



# **NAPCO**

**SECURITY TECHNOLOGIES, INC.**

NASDAQ:NSSC

Protecting America's Homes, Schools and Businesses!

February 2018  
Corporate Presentation

# Forward Looking Statements

*This presentation may contain forward-looking statements that involve numerous risks and uncertainties. Actual results, performance or achievements could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including those set forth in the Company's filings with the Securities and Exchange Commission.*

# Company Overview

**Leader in Commercial & Residential Security Products**

**Established:  
R&D  
Manufacturing \*  
Sales & Marketing**

**Corporate Offices :  
Amityville, NY  
Manufacturing :  
Dominican Republic**

\*(ISO Certified – Highest Quality Standard)

**Products Sold Through  
10,000 + Dealers,  
Integrators & Distributors  
in the US  
(B2B Business Model)**

**Intellectual Property:  
Two dozen patents\*  
Proprietary software and  
copyrights**

\*(issued & pending)

**Paradigm Shifts in our  
business  
1) Recurring Revenue  
2) School Security**

# The NAPCO Group of Companies



50%  
Commercial  
50%  
Residential



100%  
Commercial



100%  
Commercial

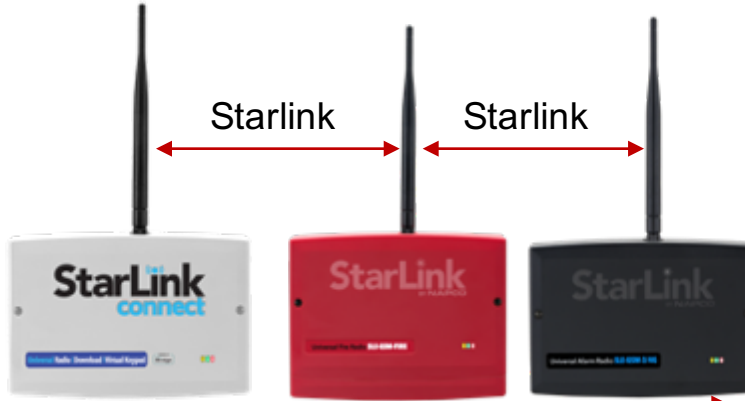


100%  
Commercial

Total Revenues = 80% Commercial, 20% Residential



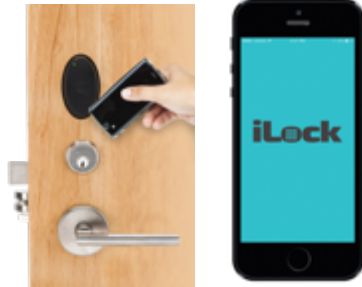
# Highlighted Products (Product Portfolio includes 1K SKU's)



Recurring Revenue Products



Continental  
Access



# Distribution Channels

10,000 plus

Dealers in US  
Install Residential and  
Small Businesses  
Alarms

2,000 plus

Integrators in US  
Install Commercial  
Access Control Systems  
In Airports, Hospitals,  
Office Buildings, K-12  
Schools and Universities

80%

80% Of Alarm Sales  
Are Sold Private  
Labeled For Thousands  
Of Strategic Partners, A  
Few Examples Include:





# StarLink<sup>3</sup> Series Communicators - Generating Recurring Revenue

Paradigm Shifting Technology



Starlink Connect works with millions of existing competitors alarm systems

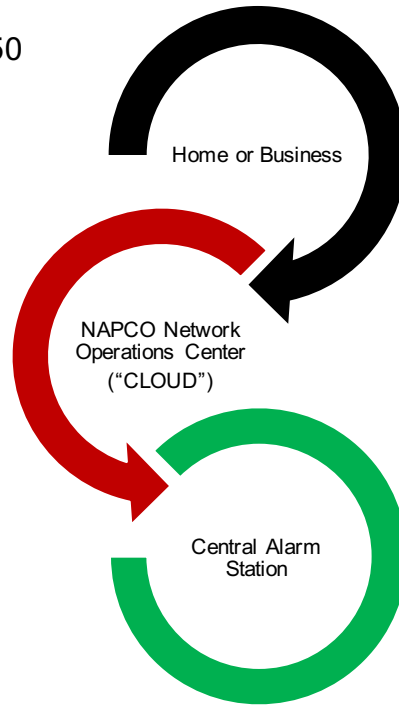


\$5-9 per month plus \$2.50 per iBridge IoT service

Commercial FIRE  
\$15-30 per month



Residential /  
Small Business  
\$5-9 per month

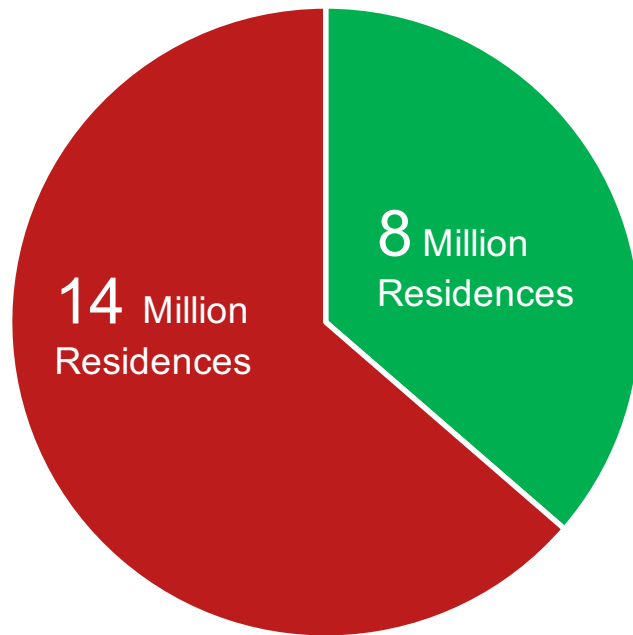


- ✓ Eliminates The Traditional Telephone Land Line
- ✓ Alarm Signal Transmitted Via Verizon, AT&T And T-Mobile Cellular Networks
- ✓ Signal-Boost™ Technology To Provide Reliability Even In Remote Areas
- ✓ iBridge Smartphone IoT App Controls Lighting, Locks, Climate & Video
- ✓ Upfront Equipment Sales PLUS Recurring Revenue At 90% Gross Margin !

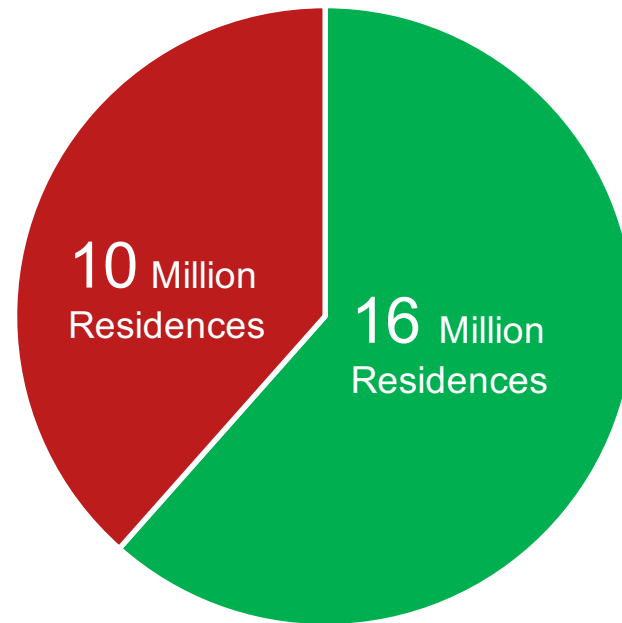
# Home Automation (IoT)



**Market 2016**



**Projected Market 2021**





# StarLink<sup>\*</sup>3 New Market Opportunity

Recurring Revenue



**2017 Security Industry Association New Product Showcase “Best in Residential and Monitoring Solutions” Award**

**“MVP” (Most Valuable Product) Annual 2017 Award**

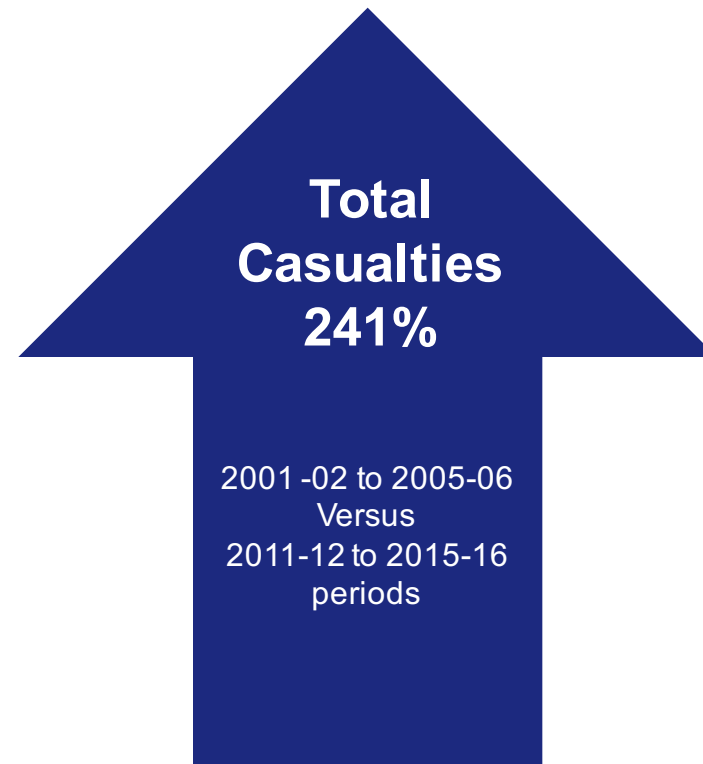
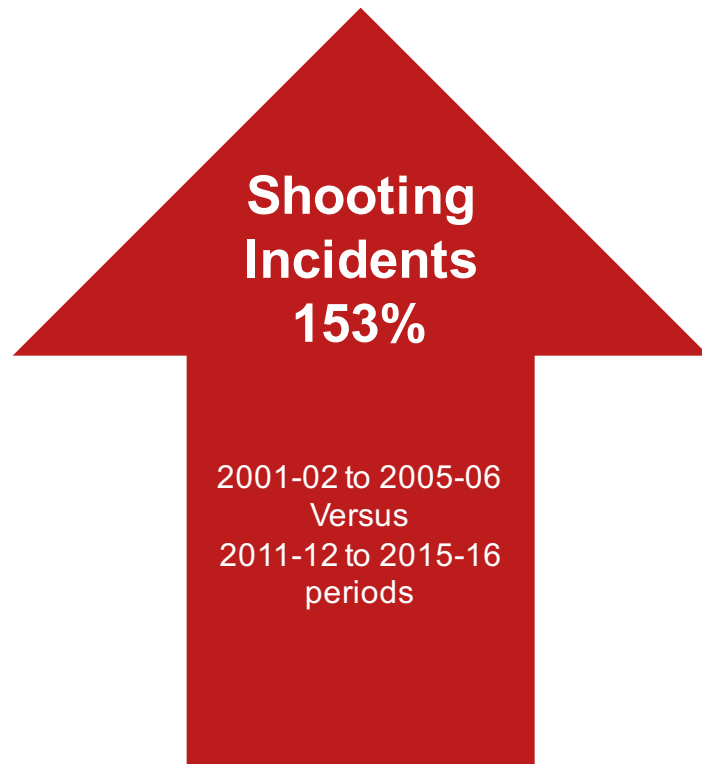
- **133 Million U.S. Households**
- **22.5 Million monitored security systems**



# School Security & Safety

Paradigm Shifting Technology

# Significant Increase of Incidents Over the Years



# LocDown Systems Solutions



Lock down classrooms, offices, common areas, labs, with a key, safely from inside

Retrofits standard lockset, several lock body styles & finishes

**\$100 per door  
ASP**



Lock down classrooms & offices from inside safely:

With a pushbutton on inside door or wireless fob

Lock down up to four doors locally at once.

**\$500 per door  
ASP**



# LocDown Systems Solutions continued



Lockdown activated by the server or from authorized personnel at an individual access lock

Real-time global lockdown or unlock in under 10 seconds, ideal for offices, labs, dorms & classrooms

**\$600 per door  
ASP**



CardAccess 3000 Enterprise Campus Security System offers Lockdown/Notification App for Staff & Teacher Smartphones.

App provides lockdown capability, emergency notifications and pinpointed status, right at their fingertips.

Options for both internal PA and outbound communications with first responders.

**\$1,000 per door  
ASP**

# Examples of institutions using our **LocDown** Solutions

K-12 (Market is 100,000 Schools)



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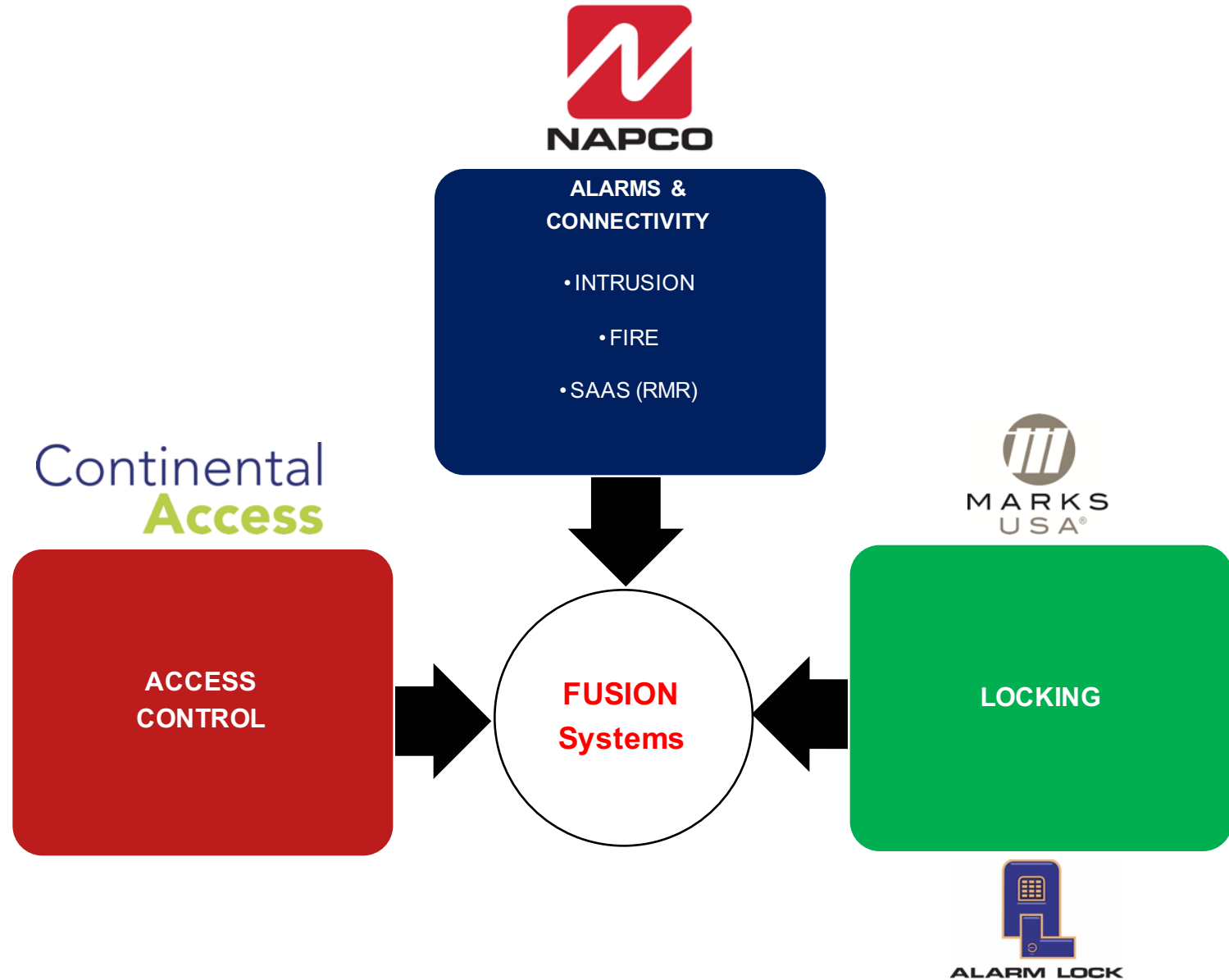
Colleges & Universities (Market is 10,000 Campuses)





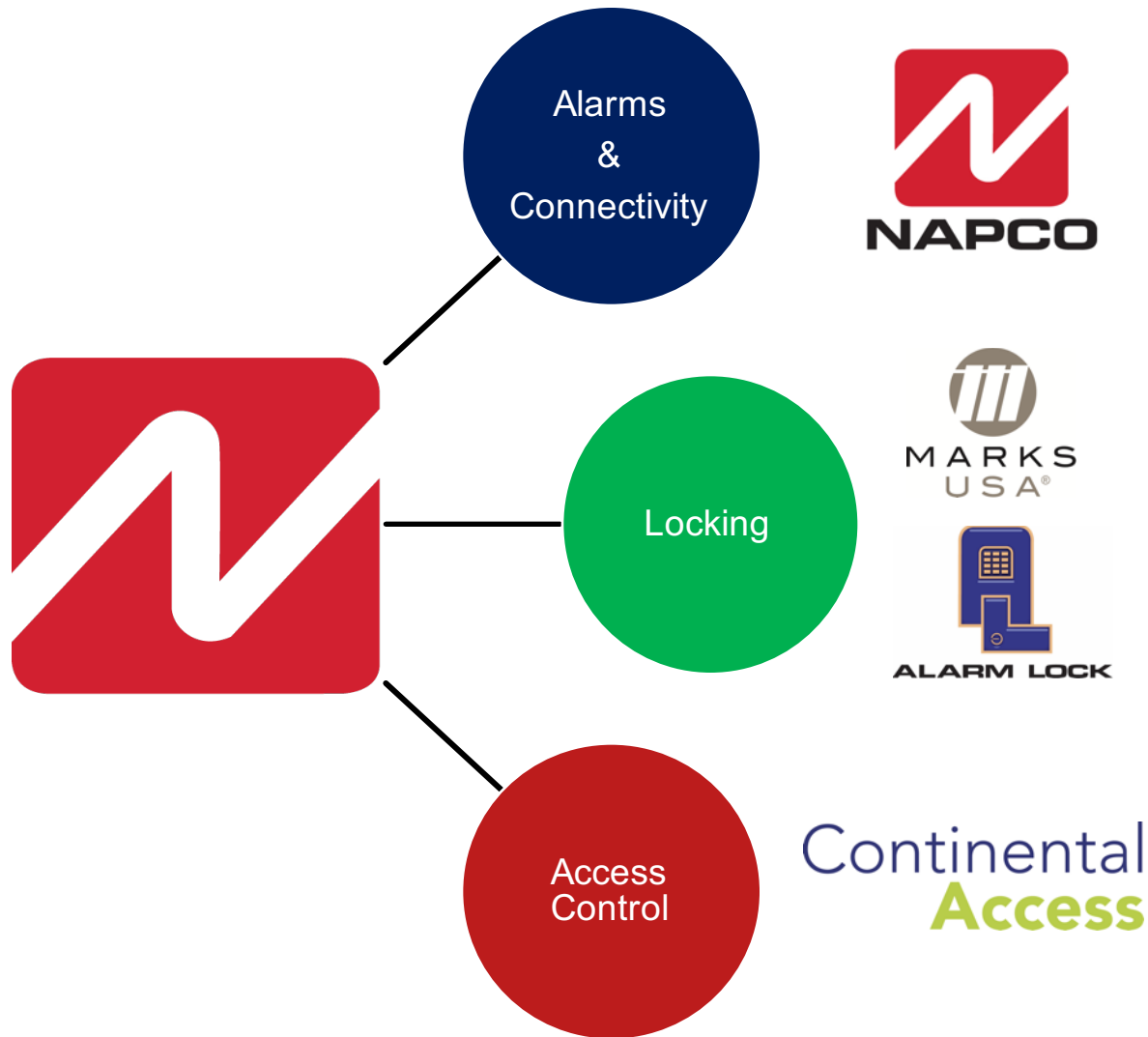
# Integrated Solutions

Enterprise-class platform that integrates each of our division's products



# Competitive Landscape

NAPCO Is The Only Company With Products In All Three Security Verticals






# Fiscal Second Quarter 2018 Highlights

**Second Quarter Record  
Sales of \$21.1 Million**

**14 Consecutive Quarters  
of Sales Growth!!!**

**Recurring Revenue  
Increased 52%**

**Recurring Revenue  
Annual Run Rate \$11.7MM**

**Operating Income  
Increased 10% and 25%  
for 6 months**

**Net Income Increased  
44% and 49% for 6  
Months**

**EPS Increased 40% to .07  
and 38% to .11 for 6  
Months**

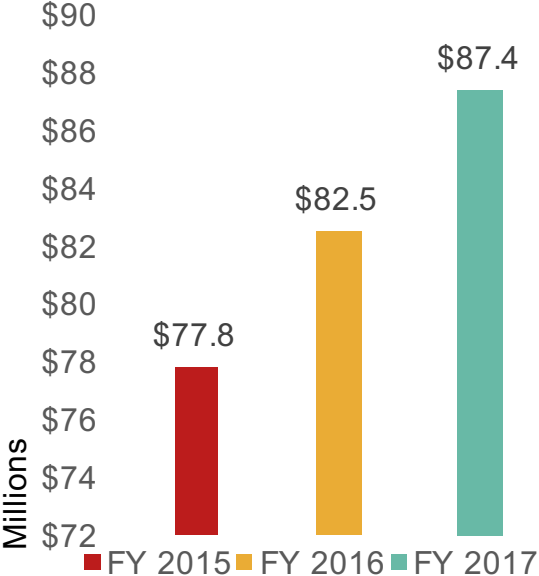
**Adjusted EBITDA  
Increased 7% and  
20% for 6 months**

**Cash Balance of \$3.9  
Million**

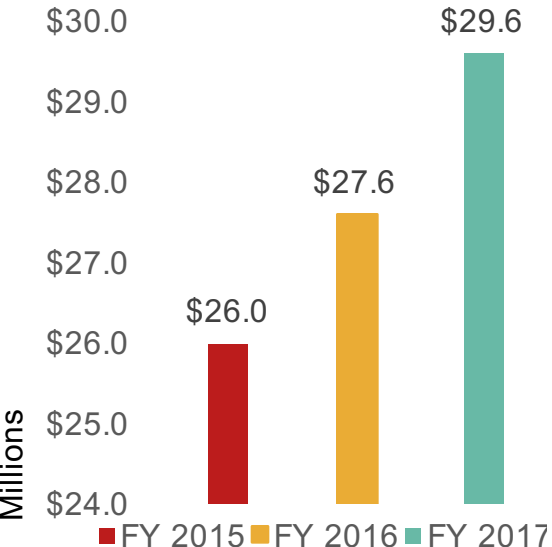
**Net Debt Zero**

# Historical Financial Overview

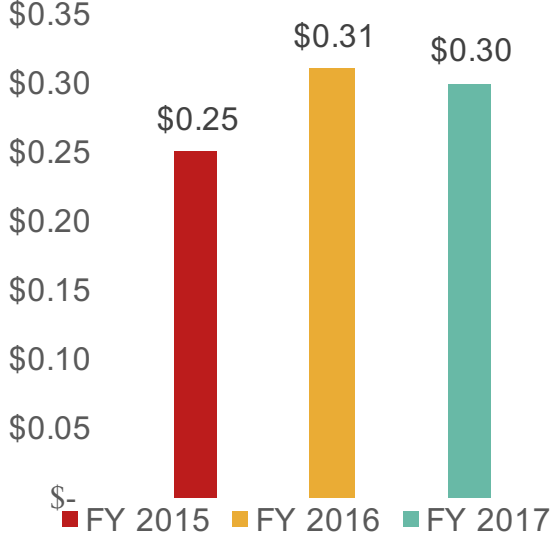
### Revenues



### Gross Profit



### Earnings Per Share



Note: Fiscal Year Ends June 30



# Fiscal Quarter Performance

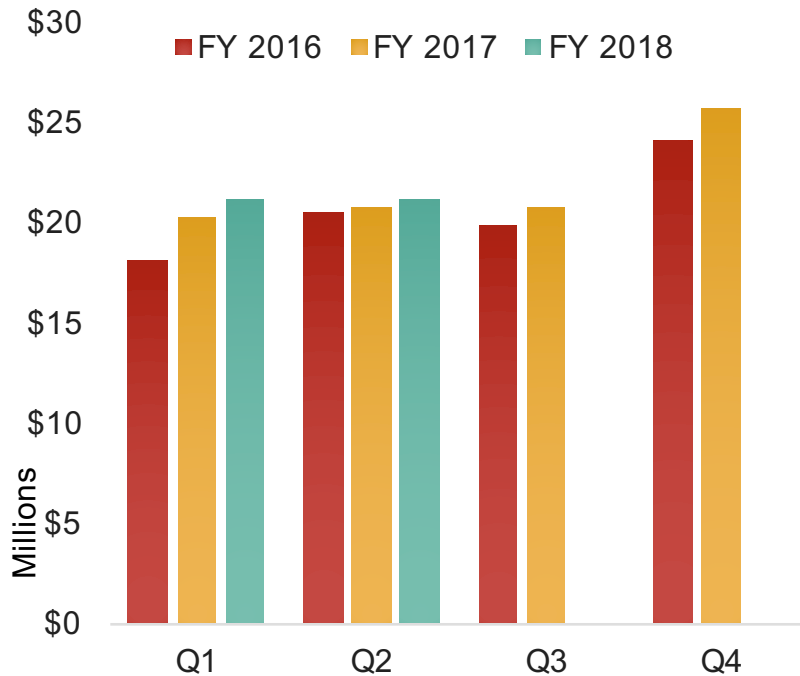
Figures in thousands, except EPS

<b>Fiscal Period</b>	<b>3 Months Ended 12/31/17</b>	<b>6 Months Ended 12/31/17</b>	<b>3 Months Ended 12/31/16</b>	<b>6 Months Ended 12/31/16</b>
<b>Sales</b>	\$21,112	\$42,286	\$20,715	\$40,883
<b>Net Income</b>	\$1,233	\$2,123	\$.857	\$1,425
<b>EPS</b>	\$0.07	\$.11	\$0.05	\$.08
<b>Adjusted EBITDA</b>	\$1,611	\$3,033	\$1,490	\$2,527
<b>Adjusted EBITDA EPS</b>	\$.09	\$.16	\$0.08	\$.13

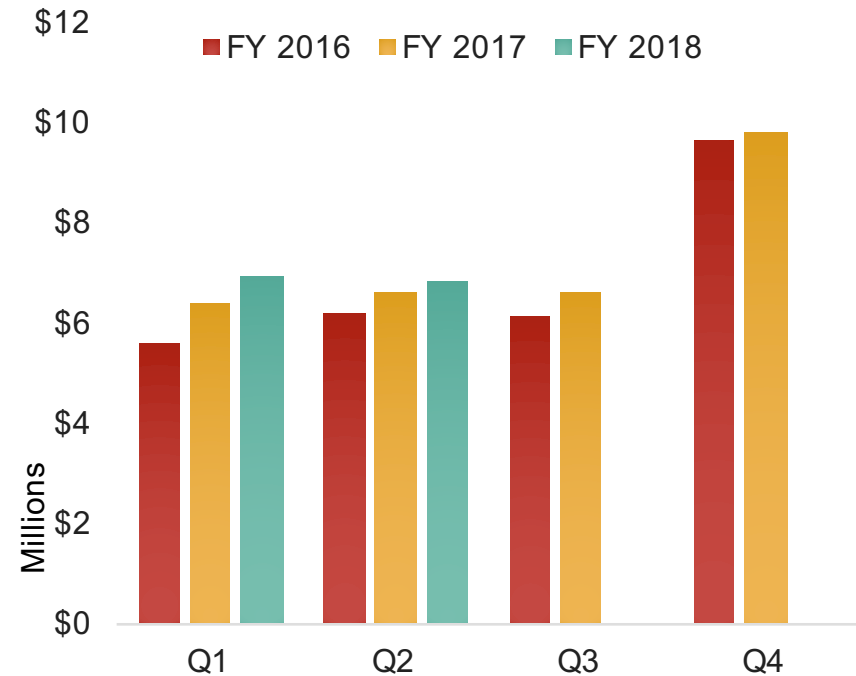
# Seasonality Impacts Financial Performance

Expect recurring revenue line growth to mute impact from seasonality

## Revenues



## Gross Profit





# Adjusted EBITDA by Quarter

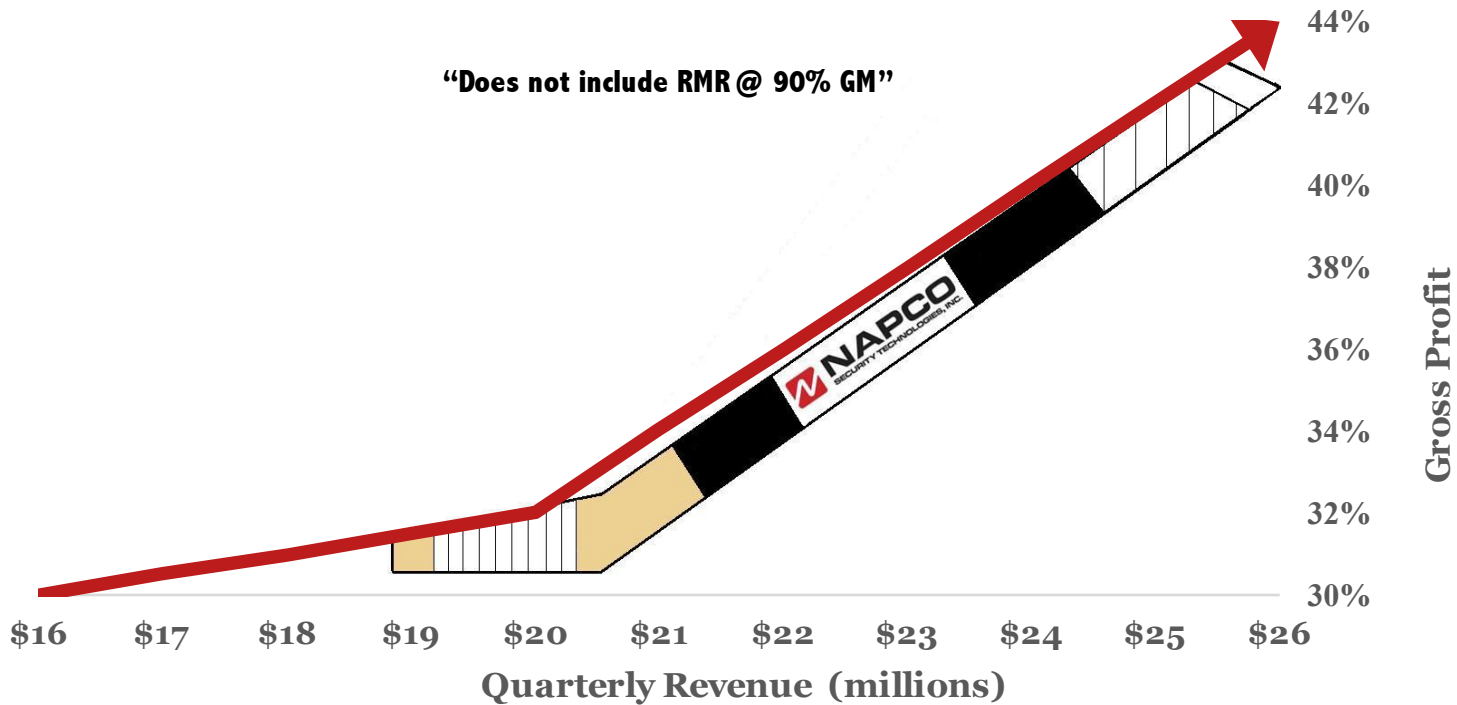


**Non-GAAP Information** Certain non-GAAP measures are included in this presentation, including EBITDA, non-GAAP operating income and Adjusted EBITDA. We define EBITDA as GAAP net income (loss) plus income tax expense (benefit), net interest expense and depreciation and amortization expense. Non-GAAP operating income does not include impairment of goodwill, amortization of intangibles, restructuring charges, stock-based compensation expense and other infrequent or unusual charges. These non-GAAP measures are provided to enhance the user's overall understanding of our financial performance. By excluding these charges our non-GAAP results provide information to management and investors that is useful in assessing NAPCO's core operating performance and in comparing our results of operations on a consistent basis from period to period. The presentation of this information is not meant to be a substitute for the corresponding financial measures prepared in accordance with generally accepted accounting principles. Investors are encouraged to review the reconciliation of GAAP to non-GAAP financial measures included in the above.

# Business Leverage for Manufacturing

Hockey Stick = Revenues > \$20MM per Q. (profitability accelerates dramatically)

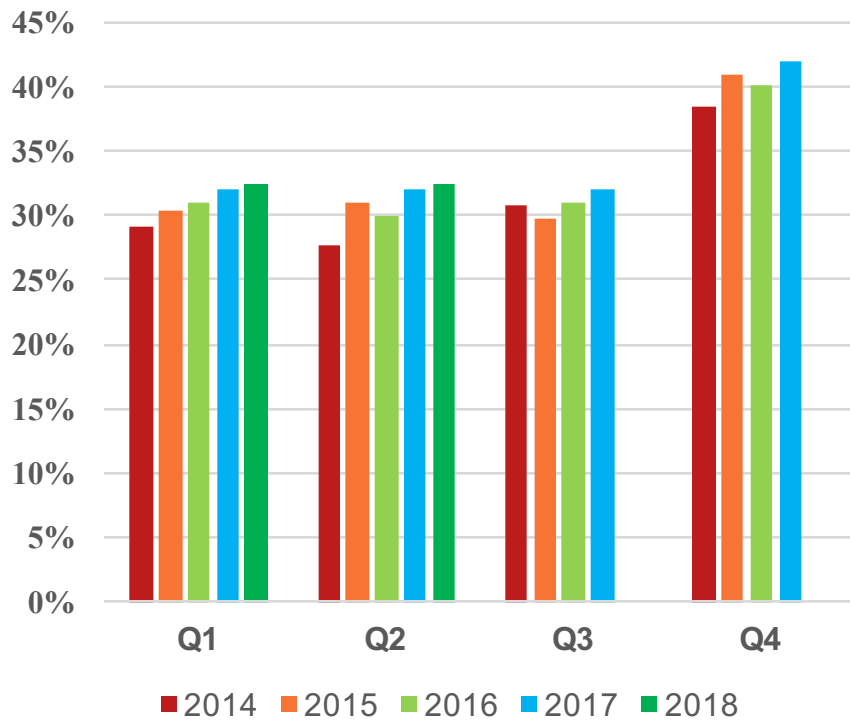
How do we get here?  
Alarms+ Locks+  
Access Control+  
SaaS (RMR)



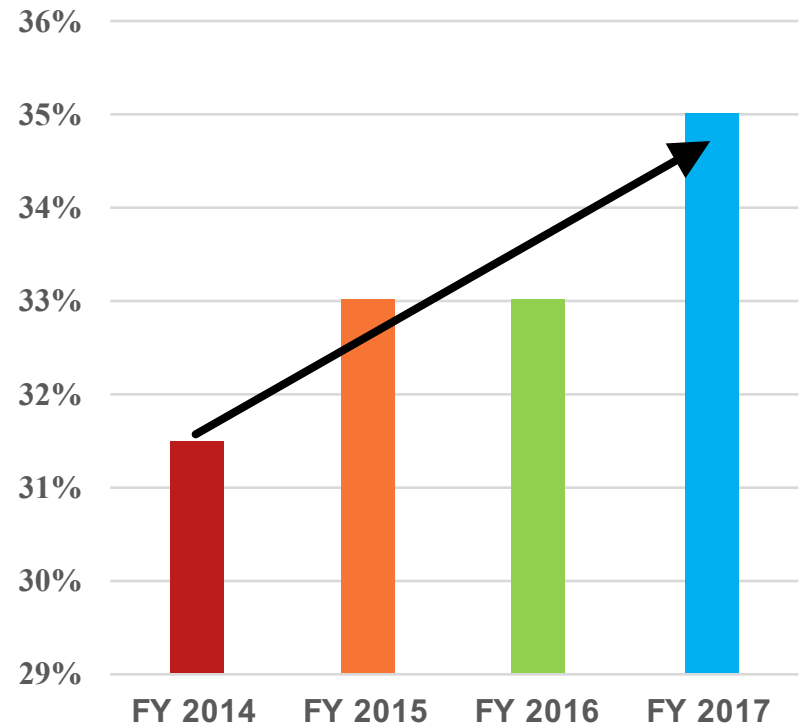
# Gross Margin Trends

Gross Profit Improves with Revenues > \$20MM

## Quarterly



## Fiscal Year Average



# Selected Balance Sheet Highlights

December 31, 2017 (millions)

Cash and Cash Equivalents	\$3.9
Working Capital <sup>(1)</sup>	\$39.6
Total Assets	\$70.5
Debt, Net of Cash	\$0
Total Liabilities	\$11.5
Stockholders' Equity	\$59.0
Diluted Shares Outstanding <sup>(2)</sup>	18.9

(1) Working capital shown as total current assets less total current liabilities.

(2) Diluted shares outstanding as of September 30, 2017.



90,000 Square Feet



180,000 Square Feet



**Amityville, NY and Dominican Republic facilities on the books for < \$1MM while the market value exceeds \$15MM**

# Management

**Richard Soloway**  
**President & CEO**

- Founder, 30+ years security, electronics experience
- Founded two previous companies the first of which installed electric garage door openers and the second manufactured guitar amplifiers, buzz boxes and wah wah pedals
- Winner of numerous awards including Ernst & Young's Entrepreneur of the Year and holder of patents relating to security products

**Kevin Buchel**  
**Senior Vice President & CFO**

- Over 25 years of experience in the security industry
- Began career at Coopers & Lybrand
- Certified Public Accountant

**Jorge Hevia**  
**SVP, Sales and Marketing**

- 16 years of experience in the security industry
- Successful track record in marketing and sales at leading consumer product companies such as Colgate-Palmolive and Unilever

**Michael Carrieri**  
**SVP, Engineering**

- 15 years of experience in the security industry
- Extensive knowledge of developing advanced electronic products with applications in military/defense, media/broadcasting and consumer electronics
- Fire Chief Emeritus of the Fire Department of Melville, Long Island

**Stock Price: 9.60**  
**52 Week Range : 4.95-10.95**  
**Shares Outstanding : 18.8 MM**  
**Market Capitalization : 180.4 MM**

**Insider Ownership**  
**38 Percent**



**Institutional Holders (33% +)**

**Alexander Capital**  
**Wasatch Advisors**  
**Kennedy Capital**  
**Teton Advisors**  
**Granite Investment**  
**Wells Capital**

**Analyst Coverage**

**CANACCORD Genuity**  
**The Benchmark Company**

Data as of February 2, 2018



# Summary



If you would like to receive an electronic copy of this presentation:

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