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Gates Industrial Corp. Plc (GTES)

Citi Global Industrials Virtual Conference

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MANAGEMENT DISCUSSION SECTION

Sierra Homer
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Hi, everybody. Thanks for joining us here, especially at our conference this year. I know it's virtual, and I'm sure you've heard everyone say we wish we were in Miami right now, instead of some of us dealing with the winter storm. But we're happy to have Gates here with us this morning. I'm Sierra Homer, the Industrial Sector Specialist at Citi; joined by Ivo Jurek, the CEO of Gates. And so, we'll go ahead and go through some of the near-term stuff and switch to some thematic themes that the company – we're going to talk about this morning. And you can submit questions or e-mail me at sierra.homer@citi.com, and I'll pass those questions along.

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QUESTION AND ANSWER SECTION

Sierra Homer
Analyst, Citi

Q

So again, thanks, Ivo, for joining us here this morning. Why don't we kind of start out I think maybe talking a little bit more about the quarter, some color. Particularly, I'd like to focus on the kind of 2021 guidance you've guided there, 9% to 14% growth. Can you just give us some color kind of around the drivers looking forward in 2021. And kind of is it continued broad-based growth across the region and in end markets and kind of what's driving that?

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

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Yeah, sure. Look, I think that we've put in a terrific Q4 where we started to see what I keep calling a healing of our end markets. I think that many folks are trying to figure out if we are all seeing full recovery. We really haven't seen I think anything that's near full recovery presently. And so, a great jumping off point in Q4. We have seen strength across all of our markets across all of our geographies, probably with the exception of a very small presence that we have in oil and gas of less than 6% of our revenue. And then that market, obviously, has still some challenges that it is dealing with.

And so, when we take a look at where we came from and the incremental growth that we have been able to generate from organic growth initiatives, we felt quite well about being able to establish our guidance of 9% to 14% core, core growth for 2021. And we feel that as the year progresses, we will see continuation of constructive market recoveries and continuation of healing of these markets as we progress through the year.

Sierra Homer
Analyst, Citi

Q

No, that's great to hear. And maybe just diving into kind of the early part of the quarter, what should we kind of – how should we be thinking about the progress we've seen thus far? Any disruption that's obviously been kind of up and center with some of the auto supply chain disruptions, supply chain kind of tension in general that I've kind of heard throughout this week. So if could just talk about, yeah, kind of what you've already been seeing and maybe some challenges that could pop up and how you guys are handling that.

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

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Yeah. So, look, the performance we saw in January represented a continued trend of improvements. And frankly, that's what gave us a reasonably good confidence to offer a more detailed guidance for Q1. We are absolutely aware of the potential supply chain disruptions, particularly in auto, and we have taken that into account with our guidance. Look, I know that it may be sometimes sounds like these disruptions just occurred but those supply chain disruptions have actually been around through Q4, and we're all dealing with that. And I know that the auto guys have been dealing with that at that point in time as well. So, it wasn't a huge surprise to us.

So, look, I mean, I think that the supply and demand is slightly out of balance on auto new car sales front. I think that there's more demand than there is supply. And frankly, that supports the robust demand for used vehicle sales and for some midterm amount of time it will represent opportunities for us in our automotive replacement segment as well. So, we are dealing with it. I think that we have tried to take that into an account in our guide, and we obviously all have lots of work to do to manage through these issues.

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Sierra Homer
Analyst, Citi

Q

Okay. Understood. And kind of sticking on the auto theme, we've obviously seen accelerating trends towards electric vehicle adoption, a lot of investments being made in that space in terms of new deals, current OEMs investing in platforms and just I think increased focus kind of broadly on energy transition. So, can you just kind of give investors an update on how you're positioned to kind of capitalize on these trends. I think it could be a big growth part for the story that something I want to make sure investors are understanding.

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. Look, Sierra, we could probably spend the next two hours about this subject alone. And I think that we are actually quite excited about what is happening with the change in propulsion. Look, we're not a company that prefers one over the other. We are agnostic. But we have been making quite a bit of investments over the last few years into ensuring that we have developed technology that is going to be differentiated and, frankly, that's going to give us an opportunity to tap into some of these opportunities as the transition to electrification starts occurring. And we certainly view that transition as net positive for Gates as, frankly, more content is available to Gates as that transition starts occurring.

So let me give you an example. The example I like to use with folks is water pumps. There are water pumps that are used today on an ICE, and those water pumps are basically mechanical. They are very – they have a low degree of sophistication and they don't need to have a lots of output power. They are simply unidirectional and they are either always on or always off, right?

As we go into electric vehicles, in the electric vehicles, you are actually starting to increase dramatically the complexity of these water pumps. And that's more associated with the fact that you have much more complex demands on cooling the batteries and cooling the inverters that electric vehicles use. So what happens, why do we think that the complexity increases. Well, the complexity increases is because your output requirements increase. So they go up maybe from 50 to 75 watts on an ICE to 75 to 200 to 400 watts up to 1.2 kilowatts. That's scaling the demand up.

You also have a demand for now bidirectional and on and off cooling. So you now cannot get away simply with a mechanical device that is either on or off. You now need to add an electrical machine and a control board and a diagnostics, electronics that will give you the opportunity to have better level of controls. So, okay, that sounds good, Ivo. What does that really mean for you? Tell me, really, the meat of the matter here, right?

Well, what it means for us is that the mechanical water pump that we may be selling today for an ICE application may have an average selling price of kind of $8 to $15. Well, whereas that electrically controlled water pump in an electric platform now has an ASP that may be in that $30 to $65 on a auxiliary application. Whereas if you have a water pump that's going to be cooling batteries and inverters now, that water pump ASP goes to $75 to $135.

So as you can see, a content in this one device alone goes up from maybe $10 average to, say, $75 average, which is a 7x increase. And so, that's why we are quite excited. And I can spend quite a bit of time talking about the hoses that I used to cool the batteries and inverters. Again, very similar. You may have thermal management devices like hoses that cool the engine block today, and those sell kind of in the average of $15 to $30 range. Whereas the hoses now, they are much more sophisticated, that cool batteries and the inverters of an electric vehicle, the ASPs for those hoses go up to kind of $100 to $200 ASP range. And they are very sophisticated.

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They are not just hoses that all they do is cool, they need to cool and they need to have the ability to provide a function of heating the passenger cabin in a cold weather.

So the complexity grows, the technology is evolving. You have a trend where a lot more companies are coming up to the market with these electric platforms. And right there, we are very excited about it. Our technology is very differentiated. And we will start spending a lot more time as we move through 2021 talking about some of our design wins and participation in the OEM space.

Maybe on a side note, I – on my last call, I've talked about our first design, first major design win that I would say in the on-road industrial application in heavy-duty truck. So, we already have a record of being able to compete and win in that space. And we are very progressively looking towards building out that design win registry as we move in 2021.

Sierra Homer
Analyst, Citi

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Definitely. That's a ton of exciting stuff. And kind of sticking with the new products, your kind of differentiation within your product and kind of growth initiatives, I mean, in the – you've noted mid-single-digit outperformance versus your end markets in Q4. That's kind of been supported by these new products and growth initiatives. Well, how can we think about that sustainability of this level of market outgrowth going forward? You said there's competitors that you're kind of competing at that level. And mid-single digits is a huge impact. So, I'd love to kind of – what's a reasonable through-the-cycle level of outgrowth driven by these new products and initiatives that we can be expecting going forward?

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Sierra, excellent question. I mean, I think that, for us, I've spoken quite a bit about the investments that we have been making in revitalizing our product portfolio. And as you mentioned, that is paying dividend. And it's paying dividend not just in kind of traditional applications that Gates has supported historically, but frankly it's opening up some new opportunities for us across a number of end markets, particularly in the diversified industrial space.

We have a number of occasions I have certainly mentioned, the chain-to-belt wins in the industrial application such as logistics. And these markets have tremendous amount of tailwinds particularly when you think that belts are performing significantly better, they are delivering higher reliability and more precision movement without the necessitation for significant amount of maintenance.

Within diversified industrial, staying with that theme, we have noted wins in HVAC applications, in pharma, food processing, and those are some of the few areas that we are very excited about where we are able to not just participate with new builds, but we're also able to retrofit existing units and typically provide good energy efficiency gains for our customers, right?

And so, I would almost introduce a pause in here and introduce the fact that the natural driver for pull for our products is also embedded in all of us having desire to do better with ESG, particularly with the environmental attribute of being an industrial company. And industrial company, it's hard to be very progressive and deliver incredible impact on the environmental attributes, and we look at the products that we manufacture being able to do just that for people. I mean, you check all the marks. We are able to reduce noise pollution with our products. We are able to reduce energy consumption. We are eliminating health and safety standards by offering customers the opportunity to eliminate lubrication from being able to service their equipment that they use in their factories. And I can go on and on, there's a long list of why ESG ultimately is going to be a significant net positive pull for

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the demand for our products, particularly for the newer products in the secular set of applications that we believe are going to be very, very accretive to our shareholders and our company over the midterm.

Sierra Homer
Analyst, Citi

Q

Definitely. And I think ESG has probably been one of the biggest focuses of the conference this week. Just everyone kind of talking about sustainability goals, both on small companies, big companies kind of across the spectrum, and it's a question that I get day in and day out on the work we're doing around ESG investing. So, what do you think is the messaging you want to give to investors? Is there – do you have a team working a lot on that to kind of deliver that ESG story in addition to kind of all the other growth products that you're seeing? Because I do think it's becoming a more important narrative and, like you said, especially as an industrial company, it's always at the top of the list for any other companies to kind of be the ESG focus. So, how are you kind of working on your messaging there and making that story out to investors?

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

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Look, I think that you will again hear more from us in terms of the importance of ESG and the importance of ESG within Gates, right? So when I look at ESG and when I think about it, and I very rarely do that, but as you can probably tell from my accent, I'm European by birth, and I think that the European companies have been maybe a little more forward leaning in ESG. And I certainly feel that this is a very important part and it's our obligation to leave the planet in much better shape than it is today.

But, look, ESG is kind of a front and center. It has been for a while at Gates. There's a great ESG report that we have published over the last couple of years, where we're making our goals and objectives known. But let me give you a couple of stats, right? Just over last couple of years, we have focused on making our operations more ESG proofed, right? We have reduced GHG emissions by over 31% over the last few years. We have reduced water consumption in our plants by over 31% over the last few years. And we have reduced energy consumption by over [ph] 14% (00:17:01) in our plants. That does not touch on the objectives with health and safety which are certainly right there with the ESG objectives that people require.

Just in the last three years, we have improved our safety by over 27%. Our lost accident – incident rates have dropped by 42%. And we believe that this is kind of table stakes, so you have to have that set of attributes within your core operations. Obviously, we have embedded objectives to improve diversity and inclusion and equity. And that is a huge part of our desire to continue to drive progress within Gates.

And then I mentioned that one of the things that I believe really differentiates us is our innovation where everything that we do, the core key attribute of new products that we launched is driven by being more environmentally cautious. So whether or not it is less material that we use in building our products, lower rates, higher efficiencies, more eco-friendly products, removing bad components of materials from construction, ESG certainly is front and center in everything that we do, Sierra.

Sierra Homer
Analyst, Citi

Q

Awesome. Yeah, that's good to hear. And I look forward to kind of hearing more updates on that and the progress going forward. But sticking kind of on the innovation piece that's obviously kind of a key component to the Gates story. Obviously, the pandemic has totally shifted the way we think about the world. And I want to take a second just to kind of think about how the pandemic has changed your end markets. Mobility and recreation business is a

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relatively smaller portion of your total sales. But it does seem kind of, like, the work-from-home trend we're seeing, avoiding public transportation, you and I were just talking about New York City before this. It should continue to materially benefit business trends kind of more on the drivers on the road and more e-commerce within the auto replacement channel. So, could you just give kind of more color on what you're seeing there and kind of how Gates sits in there and the innovation you've done.

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

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Yeah, Sierra, I mean, you've kind of touched on all of these attributes. So, look, in personal mobility, yes, you're right, it is a smaller area of our business today, but it is one that is experiencing very substantial growth even in a down year like we all lived through last year, that business grew over 20%. And it's more than doubled just simply over the last couple of years. And every big business needs to become small one first and it needs to have high rates of growth. And I believe that this one checks everything that that requires.

Look, some of the other markets that we see having tailwinds are, as you said, people are rethinking their commuting needs, right? So if it's transportation, I mean, we all relate to that. Look, fitness options, right? We all like – I mean, I know that I like fitness. I mean, historically, I have been more outdoor individual. So having my bicycle that's powered by Gates belt was essential. But over the last year, I have – I'm certainly a proud owner of couple of Peloton devices, and I love them. And it's going to be very difficult for me to convince myself that I want to go back to a gym.

And so, those – the proliferation of these devices, by the way, are important to us because they are not chain driven, they are belt driven, right? So that's a good trend. As population elects to shift away from high-density areas to more suburban areas, I think we've touched on that as well earlier before we started this conversation, right? People want more suburban living again, and you see a significant demand for new and used vehicles. This bodes really well for our participation in, frankly, both of these segments in new and particularly in the replacement side of our automotive business.

And maybe lastly, I would say that we are seeing much greater focus on sustainability, we talked about that, efficiency, efficiency improvements of equipment, uptime. And that creates huge opportunities for us in the industrial automation, e-commerce-driven logistics and warehousing. And I have talked about that personal mobility piece. So we're kind of in a sweet spot of what we believe is going to be an extended demand over the long term for our products that goes way beyond just the healing of our underlying market drivers.

Sierra Homer
Analyst, Citi

Q

No, that's good to hear. I've had a numerous conversations kind of investors looking for stories that are pandemic recovery stories that go beyond just kind of an initial COVID impact. So, it's good that you guys have some longer-term kind of runway there that I think will continue to add to the story. Kind of just shifting a little bit, just kind of more region wise, how should we think about material differences kind of by region for Gates? China had really strong growth but we'd kind of love to hear your thinking just about the different regions and how those markets look going forward.

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

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Yeah. Look, China has been terrific for us. Out of all regions, China actually delivered a tiny amount of core growth in 2020 which was a really tough year. And so, hey, look, for the industrial company, I'll take that as a

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really terrific performance [audio gap] (00:23:21) obviously built up particularly on our strength in second half, exiting Q4 with over [ph] 14% (00:23:27) core growth. So, that was quite terrific.

You know that growth was fundamentally supported by our incredible presence in automotive replacement channel. I've talked about it quite substantially over the last several years, that is our team in China is executing extremely well on our objective to continue to scale up our automotive replacement channel there. That business has been growing quite substantially and more than doubled over the last three years, again, from a smaller base to a very nice base. And we've exited Q4 with China AR on more than $100 million run rate. So it's no longer a small business, but we still believe it's going to continue to grow in double-digit growth rate over the midterm future.

We've also frankly seen a very strong growth in industrial applications, particularly in the general industrial marketplace there. And so, as you can probably sense from me, I'm quite constructive on China. And we believe that we're going to have another terrific year in China in 2021. We have a terrific team there, terrific set of opportunities and, frankly, terrific set of assets that we have positioned in China to support that growth.

Now, when it comes to the other regions, look, Europe and North America performed really well in Q4 and delivered very strong growth. Then, I will put our growth, our core growth in Q4 in North America and Europe against anybody out there, any premium industrial peer. I think we have outperformed the expectations and certainly we have outperformed the growth of our peers. Why? Again, innovation, organic growth initiatives, pull for our product. Look, some of our new products, I've talked quite a bit historically about, as an example, our MXT product line.

Our MXT product that is part of our hydraulics product portfolio continues to accelerate and it continue to accelerate through the quarter and, frankly, throughout the full year despite the pandemic. I mean, that product line, revenue grew very substantially in 2020. Chain-to-belt progressed nicely. So, we got some really good organic initiatives that will help us over and above the healing of those markets.

And then I did mention that we have seen a very strong performance in East Asia and India. That was a very problematic region for us for some time, but we have seen a very nice recovery there that has been predominantly driven by the industrial on-highway and off-highway applications. So, all markets did well. Our teams are executing well. We are excited about 2021 and we are excited about the slew of initiatives that our teams globally have been working on and executing.

Sierra Homer
Analyst, Citi

Q

Okay. No, it's super helpful color. Kind of touching on the replacement markets, I believe you haven't really seen much channel restocking activity in the replacement markets. So could that be still an incremental tailwind that could develop going forward, or is there something structurally different about the market now, your ability to kind of meet demand that could leave your channels – your channel partners to operate with lower inventory versus historical levels, kind of how you're thinking about the replacement?

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. Look, I said it pretty publicly on my last call, we really haven't seen any restocking, particularly in the industrial channel which has been most dislocated through 2020. What we have seen in Q4 is more balance of sales where sales are – the sales into the channel are much more in line with the sales out. So our customers are consuming, our distributor channel partners are consuming what they are selling to their end users. And that

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really is a good sign because, as you may know, we have really seen a very substantial destocking in the channel in the prior four or five quarters. So seeing that stability is great, seeing that we are not frankly participating in any inventory restocking is great. And I'm hoping that we will not see a substantial restock as these customers have and these channel partners are I think adapting to a newer way of doing business and being able to operate with leaner inventories on forward-going basis.

I don't quite like the stocking and – the restocking and destocking. It's always more fun when they are restocking, obviously. But that generally speaking leads to the [ph] analog (00:28:49) opposite of it which is a destock, and that's not as much fun to deal with. So, I'm hoping that they'll continue to consume in line with what the end market demand bears. And I think that we're actually in a really good position because of the initiative to rebalance our geographic portfolio. So, we don't have to move our inventories around the globe. We, generally speaking, support the demand in-region with in-region capability and I think that they're also giving us a little bit of a head-up performance more in line with being able to respond much more fast, more quickly and give ourselves the opportunity to maybe take some incremental volume versus folks that have to move inventories across the globe.

Sierra Homer
Analyst, Citi

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Okay. No, that's very, very helpful. And kind of on product line and product line consolidation. You've talked in the past about the potential to kind of consolidate your SKU and do some rationalization there, I think, in the order of 400,000 SKUs. So can you talk about kind of where you are in those efforts, how you're thinking about that consolidation to potentially contribute to margins over time.

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

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Yeah, sure. So, let me start with – well, we actually really like the large SKU count. And it is extremely important part of our replacement-type business model, right? We have a business that, generally speaking, is able to carry the SKUs that people need. It is very dispersed kind of installed base of equipment that's out there. But what we are targeting, as you mentioned, that also brings headaches to you as a manufacturer. So, what we are targeting to do with our innovation, frankly, is to deliver global platforms that give us the opportunity to harmonize our manufacturing processes and the materials we use in construction of those processes.

So, kind of think about it as significantly reducing your complexity in the product platforms that you're manufacturing without having the impact on reducing the SKU count that you have to manufacture for your customers. And that in itself dramatically reduces the complexity of your manufacturing that you have to deploy to make these products.

So let me give you an example. I've spoken earlier about our MXT product line, that MXT product line covers many standards across the hydraulic hoses that in the past had each individual product line. Now, we have been able to remove maybe five or seven product lines and harmonized those lines under that one common platform, and that has dramatically reduced the complexity.

By the way, that reduced the complexity and SKU count not only for us but also for our customers so that they can carry fewer SKUs but they can customize it into their own demand that they see with their own customers. And I can go on a couple of other examples, but I think that this is a really good way to demonstrate how we are thinking about it and what we anticipate we're going to be able to push through the portfolio as we move into the next phase of our existence as a public company. And ultimately, that filters through profitability and margins.

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Sierra Homer
Analyst, Citi

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Okay. Yeah. And sticking on the margin, can you just give us a little more color into the assumptions for your 2021 margin guide. It's good – the 50% incremental margins you've kind of talked about being achievable in the first year of recovery, but kind of what are all the kind of factors and pieces that you're putting together to kind of get to that – to get to that margin guide? We'd just kind of love to hear some more color there.

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

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Yeah. I mean, I think that we spoke in the past about fundamentally what were the actions that we have taken in 2019 and 2020 to rightsize our variable cost base, as well as frankly our fixed-cost structure, right? And that has positioned the business with the restructuring activities and the reduction of the variable overhead, that gave us the opportunity to feel confident that we're going to be able to deliver those 50% incrementals.

And frankly, if you go back and you look at our performance even in Q3 of last year where we all still felt the impacts of the pandemic in earnest, we already started to see the benefits and started to expand both our gross margins and our [ph] EBITA (00:34:02) margins on year-on-year basis. So we are certainly expecting that we're going to see some inflation coming in in 2021, but we anticipate that we will be able to offset that inflation through material price – through price actions. So we anticipate that material economics are going to be offset by price. That has been our historical tendency to operate within those parameters. And we view that we're going to be able to do that.

And so, with respect to supply chains, we also have obviously seen some disruptions in supply chains. But we kind of took a forward-leaning posture in second half of last year and we have done quite a bit of work to protect our supply chain and ensure that we have continuity of supply from a raw material perspective.

So coming back to the original question, we feel quite positive about being able to deliver those 50% incrementals. I will note that the 50% incrementals on our core growth, obviously, we have seen positive impact of foreign currencies that they'll have on our business in 2021. And those clearly don't fall through to bottom line at 50%. They'll more or less fall through at our [ph] EBITA (00:35:33) rate. So, we may not get to 50% on our total revenue, but we will get to 50% leverage on our core growth.

Sierra Homer
Analyst, Citi

Q

Okay. That's helpful. And really good to hear the updates on the supply chain and kind of being able to pass through price because that's I think another one that I probably get a question every day of what companies are able to pass on price with these rising kind of commodity costs coming in. So, that's a super important update there.

And then just kind of looking at the balance sheet, you guys have done some great work on paying down debt, I believe, $300 million in fourth quarter. And you've kind of had that targeted 3 times net debt to EBITDA by the end of 2021. So, how are you thinking about the capital structure longer term? Where do you think your ultimate goal is in terms of leverage? And then taking it a step further, kind of once you get to that ultimate goal, kind of how should investors think about capital allocation priorities going forward?

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

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Yeah. All of these are very important questions. Obviously, as you can imagine, those are questions that I've been fielding since we became public. But I remind everybody that I joined the company about 5.5, almost 6 years ago now. And when I joined the company, we were 7 times levered. When we became public, we were levered north of 4 times. And after the IPO, we have taken over $0.25 billion and invested that in new facilities and new R&D and new product introduction. And despite that, we have dealt with significant economic recession and pandemic.

So that being said, and I know it's mouthful, but that being said, I have [indiscernible] (00:37:16) being committed to deliver a midterm leverage level that is below 3 times. Now, if you take a look at our guide for 2021, you see that we anticipate to get to that 3 times leverage in 2021, despite all of these issues that I've just outlined. And that really speaks about the quality of this franchise and our ability to generate tremendous amount of free cash flow.

Now that being said, our midterm objective is to operate kind of in that 3 to 2 times net leverage. And so to be able to do that, we will continue to pay down or reduce our gross debt with the cash flows that we generate from our operations. And once we do get to that neighborhood of that 2 to 3 times net leverage, that will open up significant amount of optionality for us of what we can do. I said that we are operating in a very large, very fragmented set of end markets. And we're a large player with products that we manufacture. We are kind of top three across vast majority of our portfolio in those large markets. But it also offers opportunities for consolidation. It also offers opportunities to add to our portfolio either technology or further geographic presence. And we will start making those decisions on capital deployment once we get below 3 times leverage. And I'm committed to do that. And I believe that it's not too far into the future that we'll actually reach that level.

Sierra Homer
Analyst, Citi

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Okay. I know we're running up on time here, it always goes by so fast. So I guess in the last minute or so here, through the pandemic, you kind of highlight a lot of success you've had with virtual training, marketing and other digital tools. I'd love to kind of hear about what you're doing with digital today, incremental opportunities you see for kind of adoption of digital. It's kind of been another big theme of that kind of technology going forward that we've talked about throughout this week. So, would love to hear any thoughts you have here to kind of wrap up.

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

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Yeah. Look, we actually took the opportunity and redirect some of the savings, [ph] SaaS (00:39:50) savings that people were booking to their P&L statements. We've kind of redirected some of those SG&A [ph] SaaS (00:40:00) savings into investment towards digital front end. We certainly believe that digital tools are very, very important, whether or not it is deploying a very effective digital training program, which I think we did quite well. But we've also spent quite a bit of our resource to reinvest into kind of what I call a customer experience and get away from touch points where our customers need to pick up a phone and call you to check on their order, check on pricing, check on status of their shipments and so on so forth.

And we're in the process of deploying a touchless customer service module that we actually have launched in North America in Q4 and we will be launching across the globe. So we believe that that not only will make us much more customer friendly where we all, I think, that through the pandemic used to not necessarily talking to another human being and being able to look up on the Internet or get a status verification, what happened to our Amazon order and so on so forth. So we have done quite a bit of work on that front end.

We are also spending quite a bit of time on developing digitally enabled devices that are used for manufacturing of our products. And about a year-and-a-half ago or so, we have developed and we have launched our what we

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call connected crimper, GC20 connected crimper. That's a device that you use to crimp hydraulic hose to a coupling. So it can be interconnected to the appliance that it goes to, whether it's a combine harvester or a heavy-duty truck. And the digital crimper gives us – it's Internet-enabled. It gives us the opportunity to online train our customers. It gives ability to online update crimp specifications and crimp ranges. It gives us the ability to, as we launch new products, to instantly update our customers on any changes that they need to make on the processes that they use to use our products. And so, we're quite proud about what we have done on that front.

And last year, we've put nearly 500 of these digitally enabled crimpers into the marketplace. And by the way, it does two things for us. It makes us more sticky with our customers but it also gives us an opportunity to see what our customers are consuming. And ultimately, as that proliferates, as the technology proliferates, it gives us an opportunity to go and enable better replenishment process and processes for those customers and gives us an ability to see what actually is happening in the end markets without necessarily waiting for the end of the month until we get our reports from our end users and channel partners.

So we are doing a lot on the digital front. And I haven't obviously touched on the e-commerce piece which we are also quite excited about. We have grown our e-commerce presence in China and participation there by over 100% last year. And we anticipate a very substantial growth in 2021 with e-commerce participation in North America as well. So, a lot happening on that front. Very exciting for us. And those are all activities that, frankly, go beyond just touching the customer and being able to communicate with those customers vis-à-vis design-ins and broadening up our business base. So very, very exciting time and we all think that this is going to be very important for the future of this excellent 110 years old franchise that I have the privilege to be part of.

Sierra Homer
Analyst, Citi

No, that's great. And I think that is a perfect place to wrap up. Needless to say, just blown away by the amount of innovation and excitement kind of happening in the story. And I'm excited to, like, look forward to the updates coming through. And so, it's been great to have you with us, Ivo. And thanks for being supporter of the conference, and I look forward to speaking with you soon.

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

Sounds good, Sierra. Thank you very much. We appreciate all the help and, you guys, certainly stay safe.

Sierra Homer
Analyst, Citi

Absolutely. You, too.

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

Bye-bye.

Sierra Homer
Analyst, Citi

Bye.

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