



# **NAPCO Security Technologies, Inc.**

NasdaqGS (Global Select): NSSC

Security.  
Technology.  
Opportunity.

**Investor Presentation**

**September 2011**

**NSSC**  
**NASDAQ**  
GLOBAL SELECT



# Safe Harbor Statement

*This presentation and 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.*



# About NAPCO Security Technologies

**NAPCO is one of the world's most diversified manufacturers of security products, encompassing intrusion and fire alarms, building access control systems and electronic locking devices.**

**NAPCO has recently implemented recurring revenue opportunities within its products, creating a shift from a cyclical entity into a major cash flow model.**



# NAPCO Security Technologies

- Strong 30-year brand recognition in the Business-to-Business security industry
- Unique “pure play” security manufacturing company
- An increasing consumer need for security products
- Positioned for improved sales and profits
- Growing recurring revenue businesses
- Highly experienced management team
- Strong Business-to-Business network of more than 15,000 security dealers, integrators, locksmiths and contractors in 40+ countries
- ISO 9001:2008 Quality Certified Company



# Market Snapshot

Common Stock Ticker:	NasdaqGS: NSSC
Recent Stock Price:	\$2.63
52 Week Range:	\$1.55 – 3.02
Market Capitalization	\$50.8 million
Shares Outstanding:	19.3

- Publicly traded since 1972
- No shareholder dilution since IPO
- Share count increased due to 9 stock split/  
dividends issued
- 38.5% insider ownership



# Security Concerns Creating Opportunities

- \$115 billion, 5 year budget by the Department of Homeland Security for security of aviation, ports, ground transport, bio-terrorism and law enforcement
  - *Department of Homeland Security*
- Sales of network cameras and video servers are soaring and are expected jump from \$800 million in 2007 to \$1.2 billion by 2010
  - *Frost & Sullivan, JP Freeman, IMS Research and IDC*
- There was an increase of 7.2 percent in the number of burglaries in 2009 when compared the 2000 estimate.
  - *Preliminary Annual Uniform Crime Report for 2009, FBI/DOJ*

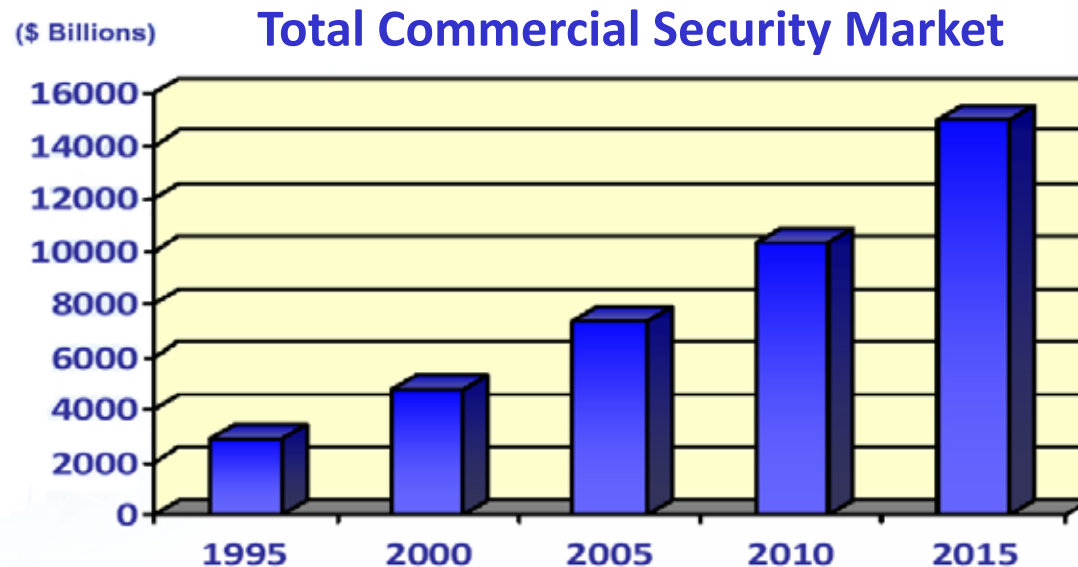


# Intrusion and Fire are Big Businesses

- In 2009, there were an estimated 2.2 million burglaries and 1.3 million fires reported, or one occurring every 14.3 and 23.4 seconds respectively.
- These fires caused more than 3,000 civilian deaths and in excess of 17,000 civilian injuries.
- Victims of burglary offenses and fires suffered an estimated \$4.6 billion and \$12.5 billion in lost property in 2009, respectively.
- Burglary accounted for 23.6% of the estimated number of property crimes committed in 2009.



# Large and Growing Commercial Security Market



Source: Freedonia Group: Electronic Security Systems 2010 - 2015

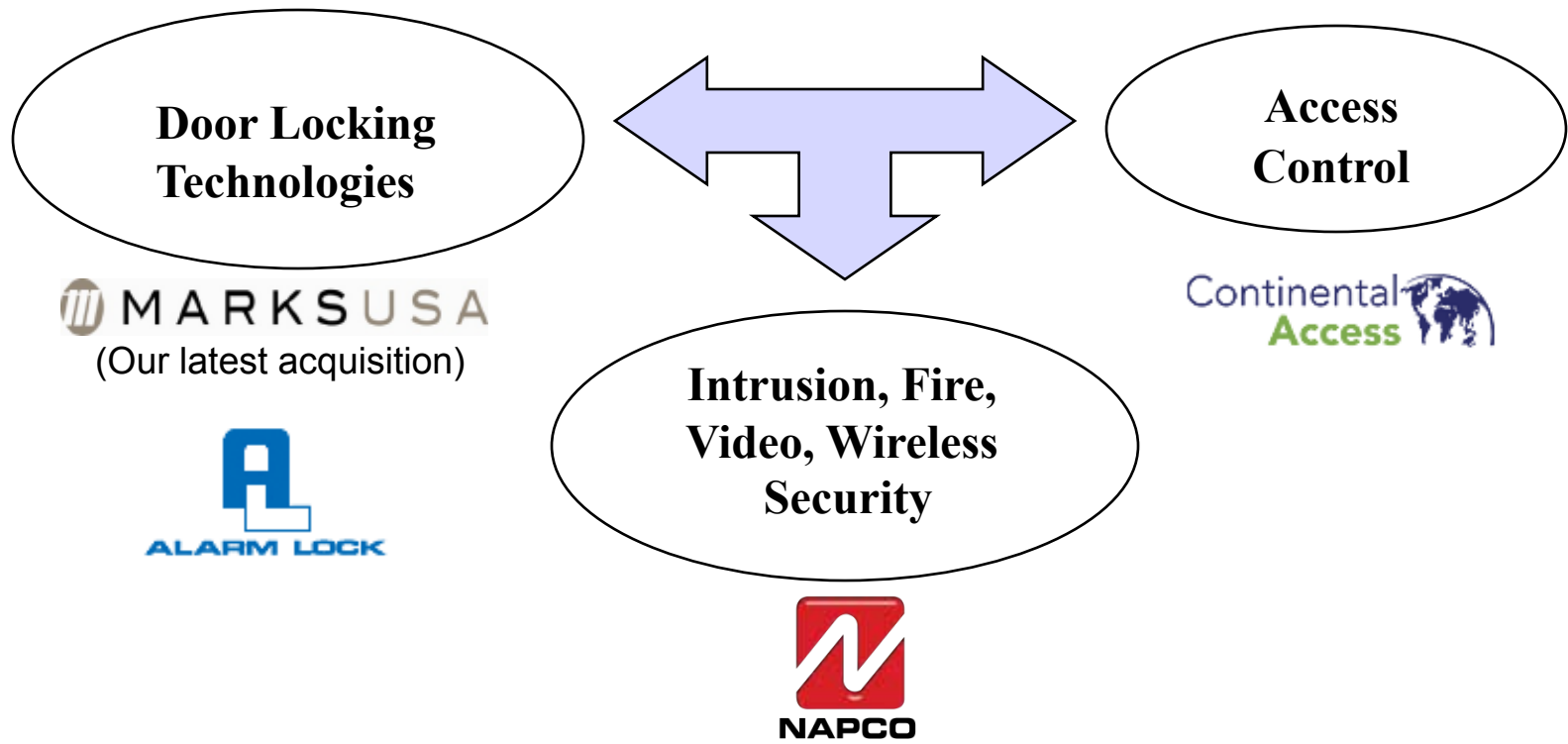
- Heightened global level of security consciousness in Post 9/11 era
- Deteriorating economic climate traditionally causes a greater need and demand for security products
- Increasing need for total solutions providers
- Increasing demand for new IP applications and video technologies
- Gains in residential “after-market” security sales expected during hard financial times





# Fully Integrated Security Solutions Manufacturer from the NAPCO Family of Companies

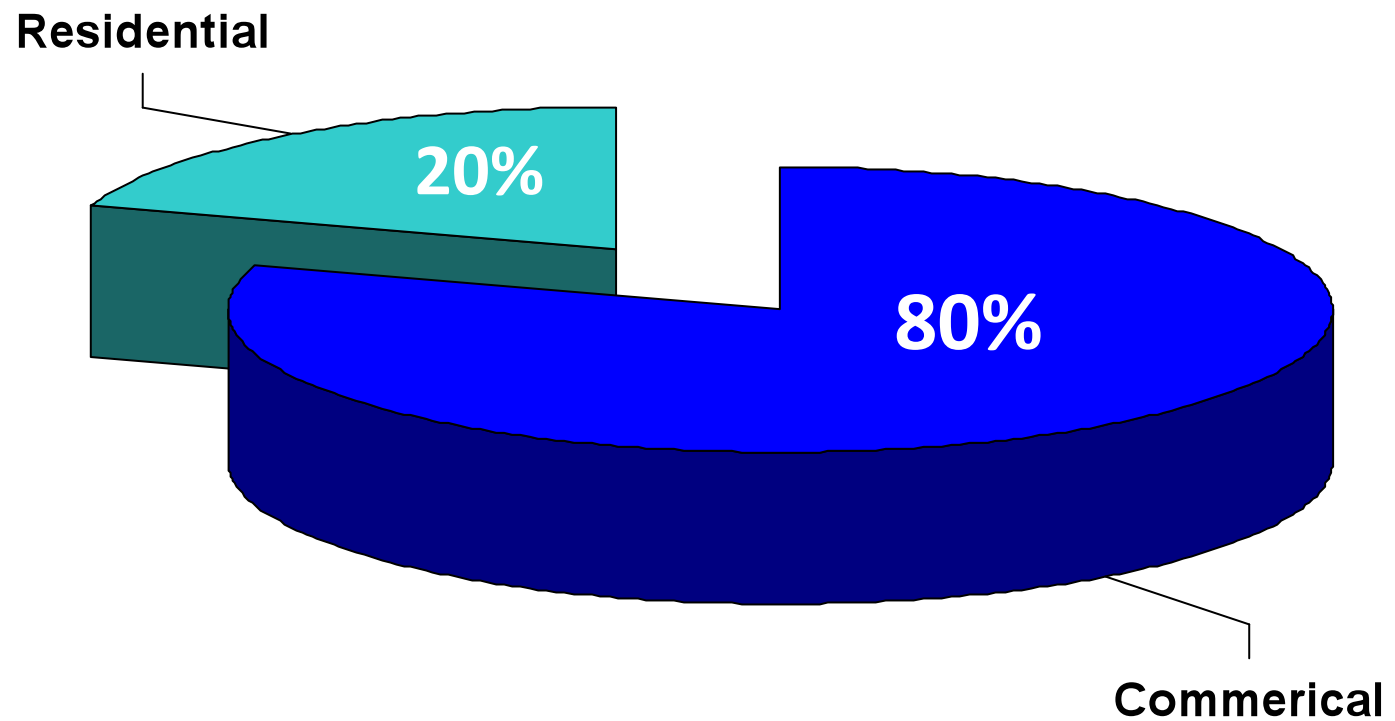
Complete One-Stop Shop for Security Equipment  
to the Growing Business-to-Business Network of  
Security Dealers



**NSSC**  
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# Business Sales Mix



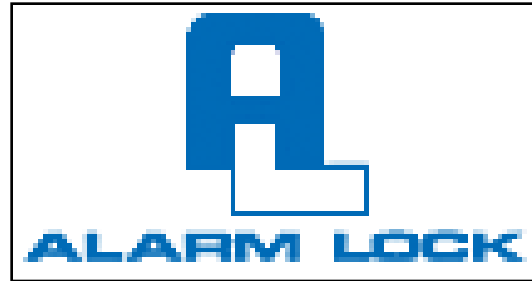


# NAPCO Branded

## Intrusion, Fire and Video Alarm Products

- Commercial and residential applications
- Government buildings and facilities
- Residential aftermarket installations
- Product sold through Company's authorized distribution network of over 200 B to B distributors
- Over 8,000 B to B dealers worldwide





DIVISION

# Electronic Locking Products

- Comprehensive line of push button, ID card and fingerprint operated electronic locks, door exit alarms and door security hardware
- **Applications**
  - Schools
  - Municipal institutions
  - Military bases
  - Airports
  - Commercial buildings
  - Government facilities
- **Products sold to 100+ professional locking distributors and over 6,000 locksmiths and contractors**
- **One of the Company's fastest growing divisions**





DIVISION

## Access Control Systems

- **Advanced line of PC-driven Access Control systems for commercial buildings**
  - Featuring video monitoring stations for security personnel, and supporting an array of card and biometric readers, all operating on proprietary software
- **Product sold to over 700 professional security systems integrators to**
  - Fortune 1000 companies
  - Federal and State Government agencies
  - Office building management companies
  - Airports
- **High margin/growth business**





**DIVISION**

(Our latest acquisition)

## Door Locking Technologies

- **Leading provider of Grade 1 high security industrial/ commercial door technology products**
  - Including mortise, cylindrical, electrified, tubular, electronic access and custom designed locksets, for industrial and commercial settings
- **High growth, higher margin business**
- **Products sold to a wide variety of worldwide projects**
  - White House
  - U.S. Senate Building
  - The Plaza Hotel (NYC)
  - The Visionaire (NYC)
  - Ritz Carleton Residences (MD)
  - The Trump Grande (FL)
  - The Mandalay Bay (NV)
  - Miami Int'l (FL), Reagan and Dulles airports (DC)
  - And thousands more



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# Competitive Strengths

## NAPCO's Worldwide Facilities

NAPCO Products Are Sold In 59 Countries Worldwide

Headquarters & Plant 1  
Amityville, NY

100% owned by NAPCO



250,000 square  
feet of space  
with a \$200+  
million  
production  
capacity

Plant 2  
Dominican Republic, Caribbean

100% owned by NAPCO



European Sales Office  
Warrington, U.K.







# Senior Management Team

(75 Years of Combined Experience in the Security Industry)

Richard Soloway

Chairman and CEO

(Founder, 30+ years security, electronics experience)

Kevin Buchel

Senior Vice President of Operations and Finance

(20 years with NAPCO, previously Coopers & Lybrand, CPA)

Jorge Hevia

Senior Vice President of Corporate Sales and Marketing

(10 years with NAPCO, previously Colgate Palmolive, Unilever,  
American Home Products)

Michael Carrieri

Senior Vice President of Engineering

(10 years with NAPCO, previously Hazeltine, NCR/AT&T, Boundless  
Technologies, Chyron)





# **Growth Strategy:**

## **New Products/Recurring Revenues**

- New products that are source of recurring revenues
- Higher profit margin products
- Upgrade sales source for security dealers
  - Commercial business concerned with security needs, e.g. retailers and shrinkage
  - Retrofits and upgrades for commercial and residential
- Products address high security applications
  - Assisted living facilities
  - Schools
  - Office suites
  - Hospital drug storage rooms
  - Mental health facilities
  - Security and behavior healthcare institutions



# Growing Recurring Revenue Business



- iSee Video equipment approximately \$300.00 per installation
- Recurring monthly service revenue up to \$2.50 per month per account
- 25 million consumers in USA currently monitored by alarm companies



# Growing Recurring Revenue Business



- \$200.00 alarm reporting radio for Residential and Commercial applications with a \$7.00 monthly recurring revenue component



# Some New Product Growth Drivers From the NAPCO Family of Companies



## **New! NAPCO Commercial 24V Combo Burglary & Fire**

14V Commercial Fire  
or Combo.

Burg/Fire, 32, 128 or 255  
Points of Analog, Addressable,  
Conventional,  
Comm'l Wireless & Hardwire



## **iRemote**

Remote control of your  
security system through  
mobile apps & any P.C.

**Marks USA's new 'Triple  
Play' - BHMA certified,  
Grade 1 door closers and  
Grade 1 and 2 exit devices**



## **Bioreader™ Biometric Fingerprint Reader (right)**





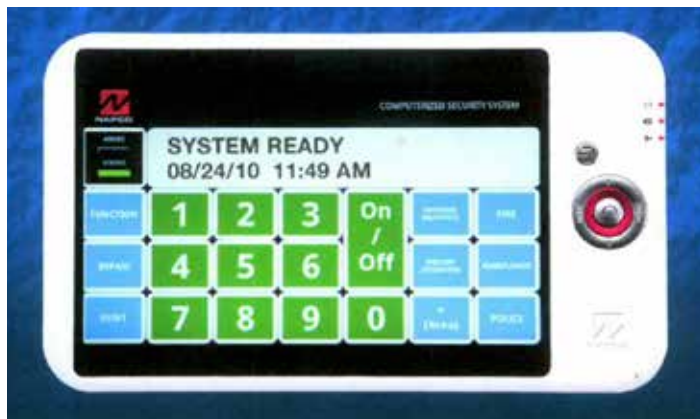
# New Product Introductions for Fall 2011

## Oriented toward delivering recurring revenue streams

**Starlink™ Wireless** – NAPCO's next generation of 2-way, uploading/downloading, GSM communicator, which will provide dealers with the ability to do away with the need for traditional phone lines to communicate alarms. Priced at sub \$100.00. Huge RMR potential.



**iBridge™ Home Control Center** – a new product line that will provide consumers with the ability to view video cameras and recordings, control thermostats and appliances, operate lighting and interact with their alarm systems, within a premise and works in conjunction with mobile app, cell phone, personal computer or any other product that provides online, internet communications. The product will use an advanced 7-inch, wireless iPad to interact locally with the system.





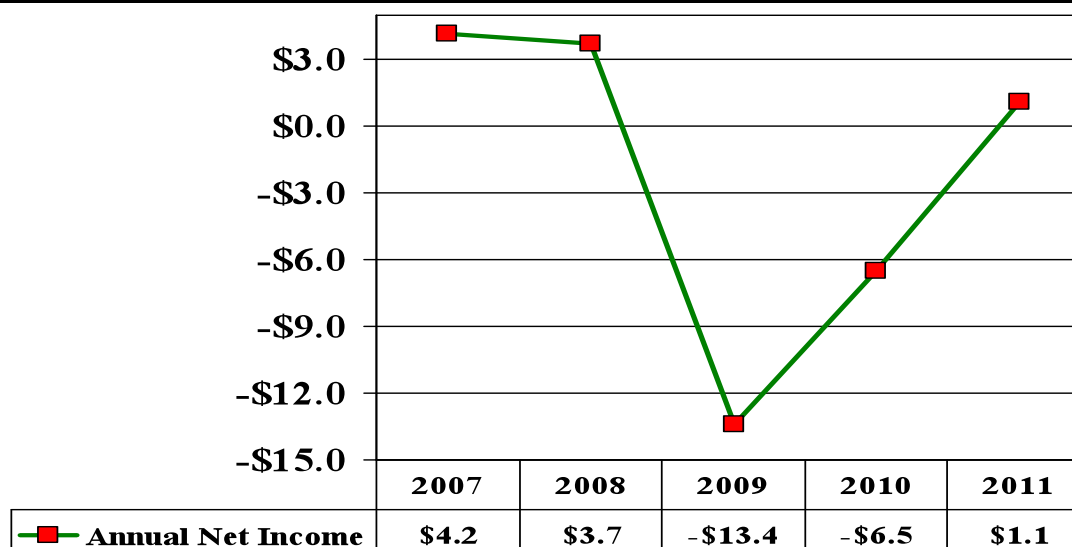
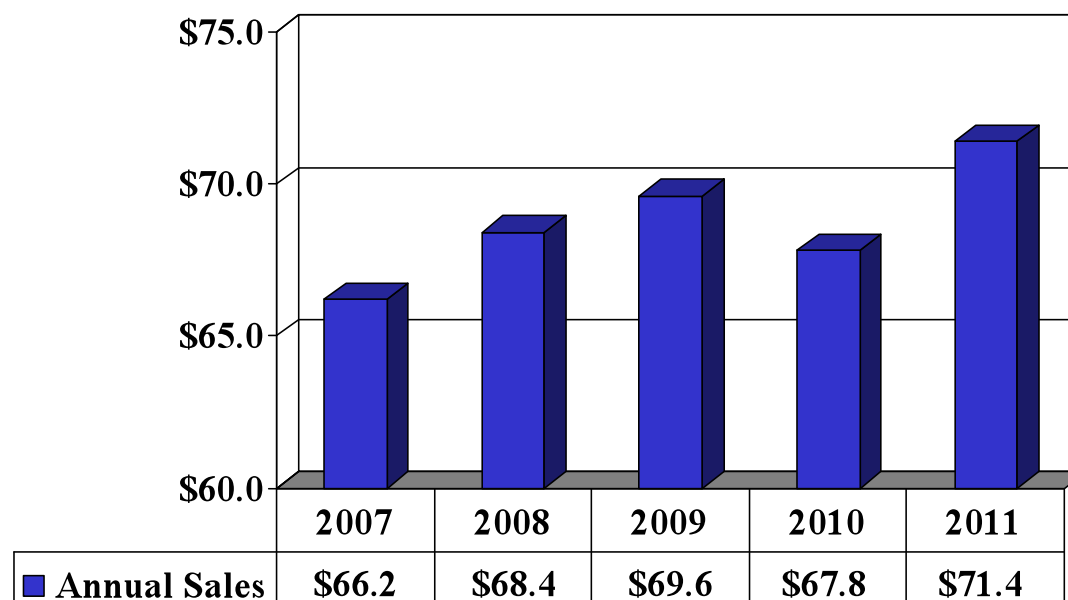
# Financial Results and Overview

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# Historical Financial Data

(FY June 30 – Millions of Dollars)





# Q4:11 Financial Highlights

(Ended June 30, 2011)

- Gross profit increased 113% to \$6,475,000 or 31.3% of sales as compared to \$3,040,000 or 14.7% of sales for the same period a year ago.
- Operating income increased by \$3,739,000 to \$2,042,000 as compared to an operating loss of \$1,697,000 for same quarter a year ago.
- Adjusted EBITDA increased by \$3,130,000 to \$3,257,000 as compared to adjusted EBITDA of \$127,000 for the same period a year ago.
- Net income increased \$3,295,000 to \$1,403,000 or \$0.07 per share as compared to \$(1,892,000) or \$(0.10) per share for the same period a year ago.
- Cash generated by operating activities was approximately \$2.1 million.
- Debt, net of cash, was reduced by \$1.8 million.





# Year End Financial Highlights

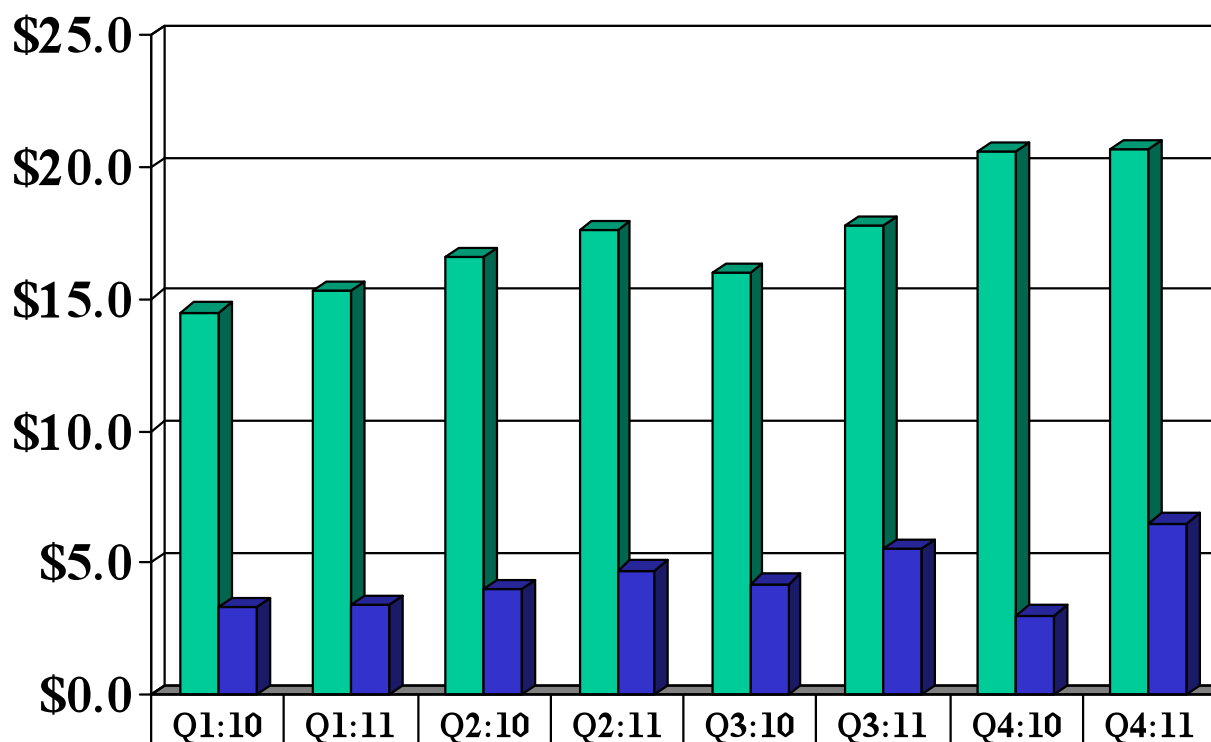
(Ended June 30, 2011)

- Net sales increased 5% to a record level for the Company of \$71,392,000, from \$67,757,000 a year ago.
- Gross profit increased 38.4% to \$20,101,000 or 28.2% of sales as compared to \$14,522,000 or 21.4% of sales for the same period a year ago.
- Operating income increased by \$7,724,000 to \$2,513,000 as compared to an operating loss of \$5,211,000 for the same period a year ago.
- Adjusted EBITDA increased by \$5,834,000 to \$6,268,000 from a \$434,000 for the same period a year ago.
- Net income increased \$7,621,000 to \$1,121,000 or \$0.06 per share as compared to the net loss of (\$6,500,000) or (\$0.34) per share for the same period a year ago.
- Cash generated by operating activities was approximately \$4.4 million.
- Debt, net of cash, has been reduced by \$15.2 million from \$35.9 million to \$20.7 million since acquiring Marks USA in August of 2008; \$3.6 million of this reduction occurred in fiscal 2011.



# Seasonality\* Reflected Quarterly Analysis

(Fiscal year ended June 30, figures in millions)



Net Sales	Q1:10	Q1:11	Q2:10	Q2:11	Q3:10	Q3:11	Q4:10	Q4:11
	\$14.5	\$15.3	\$16.6	\$17.6	\$16.0	\$17.8	\$20.6	\$20.7
Gross Profit	Q1:10	Q1:11	Q2:10	Q2:11	Q3:10	Q3:11	Q4:10	Q4:11
	\$3.3	\$3.4	\$4.0	\$4.7	\$4.2	\$5.5	\$3.0	\$6.5

\* - Q1 is always the lowest

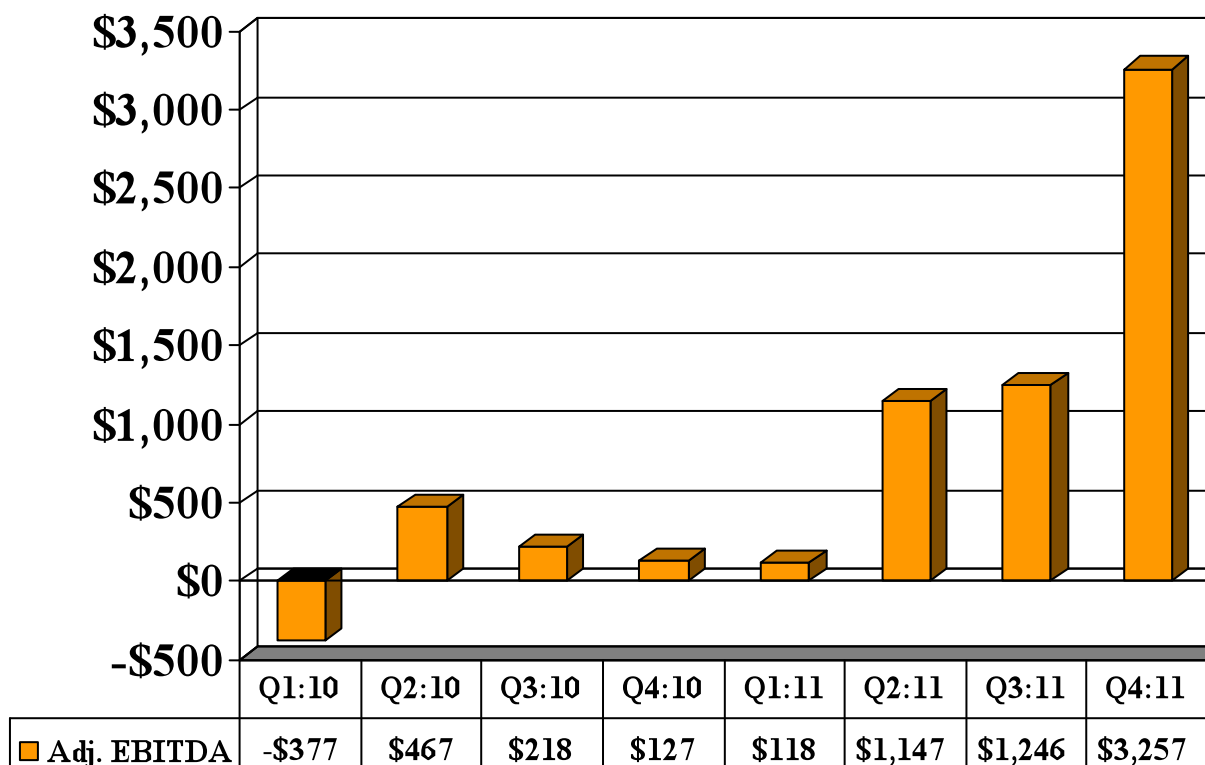
- Q2 & Q3 is higher and about the same

- Q4 is always the highest quarter



# Adjusted EBITDA\*

(Fiscal year ended June 30, figures in thousands)



## \* Non-GAAP Information

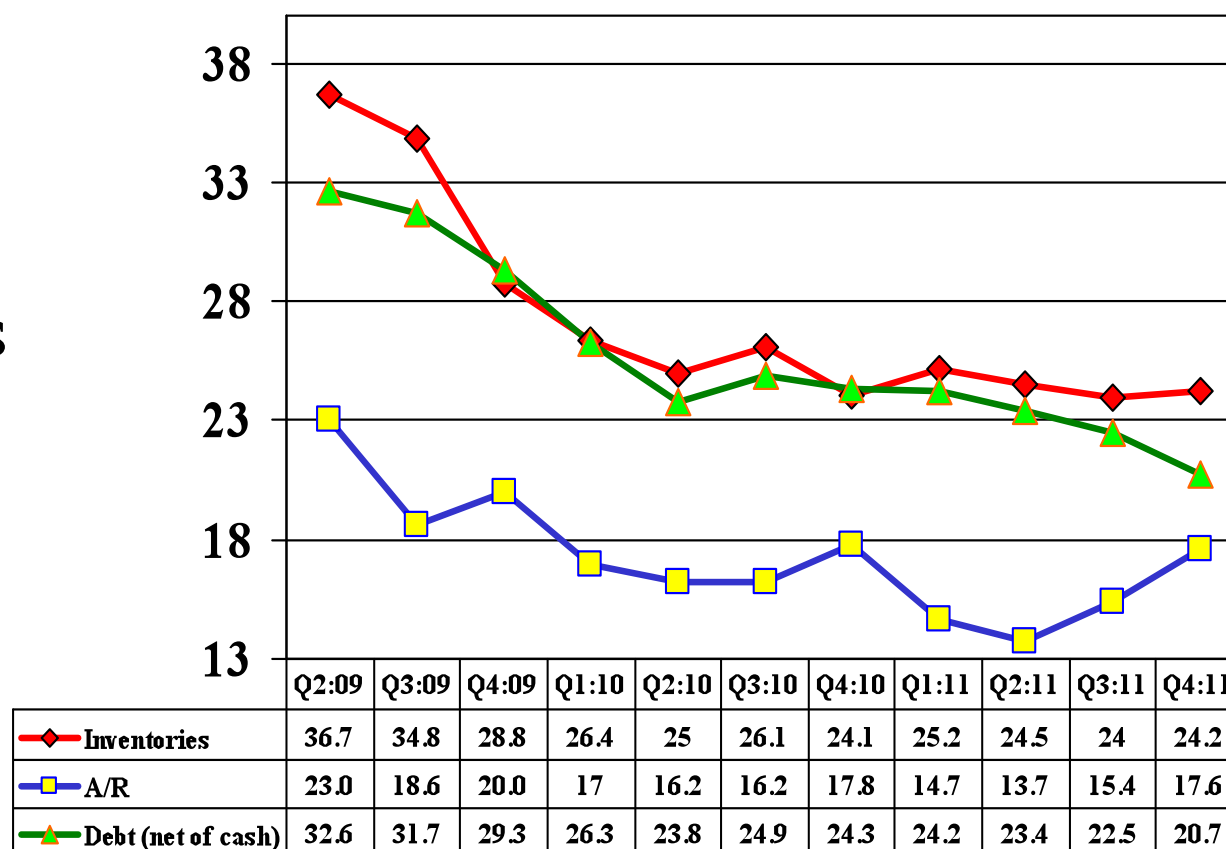
Certain non-GAAP measures are included in this press release, including EBITDA, non-GAAP operating income and Adjusted EBITDA. We define EBITDA as GAAP net income (loss) plus income tax expense (benefit), net interest expense and depreciation and amortization expense. Non-GAAP operating income does not 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.



# Balance Sheet Analysis

For Last 11 Quarters with most recent Ending  
June 30, 2011

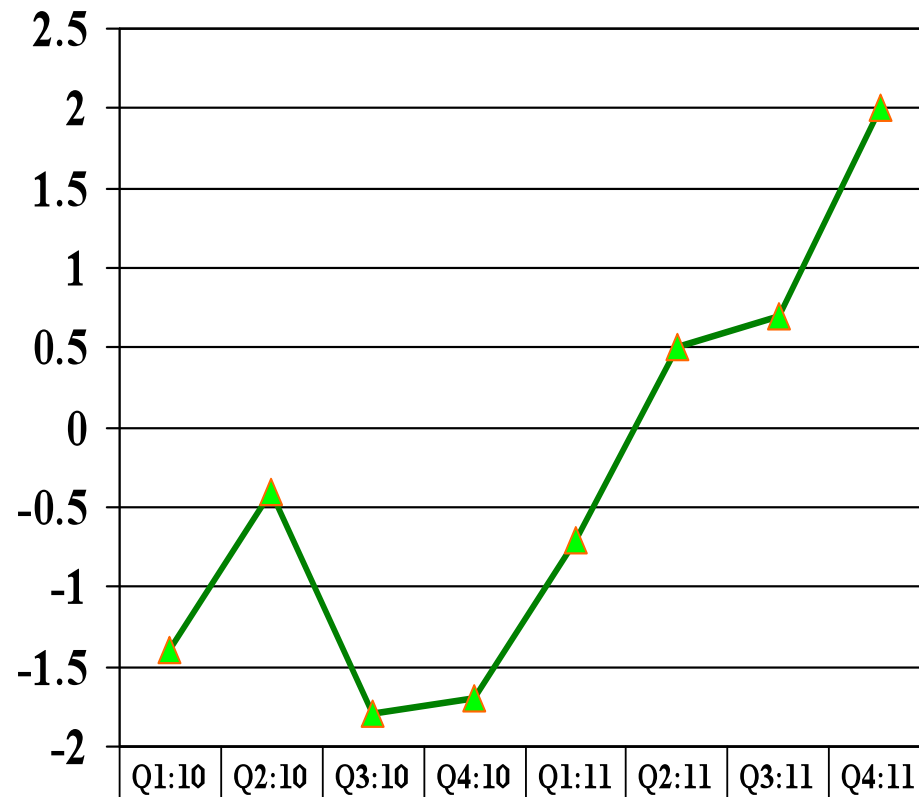
Millions \$





# Operating Income

Millions \$



**Operating income is trending higher over last few quarters due to increase in sales and improved efficiencies, which should continue as Company moves into seasonally stronger quarters.**



# Building Shareholder Value

- Global need for security products
- Broad product array addressing multi-billion dollar security marketplace
- New state of the art products with recurring revenue streams
- Strategic accretive acquisitions
- Opportunities for growth, margin expansion and enhanced profitability
- We believe the timing is right for strong growth