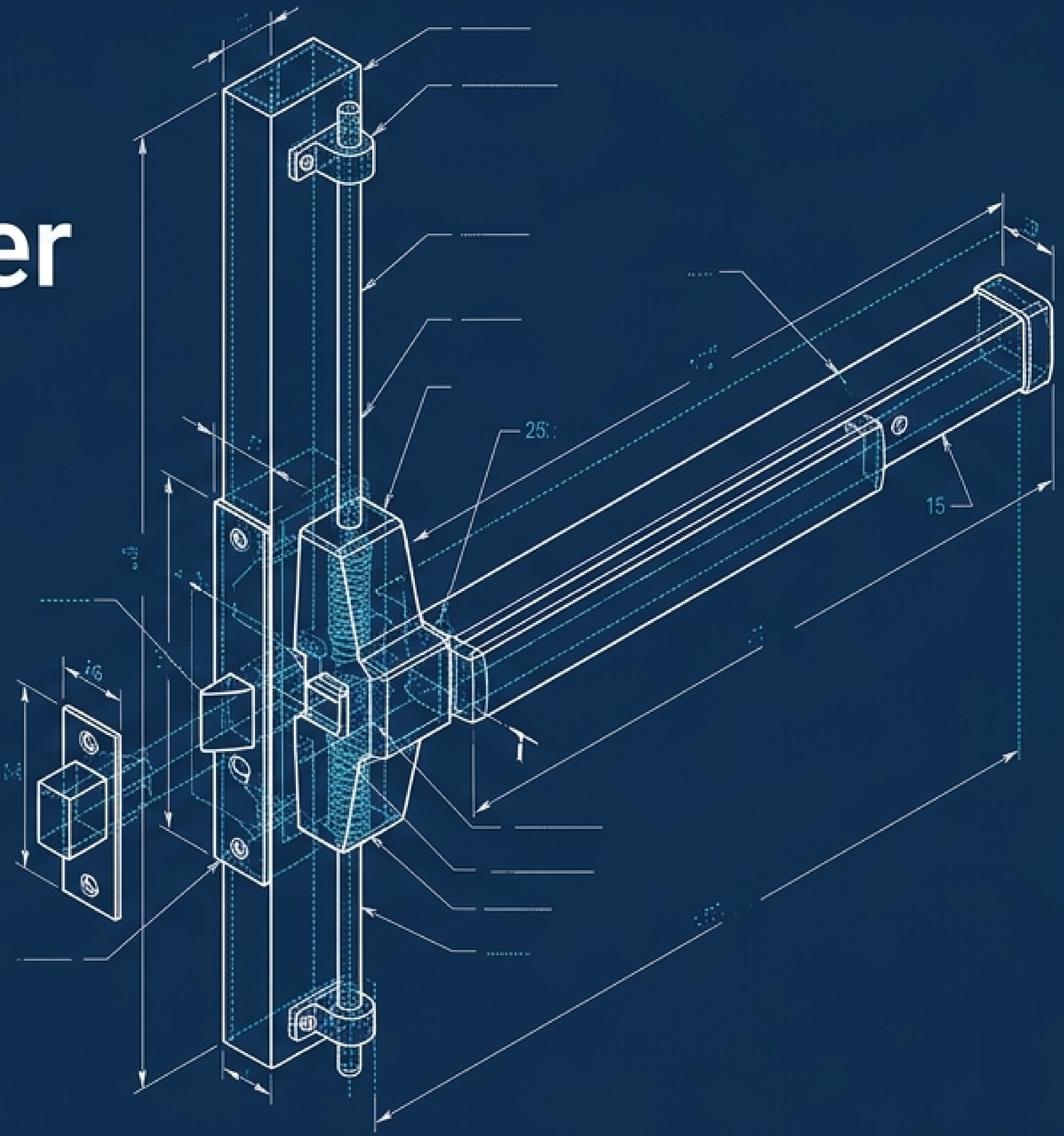
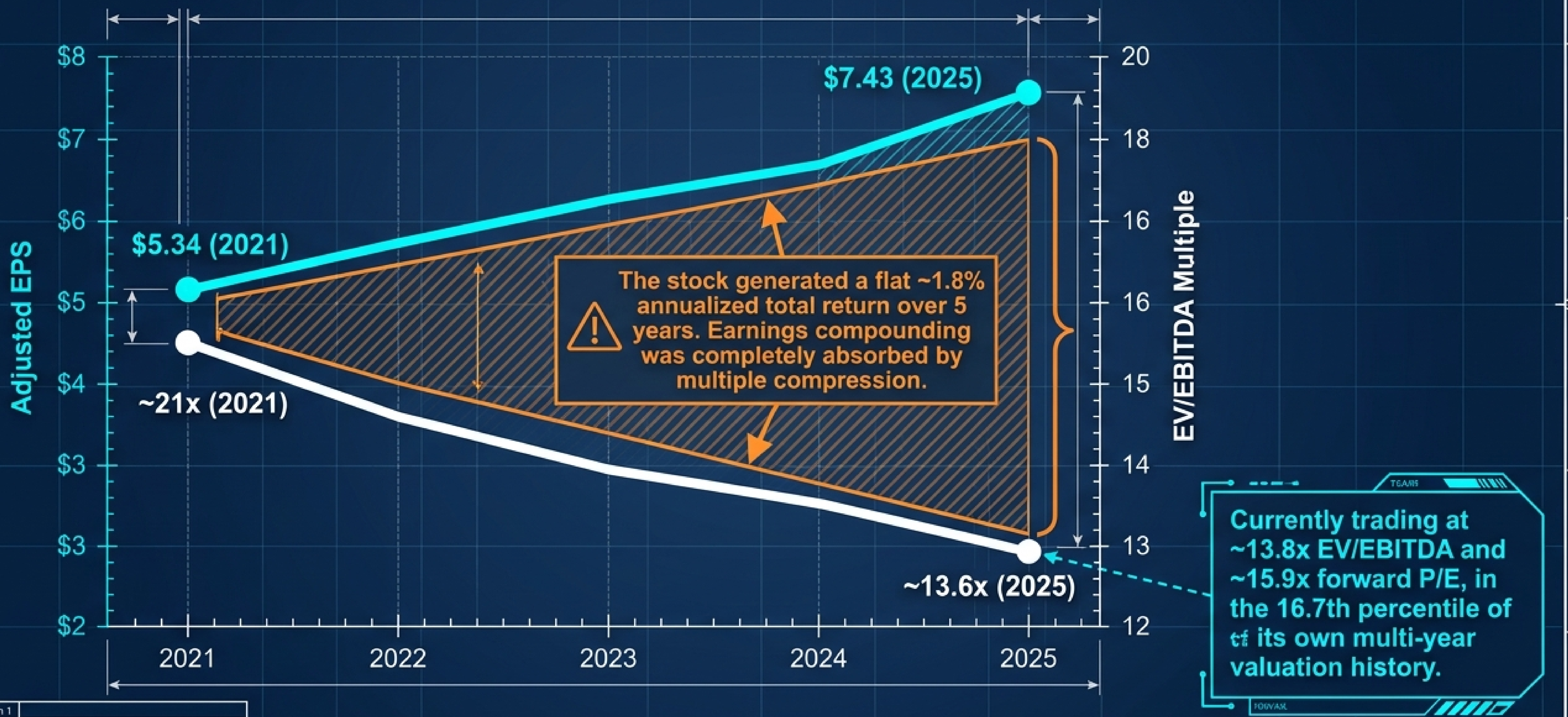
Allegion (ALLE) is a Spec'd-In Compounder Mispriced as a Commodity Cyclical

A 19% ROIC franchise marked down to a decade-cheap multiple on construction cycle fears.

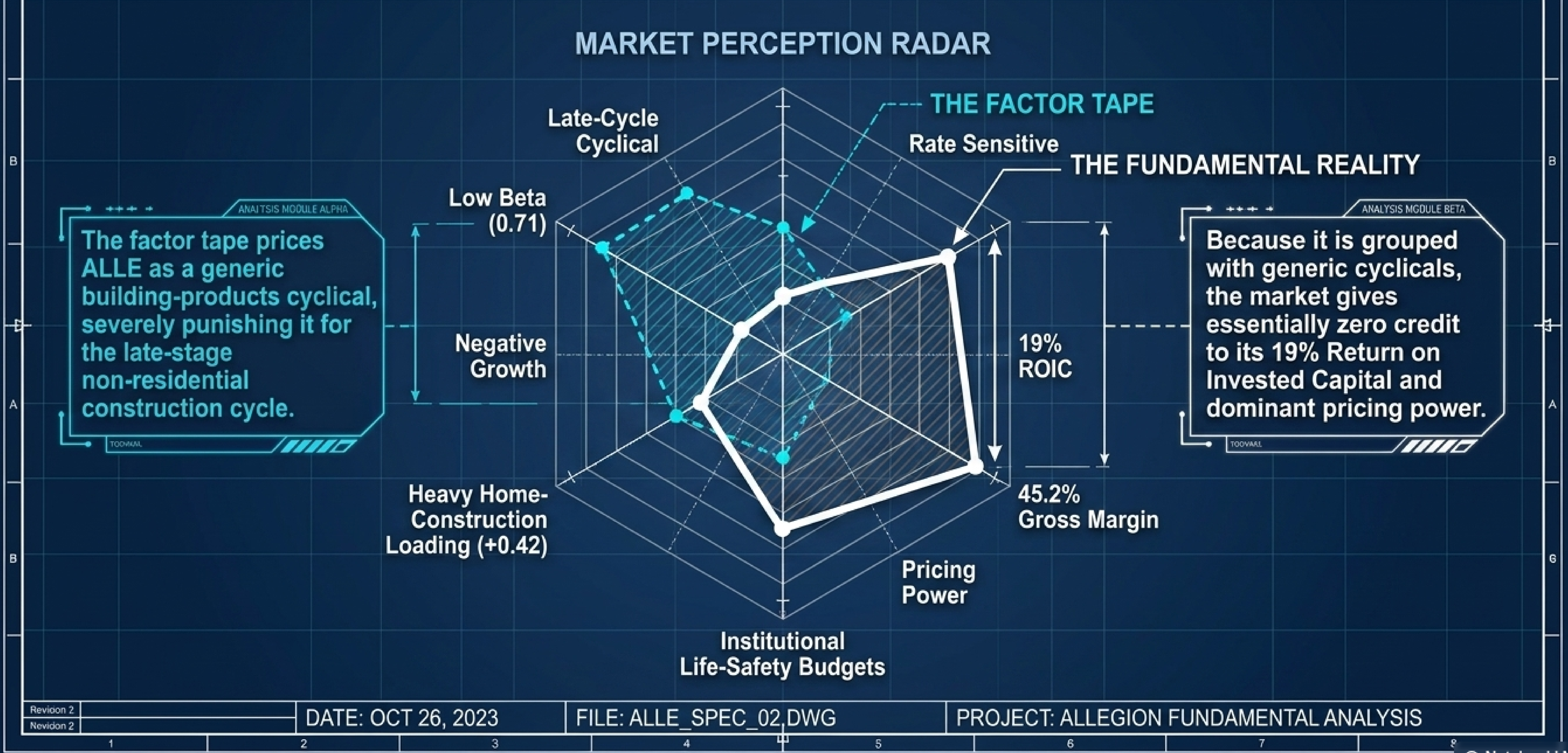
Analysis Date:	June 2026
Spot Price:	$139.71
FCF Yield:	5.7%



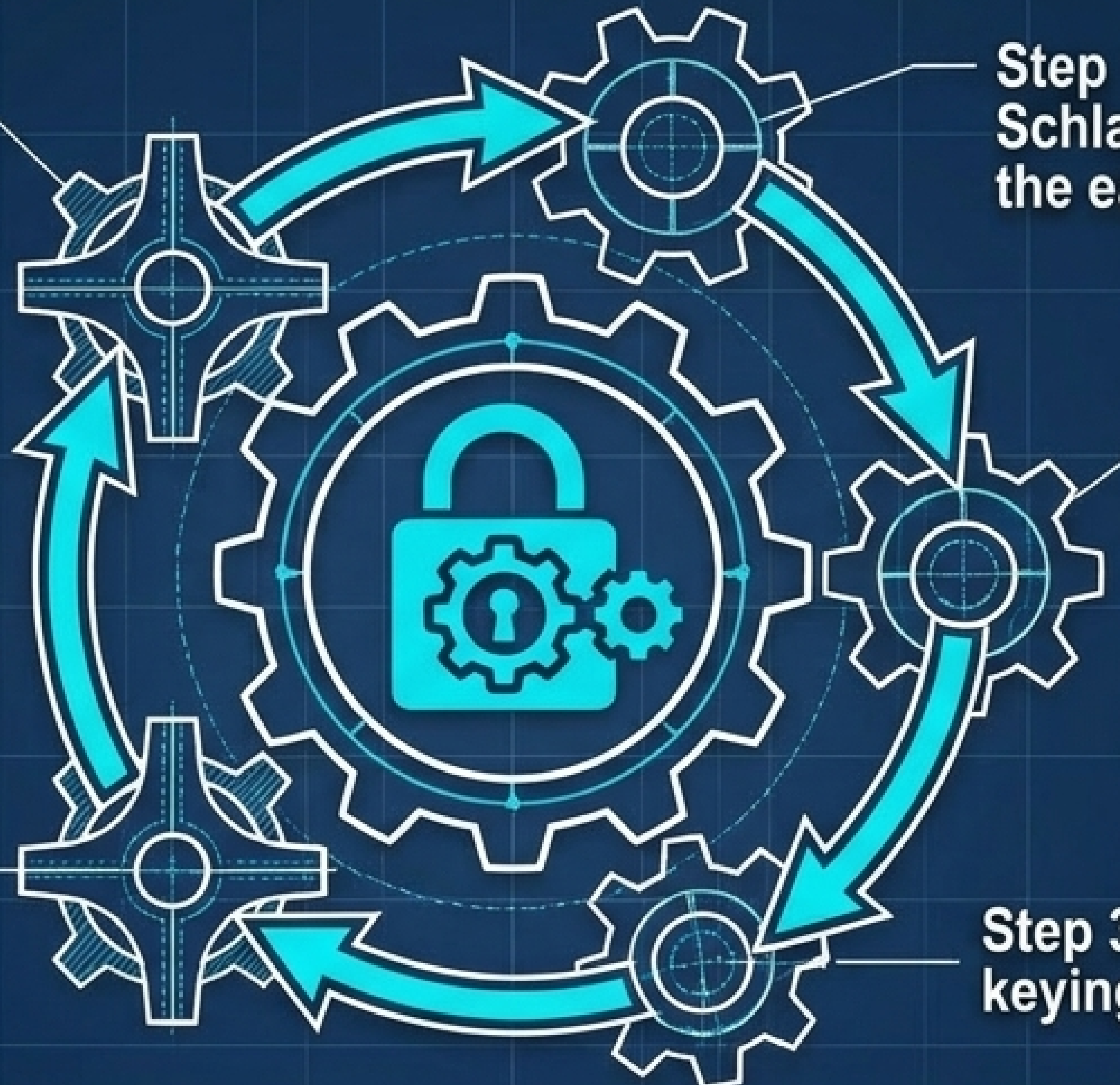
The Divergence: 39% EPS Growth Over Four Years of Dead Money



Algorithms See a Low-Growth Cyclical. The Fundamentals Show a High-Return Franchise.



The Moat Mechanics: The Spec'd-In Annuity Flywheel



Step 1: Architect writes Schlage/Von Duprin into the early building spec.

Step 2: Building codes (UL/ANSI/BHMA Grade-1) mandate life-safety certification, locking out uncertified entrants.

Step 3: The lock and specific keying system are installed.

Step 4: Ten years later, the heavy-use commercial lock breaks.

Step 5: One-for-one replacement is required to maintain fire codes and master-key integrity.

This regulatory demand floor is non-discretionary. High-margin aftermarket replacements form a decades-deep annuity stream, structurally insulating the business from raw construction cyclicality.

THE QUALITY MATRIX: LOCAL DOMINANCE OUT-EARNS GLOBAL SCALE

#3 by revenue,
#1 by profitability

	Company	Gross Margin	Op Margin	ROIC	Forward P/E
1	Allegion (ALLE)	45.2%	21.1%	~19%	~18.8x
2	ASSA ABLOY	42.6%	15.5%	~10%	~32.x
3	dormakaba	41.0%	10.4%	~10%	N/A

Global #1 trades at a massive premium despite inferior returns

Allegion operates in a fragmented global market but a tight local oligopoly (US non-residential). By dominating the most profitable local niche, the smallest player out-earns the global leader by over 500 basis points on operating margin.

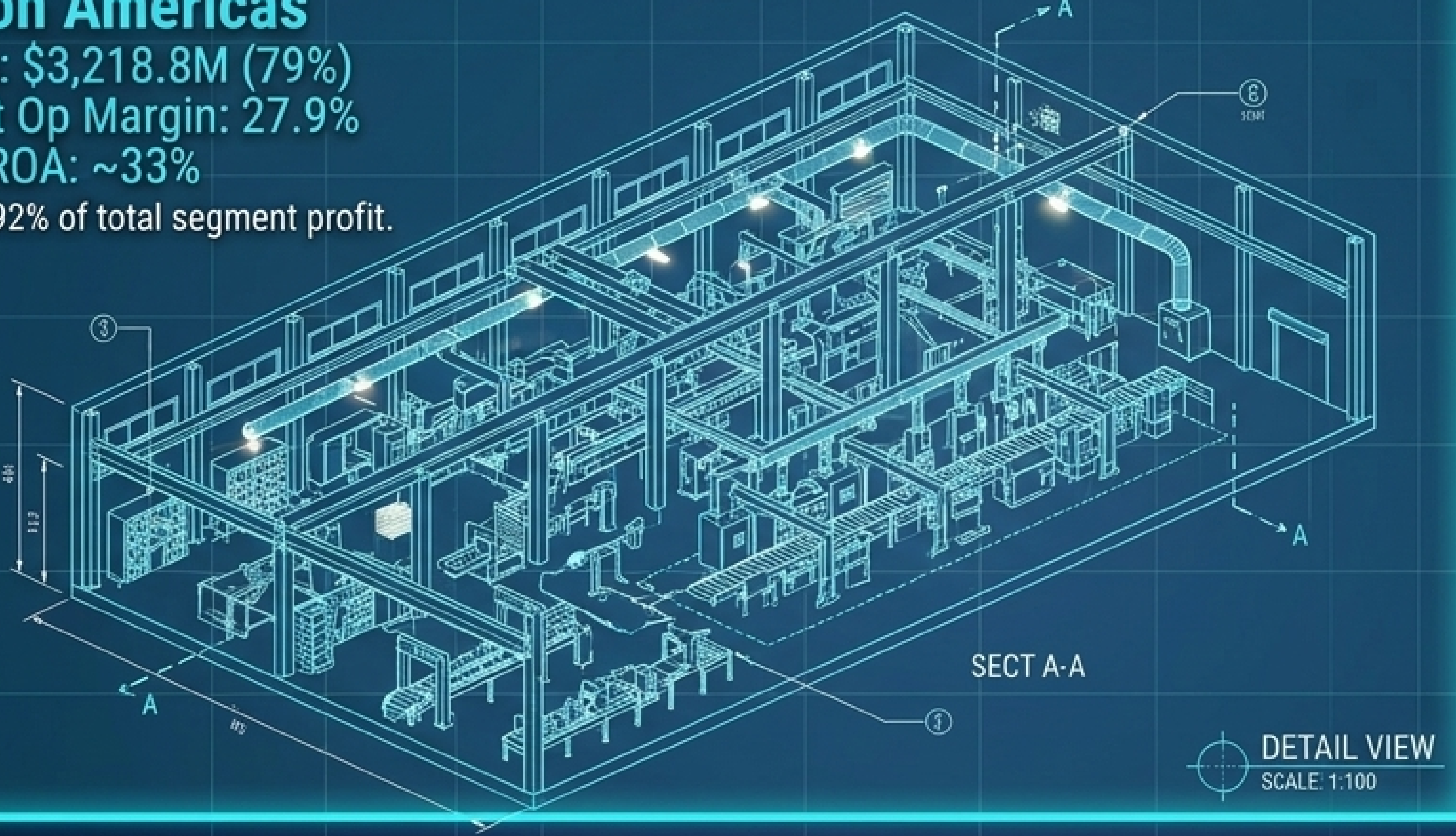
Revision 2	Nevidian 2	DATE: OCT 26, 2023	FILE: ALLE_SPEC_02.DWG	PROJECT: ALLEGION FUNDAMENTAL ANALYSIS

The Franchise vs. The Drag: Deconstructing the Asset Base

Allegion Americas

Revenue: $3,218.8M (79%)
Segment Op Margin: 27.9%
Pre-tax ROA: ~33%

Generates 92% of total segment profit.



Allegion International

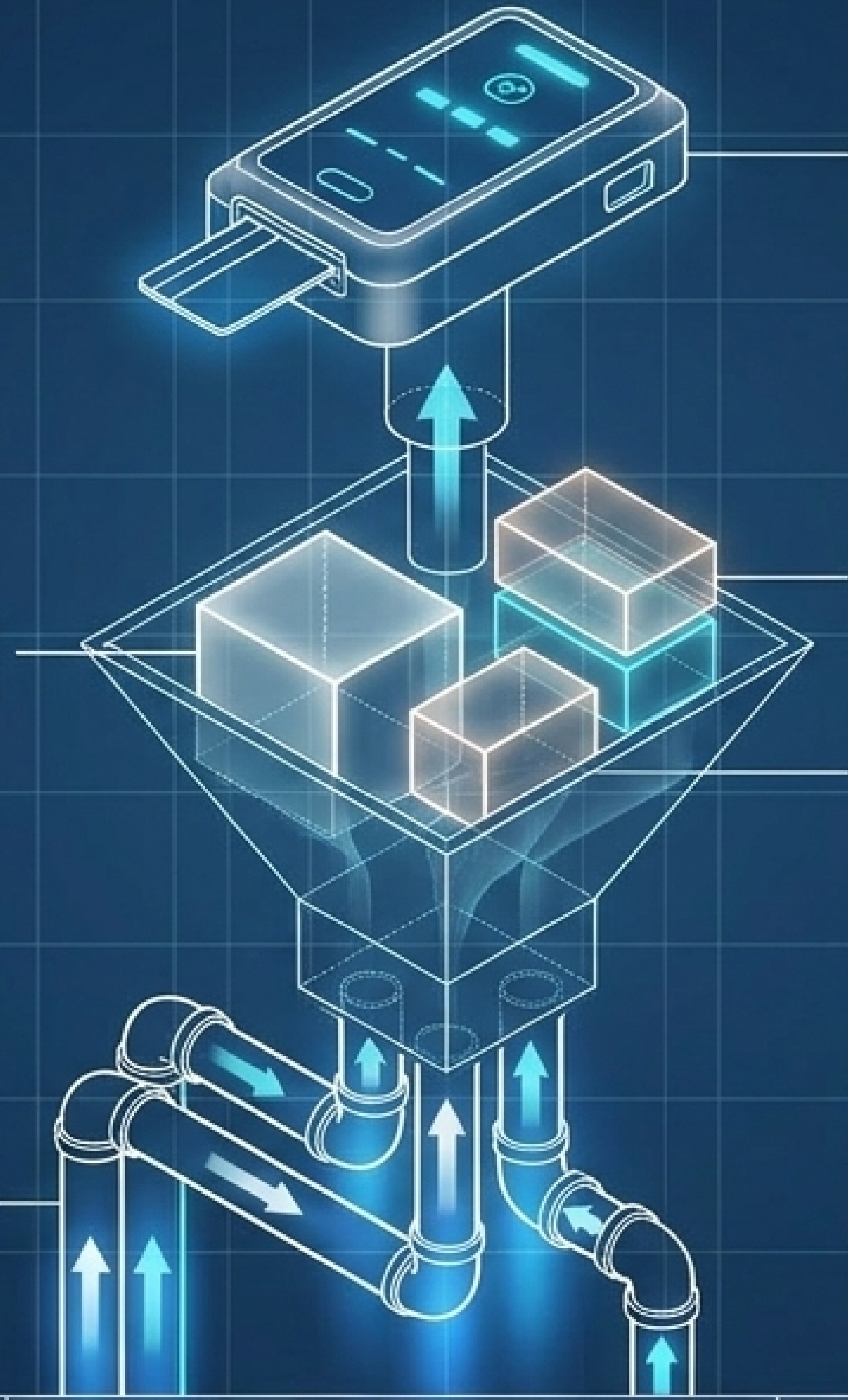
Revenue: $848.5M (21%)
Segment Op Margin: 9.0%
Pre-tax ROA: ~4%

A sub-scale, mostly-European collection of mechanical brands absorbing acquisition capital.

To value Allegion correctly, one must value the exceptional 28%-margin Americas franchise and haircut the International dilution. Consolidated metrics hide the true strength of the US non-residential core.

The Capital Engine: Redeploying Mechanical Cash into an Electronics Platform

Disciplined: ROIC has held steady at ~19% through $1.7B of M&A since 2022, with no goodwill impairments.



The Watch-Item: Goodwill + intangibles now make up 52% of total assets, increasing execution risk on integration.

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Validating the Bear Case: The Q1-2026 Operational Stumble

Warning Dashboard

International ERP Failure

Q1 International organic revenue dropped -5.3%. A botched ERP implementation crushed production.

Margin Compression & Tariffs

Americas margin compressed -110 bps. Tariffs from Mexico manufacturing base are adding an incremental ~1% of COGS headwind.

Late-Cycle Volume Stagnation

First adjusted-EPS decline in years (-3.2%). Americas organic growth of +2.6% was driven entirely by price, offsetting negative volume.

The de-rating is not purely sentiment. Q1-2026 showed the exact symptoms of a late-cycle cyclical rollover combined with self-inflicted execution errors. Management claims these are transitory, but the market requires proof.

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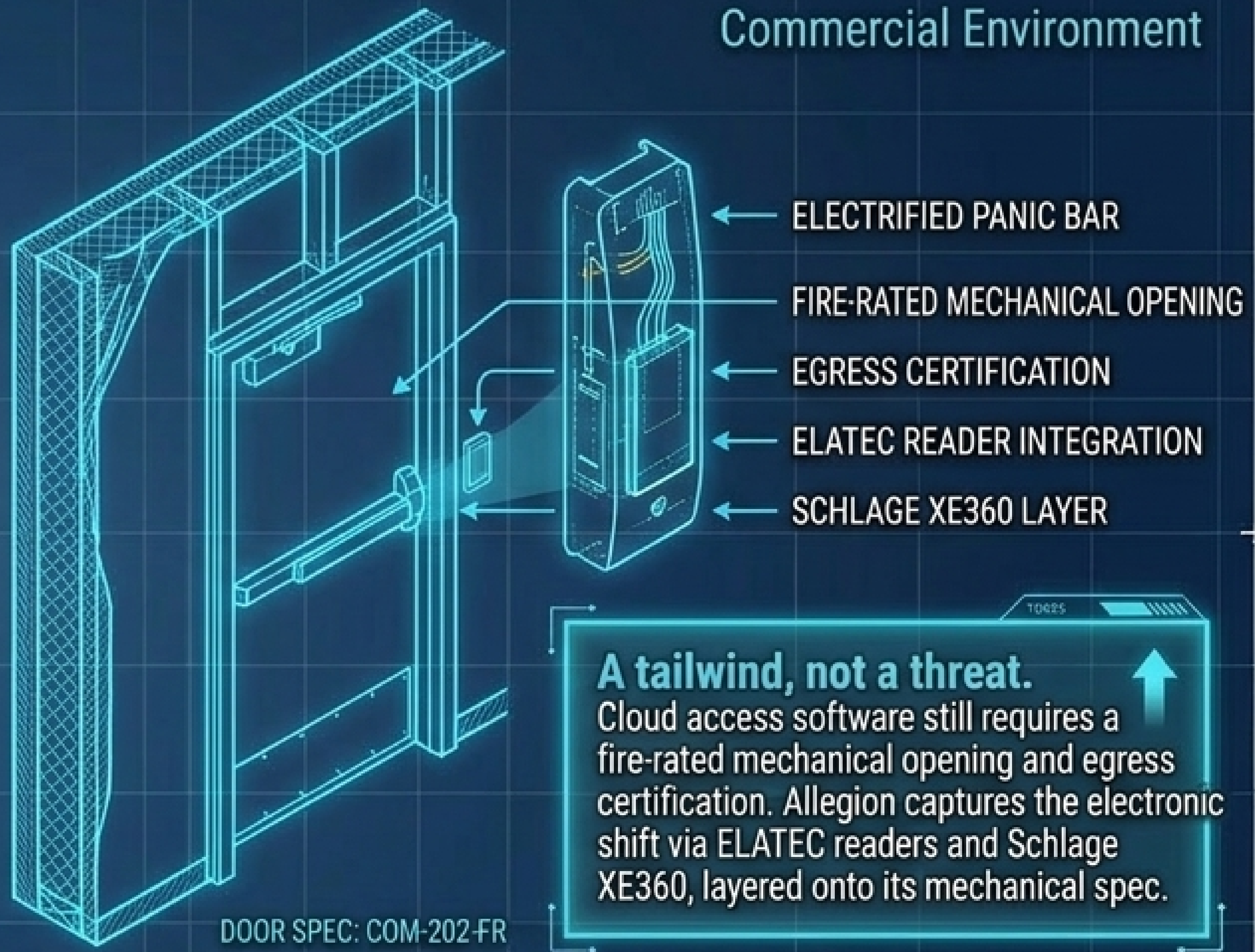
The Electronic Disruption Threat is Asymmetric

Residential Environment

Commoditized.
Exposed to Big Tech, DIY price competition, and retailer power. Residential volumes remain flat-to-down.

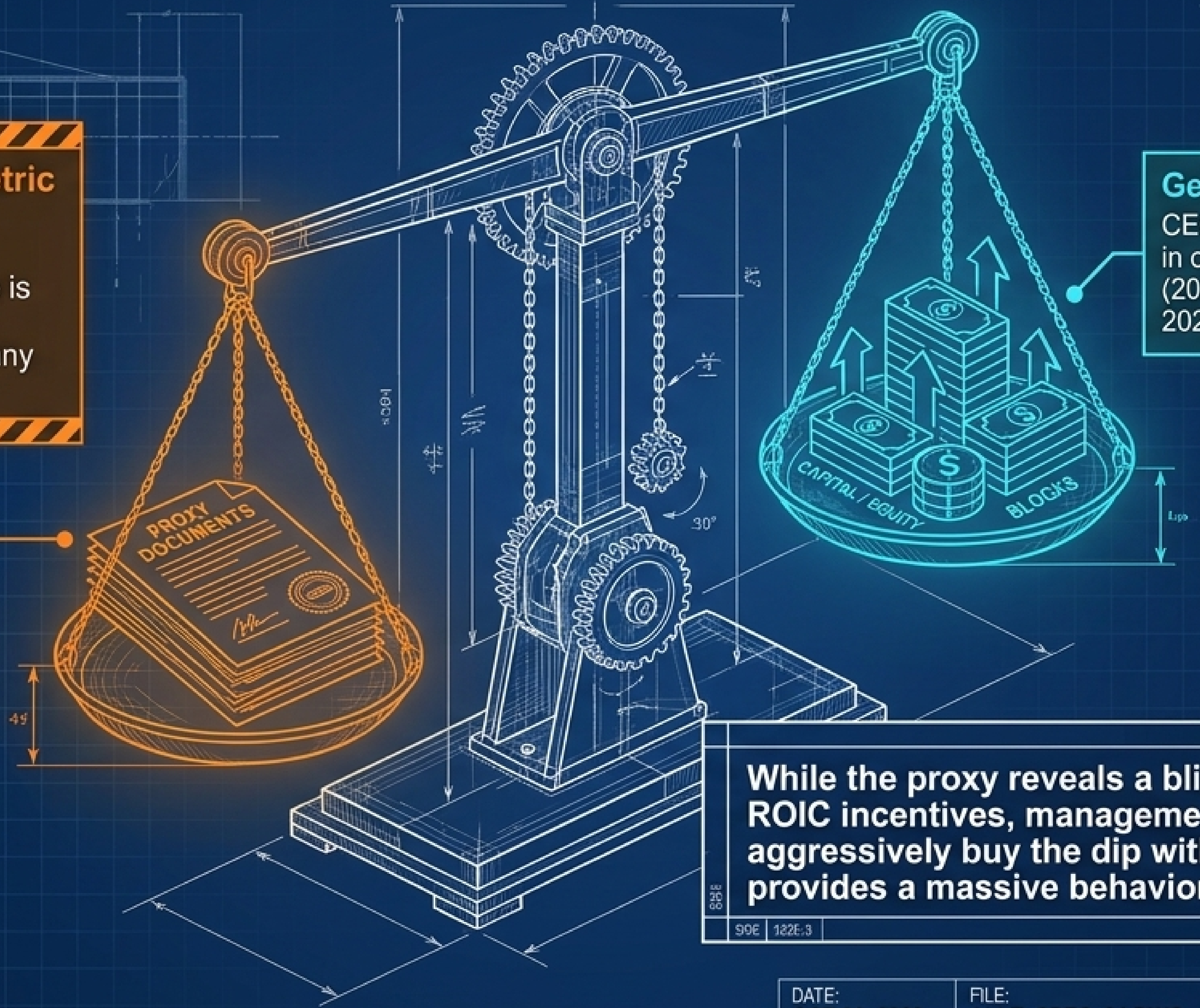
Commercial Environment



A tailwind, not a threat.
Cloud access software still requires a fire-rated mechanical opening and egress certification. Allegion captures the electronic shift via ELATEC readers and Schlage XE360, layered onto its mechanical spec.

Technology entrants threaten the residential flank, but the highly profitable US commercial core remains protected by the physical reality of building safety codes.

Governance Balance: Imperfect Incentives Offset by Open-Market Conviction



The Missing ROIC Metric

Executive compensation (AIP & LTI) targets EPS, Revenue, and TSR. There is **NO** return-on-capital metric—a risk for a company aggressively doing M&A.

Genuine Insider Buying

CEO John Stone has made ~$5M in open-market purchases (2022-2024), alongside multiple 2024-2026 director buys.

While the proxy reveals a blind spot regarding ROIC incentives, management's willingness to aggressively buy the dip with their own capital provides a massive behavioral counterweight.

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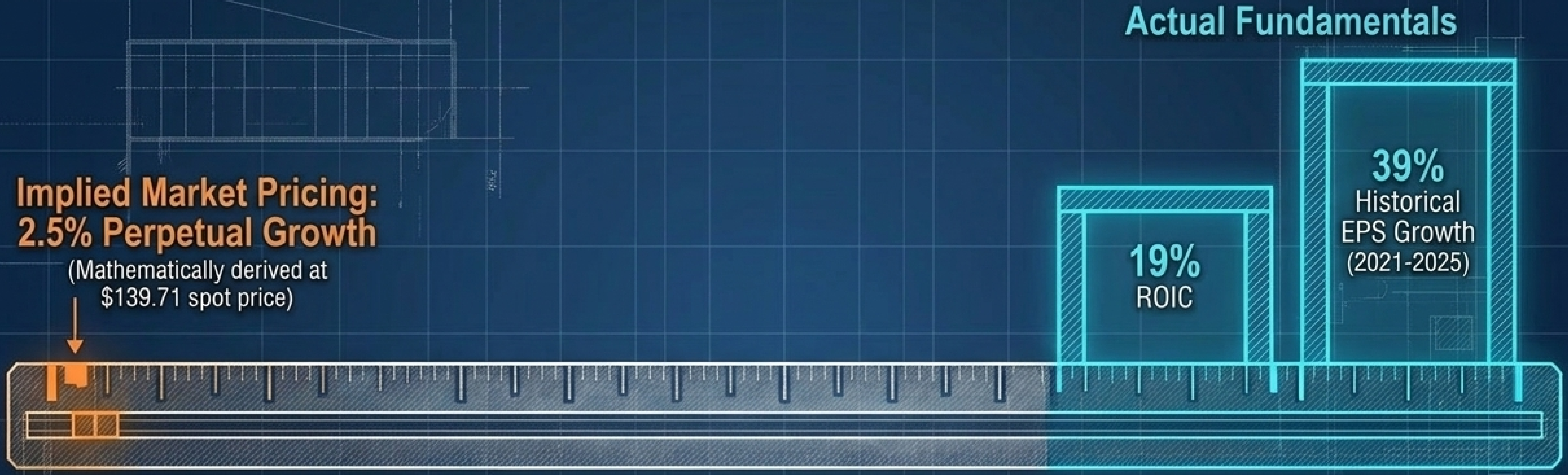
The Embedded Expectations Crux: Priced for Perpetual Stagnation



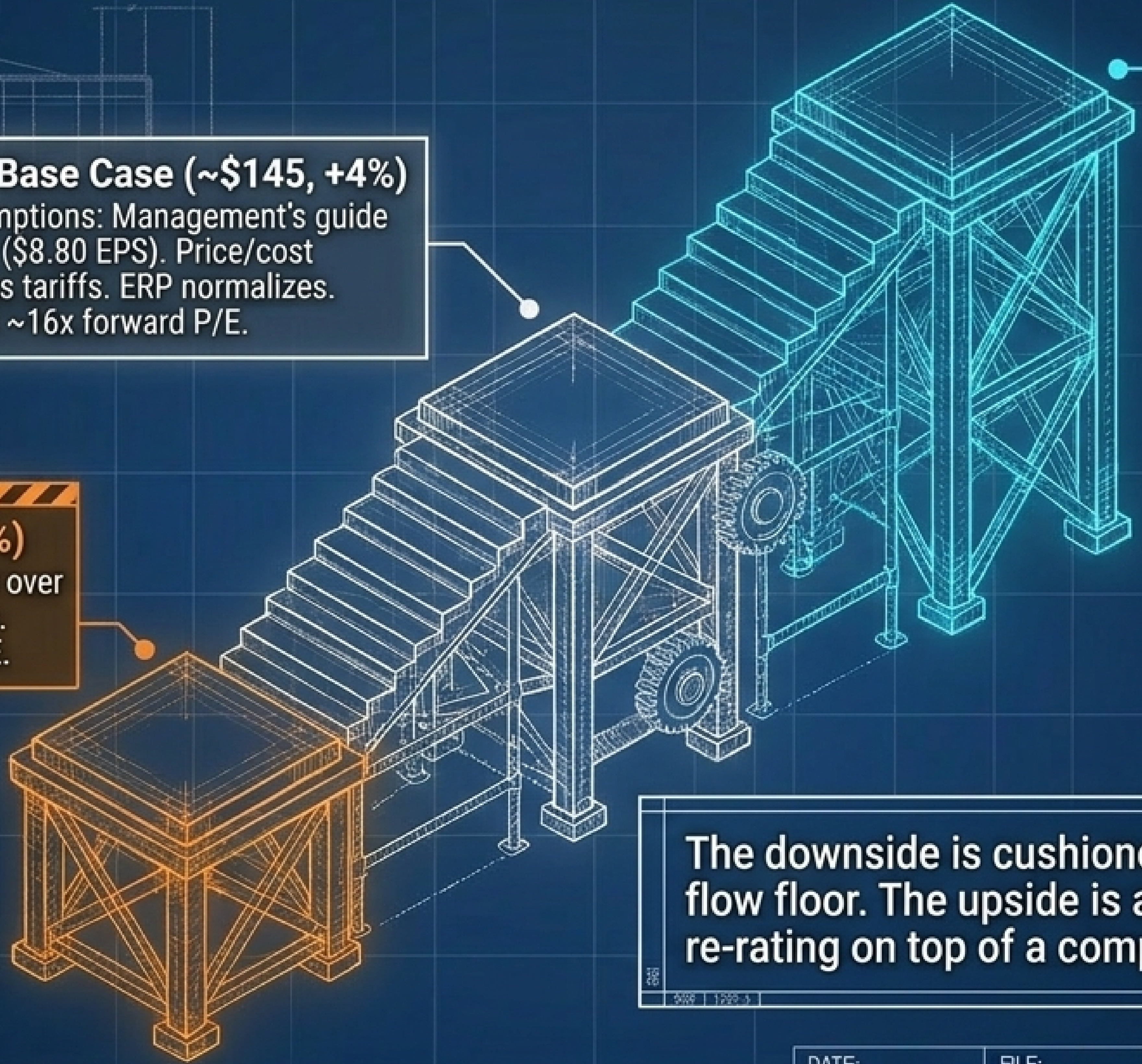
The embedded math is the opportunity. The market is pricing essentially zero real organic growth into a franchise that earns nearly three times its cost of capital. You do not need explosive growth to win from here; you simply need the business not to break.

The Asymmetric Setup: Favorable Skew Anchored by Quality

The Base Case (~$145, +4%)
Assumptions: Management's guide holds ($8.80 EPS). Price/cost offsets tariffs. ERP normalizes. Holds ~16x forward P/E.

The Bull Re-Rate (~$185, +30%)
Assumptions: Spec backlog holds, electronics re-accelerate, margins expand. Multiple re-rates to 19.5x on $9.40 FY27 EPS, reclaiming prior all-time highs.

The Bear Trap (~$115, -18%)
Assumptions: Non-res volume rolls over into 2027. Tariffs leak into margins. Multiple compresses to ~13.5x P/E.



The downside is cushioned by the high-quality cash-flow floor. The upside is a classic cyclical multiple re-rating on top of a compounding earnings base.

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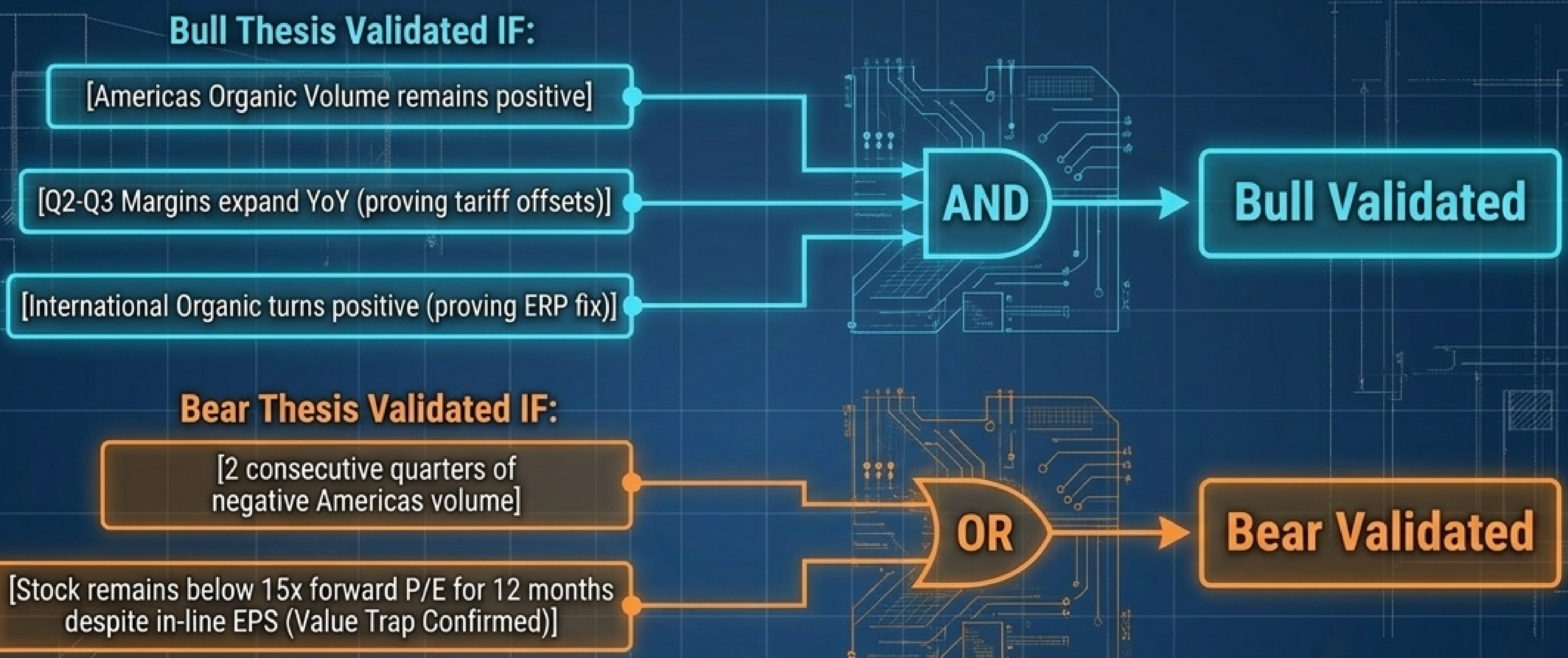
The Falsification Matrix: What Must Be True Over the Next Two Prints



Allegion is not a complex secular puzzle; it is a single-variable call on the US non-residential construction cycle. The next two quarters of volume and margin data will definitively flip the conviction.

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