PrimeStone

Long Term Value Creation Through Constructive Active Sponsorship

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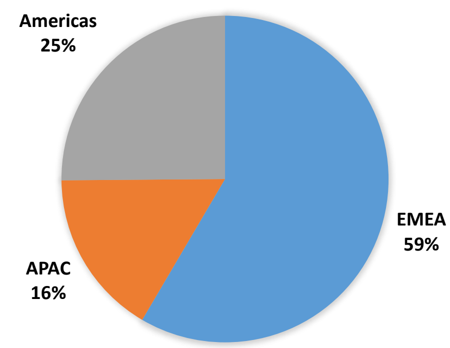
Investment Case: Dorma + Kaba (DOKA SW)

Business Description

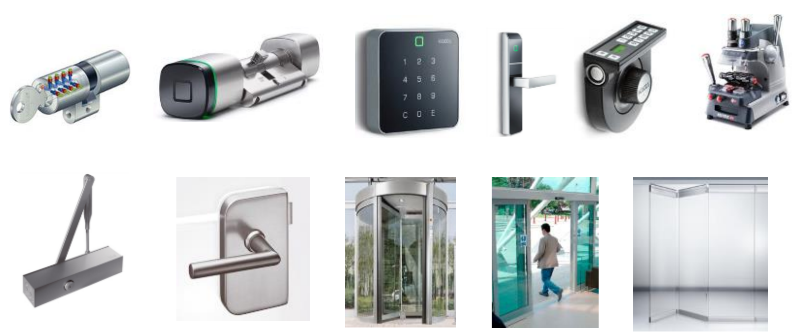
- Leading global provider of security solutions primarily to corporate clients
- Product portfolio including cylinders, locks, door closers, automatic doors, electronic access systems, hotel and safe locks as well as key blanks and key cutting machines
- Global market presence which grew from a historical presence in Europe
- Dorma+Kaba currently employs c. 16,200 employees globally

Revenues Breakdown



Note: Excludes Global products division (Key Systems and Movable Walls)

Products



Summary Financials

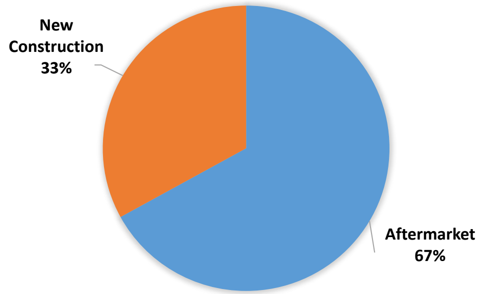
FYE, June 2015	Dorma EUR	Kaba CHF	Combined CHF
Sales	1,109	1,085	2,287
Gross Profit	468	477	985
Margin	42.2%	43.9%	43.0%
EBITDA	126	170	306
Margin	11.3%	15.7%	13.4%
EBIT	98	145	251
Margin	8.8%	13.4%	11.0%

Investment Merits

- Attractive industry
- Strong business
- Multiple levers to create value
- Pieces falling into place
- Attractive valuation given risk and upside potential

Attractive Industry (I)

- Resilience
  - 2/3 of revenues generated by installed based
  - Historical resilience in challenging macro environments



Revenue during last downturn

FYE, June	2009	2010	2011
Kaba	5.6%	(5.7)%	(0.4)%
Dorma	5.6%	(5.0)%	7.0%
Assa	(6.0)%	(4.5)%	3.5%

- Growth
  - Population
  - Urbanization
  - Security concern
  - Technology: upgrade to electronic locks

Revenue progression

	Historical Organic Growth Pre-Crisis	Current Organic Growth	Guidance
Kaba	5.0%	5.4%	6.5%
Assa Abloy	5.2%	4.0%	5.0%

Attractive Industry (II)

- High barriers to entry and sticky market shares
  - Installed base
  - Regulation
  - Prescriber/non-payer-led market
  - Brand
  - Distribution
  - Security

- Small and large players generating attractive margins and ROCE
  - Small: Salto 24% EBITDA margin, SimonVoss 23% EBITDA margin
  - Large: Assa 18%+ EBITDA margin, Allegion 20-21% EBITDA Margin

- Room AND strong economic rationale for consolidation
  - Room: Global market still fragmented – Assa Abloy with only 17% global market share
  - Strong Economic Rationale:
    - Global:
      - Purchasing and Manufacturing cost synergies
      - R&D 2-5% of revenues
      - Technology increasingly important
      - SG&A
    - Local:
      - Pricing, given importance of installed base and distribution
      - Distribution
      - SG&A

Strong Business

- Global top 3 player in security and door solutions

- Weighted average market share per strategic segment c.35%
  - #1 or #2 position in key markets representing 70% of EBIT
  - Eg. 50% market share in cylinders in Switzerland, 60% market share in US safe and hotel locks

- Strong product portfolio and innovation track record
  - 3.5-4% of sales in R&D spending

- Very strong brands

- Well-invested capital base
  - Capex of 2.6% of sales vs competitors 2.3% for competitors

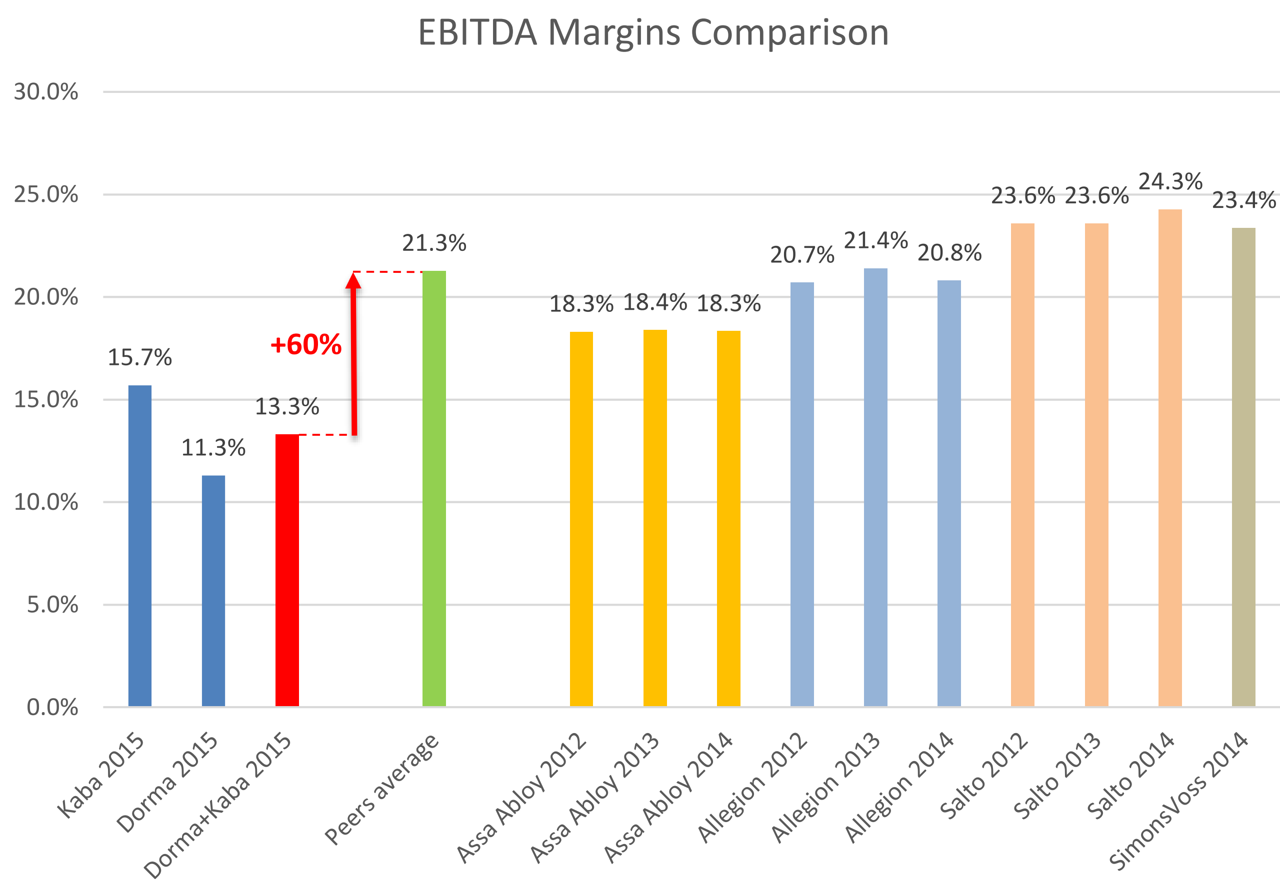
- Established network of relationships across the value chain
  - Architects and planners
  - Distributors
  - Installers, Contractors…

Multiple Levers To Create Value

- Operations
- Strategy
- Balance sheet
- Governance & Management

Multiple Levers To Create Value

- Operations: Substantial margin upside



Multiple Levers To Create Value

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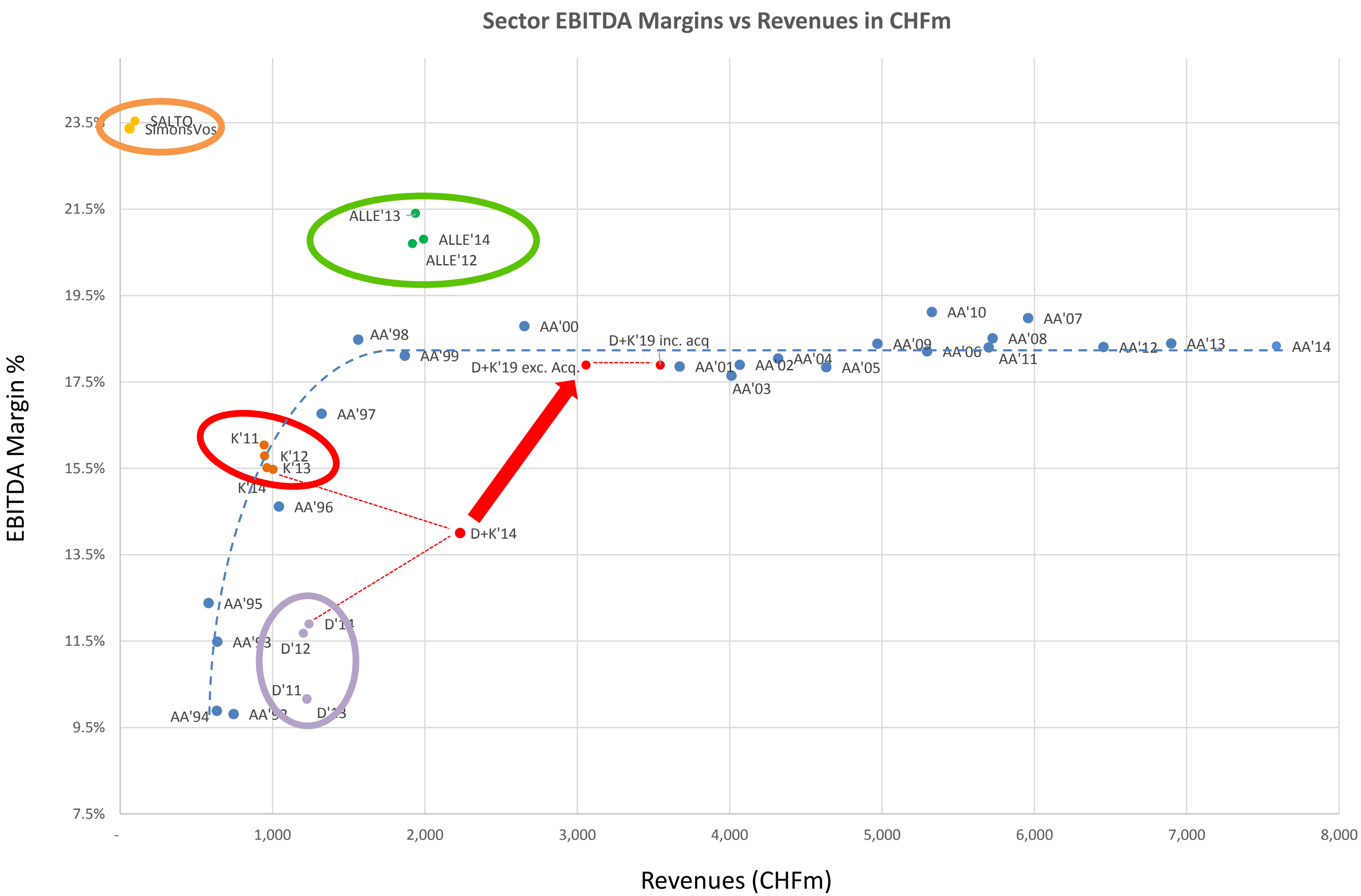
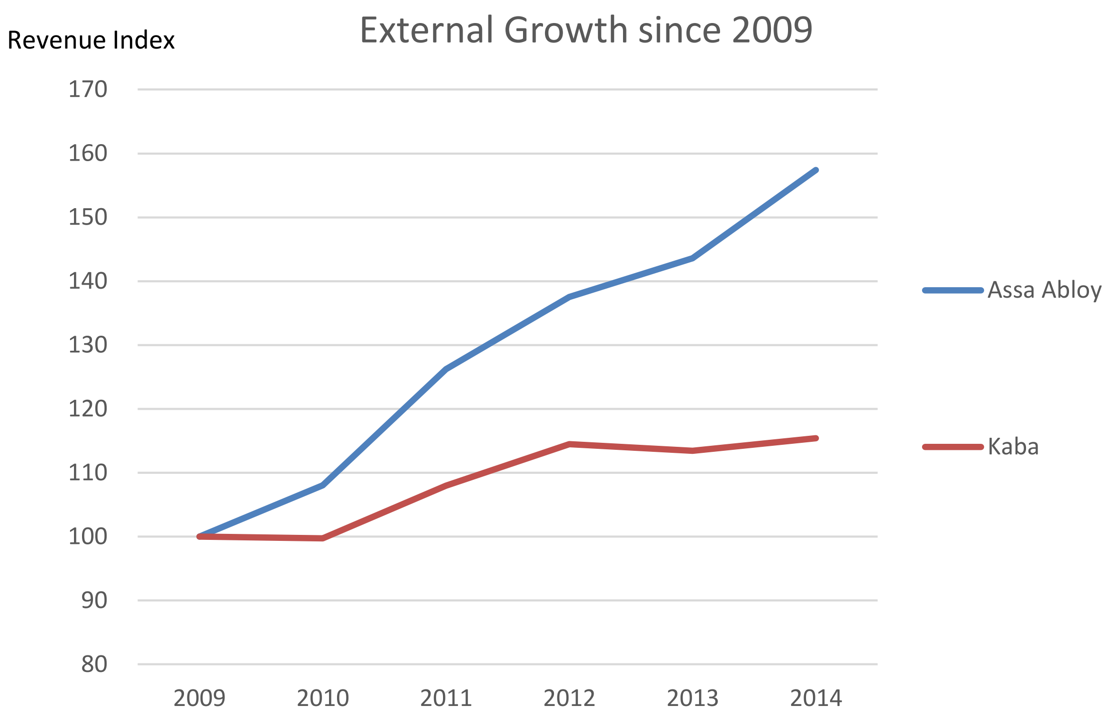


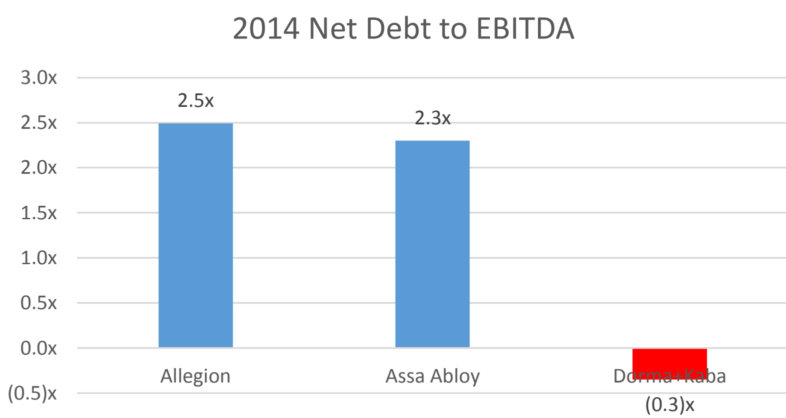
Multiple Levers To Create Value

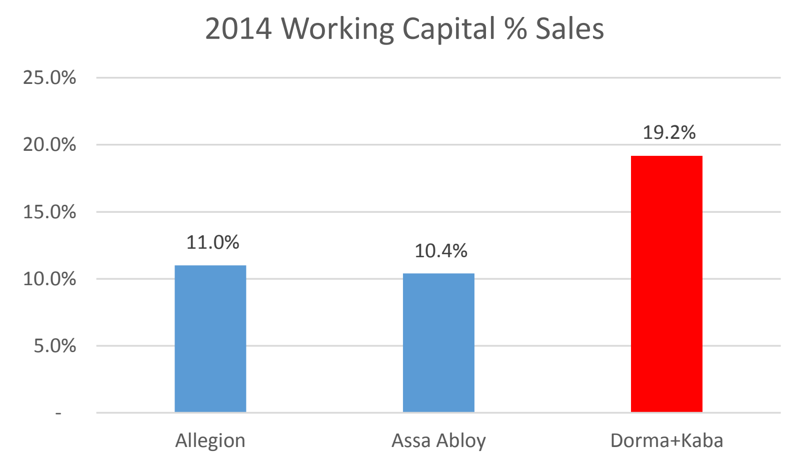
- Strategy: Potential for external growth

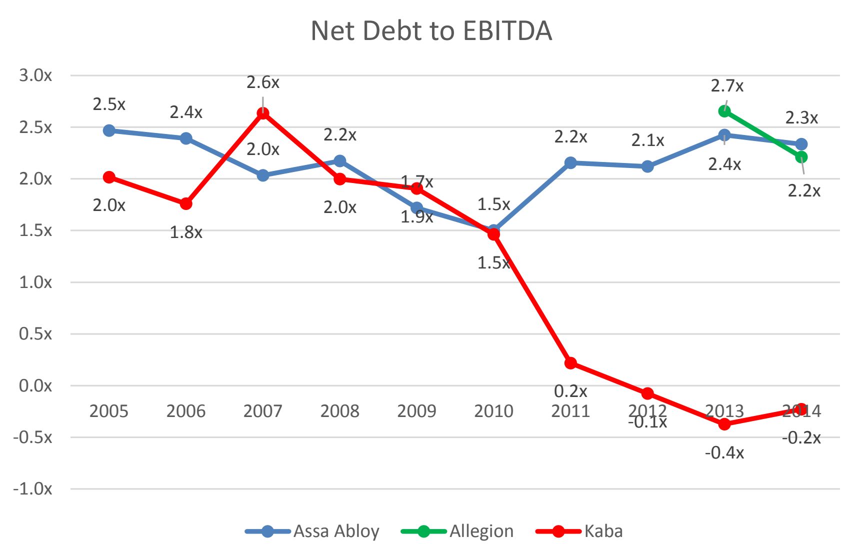


Multiple Levers To Create Value

- Balance sheet: Potential for more efficient use of capital

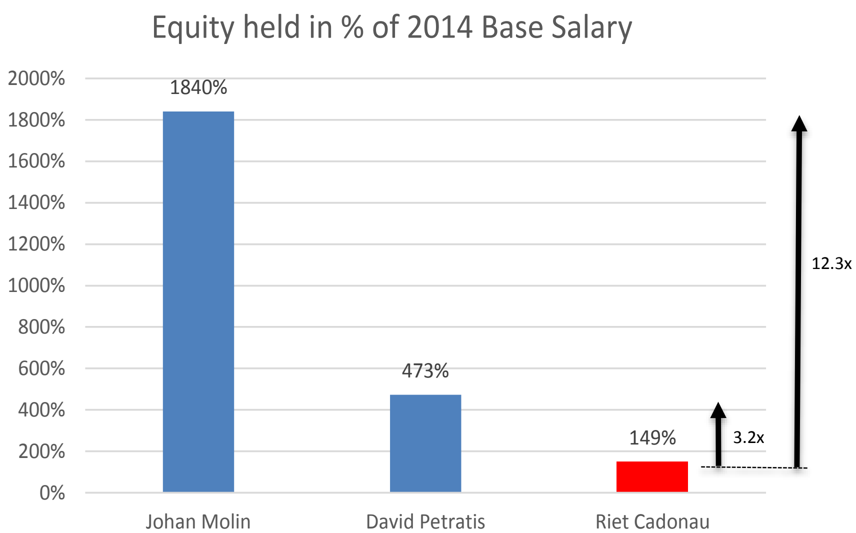


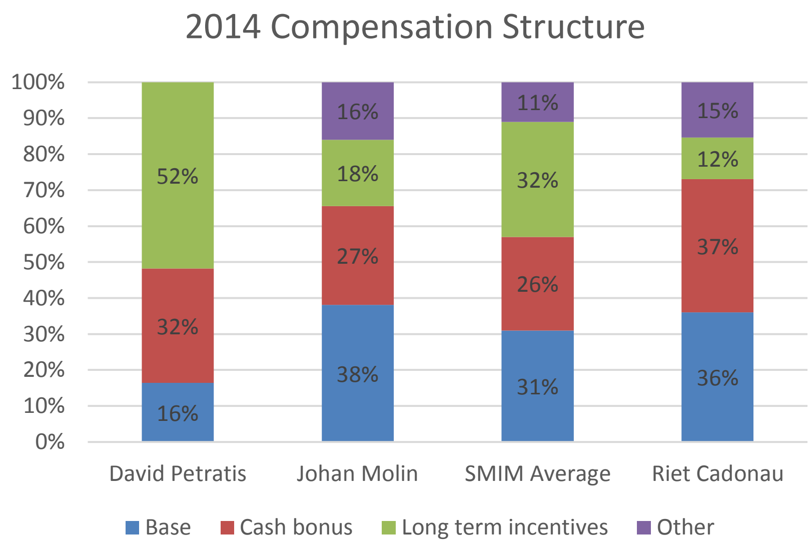




Multiple Levers To Create Value

- Governance & Management: Management incentive structure





Note: as of July 2015

Pieces Falling Into Place

- Operations
  - Target 18% EBITDA margin in 4 years announced
  - 800 redundancies discussed publicly
  - Bain Consulting hired in June and helping review entire business structure
  - Global head of purchasing recruited

- Strategy
  - Sale of non-core assets initiated
  - M&A capabilities being built

- Balance sheet
  - Focus on working capital
  - Recognition balance sheet is inefficient
  - Special dividend earlier this year

- Governance & Management
  - Comprehensive HR assessment
  - New team appointed (eg. CFO with private equity experience)
  - Radically improved senior management incentive scheme recently voted by AGM

Radically Improved Senior Management Incentive Scheme

- Constructive dialogue bearing fruits – Example: Top Management Incentives

Historic Incentive Structure

- Base salary and benefits competitive
- Annual performance bonus mostly in cash
  - Annual compensation in shares only 8-12%
- Very low executives' share ownership – no minimum required
- Long term incentive plan based on matching shares only linked to presence within the group
  - No performance requirement

New Incentive Structure*

- Base salary and benefits unchanged
- Balanced annual performance bonus including cash and shares
  - Annual compensation in shares of up to 30%, locked 3 years
- Minimum significant share ownership required for members of Board and Executive Committee
- Long term incentive plan based on matching shares
  - linked to 3-year EPS targets
  - up to an additional 30% of total compensation

Top Management energized, committed and better aligned with long term shareholders' interests

* Approved at 2015 AGM

Valuation

- Significant discount to best-in-class players, particularly adjusting for synergies and inefficient balance sheet

Current Valuation

	Jun-16
EV/EBITDA w. Synergies	**12.6x**
Assa Abloy	17.1x
Allegion	16.7x
Kaba vs Peer Average	(25.3)%
EV/EBIT w. Synergies	**14.8x**
Assa Abloy	19.2x
Allegion	19.2x
Kaba vs Peer Average	(23.2)%
Adjusted P/E w. Synergies	**18.9x**
Assa Abloy	23.8x
Allegion	23.4x
Kaba vs Peer Average	(19.9)%
P/E relevered w. synergies	**16.8x**
Kaba vs Peer Average	(28.6)%

Note: Management guidance for synergies of CHF65m

Share Price

Illustrative Returns – Management Guidance

PnL	Jun-16	Jun-17	Jun-18	Jun-19
Revenues	**2,563**	**2,729**	**2,907**	**3,095**
EBITDA	**374**	**435**	**515**	**557**
Margin	14.6%	15.9%	17.7%	18.0%
Indicative IRR at discount to peers				**16.0%**
Indicative IRR at current peers level				**23.1%**

Note: Discount to peers implies 15x EBIT exit valuation

Wrap-Up Comments

- Attractive industry
- Strong business
- Multiple levers to create value
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