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

Good afternoon, everybody. Michael Halloran, Industrial Analyst here with Robert W. Baird, and we're pleased to once again welcome Gates Industrial with us. Ivo, CEO, he's going to give some 15, 20 minutes' prepared remarks. We're going to have some Q&A at the end, which I'll moderate. If you have any questions, let me know, fire me an e-mail or raise your hand. And with that, please, floor is yours.

<<Ivo Jurek, Chief Executive Officer>>

Well, good afternoon, I'm Ivo Jurek. We me here, I have Bill Waelke, our Head of Investment Relations.

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

Hiding in the crowd.

<<Ivo Jurek, Chief Executive Officer>>

I'm going to spend about 15 to 20 minutes here today to give you an overview of our company. And I want to leave plenty of time for Q&A. I will move it onto the next slide.

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

I got right here.

<<Ivo Jurek, Chief Executive Officer>>

Awesome. So I would be remiss if I didn't – if I didn't use the safe harbor statements in here. Please note that this presentation and anything that's discussed here today are subject to the safe harbor statements. The actual results may differ materially from any forward-looking statements that are made. So with that, let's dive in.

Here are a few key points around what makes Gates an attractive business. First of all, we are a global leader in large core markets with plenty of runway to grow. In a few slides, I'll share with you some more details on our organic growth initiatives, we have put in place to go after these opportunities. I'm quite pleased with the progress we are making on those, our products, industrial power transmission and Fluid Power solutions performed very important functions in demanding applications across a wide range of applications and end markets.

And most importantly, they have a natural replacement cycle. We have been investing in this business over the past few years, putting in place new manufacturing capabilities and launching new products at faster rate than the company, quite possibly, the industry has seen in quite some time. Some of these investments have also enabled us to accelerate our rooftop optimization and restructuring programs to further improve our fixed cost structure.

Finally, whether it's our ability to manage in market conditions like we are seeing today or in more robust markets, this is a solid business that generates substantial free cash flow. As I've mentioned, our products are found across a wide range of end markets and in applications. Many of you have experienced our products today without even knowing it. Whether it's on an eBike, a snowmobile, probably not today, are all in a variety of consumer products like an automobile or heavy-duty trucks.

In pumps, drives, other equipment in factories and/or distribution centers or in the field, in a piece of heavy-duty equipment, you'll find our products are performing critical functions just about everywhere. We run our business through two operating segments: Power transmission and Fluid Power. Power transmission includes our industrial engine system belts and associated metals that are used to transmit mechanical power across a diverse set of applications and end markets. About 62% of this business goes through replacement channels and the balance cuts across OEM applications.

Power – Fluid Power includes our hydraulics and industrial hoses, couplings, tubes, engine system hoses, oil and gas drilling hoses, et cetera. Much like power transmission, our Fluid Power business is a little over 60% replacement channel with the rest being a broad set of industrial first-fit applications. Both of these business segments are geographically diverse and participate in a broad set of end markets that we have listed down below of the slide.

Our products have a number of inherent value propositions versus the alternatives and in the marketplace. On the power transmission side, belts are lighter, cleaner, quieter and more efficient than alternatives, all attributes that place nicely as customers across industries push for more environmentally sound solutions, belts don't require lubrication or regular re-tensioning like chains do. So they are also safer and reduce maintenance costs for our customers too.

In Fluid Power, there are also a number of benefits. We have launched several new products in the past couple of years that have improved the weight and flexibility of hydraulics. Not only is it important in how products perform in the field, our customers also value benefits in their factories and operations. It is important to note that these products are used in harsh environments and demanding applications.

We are known for our ability to design and manufacture products that perform safely, reliably and efficiently, and that helps our customers to keep their businesses up and running. We have developed and launched several new product platforms over the past few years with a stated goal to significantly improve our new product vitality index.

In power transmission, we have launched a number of industry-leading products in our industrial belt platforms such as Poly Chain and Power Grip that are enabling conversions from chains to

belts across industrial and mobility applications. We are also continuing to launch new products aimed at capitalizing on the hybridization and electrification trends in automobiles and heavy-duty vehicles. On the Fluid Power side of things, we have launched innovative new hydraulic hoses that are expanding the market and application we have served. For example, our relatively new PRO series line roughly doubles our markets-served opportunity in these market segments.

We are also launching new innovative products such as MXT series of Hydraulics hoses, which are providing unique benefits to customers, especially around flexibility and weight. There are more to come on the innovation front, which leads me to the next slide.

Moving to Industrial power transmission on Slide eight. Our focus on new products and innovation is at the heart of our organic growth initiatives, which we believe offer the opportunity to drive long-term growth with this platform. What we call the chain-to-belt initiative within our company is based on value propositions I have described before. Simply put belts are better than chains in most applications, whether it's on an industrial drive in a lumber mill, a positioning belt in a warehouse, or the drive on an E-scooter, motorcycle or bicycle.

There are tremendous opportunities for us here with our commercial teams continuing to build a robust pipeline and convert opportunities to wins. We are still in the early stages of capitalizing on these set of opportunities, but we feel good about the progress we are making with this initiative. On other main power transmission initiative is what we are calling belt-to-belt or a share gain initiative.

Gates was the original inventor of the V-belt back in the early 1900s, and we continue to be the market leader. But we also believe there is continued opportunity for us to innovate in this sizable market. It's a bit too early, but we have some other interesting product developments underway that I look forward to sharing with you in not-too-distant future. All of these targeting further opportunity to drive organic growth. Moving on to our hydraulic product lines. They are also a number of organic growth opportunities for us, and we think about them in these three categories. The first is geographic expansion. There is a significant opportunity to grow in under-penetrated regions, both in relatively mature markets like Europe as well as in emerging markets.

Our facility in Poland, for example, is now online and fully operational, which is helping us to win in the market. I've already talked about how we are expanding performance leadership with products like MXT, and how we are expanding our served markets with our PRO series hydraulics. So I won't go through this again. But we feel strongly about continuing to drive innovation with our fluid conveyance products to meet customers' ever-changing needs.

Across these initiatives and those I mentioned in power transmission, we are making good progress on winning business with new and existing customers. And we are building robust pipelines despite the softness we are seeing in many of our end markets today. We are confident these innovations will offer solid opportunity to deliver growth for our business, especially as the markets stabilize and become a bit more supportive in the near future.

Turning now to our recent financial performance. As we outlined during our recent earnings call, 2019 turning to a challenging year. Year-to-date through Q3, our revenue declined 5.1% on a

core basis, which includes a negative 2.8% from FX and a positive 0.3% impact from acquisitions versus the same period last year. Throughout the year, we have experienced underlying headwinds in industrial end markets. But coming to the third quarter, we have seen some sequential improvement in our automotive business and channels.

Our year-to-date adjusted EBITDA of $476 million represents an adjusted EBITDA margin of 20.2%, a 210 basis points decline versus the same period last year, primarily driven by lower volumes. Our adjusted EPS year-to-date is $0.76, which reflects the year-over-year decline of adjusted EBITDA, partially offset by improved effective tax rate.

As we have previously noted in our earnings call, we have been focused on adjusting our compressible production cost to align with the current market environment, and I'm quite pleased with the progress we attained. We are also accelerating our restructuring plans announced midyear, and I'll touch on these in a little bit on the next slide. Back in 2016, we've made a decision to invest in our Fluid Power manufacturing footprint to build new plants in Poland and Mexico and fully capacitize existing plant in China.

This decision was made based on our ability that we've had to expand our market penetration internationally and the confidence in our new product pipelines. As we see the opportunity, it would provide us also with facilitation to optimize our manufacturing footprint over the midterm. These investments, we are completing in accordance with our plan, with the last plant coming online late 2018. As we've progressed through the first half of 2019, it became clear, we were dealing with deteriorating end markets and channel environment. We've made the decision to expand and accelerate the footprint optimization we had previously planned, leveraging our new, better-located and more efficient manufacturing footprint.

We are making progress on these initiatives and have closed a subscale Fluid Power plant in Turkey, consolidated two small DCs in Europe, and are transforming house manufacturing out of a facility here in the U.S. In addition to the footprint optimization, we are also continuing to globalize certain functions and have begun establishing some of our planned shared-service centers with one starting in Europe. We estimate these combined actions will result approximately $40 million in total restructuring benefits, primarily in 2020 and 2021. Moving on to our balance sheet and liquidity.

The solid progress we have made in realigning our production levels resulted in $36 million in total net inventory coming out in the third quarter, and $50 million coming out since the end of Q1. We expect this trend to continue in the fourth quarter, albeit in a – to a lesser degree, and that we will exit the year at normalized inventory position. Our Q3 free cash flow was $65 million, representing a quarterly conversion of approximately 100% adjusted net income.

This is a significant improvement over the prior year, and as we normalize CapEx back to historical levels and reduce inventory. On the last 12 month's basis, our free cash flow of $256 million also represented a significant improvement over the prior year period, again, normalizing back towards historical levels. With respect to leverage, we ended the third quarter with a net leverage ratio of 3.8 times, slightly up from Q3 of last year due to the lower operating results. Although our net leverage is higher than we had anticipated at the beginning of the year, it is

worth noting that we manage this business through the last downturn with much higher leverage, and we are comfortable operating the business at current leverage level.

Nonetheless, de-leveraging remains a high degree of priority for us. Midyear during our second quarter earnings call, we noted that we expected the decelerating conditions in our industrial end markets to continue, and they have as we anticipated. Persistent, geopolitical and trade uncertainty has clearly contributed to a very dynamic market environment, as well as further volatility in foreign correct currency exchange rates.

Earlier this year, during our Q3 earnings call, we reiterated previously issued full guidance – full year guidance, which we believe accounts for the current for the current market conditions. We will provide our outlook for 2020 in February on our year-end earnings call, but it is worth noting that we believe we are appropriately positioning the business to exit 2019 at the right variable cost structure and with restructuring actions in place to reduce our fixed cost base. This should position us to drive gross margin expansions in 2020 at an improved rate, and that should translate to incremental margins that are better than what we have historically seen with this business.

In summary, there is no question that we have been experiencing softness in many of our end markets we participate in over the last several quarters. But despite these market conditions, and the impact that we are having on our short-term results. I am pleased with the progress we are making in our organic growth initiatives, and they will remain a focus for us.

As the markets improve, we anticipate to see better growth rate emerge. Our products play a very important role across a wide variety of applications, where quality, reliability and performance are important purchase consideration. And they are subject to wear and tear that results in a natural replacement cycle. We have a number of actions ongoing to manage what is under control. From reducing our inventory levels to rightsizing our variable cost structure in line with our present demand, while we continue to invest in our strategic initiatives.

We have also accelerated our restructuring program to improve our fixed cost position. We believe that the combination of these actions will prepare us better as the actions will prepare us better as the industry comes out of this current down cycle. Importantly, we generate a substantial amount of free cash flow and have demonstrated track record of managing our net leverage ratio through the last industrial downturn.

As we think about our long-term financial policy, we will prioritize appropriately investing in the growth of the business, while, of course, being mindful of de-leveraging. I would remiss if I didn’t add that we have a strong seasoned operating team in place that has a track record of successfully managing publicly traded industrial businesses through tough market conditions, and that we’re excited about the opportunities that are ahead of us. Thank you for your time, and with that, I’m now happy to take questions.

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

So let's start with the demand environment, specifically. It feels like you felt the pain a little bit earlier, and you're starting to see the stability a little bit earlier. Maybe talk about what your business characteristics are that – maybe make this a little bit more of a leading indicator relative to what some of the other people are seeing right now, still some deceleration, and maybe just recently starting to feel some of the pain?

<<Ivo Jurek, Chief Executive Officer>>

Yes. Look, we have a very short-visibility business. Over 65% of our business is in – it goes through replacement channels. So as we start seeing, frankly, deceleration in any end market that we participate in, it's sort of like a live TV. We have no backlog. So we instantly feel the pinch in the demand profile. And so we've exited, I would say, maybe one to two quarters earlier than most of our competitors due to this characteristic of lack of backlog. And that also enabled us to, frankly, get in line with the reality and start focusing on some of the things that we actually can't control. But we also two quarters into the cycle faster, and we certainly believe that we will be coming faster out of the downturn than our competition will.

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

That's very helpful. Any specific end markets that you would point to that really were the ones that were leading the way down where there's more incremental softness than conversely? Any end markets that you think are either in – on the right inflection point? Or have just remained relatively favorable?

<<Ivo Jurek, Chief Executive Officer>>

So we've seen a pretty significant deceleration about 4.5 quarters ago in automotive first-fit business. We've gotten pretty significantly impacted. We're round tripping that substantial deceleration. That being said, we also start seeing some degree of stability in the end market. So we believed that we should start seeing a little more constructive end market performance in out of first-fit. We have commented on our third quarter results call that we have seen better market conditions in our automotive replacement channels, which bode well for our business because this is a terrific business, where we have a very large market share, we have a very strong presence in.

We have felt a very early de-stocking in that channel, if you would, early in 2019. We've commented that we believe that the de-stocking has worked itself through. So as we exited Q2, we start feeling a greater impact from the industrial applications and greater impact from the industrial channel partners de-stocking. So we feel that the automotive business is reaching a level of stability. We believe that in the automotive channel, we have reached kind of the end of the de-stocking while we believe that industrial channel impact is still going to be with us for some time.

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

So certainly, some interesting commentary on the innovation side, from a portfolio perspective. You've got a large suite of products, a large install base that you churn. Maybe just a little conversation about how much of an impact some of these innovations can have? And how they kind of time themselves through? And then from a portfolio perspective, how vital that is from your perspective on driving incremental growth and expanding the opportunity set from an end market served or application set?

<<Ivo Jurek, Chief Executive Officer>>

Yes, I think that's a terrific question. Look, we've realized pretty early on that we had a pretty substantial market opportunity in what we call our Fluid Power and our high-pressure hydraulics business. That's a business that has not seen a tremendous amount of innovation over the last couple of decades. So we felt that if we focus on innovating in that market, not only are we going to be able to retain our leadership position, but expanding our portfolio, as I indicated during the presentation, with our PRO series line hydraulics, we have been able to expand our market presence by a couple of billion dollars that we haven't served with our customers historically, so we felt that, that was quite terrific.

And we have made tremendous progress over the last couple of years in revitalizing our hydraulics business. Most recently, in supplement to what we do with our hydraulics, we have launched what we call IoT-based or Internet-enabled Crimp crimper device. A sensitive device that enables much more reliable, safer and more efficient crimping or assembly of couplings and hoses, which is a very important step in building hydraulics' products. So we are not only focusing on just innovating our core products, we're also focusing on how we can facilitate how these products are being used in the field and making sure that people are using safer and more reliable assemblies when they utilize our products in the field.

So we are very optimistic about what's happening with hydraulics. And frankly, we are doing the same thing in our power transmission portfolio. And we believe that over the next couple of years, we will fully revitalize the entire portfolio of our products. And if you know industrial companies, industrial companies don't generally drive that level of innovation across the entire portfolio. So we feel quite good about that.

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

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

<<Ivo Jurek, Chief Executive Officer>>

Thank you.

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

Management will be available downstairs for a brief breakout session. That concludes the 2019 Industrial Conference. We greatly appreciate your participation. Next year will be year 50, and

we look forward to seeing everybody again. Thank you. And if you have any questions, please reach out to me or anybody else that you feel the question is best directed to. Thank you. Enjoy.