Company Name: Gates Industrial Corporation plc. (GTES)
Event: Baird 2018 Global Industrial Conference
Date: November 7, 2018

<<Michael Halloran, Analyst, Robert W. Baird & Co., Inc.>>

My name is Mike Halloran. I'm the industrial analyst here with Baird. And we're pleased to welcome Gates Corporation. Ivo Jurek is the CEO. He's going to give some prepared remarks for majority of the time but will leave a little time at the end for Q&A. So if you have any questions that you want me to bring up, raise your hand or e-mail me using the card in front of you, and I'll make sure to incorporate that in the Q&A session. With that, please, floor is yours.

<<Ivo Jurek, Chief Executive Officer>>

Thank you. Good afternoon. I'm really excited to be here with you today. And I would be remiss if I didn't remind you about the safe harbor comments in here. So please note that this presentation and anything we discuss here today are subject to safe harbor statements and the actual results may differ materially from any forward-looking statements that are being made.

With that, let me start, let me dive straight in. So, what is Gates about? At the heart of our story is our iconic industrial brand built over the past 100-plus years. Gates is a recognized brand across broad end markets and geographies and a premier name in power transmission and fluid power solutions. Since 1911, Gates has been acknowledged as a standard for premium quality, reliability and leading technology, a combination that is difficult to replicate and supports our key growth initiatives in the large core underpenetrated markets that we participate in.

We're an engineering company that's fueled by our material science expertise and process engineering capabilities, which enable us to introduce new products that bring significant value to our customers. Our highly engineered products are critical components in applications in which the cost of downtime is high relative to the cost of our products. These demanding applications subject our products to normal wear and tear, which results in a natural, frequently preventive replacement cycle that drives high-margin recurring revenues, our strengths and premier brand recognized as contributable to attractive financial profile that we believe make Gates a compelling opportunity to investors.

I'll go into more details on the financial matters later but wanted to provide a high-level overview of some key metrics. First of all, we're a top three global player in many of our product categories. We estimate that 84% of our net sales in 2017 came from top three positions. Beyond the 84% number you see on this slide, I would like you to remember the following key figures: 60%, 40%, 22%. These numbers are what makes our financial profile so attractive. We generate over 60% of our revenues from replacement channels. This leadership and replacement market focus contribute to our attractive levels of profitability. Gross margins of over 40% and adjusted EBITDA margins of 22% plus, you would be hard-pressed to find a public industrial company of scale delivering this level of performance. We also run a business with an attractive level of diversification across products, end markets and geographies, which reduces our exposure to

isolated headwinds. With over 15,000 associates worldwide, we serve blue-chip customers in 128 countries.

We have a long-standing presence across each of our four commercial regions: the Americas, EMEA, Greater China and East Asia and India. And we design and manufacture our products in close proximity to our customers. This in-region, for-region footprint provides us with a local mindset that enables us to respond rapidly to customer needs and minimizes the impacts to us from tariffs that have been implemented.

And lastly, our extensive channel coverage provides end users around the world with convenient access to Gates products. One of the things that never ceases to amaze me is the sheer breadth of applications in which our products are present. Many of you see Gates products in action on daily basis without knowing it, perhaps even in some applications that would surprise you. They are found performing critical functions in wide range of applications, from harvesters to excavators to industrial robots. Wind turbines, bicycles, snowmobiles, forestry equipment, moving walkways and virtually all forms of transportation use our products.

Gates really is everywhere. The breadth of applications limits our dependency on any individual end market, resulting in our revenues being highly correlated with industrial activity and industrial utilization. We operate in a nearly $60 billion market, split evenly between our Power Transmission and Fluid Power businesses. We believe that these large underpenetrated core markets provide significant headroom for growth. These markets also have a number of structurally attractive attributes, many of which I have mentioned earlier. This is a natural replacement cycle for our products, and the cost of failure is high so customers prefer brands they can depend on and will replace products on regular intervals to avoid downtime. Price is usually not the first consideration when making a purchase decision.

We have industry-leading product catalog coverage, and our in-region, for-region manufacturing strategy puts us close to our customers, helping to ensure that they have products available to sell to their customers when they need them. Our combination of product coverage and geographic footprint is one of the key aspects of our moat and will take significant time and investment to replicate.

As I have mentioned, we run the business through two product line segments, Power Transmission and Fluid Power. In Power Transmission, our belts and metal accessories transmit mechanical power across diverse universe of applications in industrial and transportation markets. This segment is geographically balanced across our regions and has attractive mix of replacement revenues. Our Fluid Power solutions convey fluids and deliver hydraulic power across a wide range of markets and applications as well. This segment is also heavily weighted towards the replacement channel model but historically has been more regionally concentrated in North America than Power Transmission. Overall, we're a global leader with scale in both of our product line segments and are well positioned to capitalize on significant opportunities in large and highly fragmented core markets.

One of the key things that may surprise you and, frankly, one that I have learned early in my time here at Gates is that we are a material science company. Our products perform the way they

do and deliver the value they do because of the material science and process engineering that we put into them. This is a core pillar of Gates today. Our portfolio of over 2,200 patents and patent applications, proprietary know-how and trade secrets support differentiated product performance that strengthens our market leadership.

Let me give you an example. In Power Transmission, our proprietary carbon fiber technologies and processing techniques enable the deployment of narrower and longer belts with higher performance characteristics. This in turn opens up a path to penetrate new applications and markets, and I'll talk more about that as we move along. The example shown here is one that we gave in our R&D facility in Denver. To demonstrate the strength of our belts, we lift a four-ton machine with a three inch-wide Poly Chain belt with no stretch, and frankly, that's quite amazing.

Our products have number of compelling value propositions and advantages over alternatives. In Power Transmission, our customers value weight, cleanliness, efficiency, durability, safety and maintenance-free solutions. Belts outperform alternatives such as chain, gearboxes, cables and other drive mechanisms as well as competitive belt offerings across these areas. Similarly, in our Fluid Power products, we have a number of advantages over other products on the market. Our R&D teams spend a lot of time thinking about how to reduce weight, improve flexibility and cover multiple applications with the same products.

Leak-free performance is critical across applications. And our systems approach of engineering a hose/coupling and the interface between them is something we believe is a competitive advantage versus many competitors who only design and manufacture either a hose or the coupling. Our teams also focus on improving corrosion and abrasion resistance and how to improve the safety of our products and the applications in the field.

I would like to shift here from talking about the company and our markets to talking about some of the key initiatives. Our industrial chain-to-belt initiative is really exciting for me. When I'm out visiting customers or even when I'm just running errands over the weekend, I see chains everywhere, chains that we are working hard to convert into our belts. We have a focused initiative across the company to go after machine builders and large operators who can benefit from applying belts in their power transmission applications. Our industrial belt-to-belt initiative is really all about upgrading our existing belt portfolio.

For example, we are working hard to implement new polymers across our V-belt portfolio that will give us a cost and performance advantage versus today products. We have seen a lot of activity across the globe around personal mobility, from bicycle to scooters, motorcycles and even things like power skateboards. Belts are a great fit. We don't see many customers who want to put a dirty greasy chain in their new electric motorcycle or scooter. For bike share operators, a rugged, zero maintenance belt is also an attractive option versus chain. In the automotive replacement market, we are also upgrading our line of products, including our recent launch of new Micro-V belt platform. Keeping with the theme you are hearing across our product lines, this new belt platform leverages new material compounds and constructions as well as modified manufacturing processes. This toolkit enables us to develop products targeted at specific customer performance requirements. As an example, our newly launched EXTEND series of

micro belt – micro-V belts is targeted at the performance requirements of emerging market customers.

Our Fluid Power strategic initiative is centered on expanding our product line portfolio and investing in our global footprint. We have developed and launched a premium fit-for-purpose hydraulic line called PRO series that expands our accessible market by 40%. More recently, we launched our MXT hydraulic hose product family that's taking a high-performance MegaSys series to another level, with reduced weight and improved flexibility that brings a number of unique value propositions to our replacement channels and OEM customers.

And we have ongoing development programs focused on our wire spiral product portfolio as well. We are not quite ready to go into details here, so more to come in coming months. Much like the Power Transmission portfolio, these product development programs are resulting in tangible innovation, and we wouldn't be able to execute on those without material science and process engineering capabilities we have built.

On the footprint side, we have invested in new capacity in China, Mexico and Poland. This incremental capacity will allow us not only satisfy our existing customer demand but also allow us to go through and build our platforms and commercial initiatives. We believe we have significant opportunity to accelerate our organic growth strategies through acquisitions. We are one of the only few scaled players with a global footprint and channel presence to make us a natural consolidator in our space.

Over the past 1.5 years, we have done three acquisitions that have enhanced our oil and gas, industrial and automotive replacement franchises with new product and new footprint close to our customers. We have a robust pipeline of opportunities and have well-defined process to ensure we evaluate and integrate deals effectively.

As I mentioned earlier, Gates has an attractive financial profile with greater than 60% of net sales generated from replacement markets, a gross margin greater than 40% and adjusted EBITDA margin of greater than 22%. Our revenue has grown at a compounded annual growth rate of 7% from 2015 to the current last 12 months period. During this period, we have seen gross margin expansion of approximately 290 basis points, the result of the structural improvement in our operational performance primarily driven by implementation of the Gates Operating System beginning back in 2015.

The improvements that we have realized in the gross margin have fallen through to our adjusted EBITDA margin, which has expanded by approximately 280 basis points from 2015 to the most recent last 12 months period. This reflects an EBITDA growth compounded of 10%, good performance in relation to our core growth while making significant investment in our business.

Turning to cash flow. Let me start at the bottom of the slide where you can see the growth in free cash flow in 2016 and then the investment of cash flows into building additional Fluid Power capacity in 2017 and 2018. This investment resulted in an elevated CapEx level, as you can see in the upper left portion of the slide. We believe that around 3% of sales is more normalized

level of capital spend, including 1.5% of sales for maintenance CapEx, which we plan to work back towards over the next few years.

Finally, with trade working capital, as you can see on the slide, that we have continued to drive improvements to that metric as well. And we believe that we have continued opportunity to drive improvements in coming years. Our working capital has underlying seasonality, which is why the last 12-month period is higher requirement but, again, reflects year-over-year improvement on a comparable basis. As the business has grown, in total by 13% year-to-date, we have provided for associated working capital, which has been a headwind overall to free cash flow and offset through efficiency gains that we have driven.

Now turning to our current outlook for 2018. Reflected here is our guidance we just reaffirmed last week. This is unchanged from the guidance that we have set when announcing our Q2 results on August 2. The revenue growth presented here includes the impact from some bolt-on acquisitions as well as some FX. Our core growth excludes the impact of acquisitions for the first 12 months of ownership as well as the impact of FX.

Note that at the middle of our EBITDA guidance of $755 million, we would have EBITDA growth of almost 13% over the prior year. Regarding the financial policy, we will prioritize appropriately investing in growth of our business while, of course, being mindful of deleveraging. We exited this last Q3 at 3.6 times net leverage, down from 5.1 times just before the IPO in January.

We have done some bolt-on deals to accelerate our strategies and will continue to do the same where we feel it is appropriate. We also have stated here some of our long-term targets. We believe that Gates can grow at a rate of global industrial production plus a few points, which we reflect here as 5%, generally speaking. We believe that this business still has room to expand EBITDA margin, and we show here the 23% plus, reflective of expansion beyond the current level of about 22%.

Finally, on free cash flow conversion, we will work back to 100% conversion of adjusted net income, which will happen as we normalize our CapEx spend over the next few years.

To summarize, I believe Gates has the key attributes that are attractive to many investors today. We participate in large fragmented markets with positive secular growth trends, and our capabilities position us well to capitalize on future growth and margin expansion opportunities. We're a company of scale, delivering 60% plus of net sales for more stable replacement markets, a 40%-plus gross margins and a 22% adjusted EBITDA margin with room to grow.

A strong operating team is in place with a track record of successfully growing publicly traded industrial companies.

Thank you. And with that, I'll turn it over to Q&A.

Q&A

<Q – Michael Halloran>: I'll lead off here. Obviously, a pretty healthy long-term growth target of 5% on the organic side. Maybe just talk a little bit about what the aftermarket installed base gets you. Obviously, strong growth assumed to get to that 5% in that 60% plus of your portfolio that's the aftermarket. But maybe talk a little about how you're leveraging that installed base, how you're leveraging the core competencies and new product introduction cycles to get towards that rate on the aftermarket side.

<A – Ivo Jurek>: Yes. I think it's a great question. So look, we are in terrific shape in the aftermarket, as I have indicated. We have a very deferential preference for our brands. Our customers have a high degree of desire to go out and receive new products. We are in an industry that has not seen tremendous amount of innovation, particularly on the industrial side. We are driving tremendous amount of the innovation. As I have outlined, we have launched new Fluid Power core product line of the 2,000-psi-plus hydraulics. We have a ton of other innovation in play. We expect to be making those announcements in coming months. And we feel that, that positions us well to minimize the impact of a cyclicality, impact of the various headwinds that people see when they are overly positioned in the first-fit side of the business.

<Q – Michael Halloran>: And then the current environment here, obviously healthy organic trend so far this year. How do you think about the sustainability from a macro perspective? Any regions, any product categories where you're seeing weakness? And thoughts just on the ability to maintain this healthy clip?

<A – Ivo Jurek>: So look, as we stated in our Q3 call, the industrial markets are in a very good shape. What most people forget is that we have just exited a reasonably deep industrial recession in the second quarter of 2017. So I certainly do recognize that there is a degree of anxiety about what's happening with the cycle. But from what we see across the globe in the industrial market segments, we see solid growth, we see demand that, frankly, we have not been able to completely satisfy with the products that we manufacture, and we expect that situation to carry into 2019. We do see some headwinds in the automotive first-fit business, which represents a very small portion of our revenue, but we also feel reasonably positive that there is a reasonable level loading of the demand as we move into 2019.

<Q – Michael Halloran>: And then those long-term margin targets, margins obviously on an EBITDA basis are at a very healthy level. What are the drivers of incremental upside here? Is it volume? Is it integration of the platform, modernization? How do you bucket out the opportunity?

<A – Ivo Jurek>: Well, one of the things that is quite interesting for us is, as we became a public company, lots of questions that we have received around the margin expansion opportunity. And there was a pretty significant dose of healthy skepticism as a private equity-owned company coming to the markets, and these private equity partners get all of the benefits of holding of this asset. And what we tell our folks is that, look, we haven't really done any fundamental restructuring of the business. We have focused on structural improvements to our core operations. We haven't really consolidated any footprint. We haven't – we're probably the only

industrial company that does not have a principal tax structure in Europe. We're probably one of the last few industrial companies that doesn't have a shared center service in Europe, as an example. So we see that we have a tremendous amount of opportunity to continue to drive structural efficiencies into our business without having to be impacted by headwinds that people will potentially encounter in the future.

<<Michael Halloran, Analyst, Robert W. Baird & Co., Inc.>>

Great. Well, please join me in thanking Ivo and Gates for their time today.

<<Ivo Jurek, Chief Executive Officer>>

Thank you.