

Q2 2020 EARNINGS PRESENTATION

AUGUST 4, 2020

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FORWARD-LOOKING STATEMENTS

This presentation contains, and management may make on our call today, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, you can identify these forward-looking statements by the use of words such as "outlook," "believes," "expects," "potential," "continues," "may," "will," "should," "could," "seeks," "predicts," "intends," "trends" "plans," "estimates," "anticipates" or the negative version of these words or other comparable words. These statements include, but are not limited to, statements related to expectations regarding the performance of the Company's business, financial results, liquidity and capital resources, product introductions and growth initiatives, restructuring activities, end market conditions, right-sizing cost structure and statements regarding the impact of and the recovery from the COVID-19 pandemic and our 2020 framework. Such forward-looking statements are subject to various risks and uncertainties, including, among others, the uncertainties relating to the impact of the COVID-19 pandemic and associated governmental measures on the company's business, operations, employees, financial condition and results of operations, risks inherent to the manufacturing industry, macroeconomic factors beyond the Company's control, continued operation of our manufacturing facilities make our ability to forecast and meet demand, market acceptance of new products, and the significant influence of the Company's majority shareholders, investment funds affiliated with The Blackstone Group Inc. Additional factors that could cause the Company's results to differ materially from those described in the forward-looking statements can be found under the section entitled "Risk Factors" of the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2019, filed with the Securities and Exchange Commission ("SEC") as supplemented by the risks and uncertainties set forth in the Company's Quarterly Report on Form 10-Q for the quarter ended March 28, 2020, as such factors may be further updated from time to time in the Company's periodic filings with the SEC, which are accessible on the SEC's website at www.sec.gov. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in the Company's filings with the SEC. The Company undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

NON-GAAP FINANCIAL INFORMATION

This presentation includes certain non-GAAP financial measures, which management believes are useful to investors. Non-GAAP financial measures should be considered only as supplemental to, and not as superior to, financial measures prepared in accordance with GAAP. Please refer to the Appendix of this presentation and our earnings release filed with the SEC and posted on our website at investors.gates.com for a reconciliation of historical non-GAAP financial measures to the most directly comparable financial measures prepared in accordance with GAAP.

Because GAAP financial measures on a forward-looking basis are not accessible, and reconciling information is not available without unreasonable effort, we have not provided reconciliations for forward-looking non-GAAP measures. For the same reasons, we are unable to address the probable significance of the unavailable information, which could be material to future results.

ROUNDING ADJUSTMENTS

Certain monetary amounts, percentages and other figures included in this presentation have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables or charts may not be the arithmetic aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% or, as applicable, when aggregated, may not be the arithmetic aggregation of the percentages that precede them.

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Q2 2020 OVERVIEW

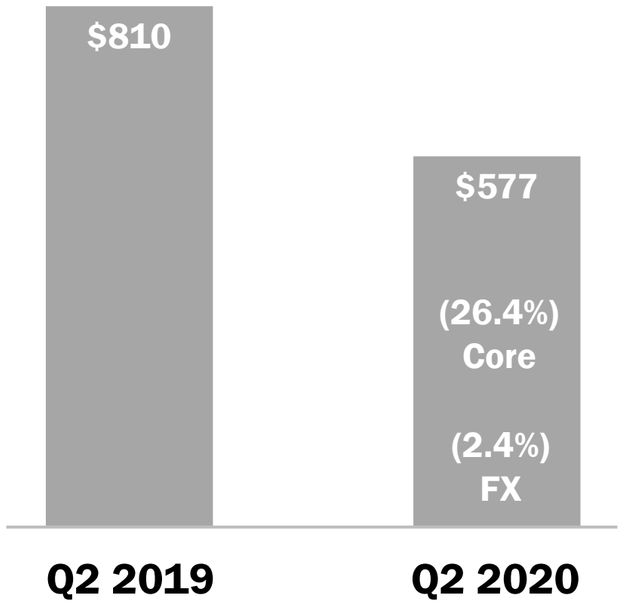
- Employee safety is our top priority
- Preserved operational continuity
- Improved decremental margins
- Maintained flexibility to respond to changes in demand
- Restructuring program on plan
- Continued momentum with product portfolio revitalization
- Key regions and end markets recovering
- Business positioned well for the future

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Q2 2020 FINANCIAL PERFORMANCE

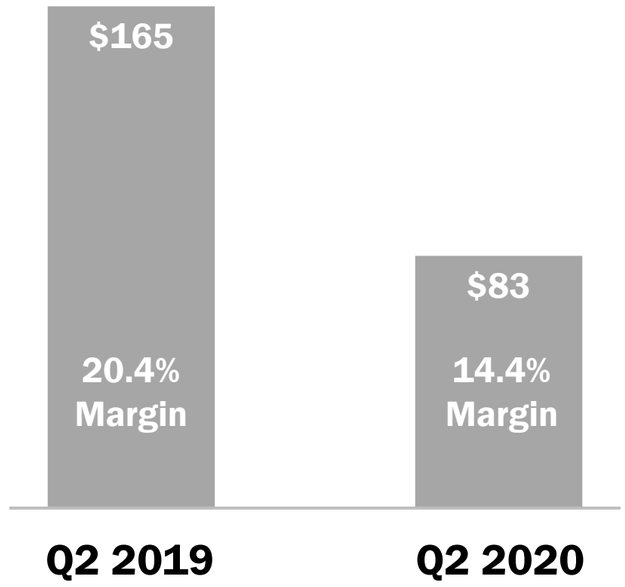
USD in millions

NET SALES



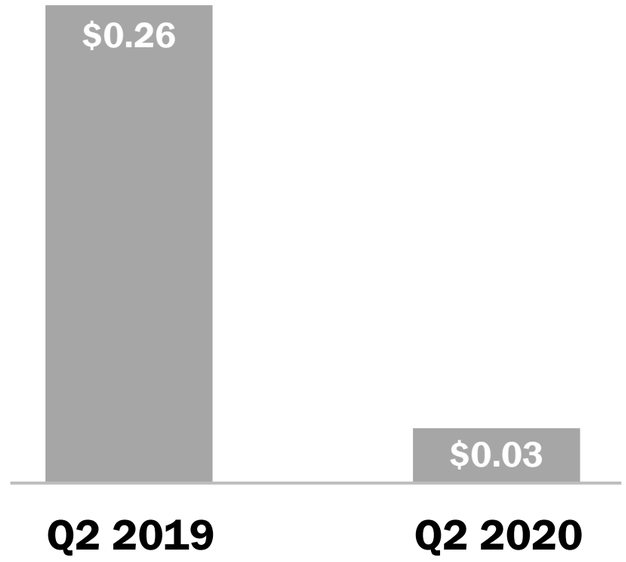
China returned to growth, other regions improving

ADJUSTED EBITDA



35% decremental margin[2]

ADJUSTED EPS[1]



Adjusted EPS decline driven by lower operating income

DELIVERED SOLID RESULTS IN UNPRECEDENTED MARKET CONDITIONS

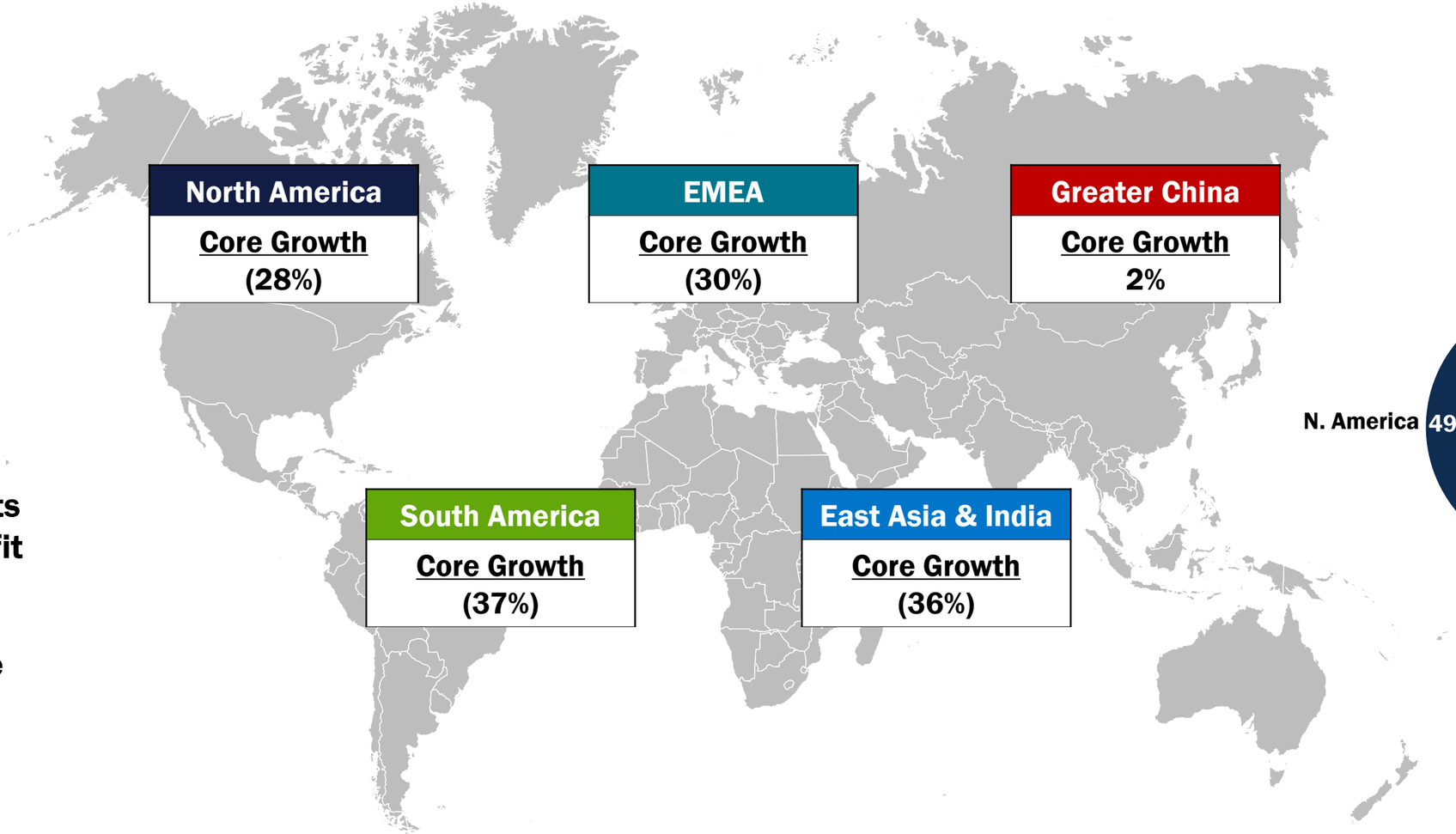
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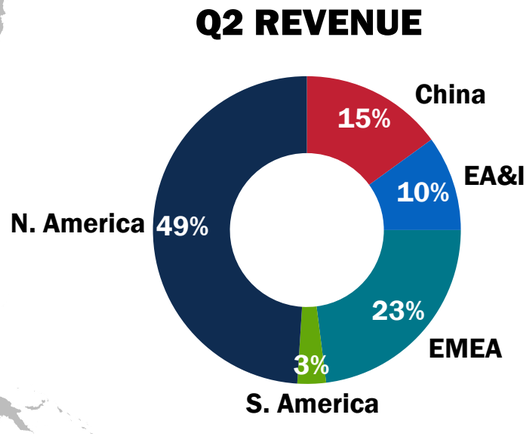
[1] Adjusted Net Income per diluted share

[2] Decremental margin is calculated as the change in Adjusted EBITDA vs. the prior-year period divided by the change in revenue vs. the prior-year period

REGIONAL PERFORMANCE

- China returned to growth in May and June
- Americas & EMEA showing sequential improvement from April lows; replacement markets outperforming first-fit
- Extended shutdown in India slowed pace of recovery in EA&I





SEQUENTIAL IMPROVEMENT WITHIN THE QUARTER IN ALL REGIONS

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POWER TRANSMISSION

Q2 Summary:

- Sequential improvement throughout the quarter
  - China returned to growth, driven by solid performance in industrial end markets
  - North America least impacted due to larger percentage of sales into replacement channels
  - Europe showed most significant improvement, led by automotive replacement channel
- Continued focus on innovation with recent launch of new products, capitalizing on increasing trends in personal mobility

Carbon Drive – Personal Mobility Solutions



Gates recently launched a number of new Carbon Drive belts, sprockets and cranksets, expanding its offering of lower-maintenance, rust-free, quieter and stronger alternatives to chain drives to cover an even wider range of commuter and performance bicycles, as well as e-bikes.

(USD in millions)	Q2 2020	Q2 2019	Δ
NET SALES	$370.0	$501.5	(26.2%)
ADJ. EBITDA	$57.7	$105.6	(45.4%)
ADJ. EBITDA MARGIN	15.6%	21.1%	(550) bps
DEPRECIATION & AMORTIZATION[(1)]	$16.6	$16.5	0.6%
AMORT. OF INTANGIBLES FROM ACQ. OF GATES	$18.5	$18.3	1.1%

REVENUE GROWTH:

Core	(23.7%)
FX	(2.5%)
Total	(26.2%)

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(1) Excludes the amortization of intangible assets arising from the 2014 acquisition of Gates.

FLUID POWER

Q2 Summary:

- Sequential improvement throughout the quarter in all regions
  - China returned to growth, aided by the Construction end market
  - North America least impacted, result of larger presence in the automotive replacement channel
  - Europe saw large declines at first-fit customers, with relative outperformance in replacement channels
- Replacement channel destocking continued
- New business wins with MXT and PRO Series hoses continued to grow

China – Positioned for Long-Term Growth



Gates is realizing benefits from the recently completed capacity addition to its Fluid Power manufacturing plant in Changzhou and believes the company is well positioned for long-term growth, particularly as industrial end markets in China continue to recover.

(USD in millions)	Q2 2020	Q2 2019	Δ
NET SALES	$206.5	$308.4	(33.0%)
ADJ. EBITDA	$25.5	$59.8	(57.4%)
ADJ. EBITDA MARGIN	12.3%	19.4%	(710) bps
DEPRECIATION & AMORTIZATION[(1)]	$9.3	$10.1	(7.9%)
AMORT. OF INTANGIBLES FROM ACQ. OF GATES	$10.3	$11.3	(8.8%)

REVENUE GROWTH:

Core	(30.6%)
FX	(2.4%)
Total	(33.0%)

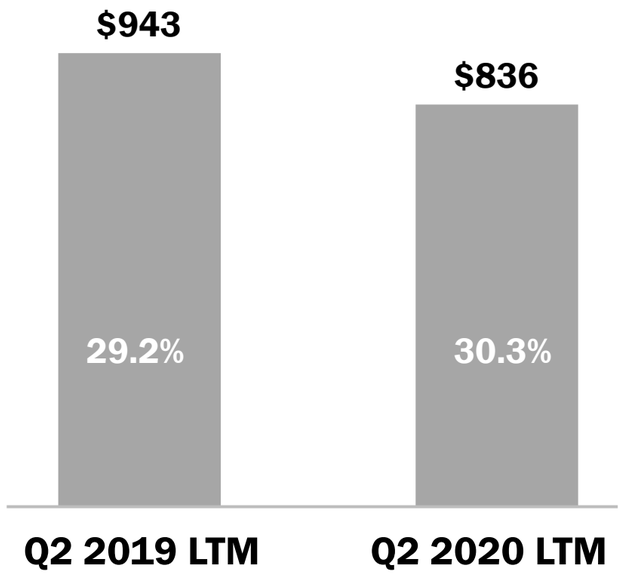
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(1) Excludes the amortization of intangible assets arising from the 2014 acquisition of Gates.

BALANCE SHEET AND CASH FLOW

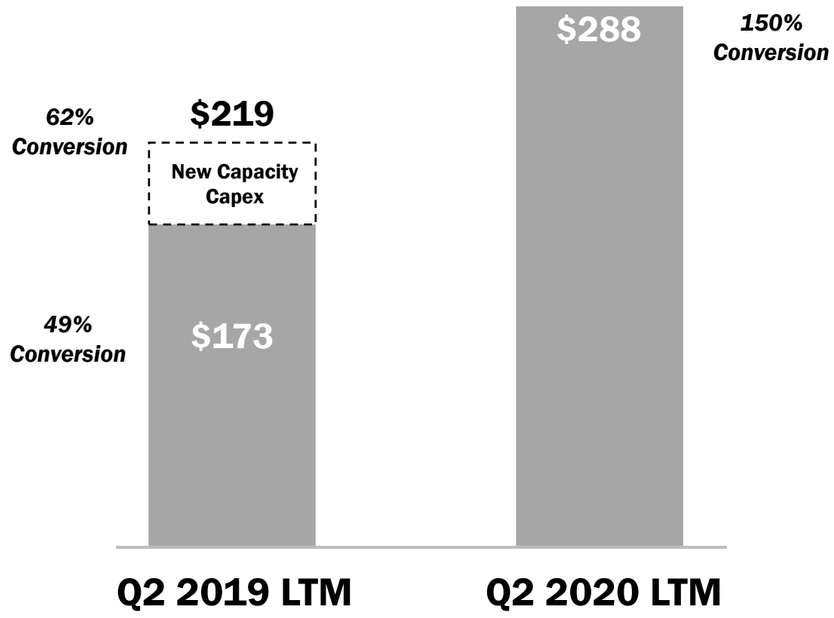
USD in millions, except multiple data

TRADE WORKING CAPITAL



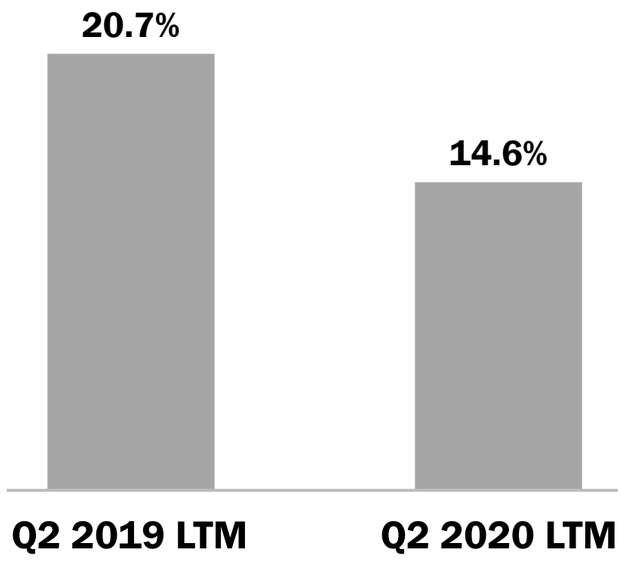
Significant reductions in receivables and inventory

FREE CASH FLOW



Strong Free Cash Flow Conversion

ROIC



ROIC impacted by lower operating results

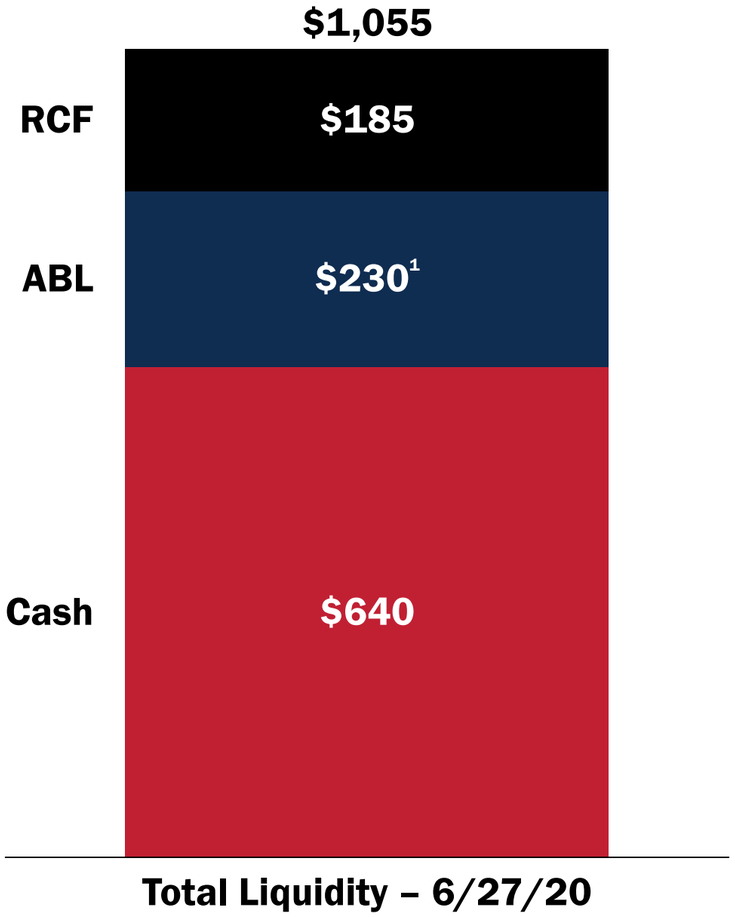
STRONG CASH FLOW DESPITE CHALLENGING ENVIRONMENT

Notes: Trade Working Capital: Trade Accounts Receivable plus Inventory minus Trade Accounts Payable; Trade Working Capital is also shown as % of LTM Revenues
LTM Free Cash Flow: Net Cash Provided by Operations minus capital expenditures; Free Cash Flow Conversion shown as % of Adjusted Net Income
ROIC: Tax-effected LTM Adjusted EBIT divided by total assets minus cash, accounts payable, deferred tax assets, taxes receivable and intangibles related to 2014 acquisition of Gates

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LIQUIDITY

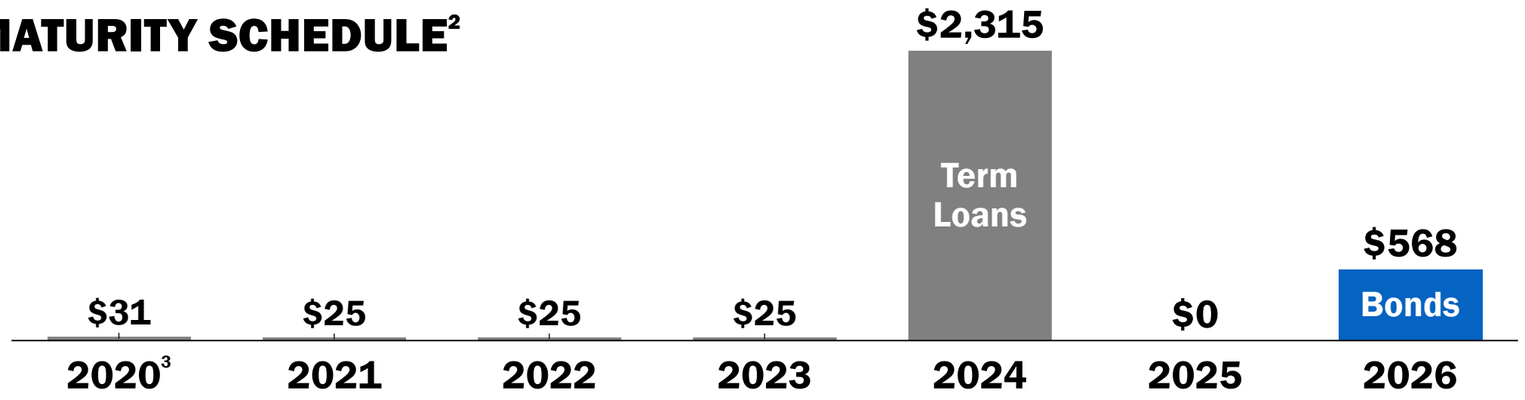
USD in millions



FINANCIAL COVENANTS

- **Revolving credit facility (RCF)**
  - Can be drawn up to 30% with no financial covenants
  - >30% draw requires senior secured net leverage <7.15x credit facility EBITDA (3.5x as of Q2 2020)
- **Asset-backed loan (ABL)**
  - Can be drawn up to 90% with no financial covenants
  - >90% draw requires fixed charge coverage >1.0x (2.4x as of Q2 2020)

MATURITY SCHEDULE[2]



SOLID FINANCIAL POSITION ENABLES INVESTMENT FOR THE LONG TERM

(1) ABL net borrowing capacity as of 6/27/20
(2) RCF and ABL mature in 2023, if drawn
(3) Remaining portion of required 2020 principal payments is $19M

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2020 FRAMEWORK

- **Q3 and Q4 expected to reflect sequential improvement**
  - Absent broad re-implementation of movement restrictions, Q3 core revenue anticipated to decline in the range of 10%–15% year-over-year

- **Improved full-year decremental margin**
  - Second-half decrementals of ~35%
  - Cost structure actions expected to drive elevated incrementals when the business returns to growth

- **Cost actions**
  - Previously initiated $40M restructuring program progressing as planned
  - Compressible/discretionary spend reductions of ~$50M on track

- **Robust cash flow generation**
  - Focused management of working capital
  - Expected capex ~$70M for the full year
  - Free Cash Flow Conversion expected to be > 100% of Adjusted Net Income

COST ACTIONS MITIGATING IMPACT OF REVENUE DECLINE, WHILE PRESERVING OPERATIONAL AGILITY

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SUMMARY

- **Solid execution in unprecedented economic environment**
- **Posture shifting to respond to expectations of continued recovery**
  - Trends suggest end of extended downturn within sight
  - Improved, more flexible operational footprint
- **Winning business with new products**
- **Resilient business that has historically rebounded well from periods of economic uncertainty**
  - Mission-critical parts that need to be replaced
  - Strong, flexible liquidity position

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Gates

APPENDIX

RECONCILIATIONS – ADJUSTED EBITDA

(USD in millions)	Q2 2020	Q2 2019	LTM Q2 2020	LTM Q2 2019
Reconciliation to Adjusted EBITDA				
Net (Loss) Income from Continuing Operations	**$ (27.8)**	**$ 26.7**	**$ 75.0**	**$ 781.2**
Adjusted for:				
Income tax expense (benefit)	0.6	37.5	(9.2)	(493.6)
Net interest and other expenses	30.6	37.7	140.7	152.1
Depreciation and amortization	54.7	56.2	219.5	221.2
Transaction-related (income) expenses	-	(0.7)	2.7	0.4
Asset impairments	3.7	-	4.4	0.2
Restructuring expenses	17.2	0.3	21.5	8.0
Share-based compensation expense	5.7	3.8	17.2	9.2
Sponsor fees (included in other operating expenses)	-	2.0	4.4	7.8
Inventory impairments (included in cost of sales)	1.4	0.3	2.3	0.7
Duplicate expenses incurred on facility relocation	-	-	-	2.1
Severance expenses (included in cost of sales)	0.5	0.5	4.1	2.2
Other primarily severance-related expenses (included in SG&A)	0.3	1.4	3.0	5.7
Other adjustments	(3.7)	(0.3)	(1.5)	0.7
Adjusted EBITDA	**$ 83.2**	**$ 165.4**	**$ 484.1**	**$ 697.9**

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RECONCILIATIONS – ADJUSTED NET INCOME

(USD in millions, except share numbers and per share amounts)	Q2 2020	Q2 2019	LTM Q2 2020	LTM Q2 2019
Reconciliation to Adjusted Net Income				
Net (Loss) Income Attributable to Shareholders	**$ (22.4)**	**$ 21.5**	**$ 68.1**	**$ 770.7**
Adjusted for:				
Loss on disposal of discontinued operations	0.2	0.2	0.3	0.7
Amortization of intangible assets arising from the 2014 acquisition of Gates	28.8	29.6	117.0	118.7
Transaction-related (income) expenses	-	(0.7)	2.7	0.4
Asset impairments	3.7	-	4.4	0.2
Restructuring expenses	17.2	0.3	21.5	8.0
Share-based compensation expense	5.7	3.8	17.2	9.2
Sponsor fees (included in other operating expenses)	-	2.0	4.4	7.8
Inventory impairments (included in cost of sales)	1.4	0.3	2.3	0.7
Adjustments relating to post-retirement benefits	(0.7)	(0.6)	(2.5)	(0.4)
Financing-related FX (gains) losses	(2.2)	0.3	(2.1)	3.4
One-time net tax expense (benefit)	-	28.3	-	(513.0)
One-time non-controlling interest adjustment	-	-	-	(15.0)
Other adjustments [(1)]	(14.2)	(0.2)	(12.3)	1.5
Estimated tax effect of the above adjustments	(8.1)	(9.6)	(28.3)	(39.8)
Adjusted Net Income	**$ 9.4**	**$ 75.2**	**$ 192.7**	**$ 353.1**
Diluted weighted average number of shares outstanding	290,732,375	291,802,754		
Adjusted Net Income per diluted share	**$ 0.03**	**$ 0.26**		

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(1) During the three and twelve months ended June 27, 2020, other adjustments included $11.3 million and $17.9 million, respectively, in relation to the non-controlling interest share of the adjustments above, primarily restructuring expenses incurred in relation to the closure of our manufacturing facility in Korea.

RECONCILIATIONS – FREE CASH FLOW AND FREE CASH FLOW CONVERSION

(USD in millions)

	Q2 2020	Q2 2019	LTM Q2 2020	LTM Q2 2019
Reconciliation of Free Cash Flow				
Net Cash Provided by Operations	$ 40.5	$ 111.5	$ 356.7	$ 283.4
Capital Expenditures [1]	(12.7)	(19.2)	(68.6)	(110.6)
Free Cash Flow	**$ 27.8**	**$ 92.3**	**$ 288.1**	**$ 172.8**

(USD in millions)

	LTM Q2 2020	LTM Q2 2019
Reconciliation of Free Cash Flow Conversion		
Free Cash Flow	$ 288.1	$ 172.8
Adjusted Net Income	$ 192.7	$ 353.1
Free Cash Flow Conversion	**149.5%**	**48.9%**

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(1) Capital expenditures represent purchases of property, plant and equipment and purchases of intangible assets.

RECONCILIATIONS – RETURN ON INVESTED CAPITAL (ROIC)

(USD in millions)	Q2 2020	Q2 2019
Return On Invested Capital (ROIC)		
LTM Adjusted EBITDA	**$ 484.1**	**$ 697.9**
LTM Total depreciation and amortization	(219.5)	(221.2)
LTM Amortization of intangible assets arising from the 2014 acquisition of Gates	117.0	118.7
LTM Adjusted EBIT	**381.6**	**595.4**
Notional tax at 25%	(95.4)	(148.8)
LTM Tax-effected Adjusted EBIT	**$ 286.2**	**$ 446.6**
Total Assets	$ 7,176.3	$ 7,430.1
Adjusted for:		
Cash	(639.7)	(411.0)
Taxes receivable	(54.4)	(45.0)
Deferred tax assets	(575.7)	(576.0)
Accounts payable	(317.8)	(378.3)
Intangibles arising from the acquisition of Gates	(3,628.2)	(3,867.2)
Invested Capital	**$ 1,960.5**	**$ 2,152.6**
Return On Invested Capital	**14.6%**	**20.7%**

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