ASSA ABLOY Group strategy
Capital Markets Day, 14 November
Nico Delvaux, CEO and Carolina Dybeck Happe, CFO
Presentation outline

1. Vision and values
2. Market dynamics and position
3. Strategy and financial targets
   - Organic and Acquisitions growth initiatives
   - Cost efficiency initiatives
4. Financial results
5. Summary and Q&A
We are the global leader in access solutions
We are the global leader in access solutions

Group purpose

- To every day help people feel safe, secure and experience a more open world
We are the global leader in access solutions

**Group purpose**
- To every day help people feel safe, secure and experience a more open world

**Group mission**
- To offer an attractive company to our employees
We are the global leader in access solutions

Group purpose
- To every day help people feel safe, secure and experience a more open world

Group mission
- To offer an attractive company to our employees
- To build sustainable shareholder value
We are the global leader in access solutions

**Group purpose**

- To every day help people feel safe, secure and experience a more open world

**Group mission**

- To offer an attractive company to our employees
- To build sustainable shareholder value
- To conduct business in an ethical, compliant and sustainable way
Securing buildings from the perimeter...
...to shell...

Enterprise

Sliding pedestrian door systems

High technology sensors

Mobile key

Access control

Enterprise 9
Door seals & thresholds

Door pulls

Continuous hinges

Energy efficient exterior doors & frames

Hinges

Electric strikes

Key pads, push buttons, key switches, touch bars

Mechanical & electromechanical locks & keys

Power supplies

Magnetic locks

Panic Bars

Kick plates

Floor closers

Door closers

Air louvers

Steel doors & frames

Cabinet locks

Wireless locks

The global leader in door opening solutions
Securing buildings from the perimeter...
...to shell and core...

- Residential doors
- Residential doors, locks
- Residential mechanical and digital locks & access control
- Smart Home security products
- Residential window hardware
- Multi-family
- Portable locking, safes and alarms
...to shell and core...

- Guest Access solutions incl. digital keys and location services
- Shop front hardware
- Revolving pedestrian door systems
- Garage doors
- Hotel/retail
Global leader in Access Solutions

Access Solutions

The opening and identity combined drive Value Creation, Differentiation & Network Effects

Technology enables convergence of Openings and Identities
Corporate identity to guide us

Why we exist
To every day help people feel safe, secure and experience a more open world

What we do and who we are
The global leader in access solutions

How we guide our actions
Empowerment – Innovation - Integrity
ASSA ABLOY core values and beliefs

Core values

<table>
<thead>
<tr>
<th>Empowerment</th>
<th>Innovation</th>
<th>Integrity</th>
</tr>
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<tbody>
<tr>
<td>We have trust in people</td>
<td>We have the courage to change</td>
<td>We stand up for what’s right</td>
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Beliefs

- We have trust in people
- We have the courage to change
- We stand up for what’s right

Official launch program kicked off Q1 2019
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4. Financial results

5. Summary and Q&A
Good industry to be in!

- Increased demand for security
Good industry to be in!

- Increased demand for security
- Urbanization & increased wealth
Good industry to be in!

- Increased demand for security
- Urbanization & increased wealth
- Shift to new technologies
Good industry to be in!

- Increased demand for security
- Urbanization & increased wealth
- Shift to new technologies
- Sustainable buildings
Good industry to be in!

- Increased demand for security
- Urbanization & increased wealth
- Shift to new technologies
- Sustainable buildings
- Change of applications and codes
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- Increased demand for security
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- Shift to new technologies
- Sustainable buildings
- Change of applications and codes
- Strong local market regulations
Good industry to be in!

- Increased demand for security
- Urbanization & increased wealth
- Shift to new technologies
- Sustainable buildings
- Change of applications and codes
- Strong local market regulations

Trends create underlying strong demand
ASSA ABLOY
Solid market position

- Leading brands
- Large installed base
- Strong channel position
- Large specification team
Larger than three main peers combined

Latest reported rolling 12 months sales, EUR Billions

ASSA ABLOY
3.9 Bn

Dormakaba
2.5

Allelgon
2.2

Hormann
1.1

Sales 2010
Sales and customer composition

End users
- Residential: 25%
- Commercial and institutional: 75%

Recurring business
- New construction: 33%
- Aftermarket: 67%

Lower cyclicality of sales and profit
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4. Financial results
5. Summary and Q&A
Our financial targets and strategic actions

16-17% EBIT margin over a business cycle

10% growth over a business cycle

- Acquired 5%
- Organic 5%

- Strategic Actions
  - Increase market presence through customer relevance
  - Product leadership through innovation
  - Radically reduce our break-even cost through cost efficiency
Organic and acquisition growth initiatives

10% growth over a business cycle

16-17% EBIT margin over a business cycle

Strategic Actions
- Increase Market presence through Customer Relevance
- Product leadership through Innovation
- Radically reduce our break-even cost through Cost Efficiency
### Organic growth initiatives

<table>
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<th>Divisional priorities</th>
<th>Commercial development</th>
<th>Growth enablers</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Double size of HID division</td>
<td>▪ Continue to drive conversion to electromechanical and digital</td>
<td>▪ Continued focus on sales excellence</td>
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<tr>
<td>▪ Create ASSA ABLOY Global Solutions division focusing on key verticals</td>
<td>▪ Build strong smart-home offering</td>
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<td>▪ Become successful in China</td>
<td>▪ Optimize pricing and generate more recurring revenues</td>
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## Organic growth initiatives

### Divisional priorities
- Double size of HID division
- Create ASSA ABLOY Global Solutions division focusing on key verticals
- Significant growth of Entrance System division
- Become successful in China

### Commercial development
- Continue to drive conversion to electromechanical and digital
- Build strong smart-home offering
- Actively upgrade installed base and increase services penetration
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### Growth enablers
- Continued focus on sales excellence
- Continued focus on innovation as enabler
Double size of HID

HID revenue 2015-2020

Location services: Extending our value proposition

Ten times larger since acquisition in 2000

+15% CAGR Growth Target
Customer focus through segmentation

Go to market model for different segments

Vertical focus

Logistics

Telecom

Elderly care

Hospitality

Solution providers in selected verticals
Customer focus through segmentation

**Forming global solutions**

- Hospitality division becomes Global Solutions and expands into new verticals
- Selected solution businesses from other divisions will be moved here
- More vertical solutions will be built up over time

**Vertical focus**

- Logistics
- Elderly care
- Telecom
- Hospitality

Examples
Field service – Important growth driver for Entrance systems

- Revenue >6 BSEK
- ~2,500 service technicians
- High single digit annual growth of service revenue
- >2.5 million service visits per year

>20% growth in e-maintenance customers

Connected doors field pilots running
Taking action to win in China

- Re-organize and strengthen local management capabilities
- Single Key Account organization and focused brand strategy
- Consolidate R&D and manufacturing
- Leverage size, design and product range to provide total solution
- Continue to address small, medium developers with current channels
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Leading the trend towards electromechanical

- Total value increases
  - Enhanced features and functions
  - Faster time to upgrade
- Enabling recurring revenue and software monetization
- Closer customer and end-user relationships
Average annual organic growth
2015 – 2018 YTD*)

*) Organic growth estimated for Mechanical, El.mech, excl. GT and Security doors.
Smart home landscape - heating up

- Tech giants driving fast smart home development
  - Focus on B2C and residential
  - Consolidating market through acquisitions
  - Not yet able to capitalize on global level

- ASSA ABLOY: Focused strategy for smart home
  - Focus on smart home security, owning the access at the core
  - Focused organization: Global R&D and commercial approach
  - In home services will drive recurring revenues
Leveraging our unique position in Smart Residential

Connected by August launched in September
53 news stories with 415M impressions

Home delivery and services drive upgrade trend and potential for recurring revenue
Aftermarket

- Large captive installed base
  - Patented keys, Identity & credentials
  - Profitability & loyalty
  - Opportunity to actively upgrade

- Accelerate field service growth
  - From reactive to preventive service
  - Remote management and IoT

- Recurring revenue
  - Software as a Service (SaaS)

Accelerate profitable growth
Price Management to capture full value

- Structured approach with common tools and processes
- Driving performance through trainings and KPIs
- Compensating for cost increases
- New products drive value

Value delivery

Value capture

Optimal price

Current price

Price

Value drivers
## Organic growth initiatives

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Sales excellence

- Commercial digitization
  - From manual to CRM
  - Customer processing, quotations and eCommerce
  - Digital marketing & lead generation

- Excel sales performance focusing on
  - Sales pipeline management
  - Distributor management
  - Specification driven sales using Openings Studio
Product leadership through innovation

**Innovation**
Our driver for growth

**R&D Investments**
+200 percent since 2006
>2,000 R&D engineers

**Long term competitive advantage**
Continuous innovation
~30% of sales from new products
Product innovation

We target:

- Organic growth of 5% per year
- 25% of sales from new products
- Double the innovation speed

Through:

- Using a common, structured process
- Lean innovation
- Using common platforms and shared technologies
- Creating R&D competence centers
Sales from products launched past 3 years

- **Sales from products launched past 3 years**

- **Group target (%)**

- **MSEK**

- **Sales new products**
- **Share new product, %**

- **2013**
- **2014**
- **2015**
- **2016**
- **2017**
- **2018**

- **20 000**
- **25**

- **30**
- **35**

- **10 000**
- **20**

- **25**
- **30**

- **25**
- **30**

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- **30**

- **25**
- **30**

- **25**
- **30**

- **25**
- **30**

- **25**
- **30**
Strong recognition for innovation

Example of rewards in 2018

- Multiple products recognized with Security Product of the Year awards
  - Access Control Devices/Peripherals
    - EcoFlex Exit Trim
  - Green/Sustainable Solutions
    - Securitron M680E EcoMag Magnalock
  - Locks/Safes/Hardware
    - Medeco CLIQ Go
  - Mobile Apps
    - ASSA ABLOY Customer Support App

New Product of the Year
- HID SAFE™ Analytics
- New Product of the Year
- HID Approve™

Most Innovative Product
- HID Risk Management Solution

2018 Top-Ten Multi-Factor Authentication Solution
- User Authentication/Identification/Credentialing and Management

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Critical Infrastructure offers big potential for both equipment and recurring business

**PROJECTED CUMULATIVE INFRASTRUCTURE INVESTMENT NEEDED BY 2030**

- **Energy**: $14.7 T
- **Roads**: $11.4 T
- **Telecom**: $8.3 T
- **Water**: $7.5 T
- **Rail**: $5.1 T
- **Airports**: $1.3 T
- **Seaports**: $0.9 T

Total: $49 trillion

Source: McKinsey Global Institute, 2016
Strong competence and tradition for acquisitions

- 4 directions: Build core - Expand core – Service - Technology
- 162 acquisitions 2008-2018
  - 16 acquisitions in 2017
  - 14 acquisitions in 2018 YTD
Cost efficiency initiatives

Strategic Actions
- Increase Market presence through Customer Relevance
- Product leadership through Innovation
- Radically reduce our break-even cost through Cost Efficiency

- 10% growth over a business cycle
- 16-17% EBIT margin over a business cycle
Cost efficiency initiatives

### Manufacturing footprint
- Consolidating manufacturing and move towards assembly
- Increase manufacturing efficiency through automation and lean

### Cost efficiency
- Outsourcing of non-core manufacturing
- Reduce product cost by supplier consolidation and professional sourcing
- Reduce product cost through material choice and eliminating waste
- Reduce manual processing in support functions (Seamless flow)

### Operational performance
- Quality excellence
- Fully realize potential in logistics/warehousing
- Sustainability and Health & Safety top of mind in all we do
### Cost efficiency initiatives

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Manufacturing footprint

- **Status of programs launched 2006-2016**
  - 81 factories closed to date, 7 to go
  - 131 factories converted to assembly, 23 to go

- **Total personnel reduction**
  - 14,400 FTE in total since 2006
  - 165 FTE in recent quarter
  - 675 FTE to go for all programs

- **SEK 507 M provisions remain for all programs**

- **Next program planned for end of 2018**
  - Restructuring cost to affect 2018 and 2019
Efficiency: Organic Growth vs. Headcount

*) Organic growth each year, i.e. excluding acquisitions younger than 12 months, and the corresponding change in total number of employees for the same units.
Robotics expansion, Americas example
Journey towards efficient manufacturing
Lean implementation

Gold >75%
Silver 65--<75%
Cost efficiency initiatives

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</table>
Supplier reduction

-28% in 5 years

Number of suppliers

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>8,000</td>
</tr>
<tr>
<td>2014</td>
<td>7,000</td>
</tr>
<tr>
<td>2015</td>
<td>6,000</td>
</tr>
<tr>
<td>2016</td>
<td>5,000</td>
</tr>
<tr>
<td>2017</td>
<td>4,000</td>
</tr>
</tbody>
</table>
Professional sourcing
Sourcing is strategic & impact is rapidly increasing

- Category management
  - Less and stronger suppliers
  - Supplier agreements
- Should cost and VA/VE process
- E-sourcing
- Audited suppliers
  - Sustainability
  - Quality

![Material value graph](chart1)
![Indirect spend value graph](chart2)

*12 months until Sep 2018
Value Analysis and Value Engineering
Savings from VA/VE

Example: Emtek Deadbolt

Cost reduction per unit -26%

*12 months until Sep 2018
Door closer success in Opening Solutions EMEA

- Consolidating product range
  - Reducing range complexity
  - Synergy in logistics
  - Scale in sourcing
- Efficient cost base has enabled strong sales growth
- Award winning design
Seamless Flow

Target = 100% automation of processes
Cost efficiency initiatives

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Operational performance
- Quality excellence
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- Sustainability and Health & Safety top of mind in all we do
Sustainability and Health & Safety top of mind in all we do

Efficiency improvements 2015 – 2017*

- Water: 33%
- Energy: 17%
- Waste (Non hazardous): 12%
- Waste (Hazardous): 1%

Injury Rate 2012 – 2018 YTD

60% reduction 2018 vs. 2012

*Reduced usage 2017 vs 2015 for comparable units
Actions to offset cost pressure and sustain margins

**Cost pressure**
- Raw materials
- General inflation
- Labour costs

**Actions**
- Price
  - Cost inflation push through
  - Price optimization
- New product introductions
- Product cost
  - VA/VE & Supply management
- Operational efficiencies
  - MFP, Lean and automation
  - Contingency plans
Strategic actions
Our strategy is evolving – no revolution
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Sales development since 2008

Sales +133% since 2008
Growth has triggered significant change
ASSA ABLOY is fundamentally different compared to 2008

Sales per division

- Entrance Systems: 28%
- Global Technologies: 14%
- Asia Pacific: 11%
- Americas: 23%
- EMEA: 24%

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2018 12-months</th>
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<tr>
<td>Entrance Systems</td>
<td>9%</td>
<td>28%</td>
</tr>
<tr>
<td>Global Technologies</td>
<td>13%</td>
<td>14%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>30%</td>
<td>11%</td>
</tr>
<tr>
<td>Americas</td>
<td>39%</td>
<td>23%</td>
</tr>
<tr>
<td>EMEA</td>
<td>9%</td>
<td>24%</td>
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Sales per division
Growth has triggered significant change
ASSA ABLOY is fundamentally different compared to 2008

Operating profit per division

- Entrance Systems
- Global Technologies
- Asia Pacific
- Americas
- Americas
- EMEA

2008

2018 12-months
Reminder: Growing electromechanical market

<table>
<thead>
<tr>
<th>SEK billion</th>
<th>2008</th>
<th>2018 Sep 12 m</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electro-mechanical</td>
<td>8.7</td>
<td>23.2</td>
<td>167%</td>
</tr>
<tr>
<td>Mechanical</td>
<td>16.4</td>
<td>21.6</td>
<td>32%</td>
</tr>
</tbody>
</table>

- **2008**
  - Security doors: 19%
  - Mechanical locks & accessories: 47%
  - Entrance automation: 9%
  - Electro-mechanical: 25%

- **2018 Sep 12 months**
  - Security doors: 17%
  - Mechanical locks & accessories: 28%
  - Entrance automation: 27%
  - Electro-mechanical: 28%

81 SEK bn

SEK billion

2008

2018 Sep 12 months
Sales by Region
Jan-Sep 2018

Emerging markets comprise Africa, Asia (excl. Japan), the Middle East, Latin America and Eastern Europe.

<table>
<thead>
<tr>
<th>Share of sales, %</th>
<th>Change in local currencies YTD 2018 vs. YTD 2017, %</th>
<th>Organic change YTD 2018 vs. YTD 2017, %</th>
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<tbody>
<tr>
<td>100</td>
<td>+6</td>
<td>+5</td>
</tr>
<tr>
<td>22</td>
<td>+2</td>
<td>+1</td>
</tr>
<tr>
<td>38</td>
<td>+5</td>
<td>+3</td>
</tr>
<tr>
<td>13</td>
<td>-4</td>
<td>-2</td>
</tr>
<tr>
<td>1</td>
<td>+24</td>
<td>+9</td>
</tr>
<tr>
<td>3</td>
<td>+9</td>
<td>+8</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
<td>+3</td>
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Emerging markets comprise Africa, Asia (excl. Japan), the Middle East, Latin America and Eastern Europe.
## P&L components as % of sales
January – September 2018

<table>
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<tr>
<th>%</th>
<th>YTD 2017</th>
<th>YTD 2018 excl. acquisitions</th>
<th>Δ</th>
<th>YTD 2018</th>
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<tr>
<td>Direct material</td>
<td>-36.1%</td>
<td>-36.6%</td>
<td>-0.5%</td>
<td>-35.9%</td>
</tr>
<tr>
<td>Conversion cost</td>
<td>-24.5%</td>
<td>-24.5%</td>
<td>0.0%</td>
<td>-24.5%</td>
</tr>
<tr>
<td>Gross margin</td>
<td>39.4%</td>
<td>38.9%</td>
<td>-0.5%</td>
<td>39.6%</td>
</tr>
<tr>
<td>S, G &amp; A*</td>
<td>-23.4%</td>
<td>-23.1%</td>
<td>0.3%</td>
<td>-23.9%</td>
</tr>
<tr>
<td>EBIT*</td>
<td>16.0%</td>
<td>15.8%</td>
<td>-0.2%</td>
<td>15.7%</td>
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- Direct Material - dilution due to raw material cost
- Conversion cost – good improvement in the quarter and flat YTD
- SG&A - leverage from strong organic sales as well as efficiency projects

*) Excluding China write down of SEK 400 M in Q2 2018.
Direct material 36% of sales

**Direct material**
- 45%
- 30%
- 25%

**Raw material**
- Steel: 60%
- Zinc: 15%
- Aluminium: 10%
- Brass: 10%
- Other: 5%
Steel price development

Steel Price Index

USA +93%
China +96%
Aluminium, Zinc and Brass

Price Index

- Al
- Zn
- Brass (60/40 Cu/Zn)

Base 2015/12
Operating margin, %

Run rate: EBIT-margin 16.0%* (16.2%*)

Long term target range (average)

*) Excluding China write-downs and restructuring items. **) Operating margin before amortization of intangible assets recognized in business combinations.
Operating margin (EBIT*) 2013-2018

* Excluding China write-downs and restructuring items.

<table>
<thead>
<tr>
<th></th>
<th>Group margin impact</th>
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<tbody>
<tr>
<td>Global Tech accretion</td>
<td>+50bps</td>
</tr>
<tr>
<td>Americas accretion</td>
<td>+30bps</td>
</tr>
<tr>
<td>ASSA ABLOY Group</td>
<td></td>
</tr>
<tr>
<td>EMEA</td>
<td>0bps</td>
</tr>
<tr>
<td>Entrance Systems dilution</td>
<td>-20bps</td>
</tr>
<tr>
<td>APAC dilution</td>
<td>-60bps</td>
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</tbody>
</table>
Acquisitions dilute at first, but give long term leverage

187 acquisitions since 2006
SEK 37 billion in added sales

Sales (cumulative), SEK M
Sales (annual), SEK M
Number of acquisitions

14 acquisitions 2018 YTD
Operating cash flow, SEK M

12 months cash flow / EBT* = 95%

*) Excluding the impairment in China of goodwill and other intangible assets.
Gearing % and net debt, SEK M

Debt/Equity 63% (53%)

Net debt/EBITDA* 2.1 (1.9)

*) Excluding China write down of SEK 400 M
Balance Sheet

Assets
- Intangible assets: 12.9 SEK Bn
- Other non-current assets: 30.9 SEK Bn
- Current Assets: 62.8 SEK Bn

Equity & Liabilities
- Current liabilities: 26.9 SEK Bn
- Non-current liabilities: 29.7 SEK Bn
- Equity: 50.0 SEK Bn
Group has significant excess value of capital employed limiting risk for impairments

- Annual impairment reviews
- >60% excess value of capital employed in four of the Group’s divisions
- SEK 5,595M impairment of goodwill and other intangible assets in China in June
  - China intangible assets now represent 4% of Group’s intangibles
  - APAC represents 9% of Group’s total capital employed (September 2018)

* 31 December 2017
Earnings per share, SEK

Quarter, SEK  
Rolling 12 months, SEK

EPS +63% in five years

* Excluding restructuring items and impairment of intangible assets in China. Chart is restated for Stock split 3:1 2015.
Presentation outline

1. Vision and values

2. Market dynamics and position

3. Strategy and financial targets
   - Organic and Acquisitions growth initiatives
   - Cost efficiency initiatives

4. Financial results

5. Summary and Q&A
Conclusion

- Key take aways
  - Evolution and no revolution
  - Increased focus on organic growth
  - Continued successful acquisitions
  - Strong cost focus
  - Innovation as an enabler
  - Corporate culture