



NAPCO Security Technologies, Inc.

NasdaqGS (Global Select): NSSC

Security.
Technology.
Opportunity.

February 2014



Safe Harbor Statement



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.

Investor Highlights



Only 1-Stop Shop in Security

- Napco is the only publicly traded company that manufactures for all three security categories:
 - Alarm & Intrusion
 - Door Locking Devices
 - Access Control
- A unique “pure play” security company

Positive Market Dynamics

- Budget reductions and cuts in Police/Fire causing greater need for more security/alarm products
- Access control is fastest growing segment of the security industry (per Freedonia Group Inc. study)
- Napco sells to 15,000 security dealers, integrators, locksmiths and contractors in 40+ countries
- “*Connected Home*” and school security driving demand for high-tech options

Profitability by Leverage

- With a relatively fixed cost structure, increases in our revenue will result in a disproportionately larger change in our operating income
- Historically \$20m revenue, yields \$1.8m net income
- Reduced debt by more than half in last four years

New High Margin Products & Recurring Revenue

- GEM C product enters NAPCO into big commercial fire systems market
- Starlink 2 Wireless & iBridge join iSee Video products to add recurring revenue
- Shift business from cyclical to major cash flow model

Intrusion and Fire are Big Businesses



From 2010 to 2011, household burglary increased 14% from 25.8 to 29.4 per 1,000 households

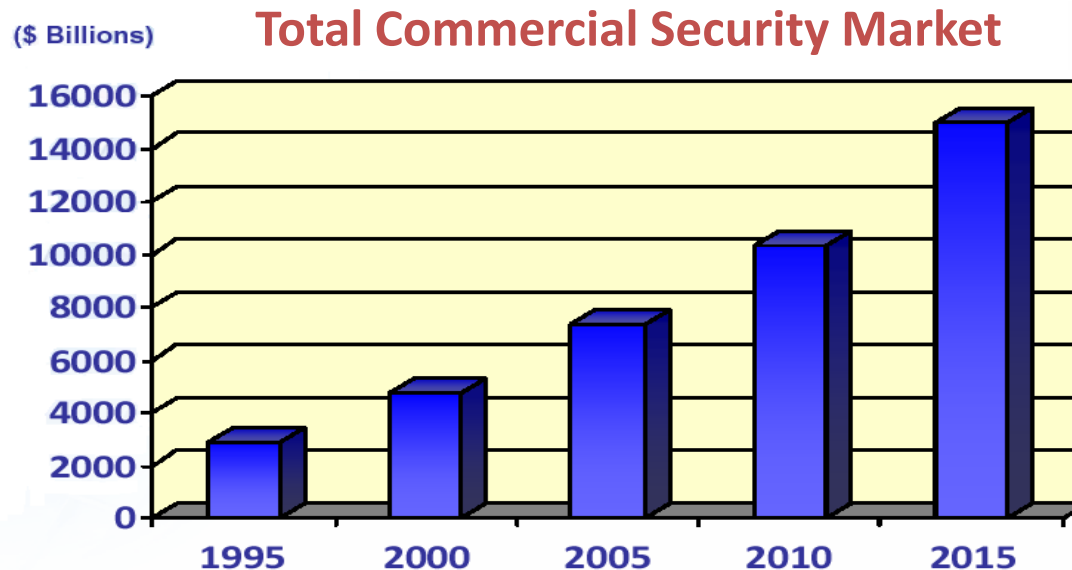
Fires caused more than 3,005 civilian deaths, more than 17,500 civilian injuries, and an estimated \$11.7B in direct property loss

In the U.S. in 2011, there were an estimated 9.1M property crimes; collectively, victims of property crimes (excluding arson) lost an estimated \$15.6B

Home fires caused 2,520, or 84%, of the civilian fire deaths
\$6.9B of property loss occurred in home fires

Sources: 2012 FBI Uniform Crime Report, Bureau of Justice Statistics, and National Fire Protection Association

Large & Growing Commercial Security Market



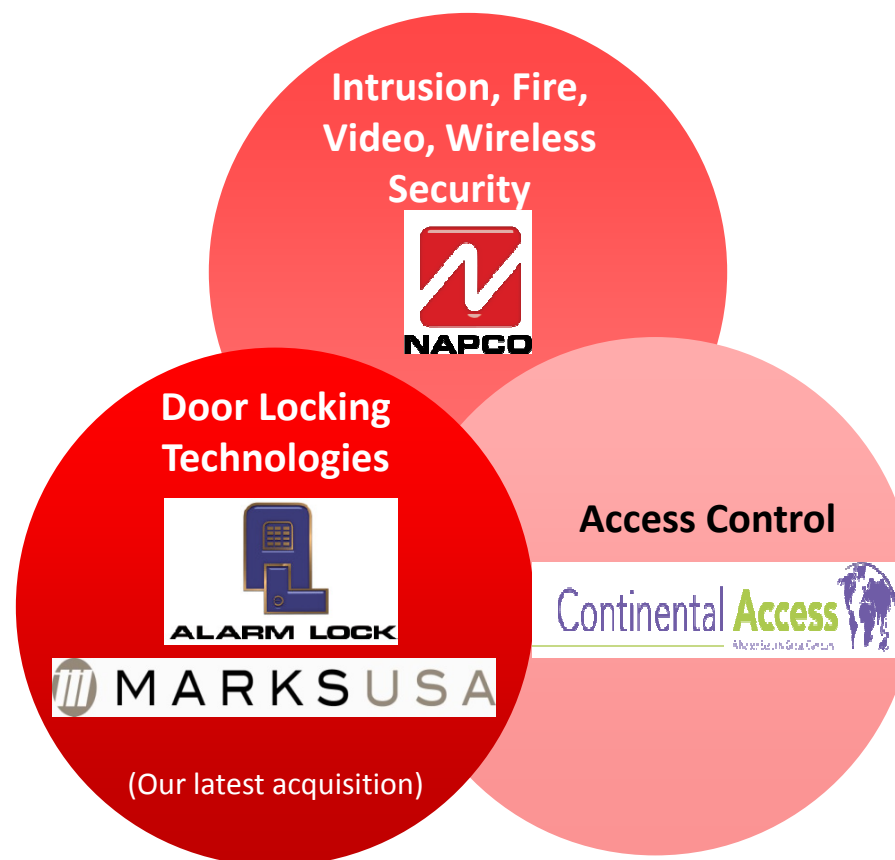
Source: Freedonia Group: Electronic Security Systems 2010 - 2015

- Intrusion \$2.4 billion market, 20 competing companies; no dominant player
- Video surveillance \$6.5 billion market 10-20% annual growth rate, one of the fastest growing segments within the security industry; 10 players controlling ~50%; no single company has an overriding share
- Access control \$4 billion, growing at 10-15% annually
- U.S. fire detection and monitoring market \$6 billion in size. Tyco is the largest provider other major competitors including Honeywell, Siemens, GE, and Johnson Controls

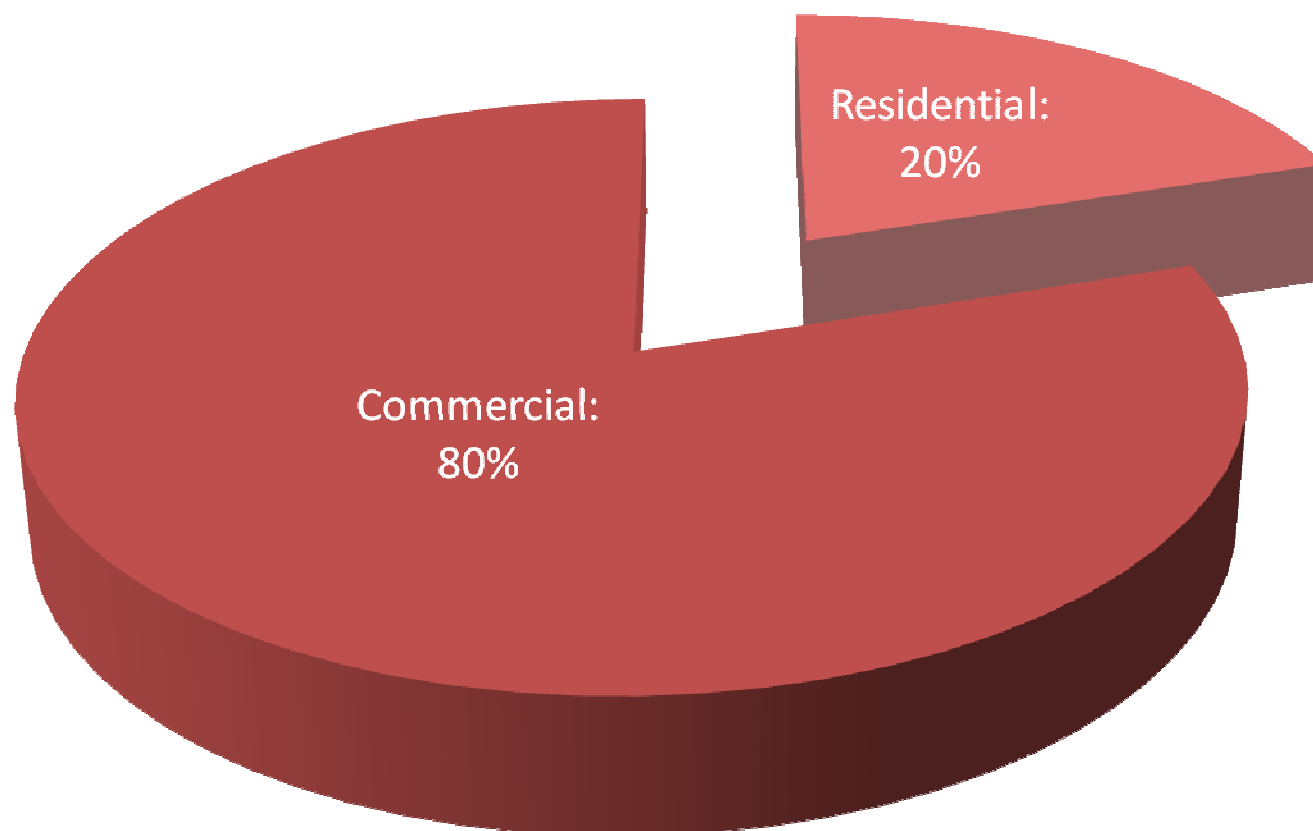
Fully Integrated Security Solutions



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



Business Sales Mix



Product Lines



**Intrusion, Fire and
Video Alarm Division**



**Electronic Locks
Division**



**Access Control
Division**



**Door Locking
Technologies Division**



Marks Loc-DownT Technology



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 annual
production
capacity

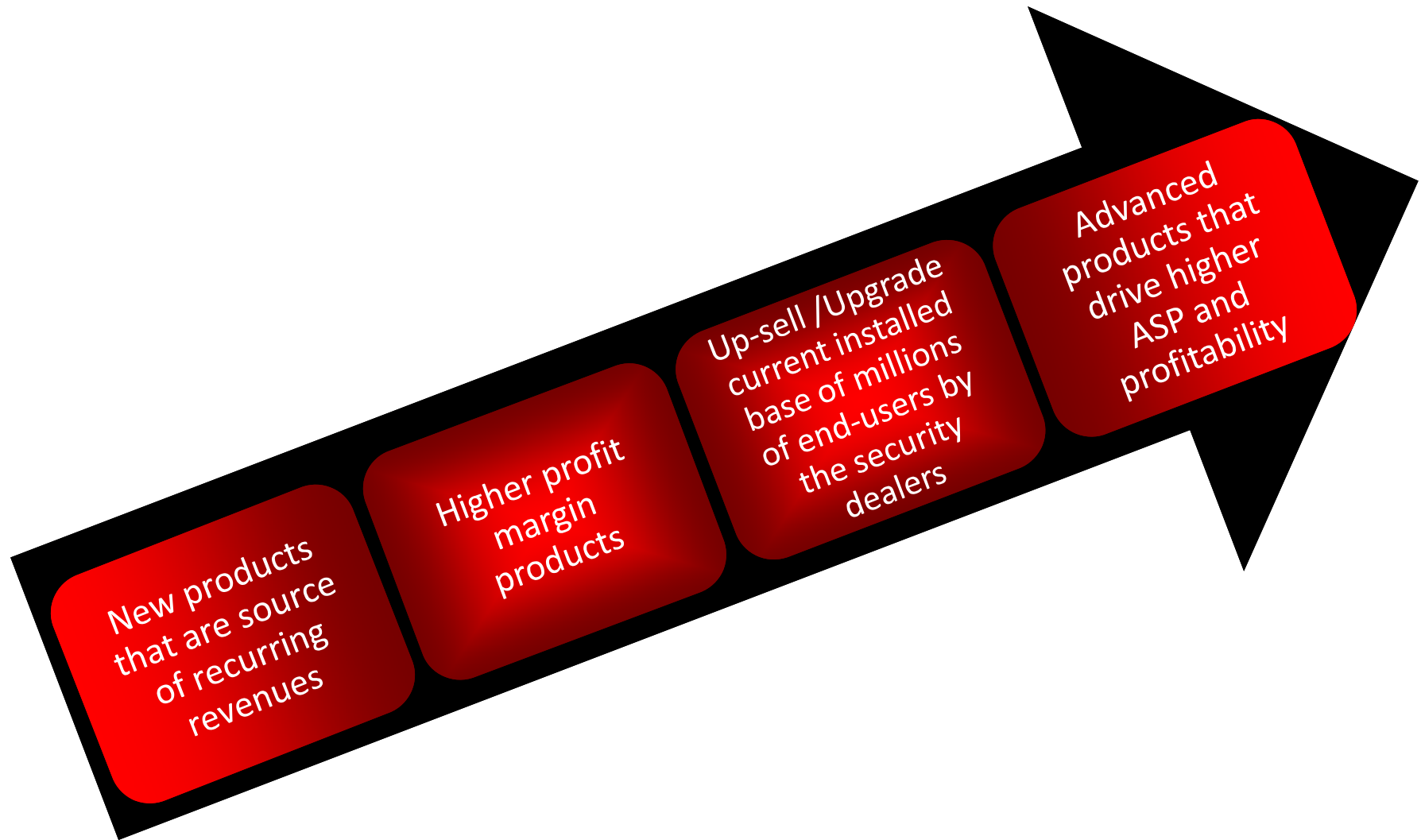
Plant 2

Dominican Republic, Caribbean

100% owned by NAPCO; ISO9001 certified



New Products/Recurring Revenues



New Product Introductions Targeted Toward Delivering Additional Recurring Revenue Streams



StarLink3 Wireless Communicator—

NAPCO's next generation GSM communicator, has a larger market potential as it works with any security panel brand and virtually anywhere, even in fringe areas. It will provide dealers with the ability to eliminate the need for traditional phone lines to communicate alarms. It features an upgradable communications module for adapting to changes in cell carrier networks in the future. Also, it provides Napco Dealers the added benefit of fast remote up/downloading of programs.

Its Optional StarLink Consumer App provides subscribers the ability to turn on/off their alarm systems remotely via smartphone/tablet.

Priced at \$119 to installers for the hardware and \$5.95/month for the service. Huge RMR potential.

New Product Introductions Target 'Connected Home' and Additional Recurring Revenue Streams



The trend toward a 'connected home' is clear and the iBridge™ solution, a suite of recurring revenue services, enables users to remotely manage thermostats, locks, lighting, video cameras, security systems and small appliances via most smartphones or PC with Napco App. All services can also be used on-premises by iBridge Optional Wall-Mount Tablet home controller (at right).



Growing Recurring Revenue Business

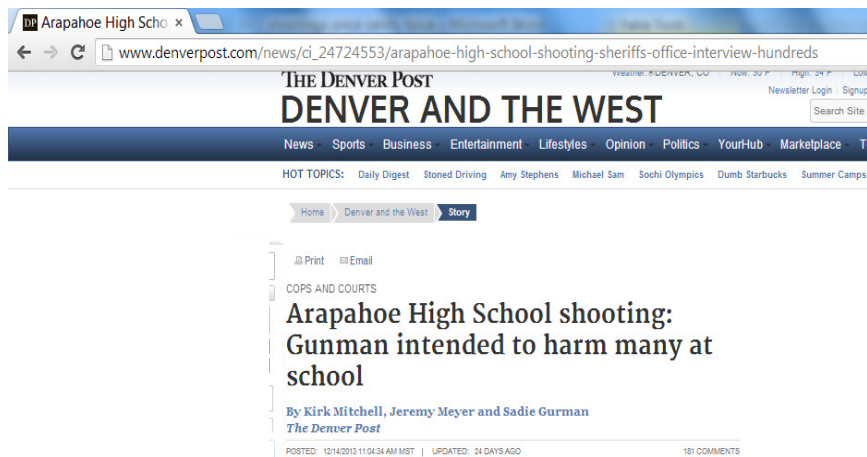


iSeeVideo™

- iSee Video equipment approximately \$300.00 per installation
- Recurring monthly service revenue up to \$3.00 per month per account
- 25 million end users in USA currently monitored by alarm companies for burglary and fire without remote video access
- Easy upsell for dealers due to high quality, low cost & ease of installation
- Large market opportunity for Napco



School Shootings: An Urgent & Accelerating Problem



New Vertical Market Initiatives for Growth Span & Integrate Divisions & Technologies



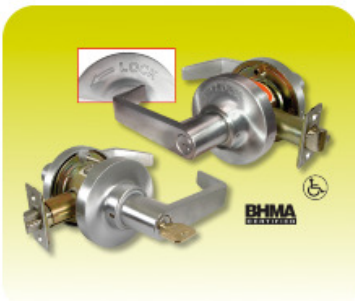
MARKSUSA®

ALARM LOCK

Continental Access

SCHOOL SECURITY

LocDown™ Solutions by  **NAPCO**
SECURITY TECHNOLOGIES



Mechanical Classroom Intruder
Lock Down Solutions



Electronic Standalone
Locking Solutions



Wireless Network
Locking Solutions



Enterprise Integrated System
Lock Down & Threat Levels

Additional New Product Growth Drivers



NAPCO Commercial 24V Combo Burglary & Fire

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



Alarm Lock Networkx – Advanced wireless networking locks

Up to 2000 locks
communicate
wirelessly, providing
cost-effective, labor-
saving access control



Gemini BioReader

Innovative
indoor/outdoor
biometric fingerprint
reader

- Controls your
alarm system with
the touch of a finger



Marks USA's new 'Triple Play' –

BHMA certified,
Grade 1 door closers
and Grade 1 and 2 exit
devices


Unique, Integrated Commercial Solution




FUSION™

Total Integrated Solution
INTRUSION • FIRE • VIDEO
ACCESS • LOCKING



 **NAPCO**




Continental **Access** 



 **ALARM LOCK**



 **MARKS USA**

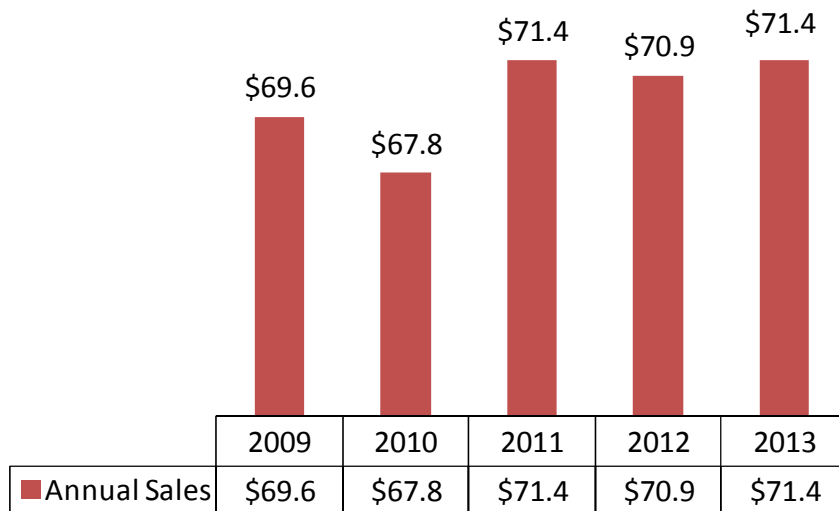
Integrated Intrusion • Fire • Access • Locking Technologies

Historical Financial Data

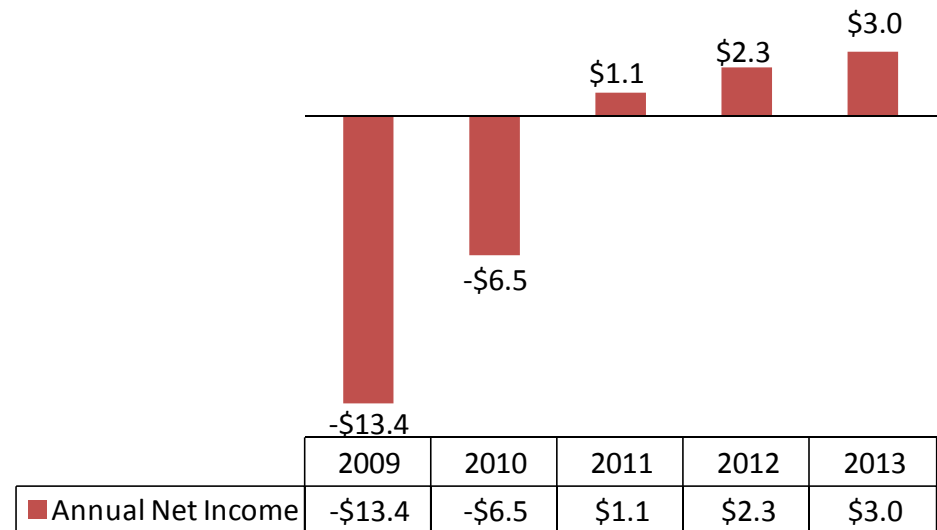
(FY June 30 – millions of dollars)



Annual Sales



Annual Net Income



Year-End Financial Highlights

(Fiscal years ended June 30)



In millions except per-share amounts & percentages

	<u>2013</u>	<u>2012</u>	<u>% change</u>
Net Sales	\$71.4	\$70.9	+1
Gross Profit	\$21.7	\$21.1	+3
Gross Margin	30.4%	29.8%	+2
Operating Income	\$3.8	\$3.8	--
Adjusted EBITDA	\$6.1	\$6.6	-8
Net Income	\$3.0	\$2.3	+30
EPS	\$0.16	\$0.12	+33

Q2:14 Financial Results

(Quarters ended December 31)



	<u>Q2 14</u>	<u>Q2 13</u>	<u>% change</u>
Net Sales	\$18.4	\$17.2	+7
Gross Profit	\$5.1	\$4.6	+10
Gross Margins	27.7%	27.0%	+7
Operating Income	\$0.5	\$0.4	+51
Adjusted EBITDA	\$1.0	\$0.08	+23
Net Income	\$0.4	\$0.1	+173
EPS	\$0.02	\$0.01	+100

In millions except per-share amounts & percentages

Q2:14 and Subsequent Financial Highlights



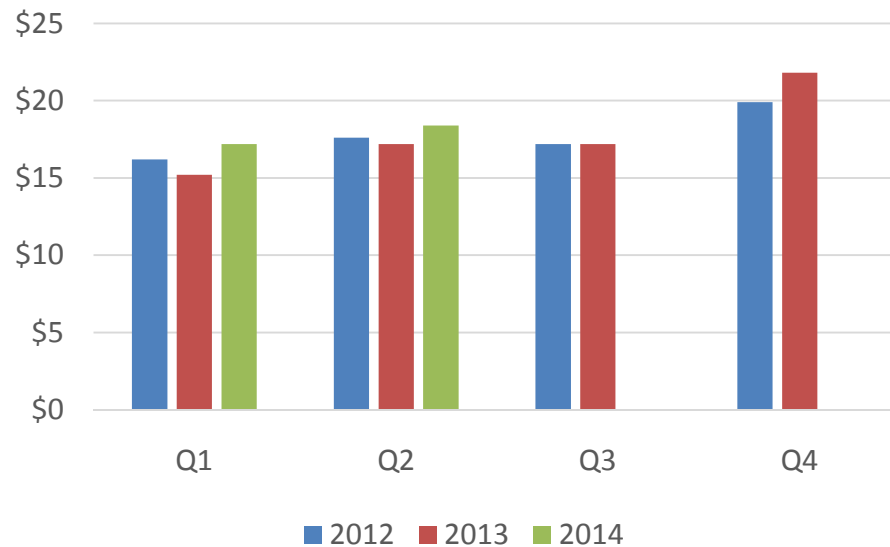
- Fiscal Q2'14 strongest quarter in **five** years in terms of revenue and net income
 - Revenues of \$18.4M increased 7% year over year
 - Adjusted EBITDA (a non-GAAP financial measure) was \$1.0M
 - Net income increased \$233,000, to \$368,000
- Gross margin improved 70 basis points to 27.7%
- Recurring revenue for the second quarter and six months increased 115% and 113% respectively and grew sequentially by 30%.
- Debt, net of cash, reduced by \$26.2M to \$9.7M since acquiring Marks in 8/2008; debt reduced by \$3.5M year to date

Seasonality Reflected Quarterly Analysis

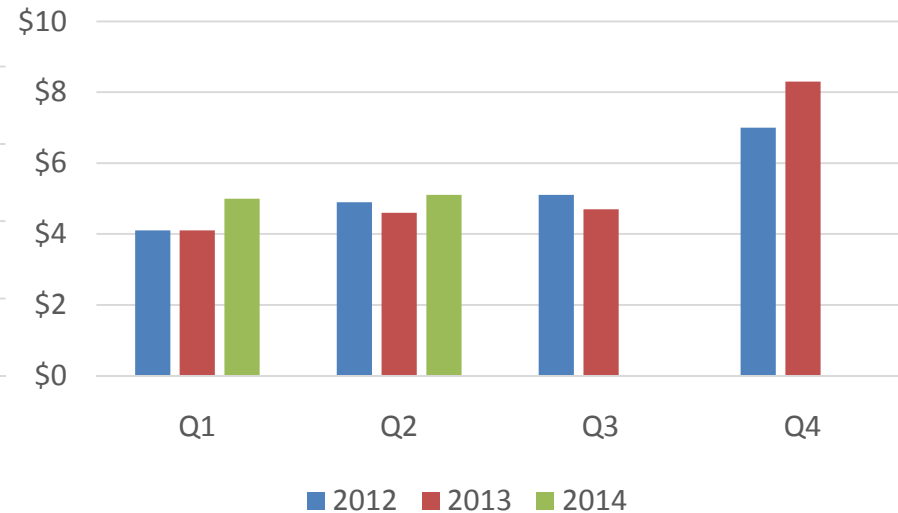
(Fiscal year ended June 30, dollars in millions)



Revenue



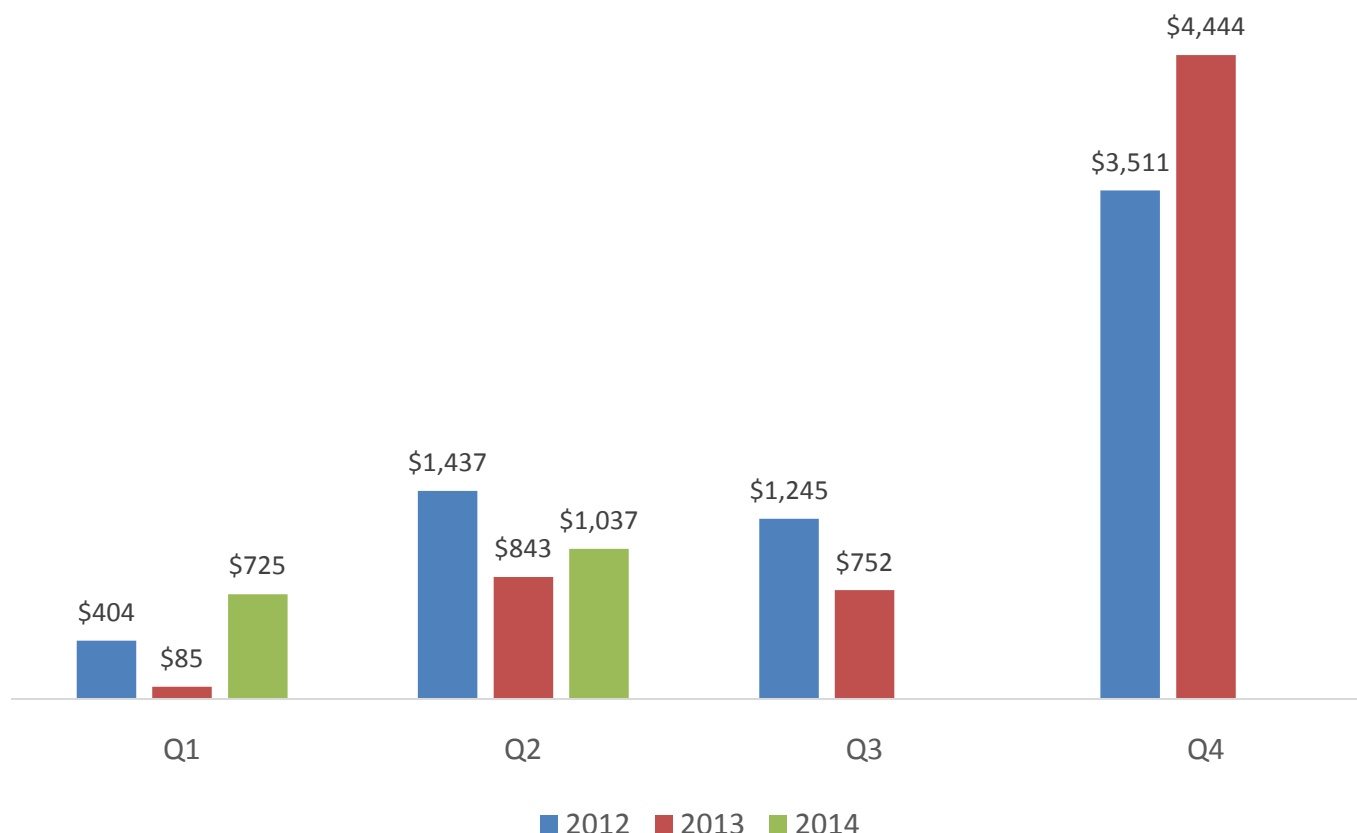
Gross Profit



- Q1 is always the lowest
- Q2 & Q3 is higher and about the same
- Q4 is always the highest quarter
- Over time, recurring revenue should decrease the seasonality impact

Adjusted EBITDA*

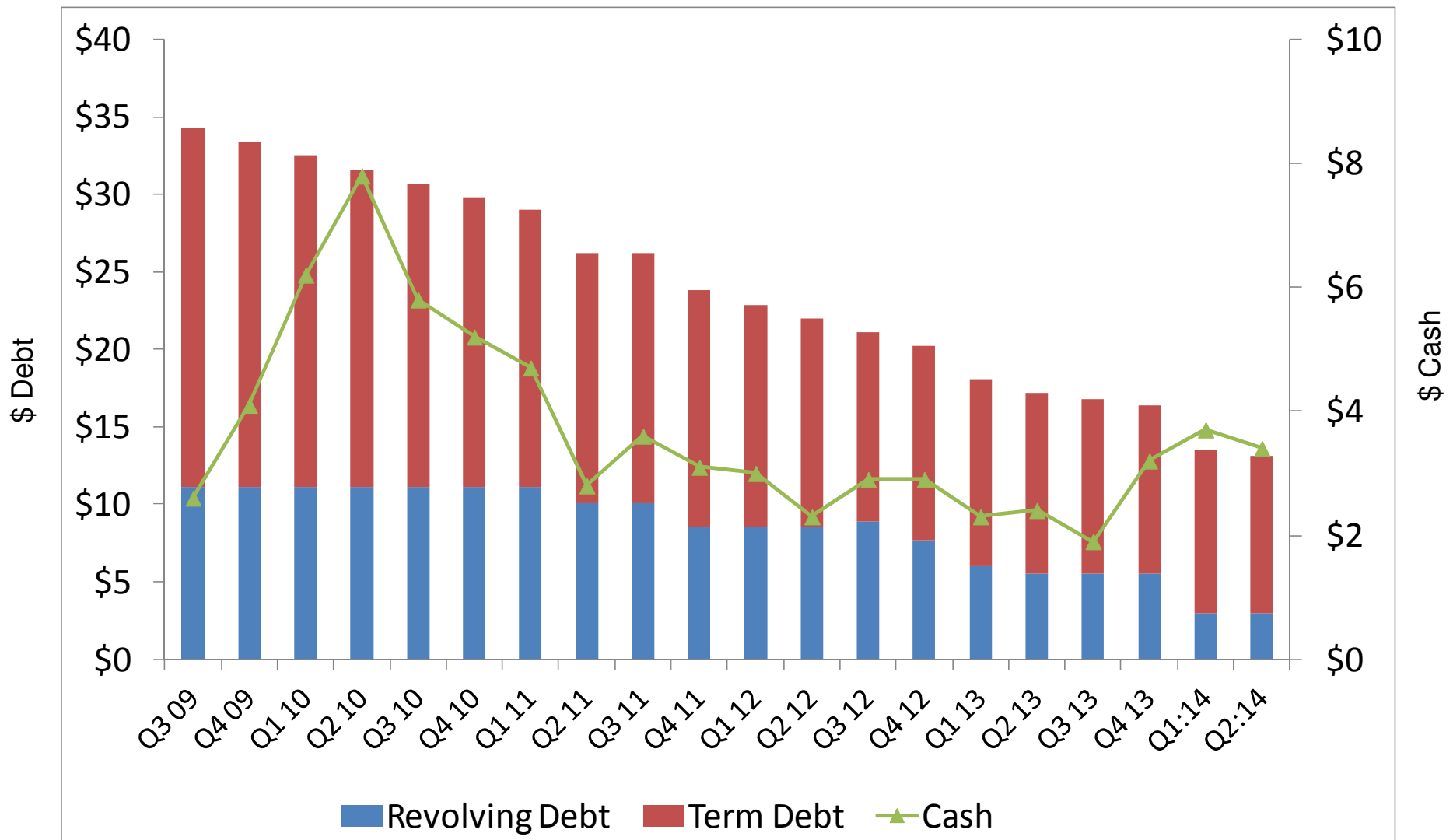
(Fiscal year ended June 30, figures in thousands)



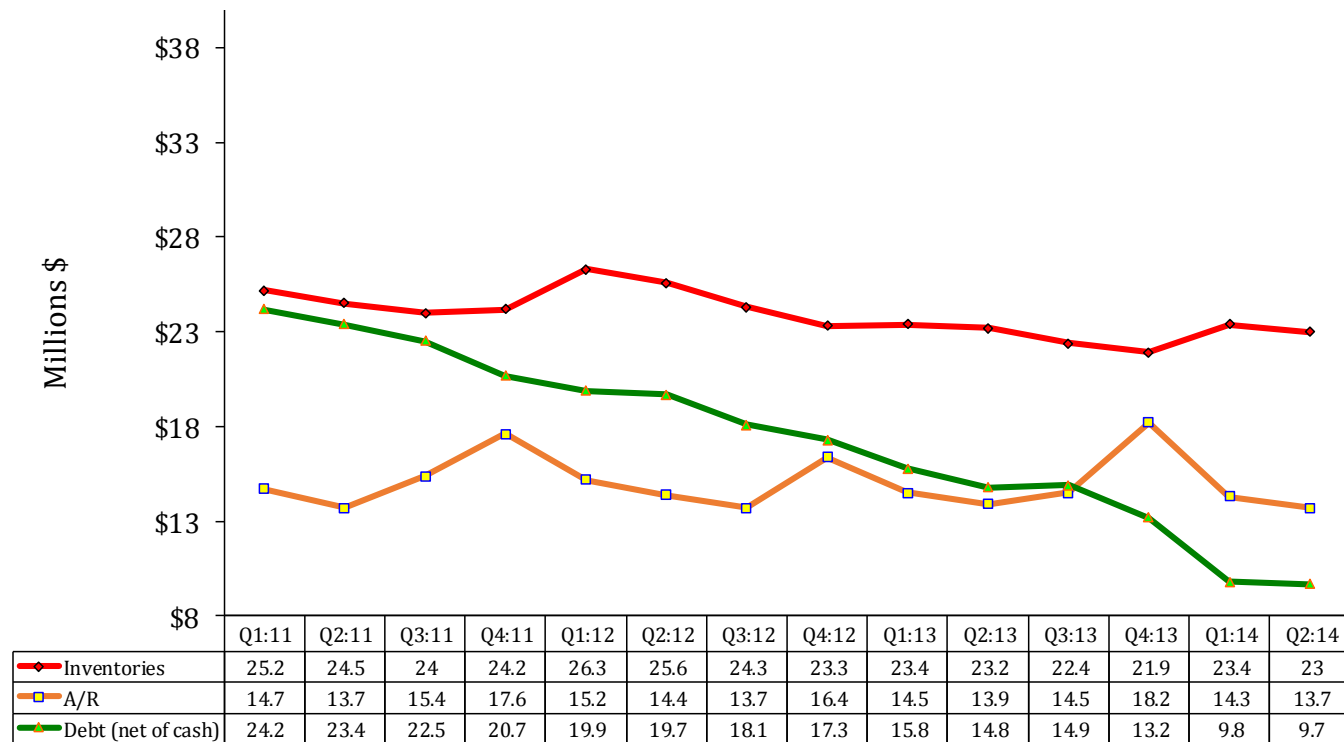
* Non-GAAP Information

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.

Reducing Debt Leading to Improved Cash Flow



Balance Sheet Analysis



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 Operations and Finance

20+ years with NAPCO, previously Coopers & Lybrand, CPA

Jorge Hevia, Senior Vice President Sales and Marketing

13+ years with NAPCO, previously Colgate Palmolive, Unilever, American Home Products, Diageo

Michael Carrieri, Senior Vice President Engineering

12+ years with NAPCO, previously Hazeltine, NCR/AT&T, Boundless Technologies, Chyron

Our opportunities for revenue growth, margin expansion, and returns will come from:

- Global need and demand for security products
- Our broad product array addresses a multi-billion dollar security marketplace
- New state of the art products with recurring revenue streams
- Continued investment in next generation locking and security technologies that protect people where they live and work

Stock Market Snapshot



Common Stock Ticker: NasdaqGS: NSSC
Stock Price (2/10/14): \$7.04
52 Week Range: \$3.49-7.70
Market Capitalization \$136.6 million
Shares Outstanding: 19.4

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

