

**Company Name: Gates Industrial Corporation plc (GTES)**  
**Event: Gates Industrial Investor Day**  
**Date: March 8, 2022**

**<<Bill Waelke, Vice President, Investor Relations>>**

We will go ahead and kick things off. Thanks, everyone for joining us today. After two years now of mostly virtual events, it's great to be here in person to kick off our investor day. We have presentations from our executive team on our key strategies and how we plan to achieve them. Perhaps more importantly, though, we have a technology showcase in the room to give you a little show and tell and a little bit more of a feel for how we plan to execute on some of our key growth initiatives.

For those of you participating in the webcast, you won't have the same benefit of being live in the room for these technology showcases. But we will have some videos that will play when we go do the live tours here and then rejoin the live webcast about 90 minutes later. We do have a lot of material to make it through, so we would ask that you hold your questions to the specific Q&A times which we will have in each of the booths and then also a dedicated session at the end of the day, which we'll also take questions from webcast participants. So, with that, I will get out of the way and turn things over to Ivo.

**<<Ivo Jurek, Chief Executive Officer>>**

Well, as Bill said, it's great to see everybody here. Good afternoon. It's awesome to be in person. It is our second investor day and again, I am truly, truly delighted that it is actually in person. So, for those who are in the room, thank you for coming. For those who are watching the webcast, as Bill said, we appreciate your time, your time that you are committing to this meeting as well. So, we have a full afternoon today and will provide you with an update on our strategy on our end markets and we will talk through our initiatives. We'll talk about our framework of how we operate, as well as the view where we see Gates headed over the next several years. So, with that, let me jump straight in and make sure that I can actually advance. The Investor Day, I'm not quite sure I can do that. Let's see. All right. We can do it. All right. Awesome.

So, the key messages today, on Slide 6. Our business is focused on being best in class provider of highly engineered components that perform mission critical functions in demanding applications with natural replacement cycles. We are an industry leader in large, fragmented markets that are benefiting from secular tailwinds, and we are executing on our growth focused growth initiatives that will allow us to capitalize on those tailwinds. Our operating model is supported by our Gates operating system, which leverages in combination with our in-region, for-region presence to efficiently serve our customers globally, including our very large replacement network of channel partners. We are a company with an attractive financial profile, demonstrating a track record of above market growth and a strong free cash flow generation. Finally, with our strengthened balance sheet, we have increased optionality to fund further growth and drive significant shareholder value creation.

As we move forward, moving to Slide 7, which provides some of the key facts and figures on our total revenue breakdown. Our strong financial profile is supported by over 14,000 associates, including over 750 engineers who are the foundation of our innovation efforts. Our business is diversified across geographies and markets, products and channels. We believe we have the broadest distribution footprint globally in our product categories, with over 100,000 shipped-to locations. Roughly two thirds of our business goes through replacement channels and one third goes through OEMs, which we believe is a nice mix that provides resilience for our business.

Moving to Slide 8. An overview of product line segments, power transmission is the company's heritage and we are a clear, global leader in our core market. We engineer and manufacturer belts and related components that power drives in demanding applications across a broad range of end markets. They wear out and need to be replaced on a regular basis, and that's a good thing. In fluid power, we are one of the top three premier global players supplying hydraulics and fluid conveyance products across a wide range of applications and in markets also similar to power transmission. These products are highly engineered but operate in harsh applications and also need to be replaced regularly.

With the overview of the company behind us, let's move to Slide 9 and provide some important context to the business transformation we achieved over the past few years. In the 2015 - 2017 timeframe, our primary focus was bolstering our organizational capability, deploying a Gates operating system to deliver operational improvements while we refocused our innovation efforts. Over the next several years, we significantly invested in the business. We've built our capacity and improved our global footprint. We've launched over 30 new product platforms across our portfolio while substantially improving our new Product Vitality Index. And, we invested in our digital infrastructure. We've played offense while managing through a challenging economic environment and put our business on track to deliver a strong shareholder value over the long term.

Here's our leadership team, nearly all of whom were here driving the transformation I just covered. They are responsible for fulfilling our commitment to all of our stakeholders. It is a collaborative group of highly experienced operators that is responsible not only for developing and executing on our strategies, but also equally importantly, for ensuring the company's culture and our values are cascaded throughout the organization.

Moving now, to Slide 11. This describes our operating philosophy in our focus on our key stakeholders. Our employees have shown tremendous dedication and resilience, particularly throughout the last two years, while overcoming the challenges of the COVID 19 pandemic. It is our responsibility to develop their skills and careers and ensure they have a safe, rewarding and balanced experience while being a part of the global Gates team. Our relationship with our customers is a set of long-term partnerships with many extending over multiple decades. Our relentless focus on serving our customers with differentiated technology to solve complex problems in mission critical applications and providing a world class service are key elements of our Gates DNA. We are not just an employer across global communities in which we operate. We believe it is our responsibility to become a part of these communities. We accomplish that through charitable giving through our Gates Industrial Foundation and by donating our time to worthy causes throughout personal engagement. Finally, to our shareholders who have entrusted us with their capital, we are committed to continuously improving our performance and efficiently allocating capital in combination with maximizing value for all of our other stakeholders. We expect to deliver solid shareholder returns.

A key part of our commitment to our stakeholders involves our engagement on advancing our Gates ESG commitment. We have deployed a structured approach to ESG under the GATES framework you see laid out on this slide. Corporate governance for us means conducting business ethically and with integrity guided by well-communicated policies and strong independent oversight from our board. The technology and environment are complementary and both work in harmony to drive improved sustainability. We have coined the term Eco-Innovation to represent a sustainability benefit of our new products to our customers. They focus on delivering greater efficiency, safety and environmental improvements for ourselves. These products in general help to drive environmental improvements and reduce consumption. Lastly, stewardship encompasses the responsibility we have for the well-being and development of our employees, as well as our goal of being a trusted and supportive member of our local communities. If you are interested in learning more about our ESG efforts, there is a link at the bottom of this slide to our sustainability website, which includes our sustainability reports going back to 2018.

While I won't cover all of the figures shown on Slide 13, they represent highlights across our ESG framework. I have described board independence. And reduced emissions and charitable support. We are making tangible progress on each of our ESG pillars and are committed to continuing to advance towards our goals.

Moving now from our broader operating philosophy to Slide 14 and the strategic priorities. You will hear more today about above market growth, margin expansion and capital deployment. We have a good track record of delivering above market growth and margin expansion. And with our stronger balance sheet, I am excited about capital deployment optionality, which you will hear more about from Brooks today. Let's get to some of the highlights on how we anticipate delivering on these priorities.

Moving to Slide 15, which outlines the positive impact some of the more prominent secular trends have on our end markets from global infrastructure buildout through electrification of propulsion, to increasing levels of industrial application in factories and distribution hubs. These trends favorably impact the applications we participate in. And more importantly, our products in general enable our customers to upgrade their equipment more efficiently, cleanly and quietly or simply ensure that it functions in the expected levels of safety. To capitalize on the business opportunities ahead of us, we have specific initiatives in place to drive share gain against both traditional and unconventional competitors. Today, we'll be dedicating most of our time detailing a few of the more significant growth initiatives in the highlighted end markets.

Starting with the diversified industrial end market on Slide 16, this is a very large, fragmented end-market for Gates, with a primary focus on operations in manufacturing plants, distribution centers, food and beverage production and other processing facilities, to name a few. It is in this end market where we are seeing the most significant tailwinds related to process automation. Our customers heightened focus on improvements to operating efficiency, safety and reduction in energy consumption, positioned Gates well over the long run to benefit from these trends. Well, we believe we are in the early stages of driving a mass adoption of belt technology over industrial chains. The design wins I've outlined over the last couple of years give us confidence in our value proposition and the future size of the business opportunity. Our investments in new product technology, application, engineering coverage and digital capabilities are really paying off here. We target both the first fit and replacement channels, and we anticipate maintaining our high single digit growth trajectory, taking our business in this end market to about \$1 billion over the mid-term.

Moving now to Slide 17, personal mobility, we have seen tremendous growth in this business since 2019. The secular trend of making mobility more personal is at play here in all of our regions. We are capitalizing on this business opportunity with our content and a strong value proposition. In addition, as this market moves towards electrification rapidly, our value proposition gets amplified. A clean, quiet, strong and energy efficient belt drive becomes something of a must-have with a clean, quiet, high torque electric motor. We have established a dedicated commercial and applications engineering teams in support of this market and our experience expanding our product portfolio nicely to take additional share from legacy technologies as the electrification trends accelerate, we believe we can maintain growth trajectory in the 30 percent range to take this business to approximately half a billion dollars in the midterm.

Moving now to our automotive end market on Slide 18, where we are primarily focused on the replacement channels, which account for about 75 percent of our automotive sales. Let me quickly cover the electrification of vehicle propulsion. We are very excited about this opportunity- the transition to electric propulsion in vehicles and what it brings to Gates. We anticipate it will provide us with a significant uplift in content per vehicle over time- all in the product categories that we have a leadership position in today. Well, there are about 1.4 billion vehicles on the road globally today, about 600,000 of them are electric vehicles that are 7 to 12 years old- a key demographic of the target market where Gates is a leading player. Despite the relatively small market size today, we are investing to build on our significant lead in every product line coverage and expect to be about 95 percent coverage over the mid-term. While EVs grow into the aftermarket over time, our strategy is to continue extending our leadership position we have in the legacy applications and capitalize on the nascent opportunity with the scale up of the EV car parc over the next two decades. On the OEM side, we will continue to execute our strategy of selective participation, where we can differentiate with our technology, and we plan to have approximately 75 percent of our automotive OEM revenue coming from new energy vehicles by 2030. Lastly, we have an exciting technology demo here today to provide a better context about what functions we serve and the importance of our products in vehicles with electric propulsion technology.

Moving now to Slide 19, which is a combined snapshot of our on-highway, off-highway, and energy resources end markets. In the on and off highway end markets, we have focused on heavy duty truck agriculture and construction applications and have been driving growth through innovation and geographic expansion. The markets for our products remain robust and we continue to expand our market share. While energy and resources is a smaller business for us, we expect to see higher levels of market growth over the mid-term supplemented with share gains from some of the new products we have been investing in during the downturn and are now introducing into the marketplace. Our business across these end markets is focused on replacement channels and driven more significantly by activity in the large installed base, than buy-new equipment production. These are core industrial markets where we expect to continue to differentiate ourselves through innovation and initiatives. We expect our mid-single digit growth trajectory to continue over the mid-term.

Moving now to Slide 20 and the summary of our growth enablers, which you will hear more about from Tom shortly. Our markets have historically not seen a significant level of innovation. We see innovation as a key enabler to continue expanding our market presence in our applications we have served historically, but also in our applications where our high-performance products offer a competitive set of solutions against alternative

technologies. We use our material science expertise and focus on development of new manufacturing techniques to deliver solutions with benefits that lower weight, improve reliability and reduce environmental impact, all while delivering superior performance. Again, we call this process eco innovation. These efforts are delivering solid traction with new product introductions, helping us progress towards our 20 percent NPI vitality target. Our ongoing investments in digital capabilities are fundamentally intended to create an ecosystem which allows us to better serve our customers and improve the efficiency of our sales and marketing and customer service organizations, all of which is focused on maximizing the ease of doing business with Gates.

Moving now to Slide 21 and the summary of how we are driving operational excellence throughout the company. Briefly, the Gates production system, or GPS, is foundational to the culture of safety, efficiency and continuous improvement embedded in our operations. G.P.S. has also played a key role in enabling us to deliver solid incremental margins in 2021, despite the challenges with availability of production inputs. Eco innovation is not only a growth enabler, but also a pillar of our operational excellence framework. From an operational perspective, manufacturing process advancements enable us to utilize the most advanced material chemistries that result in launches of differentiated new products. This new manufacturing processes also help to maximize manufacturing efficiency and reduce in-process waste generation and energy consumption. Another key benefit of eco innovation helps to deliver is the reduction in portfolio complexity “under the skin” by enabling broad product application coverage with a reduced number of product constructions. We believe there is ample opportunity here to drive efficiency throughout our enterprise. And as a result, continue further margin expansion. You will hear more on these initiatives later on from Walt.

Slide 22. 2021 was a challenging year for everyone operating within the industrial complex. However, I'm quite pleased with our level of performance. Not only did we deliver revenue growth, that is among the top performers against premium industrial peers, we believe our adjusted EBITDA margin also is on a trajectory to reach or exceed the average of this premium peer set over the medium term.

Shifting to 23. We need to expand our performance against the same set of peers in this case, expand the time horizon to three years: 2019 to 2021. As you can see, our performance has been ahead of not only the macro indicators like industrial production and PMI, but also this group of premium industrial companies. We believe the investments we have been making in new products in our targeted growth initiative, as well as the operational initiatives, we have underway position us well to continue these trends of outperformance.

Moving now to Slide 24, which contains our mid-term targets on the left side of the slide, you'll see the three-to-five-year targets we set in 2019. While we did not anticipate a three-year period of significant challenges from the trade war induced recession, followed by a global pandemic and the resulting inflation, supply chain and labor disruptions, we are quite pleased with the level of performance achieved. We reached our ROIC and net leverage goals and hit our free cash flow conversion target in 2020, and we are confident that we are on a solid path to consistently deliver strong cash flow performance. We exited 2021 at a record level of revenue and believe we are making solid strides towards a \$4 billion revenue target based on our organic growth trajectory. Similarly, we believe more normalized rates of inflation and easing production input challenges, combined with our pricing and operational initiatives provide the opportunity for solid adjusted EBITDA margin expansion over the mid-term while we continue to see challenges ahead. We are pleased

with the performance over the past three years and the business, which is standing on firm foundation. Today, we are also introducing our new targets for the next three-to-five-year period ahead. And you will hear throughout the rest of the day how we plan to achieve them.

So, moving now to Slide 25 and a summary of the investment highlights. First, the value proposition of our products is closely aligned with strong secular trends in our markets and the investments we have made in the business position us well for sustainable long-term growth. Next, we have a talented team that has successfully managed through challenging environments and embedded a culture of continuous improvement supported by robust operating system. We have a track record of above market growth initiatives, which are in place to drive margin expansion and a business model that generates a significant amount of free cash flow. Finally, with a strengthened balance sheet, we are in a position to allocate capital to support growth and deliver solid shareholder returns. I'll now turn it over to Tom Pitstick, our CMO, who will explain more details, how we plan to continue to deliver this above market growth target. Thank you.

### **<<Tom Pitstick, Chief Marketing Officer, SVP Strategic Planning>>**

Thank you. Good afternoon, everybody. It is great to see everybody in person again, it's been way too long. I'm sure you're hearing that a lot in these events now. It's good- it's good to be back. Thank you, Ivo. Good afternoon, everyone. I'm Tom Pitstick as he said, I'm our CMO and SVP of Strategic Planning. I'm going to spend the next 30 minutes talking about our growth initiatives and how we're performing in various end markets. Right after my session, we'll spend about an hour and a half in these showcase booths, kind of 30-minute rotations in each one to give you a little more hands-on perspective of what I'll cover in the sides. So, I hope you'll enjoy that. Let's see. All right.

So, we believe, as Ivo said, that we have a great opportunity in front of us, as you've described, we participate in large, diverse markets with supportive secular trends. Roughly 80 percent of our sales today come from top three positions in the markets and the product lines that we serve. The core of what we do as Ivo said is supplying highly engineered products that are mission critical to the applications that they're part of and which have natural replacement cycles. The fact that they're highly engineered gives us an opportunity to differentiate with technology. The fact that they're critical to the applications they go into means customers are maybe a little bit less price sensitive to something if it helps them avoid downtime, and they put quite a bit of premium on reliability of those solutions. And finally, the natural replacement cycle of our products leads to some level of recurring revenue for us and repeat business. We have a world class organization, strong global channels and a widely recognized brand- all of this gives us confidence in our ability to execute our initiatives and continue the above market growth we've been delivering.

So, those of you that have followed us for a while are familiar with our six key initiatives; Chain-to-Belt, Belt-to-Belt, Precision Motion Control, Personal Mobility, Vehicle Electrification and Extend Fluid Power. We'll get into more details on how we're progressing with these as we go through the various end market sections. But I'm confident saying we've been growing above our core industrial markets and as Ivo just showed, we've been growing above our industrial peers as well.

Ivo mentioned Eco-Innovation, and I wanted to dive into a tiny bit more as one of our key growth enablers. So, when we embark upon a new product development project, we really

look at these three things: material science, process engineering and product engineering at the same time. In my past lives, in a lot of companies, you look at one of these and focus on it to make a level of improvement. But I think what really makes Gates' system unique here is that we focus on all three at the same time. Walt will share with you later some of the advancements we're making from an operational side, but from the standpoint of growth, we're delivering lighter weight solutions that are more, more flexible. They're easier to use PT solutions that are more reliable and more efficient. These performance improvements are helping us open new opportunities in all of our end markets and supporting our growth initiatives. As Ivo mentioned, all of our innovations have an environmental sustainability element to them, either in the form of reducing the footprint of our operations, which Walt will talk about, or helping customers meet their sustainability targets- and in many cases, we're achieving both. ESG-thinking is a foundation for our process and something our team considers at every step in the product development process. So, whether it's providing improved performance, using less material in a hose or a belt, and therefore lower weights and more efficiency, improving the efficiency of electric water pumps that we'll talk about later, or reducing the CO2 footprint of a belt drive compared to a chain drive, I think you'll find pretty impressive.

So, proof -the proof is in the pudding here a little bit with our NPI launches and our vitality performance over the past few years. So, since 2016, we have launched 36 new product platforms, which have been roughly split evenly between PT and FP. By product platforms I don't mean just a handful of SKU's, I mean, really product families or product lines or sub product lines. On the FP side, our hydraulic hose platforms such as MXT, MXG and various ProSeries hoses, hose families, are notable examples. Within PT, our PowerGrip GT4 synchronous belts are supporting our Chain-to-Belt initiatives, and some of the first versions of our next generation V-belts have launched in support of our B2B initiative. In October of last year, we also launched our new Thermal Pro Electric Water Pump. And John, we'll talk about that in the EV booth a little bit later. So, these NPI launches have led to a vitality index of around 12 percent. We've been growing that at close to 25 percent annual CAGR since- since 2017, with some product lines actually running quite a bit higher than that. Our mobility group product line product categories are running at 50 percent plus vitality, our Wire Braid Hydraulic Hose product line is running at 30 percent plus vitality, and we continue to make progress across all of our product lines. So great progress by our R&D teams, our product management teams and our commercial teams for driving that growth towards our 20 percent vitality targets.

With Digital Enablers, you'll get a better feel for several of these things in the booths. But I wanted to touch on a couple of them that we won't cover in the booths. So, we've deployed a number of customer-facing tools such as our GatesConnect.com, which is a B2B portal for our channel partners. It's really a self-service portal where they're able to place orders, track order status, and it's dramatically reduced the number of touches our customer experience team has to place on orders, freeing up their time to help drive demand and even more important tasks. We have a number of apps that help our customers select the right products for their application on their mobile devices in the field, which is important. In marketing, we've established a process we call the Gates Lead Machine, where we're using advanced marketing automation, our in-house creative studio that we put together a couple of years ago, and marketing resources to generate leads for initiatives such as our Chain-to-Belt initiative.

I'm going to skip over the GC20 crimper because Cindy is going to cover that in the Industrial Booth during the rotations. And Taylor is also going to talk about some of our

design tools on the PT side that are supporting our Chain-to-Belt initiative over in the Industrial showcase as well.

So, let's dive into some of our end markets. So, automotive electrification, which I know is quite top of mind, that the business overall is about 75 percent replacement, 25 percent OEM. Geographically, we're well balanced across all regions and have strong commercial and R&D presence close to key customers. Since 2019, we grew this business low single digits overall, despite shedding some lower margin, unattractive OEM business through our strategy of selective participation. As we look forward to the mid-term, we expect to continue to grow mid-single digits holding OEM roughly flat while we continue to grow AR above market rates. In both segments, we are well positioned to capitalize on the shift towards EVs sitting here today. We've built a pipeline of about 190 million dollars for OEM EV applications across the product lines. We'll show you in the back today and are leading the way in terms of our catalog coverage for EV parts.

So double click a little further into our automotive OEM business, so all the forecasts we see suggests that overall production will grow from that low point of 2020 as supply chain issues ease. These forecasts also all show that EV penetration is rapidly accelerating, growing at double digit rates annually to approximately 35 percent of new vehicle production by 2030. In terms of our strength, we're known for our technology and systems engineering expertise. And since we're in-region and close to key OEM customers, we have fairly deep insights into their needs and market trends. Going forward, we intend to continue our strategy of selective participation in this market segment, leveraging our thermal management expertise as a mix shifts towards hybrids and full EVs.

You'll get a deeper appreciation of this in our EV booth shortly where we'll walk you through the content opportunity on a typical ICE platform versus the content opportunity on a typical EV platform. Sorry. The short answer is that thermal management requirements on EVs go way up versus ICE's. Even though we see a decrease in some PT content, it's more than offset by the thermal management systems you'll see. For example, a mechanical water pump on an ICE engine might cost between \$8 and, say, \$15, whereas an electric water pump on an EV could cost up to \$135 and there may be even more than one on an EV, as you'll see in the example in the back. Similarly, the coolant hoses on an ICE platform might cost \$15 to \$28 dollars, whereas on an EV they can total \$200, so quite a bit more thermal management content.

Another key point here is that while thermal management platforms are imperative on all vehicle types, they're particularly important on EVs given the risk of damage to the battery systems or power electronics from freezing or overheating and even the risk of fire. So, we're investing in Eco-Innovation in the automotive segment as well. I'm quite excited about this electric water pump technology that we launched late last year. John will talk about it more in detail in the EV showcase. But this new pump architecture is based on axial flux, an axial flux motor design, and has a number of advantages over incumbent technologies, not the least of which is improved efficiency, which you can imagine is quite important on an electric platform. We're also working on several adjacent industrial applications for this technology outside of automotive, things like e-bike drives, industrial cooling and other motorized applications where this highly efficient, nicely packaged water pump motor technology has applicability. These are great examples of how we're able to leverage our automotive, technical and manufacturing expertise to support other market opportunities.



All right, so moving on to automotive replacement. So, the chart on the left here is the same one I showed a few slides ago. OE production forecast out through 2040, split by EVs and ICE and hybrids. So, each year, there are roughly somewhere between 80 and 100 million new vehicles produced. And of course, those are mixing quite rapidly towards EV. The chart in the middle shows the total car parc- and pay attention to the scale because it's on a quite a bit different scale. There are 1.4 billion vehicles in the car parc, so every year 80 to 100 million come into the car parc of 1.4 billion. So obviously it takes quite a bit more time for the total car parc to mix towards EV than the trend on the far right as the aged car parc.

So, these are vehicles that are 7 to 12 years old- the typical first repair window. And as you can see, and as Ivo mentioned, there were about six million EVs on the road globally in 2021 in the total car parc and only about 10 percent of those were in the aged car parc. So about 600,000 vehicles in the aged car parc that are EVs sitting here today. So, this chart takes the unit volume of vehicles by mix in the car parc and translates it to dollars on the right-hand side. And so, a couple notable takeaways here that the ICE-Hybrid dollar portion of the chart on the right is essentially flat over time, even though the units decline. There's a mix within that column towards hybrids where we have incremental content. We also know how the EV market ramps up and its contribution to the overall market growth between now and 2040 grows. It causes an overall market growth rate that's 2x the unit volume growth rate in the aged car parc. So, this provides us with a very nice tailwind for our AR business well into the future and an opportunity that we're quite excited about.

So many of you have asked this question about, well, what about replacement rates on EVs versus ICE's? So, you'll see this more hands on in the booth in the back, but there's a number of factors that play into what causes a part to fail or wear out on an EV. Duty cycle, so how often is the system operating on an ICE vs an EV? Of course, when you're driving down the road, it's similar. The thermal management systems are operating, but on EVs, when you plug the vehicle into your garage to charge, the thermal management system also kicks in to make sure the electronics are cooled during that charging process. Temperature cycling is the range of temperatures that a system will see during operation. The low end is basically determined by weather, so freezing weather is the same for both vehicle types. On an ICE platform, this is slightly worse. ICE engine compartments get hotter than you would see on an EV. Aging is another key factor. Plastic and rubber parts age over time, irrespective of what kind of vehicle they're on, they become brittle, crack and fail eventually, and exposure to contaminants and ozone and other materials can accelerate this process. Regarding road vibration, we think this factor is similar between the two vehicles driving down the road as you're hitting potholes and speed bumps. It has the same impact on both types of vehicles. And then, perhaps most importantly, the thermal management systems on EV's are much more complex. The connectors, the branches, the long lengths of hoses in these systems, only EVs, leads to a higher degree of complexity. If you compare our mechanical water pump to an electric water pump, there's bearings, there's impeller seals that are similar between a mechanical pump and an electric pump. But an electric pump has the added complexity of a motor control board and the motor itself. So, we're seeing similar replacement rates between the two vehicle platforms, and the team will be able to give you some more insights on that in the back here in a bit.

So, in terms of investments that we're making to continue to grow our automotive replacement business, we've touched on some of these already. Catalog coverage is key in this market and here we combine best in class product management processes to ensure we have the right parts with compelling digital content that we syndicate to our

channel partners to enable their e-commerce operations. I've touched on innovation in the electric water pump, but we also continue to innovate around our traditional product categories, whether it's next generation micro-v belts that Walt will talk about in his section, or kits that make it easier for installers to complete the job. And finally, we have dedicated commercial teams around the world who work closely with our channel partners, as well as promoter teams who call directly on shops to create demand for our products with the installers on the shop floor. This models typical and mature markets like Europe and North America, but we've also deployed it in places like South America, Southeast Asia, Africa and India. So, in summary, automotive is not a melting ice cube for us in the short, medium or even long term. It's actually a growth opportunity that we believe we are well-positioned to capitalize on.

All right, so let's shift to personal mobility. So personal mobility for us is two wheelers, bikes, scooters, motorcycles, power sports vehicles, small last mile delivery vehicles as well as fitness equipment there for good measure. The base two-wheeler market here is about a hundred and eighty million vehicles in 2021, growing at low single digit growth rates. With electrification happening in this market segment much faster than that overall market growth rate. It's frankly easier to electrify a bike or a scooter, and there are fewer, fewer hurdles related to grid infrastructure, charging infrastructure, battery supply, etc. to be solved for these vehicles as compared to, say, automobiles. We put a lot of focus on this market over the past several years, and as a result, we've been growing this business at over 60 percent per year and expect to continue growing that north of 35 percent through the mid-term. Given our current pipeline of opportunities of \$260 million in this space, the support of market conditions, the right products and our team's dedication and focus on this market, we're well-positioned to capitalize on the trends we're seeing. Joe and Jonathan will share a little bit more with you on the market here in a bit- our value propositions and the opportunities over in the mobility showcase.

Joe and Jonathan will also touch on this, too, but I'll point out that we have a solid content opportunity here that tends to increase as you go from traditional vehicles to electric vehicles. Furthermore, and this is worth highlighting, in many cases, our PT content on an e-bike or an e-scooter is greater than our PT content on an ICE engine. And if you've looked at the board over here, the unit productions are quite a bit higher in this space than in the automotive space, so we're quite excited about the opportunity. There are also a number of potential content adjacencies related to shifting systems and E-drives, which we can access through partnerships, acquisitions or even organic development, which will drive our content per vehicle up substantially.

So, mobility growth enablers, much like the other areas we're investing in innovation, our commercial front end and digital tools. Walt will talk about some of our belt innovations that are supporting the 50 plus percent NPI vitality in this business. Joe, he'll talk about some of the things we've done from an organizational perspective to drive growth. This team is calling on OEMs around the world and has strong technical capability to support these customers with drive designs using our new Mobility Drive Design Software tool. They're also focused on selling full belt drive systems to provide the best possible solution for our customers, which also happens to maximize our content in these applications. Before I move on, an important point about this market, I believe, is that we've transitioned from our technology as being viewed as somewhat niche to being mainstream. We have OEMs knocking on our door now asking for belt drive solutions. We have their customers knocking on their door, asking for belt drive solutions. And I think the mobility team that you'll hear from later deserves a lot of credit for driving that shift.

All right. Moving on to another key growth market for us- Diversified Industrial. So, this is a very large market opportunity for us, representing roughly \$30 billion across traditional fluid power and power transmission product categories, as well as across alternative product categories such as chains. The four initiatives that we're driving here are Chain-to-Belt, Belt-to-Belt, Precision Motion Control, and Extending Fluid Power are supporting our growth in this market area in more traditional areas like V-belts and hydraulics. We're taking share via innovation and commercial focus in areas like Chain-to-Belt. We're winning based on innovation, the strong value propositions of our products, as well as our commercial front end and application engineering capabilities. We're winning business in every region across a wide range of applications and have a sizable pipeline of \$185 million sitting here today. We've been growing this end market at close to 10 percent CAGR over the past few years and expect to continue this level of growth over the mid-term.

So, we get questions a lot of time, how are we winning and where are we winning and how our different customer segments thinking about our products in this diversified industrial space? You can kind of think about these as two high level customer categories or application categories. There's retrofit applications where you might be going into an existing factory and replacing an existing drive or replacing their legacy hydraulics with our new hydraulics. Or there's greenfield applications where you're working with the machine builder and you're getting in with their engineers and getting your product spec'd into the application. You know, our retrofit customers, they think about payback, total cost of ownership, as well as the ESG benefits like reduce noise, improve safety, cleanliness, energy efficiency and low maintenance products. They aren't necessarily engineers. So having tools that make it easy for them to select and design and retrofit their systems with our products are key. And the fact that we're an OEM supplier gives them comfort that we provide high quality products. Greenfield applications are what we've been designed into. The machine builder and OEMs tend to focus a little bit more on first cost versus total cost of ownership, but they're also seeing increasing pressure from their customers to deliver ESG benefits in their solutions. So, things like safety, reducing the use of lubrication and other ESG measures are very important to our OEM customers. These are all areas where we're continuing to focus our innovation efforts. These customers also tend to be more technical, so they appreciate our product performance and our innovation, as well as our application engineering support. These opportunities tend to have longer design cycles, but once you're designed, then you can kind of think of it as an annuity where they're just building your products into their machines and into their aftermarket cycle as they go forward. Our personal mobility business is predominantly a greenfield OEM business, so we are taking learnings from the successes we've had in the mobility business and applying that in our industrial business, and I'll share an example on the next slide.

So diversified industrial, similar to the other areas, in addition to our belt innovations, we've been working on sprockets and we'll show some examples in the in the booth over along the side wall here. Well, we'll also talk about some of the things we're doing to add targeted capacity in support of these business opportunities. In Japan in the middle column here in Japan, where there is a strong machine builder base, we put in place a dedicated commercial and application engineering team to go after Chain-to-Belt applications, replicating the mobility model. But in an industrial context, this is working quite well and leading to a number of interesting wins in robotics, warehouse systems, semiconductor manufacturing equipment, HVAC systems and a variety of food and beverage applications, to name a few. We're building out some focused teams in other parts of the world based on this experience. And then, as I mentioned earlier, Taylor's going to talk quite a bit about our design tools, so I won't touch on those here. You know,

overall, we believe we're in the early innings of these diversified industrial initiatives with a lot of runway ahead of us. We're a little further ahead on our fluid power portfolio revitalization. But on the PT side, we're catching up quickly in our legacy PT products have quite strong value propositions in the applications we sell them into because we get all of our technologies in place and software tools fully rolled out, as well as the additional investments in our front-end org. We anticipate our progress here will continue to accelerate.

All right. Shifting gears a bit here to inorganic growth. So, I also have a responsibility for our corporate development function. And I'll give you a little overview here of our strategy and some of the activity we've had in this area. So, we think about M&A as an accelerator to our organic growth strategies. We look for companies with Gates-like product characteristics, so highly engineered natural replacement cycles critical to the applications they go into. We, of course, also look for assets with differentiated technologies and access to channels that we may not currently have access to. We've got to see clear synergy potential when we bring something to the table in terms of running the business better and/or driving top line synergies to cross-selling or geographic expansion. And finally, we are very diligent in our financial approach and target double digit ROI by year three with a path to accretive margins.

Well, we remain disciplined here to ensure that we're delivering value to our shareholders and accelerating organic strategies. So, in the spirit of our overarching Gates operating system, we put a process in place here too, so we have a well-defined, robust M&A process. We have a dedicated team with feet on the street in multiple regions, supporting our regional leadership teams and global product teams to build pipelines and evaluate deal opportunities. Our pipeline currently contains over 200 companies that we've engaged with, that we've engaged in at various levels. More than 75 percent of these are outside of North America, and a similar percentage would grow our exposure in Diversified Industrial end markets.

So, our target growth model is pretty straightforward and has three elements. First of all, we focus on markets with strong secular trends. We're trying to mix the business towards the markets that we've shared earlier in the day. But on top of that, our goal is to grow above market. With our initiatives to deliver MSD growth organically and we've been demonstrating this level of performance, I think quite nicely and quite consistently over the past few years, given the investments we've made, our progress on innovation and the traction we have with our growth initiatives we believe are well positioned to continue to deliver this growth. Brooks, he'll talk about this a bit more about our balance sheet is in great shape. So, we're also now in a position to add M&A to our growth options and our targeting low single digit growth from inorganic sources on top of that organic base.

So, in summary, for four key points here. One, we participate in attractive markets and are focusing our efforts in the areas with the strongest secular trends. Two, we are investing in growth, whether it's new products, tools or commercial organizations. Three, we've been executing and will continue to deliver on our growth initiatives to drive above market growth. And four we now have M&A optionality with a team and process in place to supplement our growth with accretive inorganic opportunities. Across the board, here, our mid-term organic growth targets are in line with what we've already been demonstrating. We've executed during challenging times and have continued to fund our innovation and growth initiatives, all of which gives us confidence in meeting our goals.

All right. So, with that, we're going to pause, take a break, get out of our seats and move around. So here's how this will work. If you have an A on your badge, you will be over here in Diversified Industrial.

**<<Walt Lifsey, Chief Operating Officer>>**

I'm Walt Lifsey, the Chief Operating Officer of Gates, I hope you enjoyed the technology showcase presentations, it's always nice to get a chance to see and feel what we're working on. We certainly have a lot of exciting things happening around the company in terms of our new products and great market opportunities. Over the next several slides, I'm going to share with you some of the things we're doing to improve our global operations and implement new manufacturing capabilities to support these initiatives.

At the core of what we do is the Gates Operating System, something we put in place back in 2015 to establish a culture of continuous improvement and data driven decision making. We started off with GPS, the Gates Production System, which is focused on optimizing our factory performance and evolves from there to build out our innovation system. More recently, we advanced our approach to complexity reduction. I'll cover these three areas in more detail on the coming slides. Before we go there, I want to highlight that we also use our operating system framework to look across all of our functions and to find opportunities to improve whether it's in talent management, S&OP planning, pricing, product line management, just to name a few examples.

The Gates Production System, when I joined the company in 2015, it became quickly apparent that we were not leveraging best practices or a structured operating model across our global facilities. So, we established the Gates Production System and went about deploying it across the footprint. GPS, as we call it, is about running our plants better with a key focus on safety, quality and optimizing machine efficiency, uptime and utilization. We've made tremendous progress on safety and quality, bringing both of these areas to world class levels. We will never be satisfied there, but we have made great product progress. A safe place is a place people want to work at. No one should risk their lives coming to work. In terms of operating our assets better, we've made solid progress in terms of standardizing work and implementing global best practices. In many cases, we found that we weren't properly staffing our factories or addressing bottlenecks systematically through GPS. We have been able to address these and increase our outputs nicely. We target 50 bps of improvement from GPS every year and have been delivering that or more.

However, given the operating challenges over the past couple of years, these improvements have helped to offset the disruptions from raw material supply and COVID related inefficiencies. We are confident that our GPS system is making sustainable improvements to our operating results today and will continue in the future. When I joined Gates, we had partially deployed an in-region, for-region strategy, and we're still shipping quite a bit of product between regions through the significant investments that we made in 2017 to 2019 as well as other smaller focused investments. Since then, we've deployed our in-region, for-region strategy with the exception of some niche products. Each of our regions is now fully capable to produce our core PT and FP products. These investments served us well during the pandemic, both in terms of somewhat mitigating the need to ship finished goods around the world, but also by providing the added benefit of enabling us to rapidly flex capacity and support the significant above market growth we've been

delivering. I know it's not news to anyone in this room, but sourcing supply chains have been very volatile over the past several years. Even before COVID hit, we have been working in three key areas to improve our supply chain optionality. The first one is around identifying and qualifying alternative sources with a significant focus on our most constrained materials. We also put concerted effort into making sure that each of our regions were able to source materials from within the region. Today, approximately 82 percent of our spend is sourced in-region for-region. Where it has made sense, we've also went as far as insourcing certain components or materials into our own factories to better control our own destiny. As part of our Eco-Innovation efforts, we also leveraged our materials science capabilities. This effort also improved our ability to support demand. Our teams have been able to develop a number of alternative material compounds that perform better, are more environmentally friendly and sometimes cost less. And in general, are more readily available than some of the materials we have traditionally used. Furthermore, we put a strong effort emphasis on standardizing our raw materials supply and manufacturing processes, both to support in-region capability, but also to make sure we could harmonize around the globe product standards. Leveraging global knowledge allows us to improve every region at the same rate. While we have not been able to offset all of the obstacles we have faced through these focus efforts, we have significantly improved our availability to source materials and to continue to service our customers today. And this will certainly serve us well into the future.

Here we go. OK, Tom introduced Eco-Innovation in his section and described how we're delivering improved product performance to our customers, but Eco-Innovation is equally important in terms of the benefits to our operations by taking this integrated approach of looking at materials, product design and process engineering simultaneously. We've been able to derive a number of improvements inside our own four walls. I'll talk about some of these in more detail in the following examples. But through these efforts, we're making significant improvements to reduce waste, greenhouse gas emissions, water and energy consumption.

Here's a great example of how innovation has improved our products and our operations. I know you've heard from Ivo, Tom quite a bit about our MXT product line. What we did here was to engineer new materials and a proprietary wire reinforcement manufacturing process. This resulted in a product line that provides a number of customer benefits from a manufacturing perspective. This innovation uses less polymer. It also uses less wire reinforcement and has a higher throughput per unit of manufacturing floor space. It requires fewer people per unit output on an equivalent legacy than the equivalent legacy hoses, all significant improvements.

Another example, this slide is a great example from Power Transmission. Micro-V belts represent a major portion of our power transmission portfolio. Legacy Micro-V constructions require a series of complex manufacturing steps to build up the thickness of the belt. Then, in the final step, about 27 percent of the material is ground away to form the ribs. As you can imagine, this consumes additional energy. And these ground away raw materials end up in landfills with no reuse. In our new high-efficiency Micro-V construction, we actually mold the rib in place. No grinding required. This not only avoids wasting material, it also allows you to tailor through the application of engineered materials, the performance of the belt. This improves belt performance across a number of applications through a combination of material advancements and product design. We were also able to make the belt thinner, which again uses less material and is more efficient when it's in use. From a manufacturing perspective, we combined this advanced belt construction with a new high speed manufacturing process. As a result, we're using significantly less power

and raw materials, which supports our ESG goals. We also get significantly more output from the same floor space given the increased output. We've also been able to repurpose the legacy manufacturing lines to support new and other product areas without additional significant capex. So, a better product made in a more efficient way, advancing our competitive position to the market.

As I know you heard earlier, we're growing quite nicely from our mobility and Chain-to-Belt initiatives. In operations, we are working hard to make sure we have products and capacity to support these initiatives. So, to accomplish these objectives, we've been working on new synchronous belt technologies that check a number of boxes I've mentioned in the previous examples. These new products perform better, use more readily available raw materials and are able to be made on our standard globally available manufacturing assets. Overall, through process and product innovation, we're able to more than double our daily output using less factory floor space, 90 percent less energy and requiring less staffing, all fully aligned with our key company objectives and initiatives.

Complexity reduction is an important part of our overall operating model at Gates. Back in 2017, when we really refreshed our innovation process, one of our big focus areas was on simplifying our portfolio "under the skin". By this, I mean, finding ways to reduce the complexity that our operations see without really changing much of what the customer sees. Through Eco-Innovation, if you look at the core wire braid, hydraulic hose constructions I shared earlier, we've gone from 127 different build specifications to just 35 based on our portfolio of products in this area. The Micro-V sample example I mentioned is similar where we're in the process of going from 20 plus constructions to just a few. In V-belts we're earlier in the portfolio refresh, but our roadmap has us going from 23 different V-belt families down to six. So, there's lots of opportunity here still on the below the skin part of complexity reduction. Last year, we kicked off phase two of the process and are going after what we're calling above the skin initiatives. We've been deploying a number of analytical tools to go after optimizing our SKU and customer portfolio and developing targeted product strategies for select product, customer and market segments. Brooks, he'll talk more about how to expect this to flow through our financials, but from an operations standpoint, we're targeting improvements and a number of areas from this reduction in complexity, service levels, working capital and margins to name a few.

So, to summarize quickly, we're driving continuous operational improvements through GPS. Our Eco-Innovation process is delivering significant improvements to our operations, improving our flexibility, reducing our capital intensity and supporting our ESG efforts. The investments we're making in manufacturing technology are helping to accelerate new product introduction to support growth and improve our competitive market position. Finally, we've been making progress on our complexity reduction efforts with much more still to come. Thank you. And with that, I'll hand it over to Brooks.

**<<Brooks Mallard, Chief Financial Officer>>**

Thanks, Walt. My name is Brooks Mallard, I'm the CFO for Gates. This is my first time being able to meet a lot of you in person. And you know, the one thing that Zoom doesn't do justice for is how tall everyone is. And so I've finally figured out who I have to look up here to today, Dean. So that's always good, but I'm really excited to be here and deliver the financial message for Gates.

So, if we start on Page 67, we delivered a strong performance in 2021 while managing through significant volume increases as well as [inaudible] inflation and supply chain and production input availability issues. We made great progress on strengthening our balance sheet, and we expect this trend to continue with strong cash flow underpinning our capital deployment options. And since the end of 2020, we've deployed about \$400 million of capital on debt reduction. We've done two secondary offerings and we've also done an authorization of a \$200 million share buyback. And so, our balance sheet is in really good shape as we as we work our way through 2021. We will continue to fund internal organic investments and initiatives to support both growth and profitability. In addition, we will continue to deploy capital on share repurchases and debt reduction to contribute to earnings growth and free cash flow margin expansion. Finally, we're taking the opportunity to affirm to reaffirm our 2020 to full year guidance that we issued on our Q4 earnings call.

So, moving to Slide 68, which shows some of the highlights from our performance in 2021. Core revenue growth of nearly 22 percent was well above market, driven primarily by new products and focused growth initiatives. In a very challenging operating environment, we delivered adjusted EBITDA margins of twenty one point two percent, representing expansion of 310 basis points and mid-thirties incremental margins. Our strong operating performance resulted in adjusted earnings per share growth of 96 percent and free cash flow growth of 22 percent.

Slide 69 lays out our performance over the past three years, as well as our guidance for 2022. We have a consistent track record of above market growth with a core revenue CAGR of six percent when using the midpoint of our 2022 guidance. In 2021, we began to see the acceleration of key secular trends, which are commercial initiatives we're well-positioned to capitalize on, as well as an increase in new product adoption. Turning now to profitability, the midpoint of our 2022 adjusted EBITDA guidance would imply an eight and a half percent CAGR over the same historical period. With the operational priorities Walt mentioned and our higher margin focused commercial initiatives, we believe there is significant runway to drive future margin expansion. The midpoint of our 2022 adjusted earnings per share guidance implies a CAGR approaching 10 percent since 2019. We expect higher operating income will be the primary driver of this growth, with capital allocation actions potentially driving further earnings per share expansion.

Moving now to Slide 70, which provides some additional detail on our plans to achieve our 24 percent adjusted EBITDA margin target. As you've heard, our investment in product development is focused not only on higher margin products, but also on optimizing their design for manufacturing efficiency. We expect this focus, combined with related investments in process engineering to provide margin tailwinds. You've also heard about our complexity reduction efforts from which we expect to see meaningful savings. We believe these initiatives, combined with benefits from volume and ongoing GPS activities, provide us a path to our 24 percent target. These investments have already begun paying clear dividends, enabling our strong performance in 2021 and positioning us well for the future.

On Slide 71, you'll see more detail on complexity reduction as part of our broader goal to streamline the business. On the front end, which is order sales and customer interaction, some examples of the initiatives we are working through include service agreements, digital tool enhancements, value pricing and focus selling efforts. We believe this will help drive revenue growth, gross margin expansion and more efficient use of our SG&A dollars. The above the skin complexity reduction initiatives include things like branding, optimization, finish on demand and SKU simplification. Two benefits we expect to see here



are lower working capital levels and better free cash flow. By standardizing the supply chain, we expect to drive additional revenues as well as lower freight and distribution costs. Some examples include standardized order quantities and segmented lead times. Lastly, we continue to work on standardizing our back-office function. We currently have two shared service centers, one in Poland and one in Mexico. We will continue to expand our capabilities in both of these locations. In addition, we will continue to enhance our system and digital tools to automate transactional processes. This will drive back-office efficiency and lower SG&A costs.

Moving to Slide 72, which provides an overview of cash flow and capital efficiency. The ongoing capital needs of our business are relatively low with maintenance requirements in the range of one to one and a quarter percent of sales as revenue grows. We believe we will continue to improve our organic capital spend efficiency. We believe our business has demonstrated its cash generating capabilities through the cycle, and we have initiatives in place to drive improvements in working capital efficiency. Cash generation also drives our strong returns on invested capital, which have typically been in the 20 percent or better range. Both free cash flow and return on invested capital have the potential to benefit in tandem with future gross debt reductions.

On Slide 73, you'll see an overview of our current capital structure and the significant reduction in net leverage, making progress toward our new goal of getting below 1.5 times EBITDA to debt. In looking at the tranches of our debt, the majority appears to be floating. However, we've entered into derivatives to synthetically increase our percentage of fixed rate debt, which is currently 75 percent through June of 2023. And thereafter, approximately 60 percent through at least June 2025. Because of this dynamic, we would expect interest rate increases to have a minimal impact on the business. With respect to ratings, we were upgraded by Moody's just a few weeks ago, bringing their rating more in line with S&P. This is going to have benefits for our overall debt cost as we look to optimize what we believe is a strong and flexible balance sheet.

Moving now to Slide 74 in an overview of our capital deployment strategy, which we believe reflects a balanced approach to investing in growth, returning capital to shareholders and reducing our interest cost. We expect to generate roughly one and a half billion dollars of deployable free cash flow over the mid-term. And we believe that delivers a path to our mid-term earnings per share target of \$2 per share on an organic basis alone. Any potential M&A, which continues to be a capital allocation priority would augment the path to that target.

Quickly on Slide 75, you'll see the full year outlook for 2022. We provided this on our Q4 earnings call and earlier reaffirmed this guidance.

Finally, on Page 76 and looking at our updated and now current mid-term targets, we believe we've positioned the business to deliver sustainable above market growth, which we're reflecting in our mid-single-digit organic growth target. As I've discussed, we believe our initiatives, combined with the normal benefit from volume, give us line of sight to our adjusted EBITDA margin target of 24 percent and that two dollars of adjusted earnings per share is achievable entirely on an organic basis. We remain committed to 100 percent free cash flow conversion. In addition, we are introducing a new target of improving free cash flow margin to the mid-teens range, driven by improvements in profitability and working capital, as well as reduced interest cost. We're also increasing our return on invested capital target from 20 to 25 percent. And I believe we have already demonstrated good progress toward that goal. Finally, given our rapid pace of deleveraging and expected cash

generation, we're now targeting net leverage below 1.5 times. We believe these targets are achievable, given the capital we can deploy and we'll support the creation of significant value for shareholders. And with that, I'll turn it back over to Ivo to wrap things up.

**<<Bill Waelke, Vice President, Investor Relations>>**

OK, thank you, everyone, for your time. I think what we're going to do now is just jump right into Q&A because we're getting close to the end of the session. Although it would cut into the cocktail hour slightly, the team is happy to stick around and keep the Q&A going past 5:00 p.m. But certainly, if there are any of you that need to leave, we understand that. So, we would just ask that you wait until the microphone makes it to you so that everyone has the benefit of hearing your question. And again, those of you on the webcast, please feel free to submit your questions through the webcast functionality. So, we'll start right here.

**<<Q&A>>**

<Q> Hi, good evening. Jamie Cook from Credit Suisse. Just wanted to get some more color on sort of the M&A strategy, I thought it was interesting, you said when you were looking at the opportunities. I think 75 percent was overseas, I guess, which sort of surprised me. And then 75 percent of the M&A opportunities were also in diversified industrial, which maybe doesn't surprise me as much. They're just trying to understand whether we're trying to rebalance the portfolio to diversified industrial. Then why overseas when the portfolio in terms of geographic mix seems fairly balanced today? Thank you.

<A - Ivo Jurek> Yeah, Jamie, thank you for the question. Look, we see the opportunities of kind of the mid-sized companies, more of the bolt-on type nature of acquisitions to be available, you know, in places like Europe, Germany, Italy and in locations such as that. We've had tremendous amount of engagement with potential sellers over the last several years and we have been developing those relationships. And so, we believe that the opportunities there for us to be able to add to our portfolio, add to that capability and bolster our capability in Europe in particular to advance our agenda vis-a-vis diversified industrial applications.

<Q> Thank you, it's Deane Dray with RBC. Appreciate your hosting this in person. It's nice to see everyone three dimensionally. And I would have been fine combining that cocktail hour with Q&A, but you know, so be it. So question on the new debt leverage target, it just strikes me as more conservative than I would have expected. And because you've already proven yourself to be good managers of capital, you paid down six months ahead of time. I would have expected a bit of a range, especially since you've got M&A ambitions and the ability to say, Hey, we will flex up, and maybe that's part of it. But when you give a point estimate of one point five or below one point five, it seems a little bit more rigid than having a flexible balance sheet. But maybe you could clarify that please. Thanks.

<A- Brooks Mallard> Yeah. So what I would say is, look, you know, we, you know, we think given our capital deployment options in terms of debt pay down and share repurchase and how much cash we're going to generate over time, even with doing some things on the M&A side and some things maybe on the share repurchase side, you know,

we feel pretty confident in that one and a half times number. And then I would say also, you know, we're trying to look at this on a balanced perspective. And while you know, you know, certainly M&A is a priority, it's kind of an unknown. And so we're trying to provide, you know, provide that glide path where people say, Wow, you know, even if they do M&A and even if they do share repurchase, they're still generating cash and improving profitability so that we're going to continue to get ourselves in position where we're as good as, if not better than the industrial peer group. And that's really the target we want to get to. We want to be with everybody else that is in our peer group and we want to be as good or better than them from a leveraged perspective. Ivo, I don't know if you have anything else.

<Q> Andy Kaplowitz, Citigroup. So, Ivo, you kept your margin target basically the same, but you've got all these initiatives that you've, you know, sort of laid out today. So when we think about incremental margins, is it still sort of that 35 to 40 percent, you know, can you do better than that in a normalized environment? And maybe, you know, Brooks reiterated the guidance for the quarter, for the year. But you know, you talked about green shoots of material availability the last time we talked to you. And now of course, we have Russia-Ukraine. So maybe you can update us on sort of what you're saying.

<A – Ivo Jurek> Thanks, Andy. Look, a lot to unpack in there. So let me, you know, let me start with maybe some of the material availability issues. As I stated in my Q4 earnings call, we certainly see green shoots in what is happening vis-a-vis material availability. We think that we think that the situation is getting better. We believe that probably it will require us exiting Q1 into Q2 before we actually have materials more readily available in a source of manufacture. So we still have some challenges to overcome getting the material where we to the point of consumption at the time that we need the material. But we definitely see a greater availability. When we have spoken about our guidance for 2022 in, you know, maybe some Freudian sense, we, you know, we were looking at each other as a management team and says, Look, if there's one thing that we know it is that we don't know what the next unknown is going to come forward and that we will have to deal with. And I think that, you know, it's kind of proving to be the case where you have some upside on certain things and then you have some impediments that you are dealing that that have been introduced, frankly, post setting the guidance. But where we sit today as Brooks outlined, we still believe that our guidance is rightly set and that we have a line of sight to be able to deliver what we have committed to the marketplace here. Now these are these are the leverage on incrementals. Look, you know, we have stated that in a normalized environment, our incrementals will be in there kind of the 35 percent plus or minus range. And you know, we believe we have a tremendous amount of opportunity. As Walt and Brooks both outlined in reducing some of the complexity, Walt has outlined some of the tremendous innovation that we are driving in our manufacturing organization and manufacturing processes. And so we believe as we are driving the adoption of these new products, we do have a confidence that we will be able to deliver that 35 plus or minus percent of incremental leverage on incremental revenue, getting to a degree of some resemblance of normalcy in terms of inflationary pressure. Now we certainly don't expect inflation to get any easier in 2022. We didn't expect it when we were setting the guidance. And you know, we've got to be forward leaning as more challenges come to, you know, as more challenges come forward. So we are ready and we'll be dealing with them to address them.

<Q> Mike Halloran with Baird here, so, you know, you look at all the things you guys showcase today, whether it's belt to chain, e-mobility, electric vehicles, you know, these are much higher growth rates relative to the historical growth rates of the portfolio. Maybe

talk a little bit about the competitive dynamics you're seeing. You seeing competitors go as hard at the space as you are. And more broadly, how are the win rates looking here or in some of these areas versus maybe what they would have looked like in the more traditional markets?

**<A - Ivo Jurek>** Yeah, I think it's a it's a great question, Mike. Look, let me take it one by one and here let me start with mobility. I think that you see an incredible amount of enthusiasm about what's happening. And I think that Tom might have used if I'm not incorrect in his in his prepared remarks that we are transitioning from being a niche participant to a mainstream supplier. And that's simply because folks are now pulling on our technology. And so you're right, we you know, we have highlighted, you know, a pretty robust growth rate of 30 percent plus in mobility, and it very quickly scales up from a reasonable, you know, reasonably sizable base into the, you know, \$500 million plus minus in a midterm. So it's a very, you know, it's a very accretive to our growth rate and we are very positive about that. We have a very robust pipeline of opportunities. And frankly, I think that, you know, the statement somebody else is maybe in one of the presentations is, look, now customers are calling us rather than us calling the customers and trying to demonstrate the validity of our technology. So we are well-positioned there, and we believe that obviously that's something that is absolutely attainable over the mid-term. When I take a look at industrial, diversified industrial segment of our business, we are also very enthusiastic about what's out there, both from both of our product segments. We, you know, we've spoken a little bit about the opportunity in diversified industrials with fluid power or hydraulics. Look at a vast majority of industrial automation has hydraulic systems on them, and that bodes well for us. So as people continue to build out greenfield factories or greenfields, or we have the opportunity to convert our latest technology against entrenched competitors, we believe that we are going to deliver a nice growth rate in hydraulics. But when it comes to power transmission, in power transmission, we believe that we are slightly behind personal mobility in terms of driving the adoption of chain to belt technology. But we also believe that it now resonates much more robustly when we talk to somebody that is running a food and beverage plant or that is running a pharmaceutical plant as an example where we offer a true differentiated value, cleanliness, energy efficiency. And by the way, no maintenance. So you get economic benefits in addition to ESG benefits. And so people are starting to recognize that. So we believe, as you know, as we scale up our front end and as we get some of the technologies developed, a complete the development of, we should see very positive trajectory. And we are being, I think, more realistic about how fast we can scale chain to belt in industrial, but also very positive dynamics. We have a very strong pipeline of opportunities and we keep driving those opportunities. And frankly, there is no other competitor other than unconventional competitor being an industrial chain. So that's unique. I think that's unique for an industrial company where we can cross that schism of, you know, hey, look, technology that offers better performance in a nontraditional market that we have historically not been able to participate. So we're very excited about it. Everything that you know, we have set a reasonably good growth rate that we can deliver on now again, get a complete our development of technology and complete scaling up the manufacturing capabilities on those. Electrification. You know, look, I am hoping that that we have delivered a compelling story of why Gates has a massive opportunity with electrification. But as Tom highlighted, look, we're going to be very disciplined in automotive to continue to capitalize on where we believe we can play offense and that's in the replacement side of our business, that's the 75 percent of the revenue that we generate from that market. That is a little bit further out there because we need to get that electrified propulsion devices out into the marketplace and then they need to age. So we got a little bit of a time. So great, exciting opportunity. We will continue to grow our our presence in that market segment

through traditional applications. But the big, large opportunity for us to execute on is maybe 10, 15 years out, right? So, you know, that kind of normalizes your growth rates. And so I think we are well-positioned. We are also pragmatic about the fact that, you know, there's something that's going to happen that we are not foreseeing today. And you know, we frankly, we don't want to be in a situation that I stand here, I have the opportunity to stand here three years from now, in a sense. Yeah, this is the litany of reasons why we didn't deliver on our targets. Look, I'm very proud of the targets that we have delivered on our 2019 set of objectives, and we believe that we have demonstrated that we can deliver and we can continue to deliver that level of performance or slightly greater level of performance than we did in the last three years and we have been in a really tough market environment, if you think about that. So I hope that that answers your question.

<Q> Thank you, hi, Jerry Revich, Goldman Sachs. Nice to see you. Brooks, I'm wondering if you could talk about the free cash flow targets that you laid out and just bridge us from the company's historical free cash conversion to the outlook? Because, you know, in the past, the cost of the margin profile that you've enjoyed has been a higher level of inventories and receivables, which has driven the volatility. So can you just talk about how you're managing those aspects and Ivo question from an off-highway standpoint, what's the opportunity to leverage the electrification products that you've laid out here in those applications where you can actually get higher than automotive margins?

<A - Brooks Mallard> Thanks. Yeah. So first on the cash flow conversion and on the free cash flow margins, kind of three things, right? One is, you know, we've come off, you know, two or three years of, you know, cash taxes versus GAAP taxes that have been kind of, you know, where, you know, we've improved the profitability of the company pretty dramatically. And that's, you know, caused us to do something with valuation allowances which have helped our GAAP taxes. And we think that's going to normalize over time. And that's not going to be, you know, a headwind in terms of your cash conversion number. I think secondly, you know, as we look at the opportunities set on the complexity reduction and what we're going to do with supply chain and inventory management, you know, we think we have a great opportunity to improve our working capital significantly over the mid-term, and that's clearly going to help drive some improved cash flow numbers. And then lastly, you know, we're going to continue to pay down, you know, certainly we have an option to continue to pay down some of our higher cost debt and reduce our cash interest over time. That's certainly going to help us de-lever the business toward our target of being below one and a half times, and that's going to help our free cash flow margins. So I think those are the three things that we're really, you know, looking at to bridge. I mean, the profitability is obviously, you know, going to improve over time and that's going to drop through as well. But when you look at the three things more from a capital deployment balance sheet perspective, those are the three things that are going to help us continue to improve over the mid-term. OK, I'll let you do the rest-

<A - Ivo Jurek> And I would be remiss if I didn't say that we have a tremendous opportunity with working capital, and I think that we have highlighted our objectives and our work streams that are now targeting the working capital reductions as well, you know, particularly associated with both below and above the skin reduction of complexity. So we feel pretty good about that too. Look, you know, electrification on heavy duty applications, whether or not it's on-highway or off-highway, let me let me kind of maybe highlight on-highway. I know you asked off-highway application, but on-highway applications, I believe that we are the market leader today in battery cooling technology, in the on-highway

applications. Those are companies that are out there today that actually developing platforms and we are present on those platforms. We have that business. We have ramped up business. And I can tell you is that when we talk about a when we talk about a content on a passenger vehicle in battery calling to be kind of in the \$300 range that content on on-highway is 2x. And so you know, it is, you know, it is yet even different level of opportunity to drive our presence, leadership and revenue growth well into the future. And so we are quite excited about that opportunity as well. But again, you know, one of the things that we want to, you know, we want to impart on everybody is that those things will take time to ramp up. And these electrified platforms are reasonably small in numbers, but we there, are present. We are helping our customers to ramp those up.

<Q - Bill Waelke> We do have a question on the webcast here, So Brooks, this looks like this would be for you. Have you included any capital allocation impact, M&A or share repurchases, in your \$2 EPS target?

<A - Brooks Mallard> Yeah. So for M&A, we have not, for share purchases we have. And so, you know, we you know, we looked at some different bands and and ways of of looking at capital allocation, but we definitely, you know, believe that share repurchases is going to be part of our capital allocation strategy as we move forward. But as well as M&A, but we looked at it all more of an organic basis, I think to say this is where we can get to, you know, purely on an organic basis and what we can do, I think within the four walls of of of Gates.

<<Bill Waelke>> OK. Looks like we're good. Well, thanks again, everyone for coming here in person, and for those of you who committed the time to watch online. We appreciate your interest and we have cocktails ready to go right outside these doors.