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Q3 2020 Results

November 5, 2020

DISCLAIMER

Forward-Looking Statements
This presentation contains “forward-looking statements.” All statements, other than statements of fact, that address activities, events or developments that we or our management intend, expect, project, believe or anticipate will or may occur in the future are forward-looking statements. Although we believe forward-looking statements are based upon reasonable assumptions, such statements involve known and unknown risks, uncertainties, and other factors, which may cause the actual results or performance of the Company to be materially different from any future results or performance expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to, (1) the duration and severity of the COVID-19 pandemic and the disruption to our business and the global economy caused by it, including (A) its effect on the demand for our products and services, (B) its effect on our and our business partners’ supply chains, workforce, liquidity, spending and timing for payments and disbursements, (C) the impact of potential facility closures and the modified working conditions at our corporate offices, Product & Solutions segment and ADI Global Distribution segment, including the timing for our ability to reopen any facilities that have been or may be closed and/or to ramp up operations at such facilities and meet related customer demand, and (D) the impact of employee salary reductions, furloughs and other actions we have taken or may take in response to the COVID-19 pandemic, (2) our ability to continue discussions and reach agreement with Honeywell with respect to modifications to some of the agreements that govern our relationship, and any potential disputes that have arisen or may hereafter arise with Honeywell if we are unable to reach such agreement, and (3) the other risks described under the headings “Risk Factors” and “Cautionary Statement Concerning Forward-Looking Statements” in our Annual Report on Form 10-K for the year ended December 31, 2019, our Quarterly Report on Form 10-Q for the quarter ended September 26, 2020 and other periodic filings we make from time to time with the Securities and Exchange Commission (SEC). You are cautioned not to place undue reliance on these forward-looking statements, such as (i) the outlook regarding fourth quarter 2020, (ii) the impact of the COVID-19 pandemic on our business and operations, (iii) the progress and results of, and our ability to implement the opportunities identified in our previously announced comprehensive financial and operational review, including whether the implementation of the financial and operational review will provide meaningful financial benefits in 2020, 2021, 2022 and beyond, (iv) our ability to address issues that impacted our performance in 2019, including our ability to redesign our product introduction process, enhance our value engineering and cost reduction initiative for existing product platforms, and enhance our product management capabilities, (v) our ability to timely and adequately execute on anticipated new product launches, including the Pro Series launch, and (vi) the impact of the class action litigation and derivative shareholder litigation commenced against Resideo and certain of its current and former directors and executive officers. Forward-looking statements are not guarantees of future performance, and actual results, developments and business decisions may differ from those envisaged by our forward-looking statements. Except as required by law, we undertake no obligation to update such statements to reflect events or circumstances arising after the date of this presentation, and we caution investors not to place undue reliance on any such forward-looking statements.

Non-GAAP Financial Measures
This presentation includes Adjusted EBITDA which is not compliant with generally accepted accounting principles in the United States (GAAP). The non-GAAP financial measures are adjusted for certain items as reflected in the Appendix and may not be directly comparable to similar measures used by other companies in our industry, as other companies may define such measures differently. Management believes that, when considered together with reported amounts, this measure is useful to investors and management in understanding our ongoing operations and in analysis of ongoing operating trends and provide useful additional information relating to our operations and financial condition. This metric should be considered in addition to, and not as replacements for, the most comparable GAAP measure. Refer to the Appendix in this presentation for reconciliations of non-GAAP financial measures to the most directly comparable GAAP measures. We believe Adjusted EBITDA is a relevant indicator of operating performance. It should be read in connection with our financial statements presented in accordance with GAAP.

A reconciliation of Adjusted EBITDA to the corresponding GAAP measure is not available on a forward-looking basis without unreasonable efforts due to the impact and timing on future operating results arising from items excluded from these measures, particularly environmental expense, Honeywell reimbursement agreement expense, stock compensation expense, restructuring expense and other non-operating expense (income).

Adjusted EBITDA (Non-GAAP) was previously presented as Adjusted EBITDA excluding Honeywell reimbursement agreement payments (Non-GAAP). The change in presentation was made beginning with our first quarter 2020 results to more accurately reflect the underlying performance indicators of the business in Adjusted EBITDA. The Honeywell reimbursement agreement cash payments are a liquidity measure and will be included within the cash flow and liquidity discussions. Management believes that this presentation more clearly presents underlying operations as the amounts related to the Honeywell reimbursement agreement are recorded in net income are based on when such amounts become probable and reasonably estimable.

Q3 2020 HIGHLIGHTS

- Positive demand trends across business; significant improvement in financial results
  - Q3 2020 revenue up 11% year-over-year, operating profit more than doubled year-over-year to $131 million
  - Cash provided by operating activities of $21 million for Q3 2020
- ADI Global Distribution continues to demonstrate leadership in security distribution market
  - ADI Global Distribution revenue grew 11% year-over-year, segment Adjusted EBITDA up 8% year-over-year
  - Growth due to project business and expansion of e-commerce sales
  - Continuation of strong execution across growth and cost savings initiatives
- Products & Solutions benefiting from positive market trends, investment in the home
  - Products & Solutions revenue grew 12% year-over-year, segment Adjusted EBITDA up 106% year-over-year
  - Growth in all three end markets, particular strength in comfort and security
- Continue to monitor COVID-19 impacts and risks to operations
  - Watching closely for potential impact to supply chain, manufacturing operations and ADI branches

TRANSFORMATION UPDATE

- Significant progress on transformation initiatives
  - Focus on ingraining efficiency, cost savings and innovation into Resideo's culture
  - Continue to strengthen leadership team across the organization
  - Cost initiatives on track to deliver $40 million to $45 million of net savings for 2020
- Formed innovation team to accelerate new technology and market development
  - Headed by Jeff Frank (SVP of Product Innovation) who joined Resideo in August and has a multi-decade track record of bringing innovative new products to market
  - Focus on unifying software, platforms and user experience to enable the connected home ecosystem
- Reorganized Products & Solutions organization
  - Phil Theodore (President of Products & Solutions) brings hands-on, operational focus
  - Integration of engineering and product management leadership to foster collaboration
  - Focus on accelerating product development and bring siloed product lines together as one business

Q3 2020 PERFORMANCE

($ in millions, except per share)	Q3 2020	Q3 2019	% change Y/Y
Net Revenue	1,362	1,226	+11%
ADI Segment Revenue	790	714	+11%
P&S Segment Revenue	572	512	+12%
Gross Margin	27.2%	25.2%	+200 bps
SG&A	239	250	-4%
Operating Profit	131	59	+122%
Net Income	75	8	+838%
EPS – diluted	0.60	0.06	+900%
Adjusted EBITDA (1)	188	114	+65%

Commentary

- 11% year-over-year revenue increase due to higher volume in both ADI Global Distribution and Products & Solutions
- Gross margin expanded 200 basis points year-over-year as a result of higher revenue and transformation programs savings, offsetting increased factory costs related to COVID-19 safety measures and unfavorable sales mix
- Selling, general and administrative expenses decrease from transformation savings and COVID-19 cost management actions
- Adjusted EBITDA up 65% year-over-year driven by increased revenue, improved gross margin and transformation programs savings

(1) Previously presented as Adjusted EBITDA excluding Honeywell reimbursement agreement cash payments

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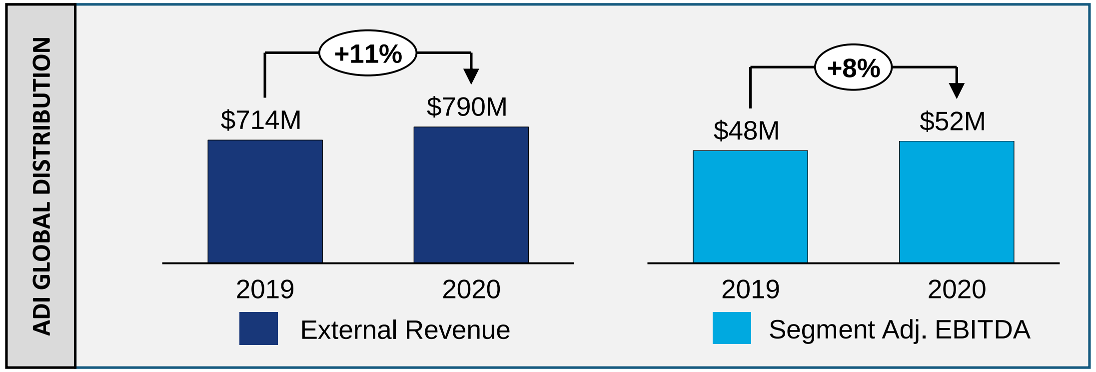
Q3 2020 ADI GLOBAL DISTRIBUTION PERFORMANCE

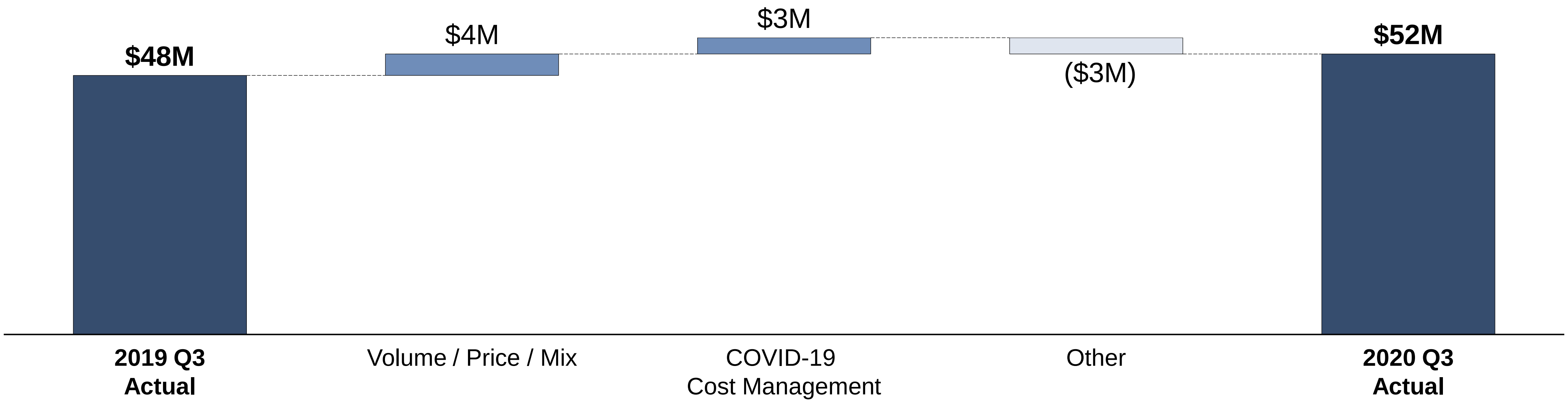
Q3 2020 Actual



Commentary

- 11% revenue increase due to improved demand across geographies, strong project business and growth in e-commerce sales
- Segment Adjusted EBITDA grew 8% driven by revenue increases and cost management actions, offsetting lower gross margin and commercial investments

ADI Global Distribution Segment Adjusted EBITDA



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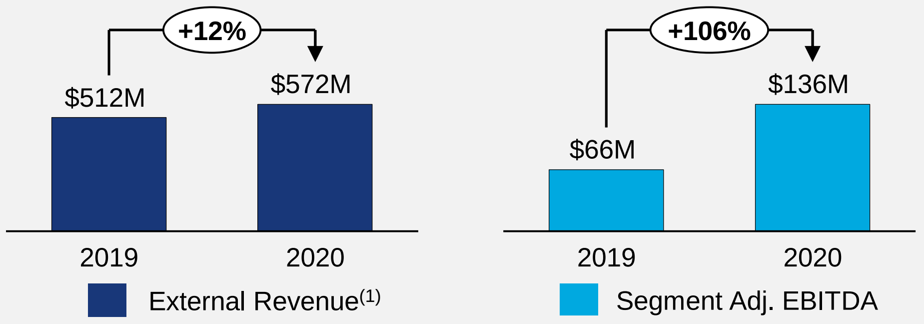
Q3 2020 PRODUCTS & SOLUTIONS PERFORMANCE

Q3 2020 Actual

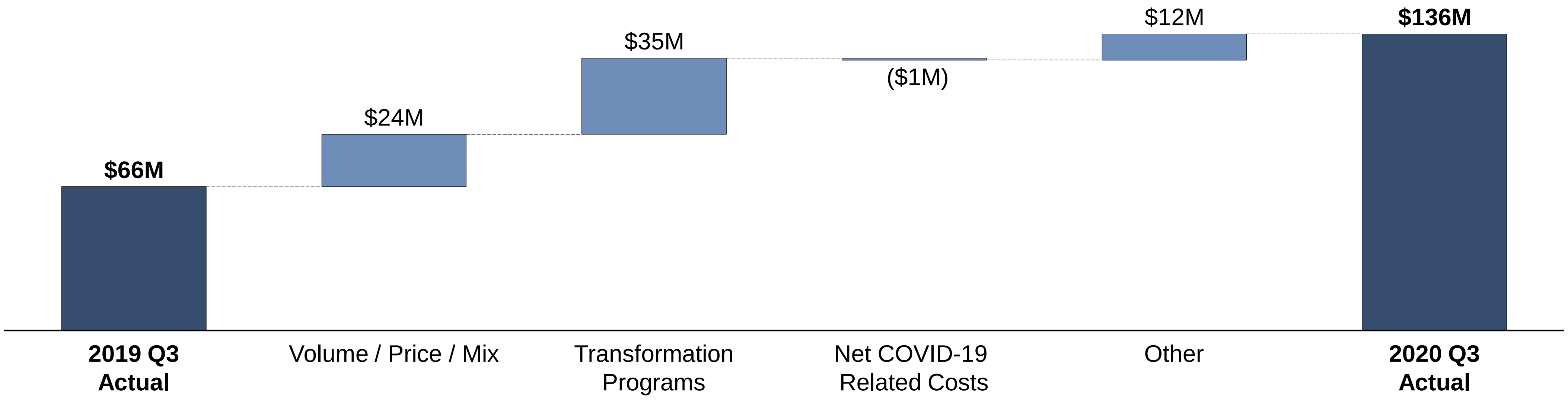
PRODUCTS & SOLUTIONS



Commentary

- 12% revenue increase reflects positive demand trends across each of Product & Solutions' primary end markets
- Segment Adjusted EBITDA increased 106% due to higher revenue, improved gross margin and savings from transformation programs

Products & Solutions Segment Adjusted EBITDA



(1) External revenue is net segment revenue excluding intersegment revenue

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BALANCE SHEET AND CASH FLOW

($ in millions)	Q3 2020	Q3 2019	2019
Cash and cash equivalents	260	132	122
Total debt	1,322	1,253	1,180
Accounts receivable	884	845	817
Inventories	618	729	671
Accounts payable	858	932	920
Cash provided by (used for) operating activities	21	(33)	23

Commentary

- $200 million undrawn on $350 million revolving credit facility at end of Q3 2020
- No near-term debt maturities, next significant debt maturity is in 2023(1) (Term Loan A and drawn revolver)
- In compliance with covenants as of end of Q3 2020
- On October 30, 2020, made regularly scheduled Honeywell Reimbursement Agreement payment of $35 million and previously deferred April 30, 2020, payment of $35 million

(1) Excludes Term Loan amortization

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OUTLOOK

- Q4 2020 revenue guidance: $1.36 billion to $1.41 billion
- Q4 2020 operating profit guidance: $130 million to $140 million
- Q4 2020 Adjusted EBITDA guidance: $180 million to $190 million

APPENDIX

SUMMARY OF INTERIM FINANCIAL RESULTS – SEGMENT

(dollars in millions)	3Q 2020	3Q 2019	% Change	YTD 2020	YTD 2019	% Change
Products & Solutions						
Revenue [1]	572	512	12%	1,445	1,600	-10%
Segment Adjusted EBITDA	136	66	106%	224	222	1%
ADI Global Distribution						
Revenue	790	714	11%	2,125	2,084	2%
Segment Adjusted EBITDA	52	48	8%	126	141	-11%
Total Company						
Revenue	1,362	1,226	11%	3,570	3,684	-3%
Adjusted EBITDA (Non-GAAP)[2][3]	188	114	65%	350	363	-4%

(1) Represents Product & Solutions revenue, excluding intersegment revenue of $102 million and $270 million for the three and nine months ended September 26, 2020, respectively, and $83 million and $228 million for the three and nine months ended September 28, 2019, respectively. ADI Global Distribution does not have any intersegment revenue

(2) See table below entitled “Reconciliation of Net (Loss) Income to Non-GAAP Financial Measures (Unaudited)” for reconciliations of Non-GAAP measures.

(3) Adjusted EBITDA was previously presented as Adjusted EBITDA excluding Honeywell reimbursement agreement payments (Non-GAAP). See table below entitled “Reconciliation of Net (Loss) Income to Non-GAAP Financial Measures (Unaudited)” for description of change.

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CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
	(Dollars in millions except share and per share data)			
Net revenue	$ 1,362	$ 1,226	$ 3,570	$ 3,684
Cost of goods sold (1)	992	917	2,680	2,720
Gross profit (1)	370	309	890	964
Selling, general and administrative expenses (1)	239	250	731	778
Operating profit	131	59	159	186
Other expense, net	35	35	106	54
Interest expense	14	16	49	51
Income before taxes	82	8	4	81
Tax expense	7	-	26	36
Net income (loss)	$ 75	$ 8	$ (22)	$ 45
Weighted Average Number of Common Shares Outstanding (in thousands)				
Basic	123,421	122,770	123,194	122,681
Diluted	125,235	123,244	123,194	123,404
Earnings (loss) Per Share				
Basic	$ 0.61	$ 0.07	$ (0.18)	$ 0.37
Diluted	$ 0.60	$ 0.06	$ (0.18)	$ 0.36

(1) On January 1, 2020, the Company changed its classification of research and development expenses in the Consolidated Interim Statements of Operations from Cost of goods sold to Selling, general and administrative expenses, such that research and development expenses are excluded from the calculation of Gross profit. The impact on the three and nine months ended September 28, 2019 in the Consolidated Interim Statement of Operations is a reduction of Cost of goods sold, an increase in Gross profit and an increase in Selling, general and administrative expenses of $20 million and $66 million, respectively. This reclassification had no effect on the previously reported Net (loss) income or the Company's Consolidated Interim Statements of Comprehensive (loss) income, Consolidated Interim Statements of Cash Flows, or Consolidated Interim Balance Sheets.

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CONSOLIDATED INTERIM BALANCE SHEETS (UNAUDITED)

	September 26, 2020	December 31, 2019
	(Dollars in millions, shares in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 260	$ 122
Accounts receivable – net	884	817
Inventories – net	618	671
Other current assets	161	175
Total current assets	1,923	1,785
Property, plant and equipment – net	311	316
Goodwill	2,657	2,642
Other assets	378	385
Total assets	$ 5,269	$ 5,128
LIABILITIES		
Current liabilities:		
Accounts payable	$ 858	$ 920
Current maturities of debt	181	22
Accrued liabilities	606	552
Total current liabilities	1,645	1,494
Long-term debt	1,141	1,158
Obligations payable under Indemnification Agreements	586	594
Other liabilities	292	280
EQUITY		
Common stock, $0.001 par value, 700,000 shares authorized, 124,324 and 123,443 shares issued and outstanding as of September 26, 2020, 123,488 and 122,873 shares issued and outstanding as of December 31, 2019, respectively	-	-
Additional paid-in capital	1,782	1,761
Treasury stock, at cost	(5)	(3)
Retained earnings	16	38
Accumulated other comprehensive (loss)	(188)	(194)
Total equity	1,605	1,602
Total liabilities and equity	$ 5,269	$ 5,128

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CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 26, 2020	Nine Months Ended September 28, 2019
	(Dollars in millions)	
Cash flows provided by (used for) operating activities:		
Net (loss) income	$ (22)	$ 45
Adjustments to reconcile net (loss) income to net cash used for operating activities:		
Depreciation and amortization	64	55
Restructuring charges, net of payments	4	12
Stock compensation expense	21	22
Other	20	10
Changes in assets and liabilities:		
Accounts receivable	(64)	(27)
Inventories – net	64	(109)
Other current assets	15	(13)
Accounts payable	(62)	(23)
Accrued liabilities	48	(6)
Obligations payable under Indemnification Agreements	(8)	(49)
Other	12	13
Net cash provided by (used for) operating activities	92	(70)
Cash flows used for investing activities:		
Expenditures for property, plant, equipment and other intangibles	(50)	(66)
Cash paid for acquisitions, net of cash acquired	(35)	(17)
Net cash used for investing activities	(85)	(83)
Cash flows provided by financing activities:		
Net proceeds from revolving credit facility	150	60
Repayment of long-term debt	(11)	(11)
Non-operating obligations paid to Honeywell, net	(2)	(24)
Tax payments related to stock vestings	(2)	(3)
Net cash provided by financing activities	135	22
Effect of foreign exchange rate changes on cash and cash equivalents	(4)	(2)
Net increase (decrease) in cash and cash equivalents	138	(133)
Cash and cash equivalents at beginning of period	122	265
Cash and cash equivalents at end of period	$ 260	$ 132

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RECONCILIATION OF NET INCOME (LOSS) TO NON-GAAP FINANCIAL MEASURES (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
	(Dollars in millions except share and per share data)			
Reconciliation of Net income (loss) to Adjusted EBITDA (Non-GAAP)				
Net income (loss)	$ 75	$ 8	$ (22)	$ 45
Net interest expense	14	16	48	49
Tax expense	7	-	26	36
Depreciation and amortization	22	19	64	55
Reimbursement Agreement expense (1)	38	35	107	57
Stock compensation expense (2)	7	8	21	22
Restructuring charges	7	9	27	34
Other (3)	18	19	79	65
Adjusted EBITDA (Non-GAAP)(4)	**$ 188**	**$ 114**	**$ 350**	**$ 363**

(1) Represents recorded expenses / gains related to the Honeywell reimbursement agreement. Pursuant to the Honeywell reimbursement agreement, we are responsible to indemnify Honeywell in amounts equal to 90% of payments, which include amounts billed, with respect to certain environmental claims, remediation and, to the extent arising after the Spin-Off, hazardous exposure or toxic tort claims, in each case including consequential damages in respect of specified properties contaminated through historical business operations, including the legal and other costs of defending and resolving such liabilities, less 90% of Honeywell's net insurance receipts relating to such liabilities, and less 90% of the net proceeds received by Honeywell in connection with (i) affirmative claims relating to such liabilities, (ii) contributions by other parties relating to such liabilities and (iii) certain property sales; such payments are subject to a cap of $140 million in respect of liabilities arising in any given year (exclusive of any late payment fees up to 5% per annum). Such amounts are recorded in net income when they are probable and reasonably estimable. The cash payments under the Honeywell reimbursement agreement for the three and nine months ended September 26, 2020 are $35 and $70 million, respectively, and for the three and nine months ended September 28, 2019 are $35 million and $105 million, respectively.

(2) Stock compensation expense adjustment includes only non-cash expenses.

(3) For the three and nine months ended September 26, 2020, Other represents $9 million and $36 million of items related to the Spin-Off, $12 million and $41 million of consulting and other fees related to transformation programs, ($3) million and $1 of non-operating (income) expense adjustment which excludes net interest (income), and $0 and $1 million acquisition-related expenses and $1 million and $1 million of environmental expenses, respectively. For the three and nine months ended September 28, 2019, Other represents $19 million and $53 million of items related to the Spin-Off, $0 million and $13 million related to developments on legal claims that arose prior to Spin-Off, and $0 and ($1) million in non-operating (income) expense adjustment which excludes net interest (income).

(4) Adjusted EBITDA (Non-GAAP) was previously presented as Adjusted EBITDA excluding Honeywell reimbursement agreement payments (Non-GAAP). The change in presentation was made to more accurately reflect the underlying performance indicators of the business in Adjusted EBITDA. The Honeywell reimbursement agreement cash payments are a liquidity measure and will be included within the cash flow and liquidity discussions. Management believes that this presentation more clearly presents underlying operations as the amounts related to the Honeywell reimbursement agreement are recorded in net income are based on when such amounts become probable and reasonably estimable, which will not align with the significant variability in the timing of when the actual cash payment is made.

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