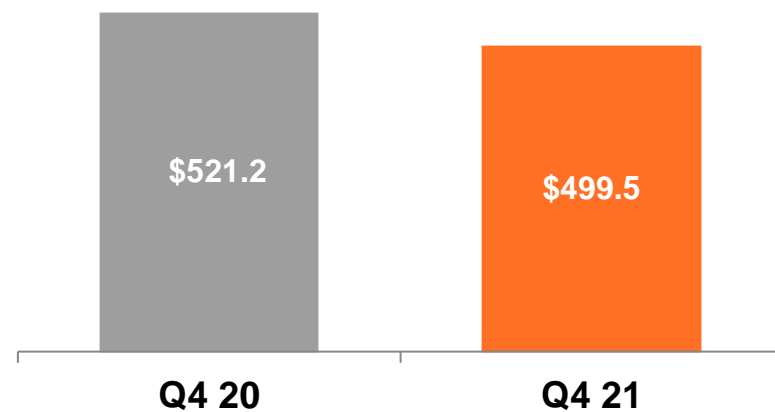


|                        | <u>Q4'21</u><br><u>Reported</u><br><u>Growth</u> | <u>Q4'21</u><br><u>Organic</u> <sup>1</sup><br><u>Growth</u> | <u>FY'21</u><br><u>Reported</u><br><u>Growth</u> | <u>FY'21</u><br><u>Organic</u> <sup>1</sup><br><u>Growth</u> |
|------------------------|--|--|--|--|
| Allegion Americas      | -4.2%  | -4.3%  | +2.8%  | +2.4%  |
| Allegion International | +1.7%  | +5.8%  | +13.1%   | +10.4%   |
| <b>Total</b>           | <b>-2.5%</b>                                     | <b>-1.4%</b>   | <b>+5.4%</b>                                     | <b>+4.5%</b>   |

| Q4 2021      |               |                             |                |                 |              |
|--------------|---------------|-----------------------------|----------------|-----------------|--------------|
| <u>Price</u> | <u>Volume</u> | <u>Organic</u> <sup>1</sup> | <u>Acq/Div</u> | <u>Currency</u> | <u>Total</u> |
| +3.1%        | -4.5%         | -1.4%                       | -0.3%          | -0.8%           | -2.5%        |

# Fourth-Quarter 2021 Allegion Americas Results

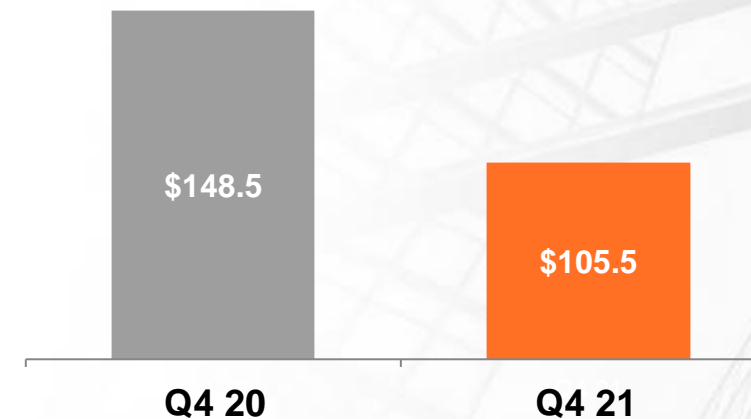
## Revenue<sup>1</sup> \$Millions -4.2%



### Q4 Revenue Performance

- Organic revenue decline of 4.3%
- Sequential improvement on price; lagged inflation
- Non-residential business up low-single digits as favorable pricing offset negative volume constrained by supply chain
- Residential business down mid-teens due to tough comparison from large channel load-in
- Electronics down low-twenties due to continued component shortages and prior year residential channel load-in

## Adjusted Operating Income<sup>1</sup> \$Millions -29.0%



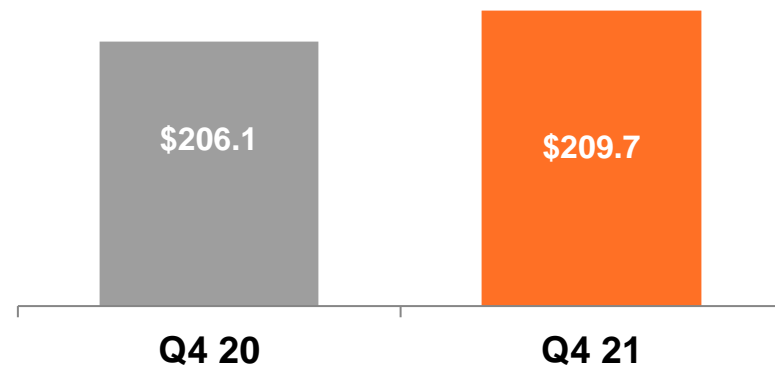
|               | Q4 20 | Q4 21 |
|---------------|-------|-------|
| Adj OP Margin | 28.5% | 21.1% |
| Adj EBITDA %  | 30.2% | 22.9% |

### Q4 Adjusted Operating Margin -740 bps

- Margin decline driven by continued inflationary pressures, productivity challenges, volume de-leverage
- Incremental investments were a 90-bps headwind

# Fourth-Quarter 2021 Allegion International Results

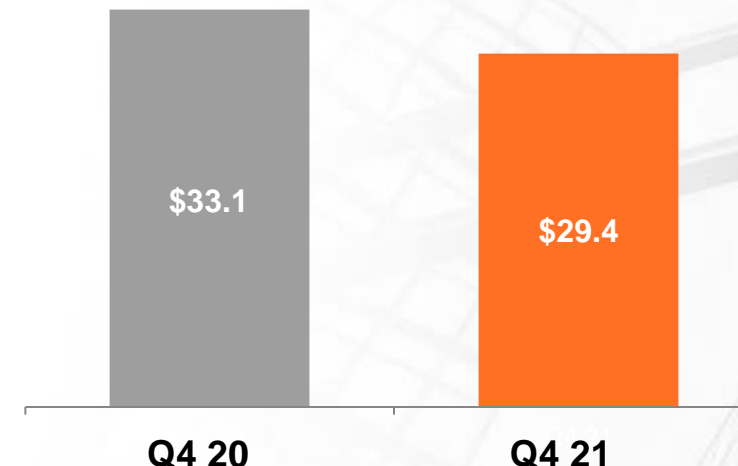
## Revenue<sup>1</sup> \$Millions +1.7%



### Q4 Revenue Performance

- Organic revenue growth of 5.8%
- Organic growth driven by strength in Global Portable Security business
- Solid price realization; accelerated throughout 2021
- Currency headwinds

## Adjusted Operating Income<sup>1</sup> \$Millions -11.2%



|               | Q4 20 | Q4 21 |
|---------------|-------|-------|
| Adj OP Margin | 16.1% | 14.0% |
| Adj EBITDA %  | 21.1% | 19.0% |

### Q4 Adjusted Operating Margin -210 bps

- Inflation in excess of price and productivity
- Negative product mix
- Incremental investments were a 50-bps headwind

# 2021 Allegion ACF / Balance Sheet

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

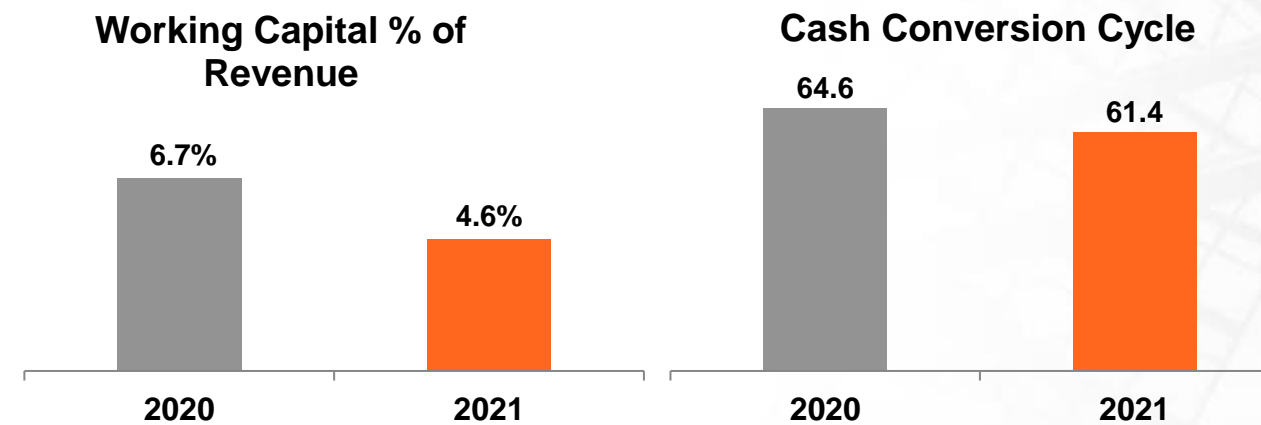
\$Millions



- Lower adjusted net earnings
- Lower capital expenditures
- Increased inventory offset by other working capital items

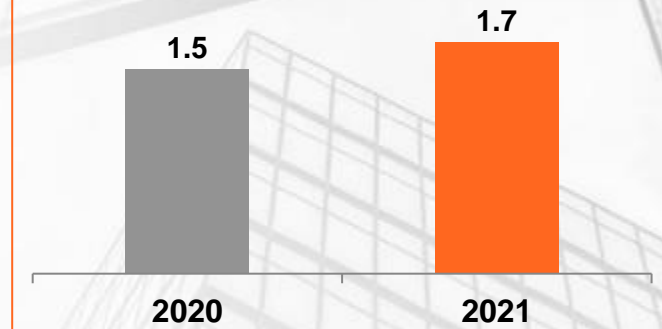
## Working Capital<sup>2</sup> and Cash Conversion Cycle (CCC)<sup>3</sup>

\$Millions



## Net Leverage

Net Debt / EBITDA Ratio



**Strong cash generation; Healthy balance sheet; Total shareholder distributions of \$542 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

# 2022 Actions / Expectations



- **Executing price recovery**
  - Across the globe, all product categories
  - Pricing actions expected to exceed inflation for FY with sequential improvement throughout 2022
- **Supply chain improvement**
  - Redesign work and alternative sourcing expected to be complete by the end of Q2
  - Continuous improvement on lead-time reductions
- **Protecting our labor pipeline**
- **Returning to margin expansion**
  - Sequential improvement throughout 2022
  - Exit 2022 with a glide path to peak performance
- **Continuing to invest in R&D and software development**

**Taking decisive action to mitigate headwinds, drive strong results, and position us for continued revenue growth and margin expansion into 2023**

# Full-Year 2022 Outlook

## 2022 Outlook

| Reported & Organic <sup>1</sup> Revenue Outlook            | <u>Allegion Americas</u> |             | <u>Allegion International</u> |           |
|--|--------------------------|-------------|-------------------------------|-----------|
|  | Reported:                | 8.5% to 10% | Reported:                     | -1% to 1% |
| Organic:   | 8.5% to 10%              | Organic:    | 3% to 5%                      |           |
| <b>Total Company – Reported: 6%-7.5%; Organic: 7%-8.5%</b> |                          |             |                               |           |

| Other Items   |
|---|
| <ul style="list-style-type: none"> <li>2022 reported EPS: \$5.50 to \$5.70</li> <li>2022 adjusted EPS: \$5.55 to \$5.75</li> <li>Full-year adjusted effective tax rate ~13%</li> <li>Average diluted share count for the full year of ~88 million shares</li> <li>Available cash flow of \$465-\$485 million</li> <li>2<sup>nd</sup> half expected to be ~60% of FY adjusted EPS<sup>3</sup></li> </ul> |

## EPS Reconciliation

|                                   |                       |
|-----------------------------------|-----------------------|
| 2021 Reported EPS                 | \$5.34                |
| Adjustments <sup>2</sup>          | (\$0.15)              |
| 2021 Adjusted EPS                 | \$5.19                |
| Operational Performance           | ~\$0.91 to \$1.06     |
| Investments                       | ~(\$0.20) to (\$0.15) |
| Interest and Other Income/Expense | ~(\$0.15)             |
| Tax Rate                          | ~(\$0.35)             |
| Share Count                       | ~\$0.15               |
| 2022 Adjusted EPS                 | \$5.55 to \$5.75      |
| Adjustments <sup>3</sup>          | ~(\$0.05)             |
| 2022 Reported EPS                 | \$5.50 to \$5.70      |

**Adj. OI EPS impact**  
\$0.71 to \$0.91  
or  
+14% to +18%

**Organic growth of 7% to 8.5%; Adjusted EPS growth of 7% to 11%; ACF of \$465-\$485 million**

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

<sup>2</sup> Adjustments include costs related to restructuring, M&A, debt refinancing, gains / losses related to the divestiture of businesses or equity method investments, and significant non-operating investment gains / losses

<sup>3</sup> 2022 adjustments include anticipated restructuring costs  
See press release for non-GAAP reconciliations

# Positive Outlook for 2022

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- **Market demand remains strong**
  - Estimating 7% to 8.5% organic growth in 2022
  - Constrained by electronic chip allocations
- **Record backlog supports growth throughout 2022 and into 2023**
- **Supply chain disruptions expected to improve**
- **Pricing expected to exceed inflation for FY 2022**
- **Margin improvement and acceleration throughout 2022**

# Succession Supports Business Growth

Incoming officers know our business; intentional development steps prepared them well

## Announcements

### **SVP & Chief Financial Officer**

**Patrick Shannon retiring by Sept. 2, 2022**

**Mike Wagnes promoted March 1, 2022**

### **SVP, Allegion Americas**

**Dave Ilardi promoted March 1, 2022**



### **Mike Wagnes - SVP & Chief Financial Officer**

*Current VP & general manager, Commercial Americas*

Former roles included treasurer, investor relations, business segment finance, accounting and audit; 15 years at Allegion and Ingersoll Rand



### **Dave Ilardi - SVP, Allegion Americas**

*Current general manager, Allegion Home*

Former roles included CEO chief of staff, business transformation initiatives, leader of sales, marketing, global supply chain, market intelligence and portfolio management; 20 years at Allegion and Ingersoll Rand



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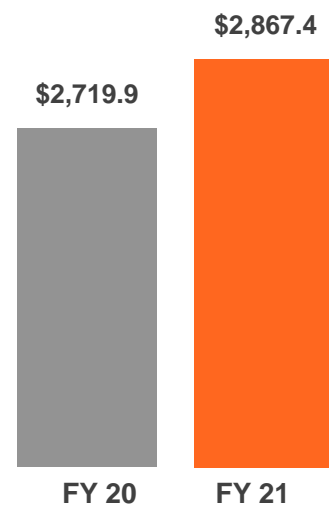
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# Appendix

# Full-Year 2021 Financial Summary

## Revenue<sup>1</sup> \$Millions

**+5.4%**



- Organic revenue growth of 4.5%
- Price realization of ~2%
- Higher volume in 1H primarily driven by impact of COVID related shutdowns in 2020
- 2H softness due to supply chain and electronic component challenges in the Americas region

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

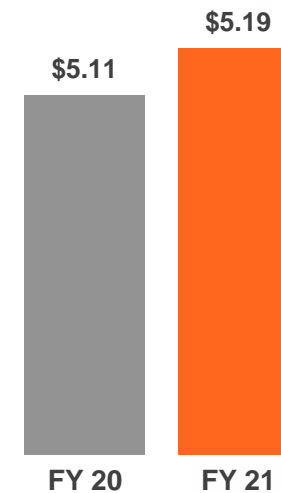
**-220 bps**



- Margin decline driven by inflationary pressures, productivity challenges, volume de-leverage
- Incremental investments were a 70-bps headwind

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

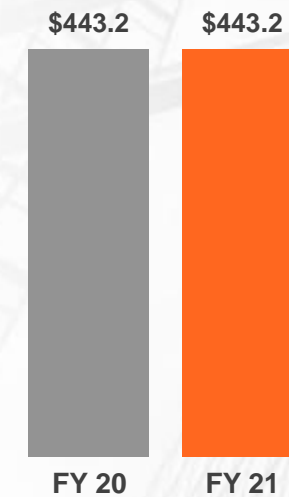
**+1.6%**



- Adjusted operating income down 5.7%
- Increase driven by favorable tax rate, share count and interest/other offsetting the adjusted operating income decline

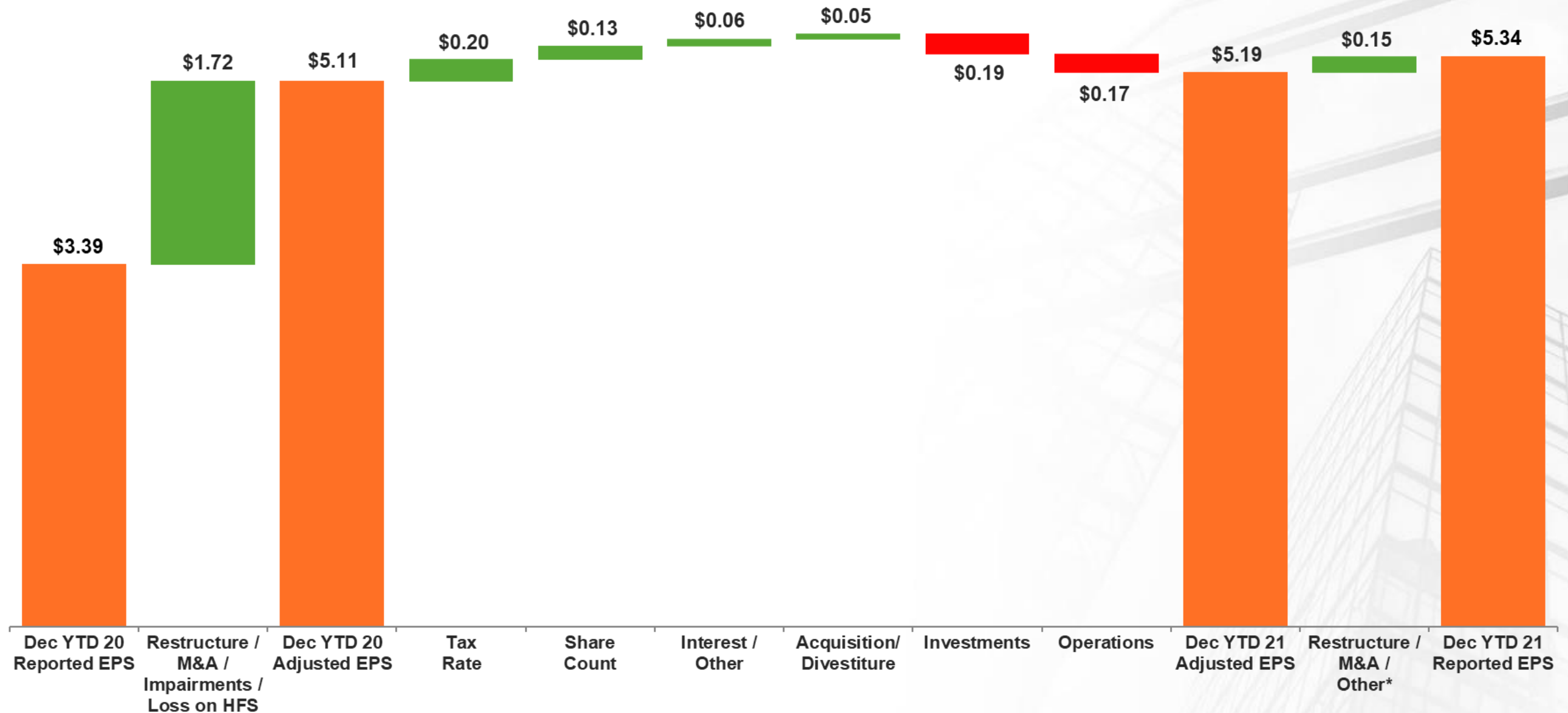
## YTD ACF<sup>1</sup> \$Millions

**Flat**



- Lower adjusted net earnings
- Lower capital expenditures
- Increased inventory build offset by other working capital items

# Full-Year 2021 Allegion EPS Performance





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## About Allegion™

Allegion (NYSE: ALLE) is a global pioneer in seamless access, with leading brands like CISA®, Interflex®, LCN®, Schlage®, SimonsVoss® and Von Duprin®. Focusing on security around the door and adjacent areas, Allegion secures people and assets with a range of solutions for homes, businesses, schools and institutions. Allegion had \$2.9 billion in revenue in 2021 and its security products are sold around the world.

For more, visit [www.allegion.com](http://www.allegion.com).

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