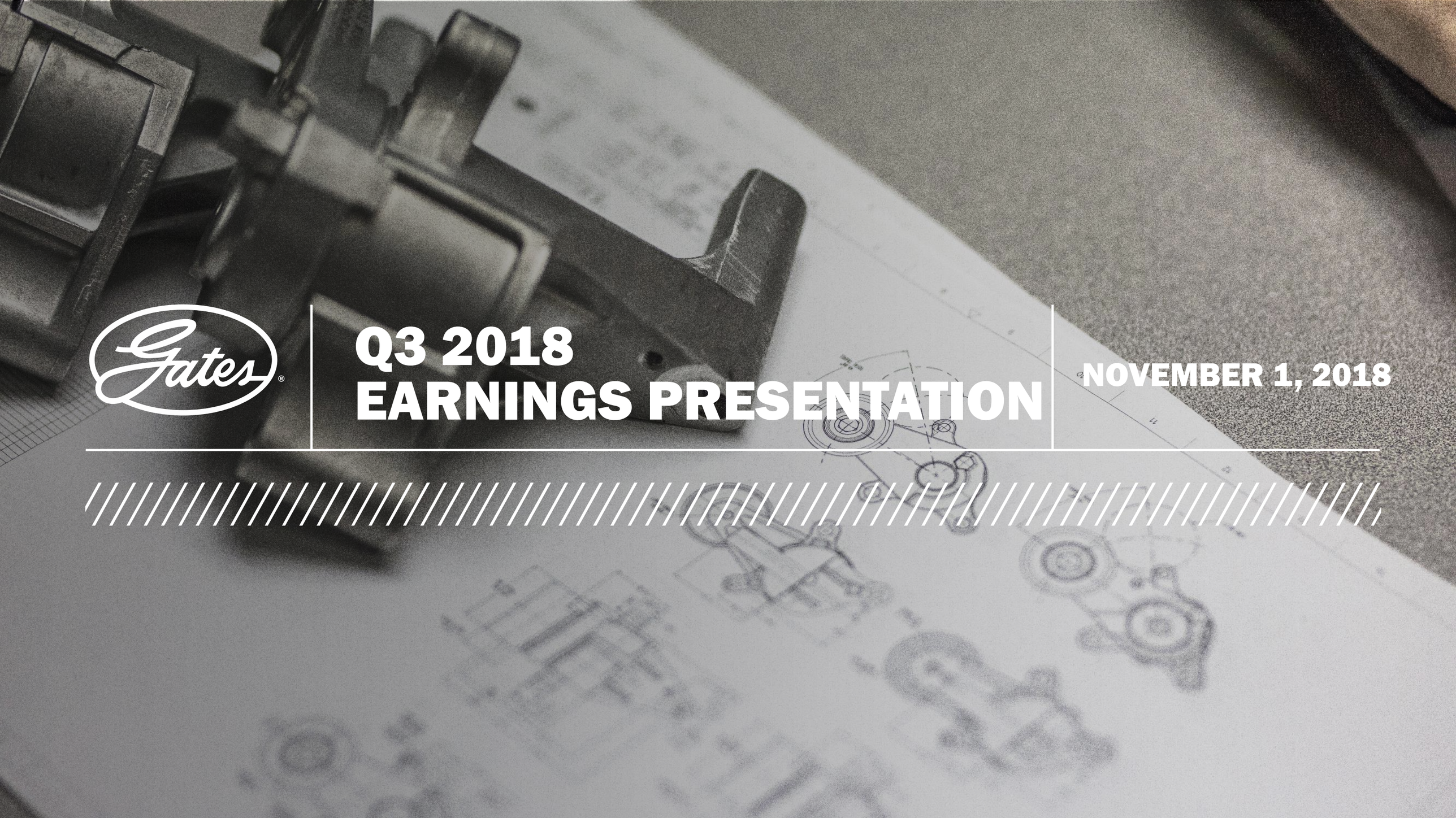


Q3 2018 EARNINGS PRESENTATION

NOVEMBER 1, 2018

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FORWARD-LOOKING STATEMENTS

This presentation contains, and management may make on our call today, certain forward-looking statements within the meaning of the federal securities laws. Forward-looking statements include all statements that are not historical facts. In some cases you can identify forward-looking statements by the use of words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “could,” “seeks,” “predicts,” “intends,” “trends,” “plans,” “estimates,” “anticipates” or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties.

Statements relating to our estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results are forward-looking statements. These forward-looking statements are subject to risk, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Important factors could affect our results and could cause results to differ materially from those expressed in our forward-looking statements, including but not limited to the factors described in the section entitled “Item 1A. Risk Factors” of Gates’ Annual Report on Form 10-K for the fiscal year ended December 30, 2017, as filed with the Securities and Exchange Commission (the “SEC”) and the following: conditions in the global and regional economy and the major end markets we serve; economic, political and other risks associated with international operations; availability of raw materials at favorable prices and in sufficient quantities; changes in our relationships with, or the financial condition, performance, purchasing power or inventory levels of, key channel partners; competition in all areas of our business; pricing pressures from our customers; continued operation of our manufacturing facilities; our ability to forecast demand or meet significant increases in demand; exchange rate fluctuations; market acceptance of new product introductions and product innovations; our cost-reduction actions; litigation, legal or regulatory proceedings brought against us; enforcement of our intellectual property rights; recalls, product liability claims or product warranties claims; anti-corruption laws and other laws governing our international operations; existing or new laws and regulations that may prohibit, restrict or burden the sale of aftermarket products; our decentralized information technology systems and any interruptions to our computer and IT systems; environmental, health and safety laws and regulations; lives of products used in our end markets as well as the development of replacement markets; our ability to successfully integrate future acquired businesses or assets; our reliance on senior management or key personnel; our ability to maintain and enhance our brand; work stoppages and other labor matters; our investments in joint ventures; liabilities with respect to businesses that we have divested in the past; terrorist acts, conflicts and wars; losses to our facilities, supply chains, distribution systems or information technology systems due to catastrophe or other events; additional cash contributions we may be required to make to our defined benefit pension plans; the loss or financial instability of any significant customer or customers; changes in legislative, regulatory and legal developments involving taxes and other matters; our substantial leverage; and the significant influence of our majority shareholder, The Blackstone Group L.P., over us, as such factors may be updated from time to time in its periodic filings with the SEC which are accessible on the SEC’s website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this presentation and in our other periodic filings. Gates undertakes no obligation to update or supplement any forward-looking statements as a result of new information, future events or otherwise, except as required by law.

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

Because GAAP financial measures on a forward-looking basis are not accessible, and reconciling information is not available without unreasonable effort, we have not provided reconciliations for forward-looking non-GAAP measures.

ROUNDING ADJUSTMENTS

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

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Q3 HIGHLIGHTS

- **Record third-quarter net sales of $828.4M, representing 8.9% growth, 7.2% core growth**
  - Solid core revenue growth, particularly in industrial end markets
  - Continuing to perform well in emerging markets and replacement channels
- **Adjusted EBITDA of $181.2M and Adjusted EBITDA Margin of 21.9%**
  - +30 bps over prior year, +50 bps excluding the impact of acquisitions
  - EBITDA growth of greater than 10% over prior-year Q3
- **Growth initiatives proceeding – positioned well for 2019**
  - Hydraulics capacity buildout proceeding as planned
  - New product introductions continue – MXT hydraulic hose and next-generation Micro-V® belt platform
- **Continuing to manage in a dynamic environment**
  - Price continues to offset raw material inflation and will for full-year 2018
  - Managing costs related to new plant start-ups and other operational initiatives to maximize output

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Note: Core revenue growth excludes impact of movements in average currency exchange rates and acquisitions completed in the last 12 months

POWER TRANSMISSION – Q3 HIGHLIGHTS

Highlights:

- Next-generation Micro®-V belt platform to further address emerging market replacement opportunities
- Core growth in all end markets
  - Particularly strong growth in Construction, Oil & Gas and Heavy-Duty Truck end markets
- Strong core growth in the automotive replacement channel globally, particularly in China
- Chain-to-belt wins in personal mobility, lumber, agriculture
- Q3 Adjusted EBITDA margin expansion of 30 bps

Personal Mobility



The reliability, quietness and maintenance-free performance of Gates power transmission belts are ideal for the growing market of personal mobility applications, whether human-, electric- or gasoline-powered.

(USD in millions)	Q3 2018	Q3 2017	% Δ
NET SALES	$512.5	$499.9	+2.5%
ADJ. EBITDA	$119.0	$114.5	+3.9%
ADJ. EBITDA MARGIN	23.2%	22.9%	+30bps
DEPRECIATION & AMORTIZATION[(1)]	$14.7	$14.4	+2.1%
AMORT. OF INTANGIBLES FROM ACQ. OF GATES	$18.5	$20.2	(8.4%)

REVENUE GROWTH:

Core	+4.7%
FX	(2.2%)
Acq.	–
Total	+2.5%

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

FLUID POWER – Q3 HIGHLIGHTS

Highlights:

- Core growth of 12.1% – continued broad-based industrial market demand
- Adjusted EBITDA margin expansion of 100 bps over Q3 of prior year, excluding acquisitions
  - Higher volumes and favorable impact of price
- New capacity in China and Mexico ramping up per expectations
  - Q3 impacted by start-up costs and other activities to maximize output, which will abate in 2019

Incremental Fluid Power Capacity



Gates is committed to investing in organic growth opportunities, including three new increments of capacity within the Fluid Power segment. The new state-of-the-art plant at our existing Mexico campus will increase the production capacity to better service our customers.

(USD in millions)	Q3 2018	Q3 2017	% Δ
NET SALES	$315.9	$260.7	+21.2%
ADJ. EBITDA	$62.2	$49.6	+25.4%
ADJ. EBITDA MARGIN	19.7%	19.0%	+70 bps
ADJ. EBITDA MARGIN EX-ACQ.	20.0%	19.0%	+100 bps
DEPRECIATION & AMORTIZATION[1]	$9.1	$7.4	+23.0%
AMORT. OF INTANGIBLES FROM ACQ. OF GATES	$11.4	$10.0	+14.0%

REVENUE GROWTH:

Core	+12.1%
FX	(2.2%)
Acq.	+11.3%
Total	+21.2%

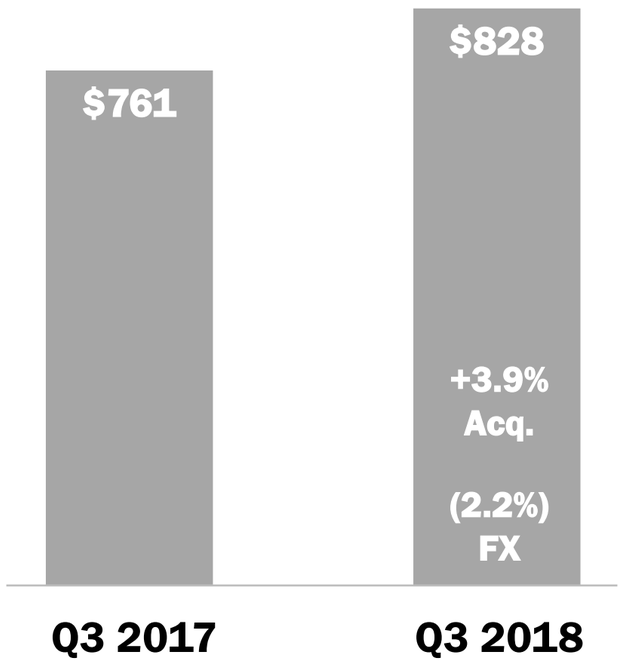
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Q3 2018 FINANCIAL PERFORMANCE

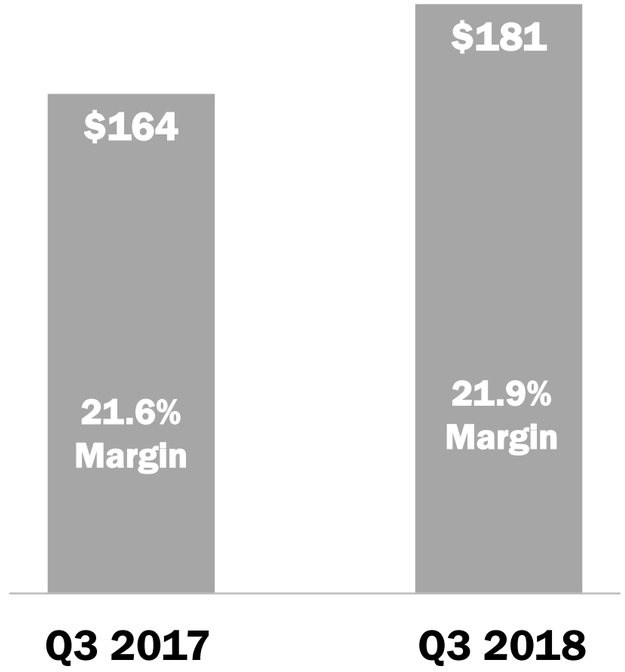
USD in millions

NET SALES



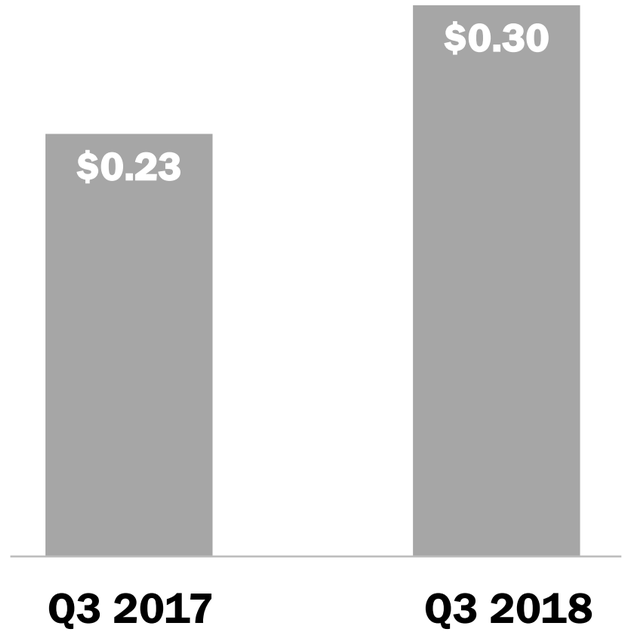
Up 8.9%
7.2% core growth

ADJUSTED EBITDA



Margin of 22.1% excl. acquisitions, up 50 bps

ADJUSTED EPS[1]



Driven by operating performance, lower interest & tax expense

RECORD THIRD-QUARTER NET SALES, ADJUSTED EBITDA AND ADJUSTED EBITDA MARGIN

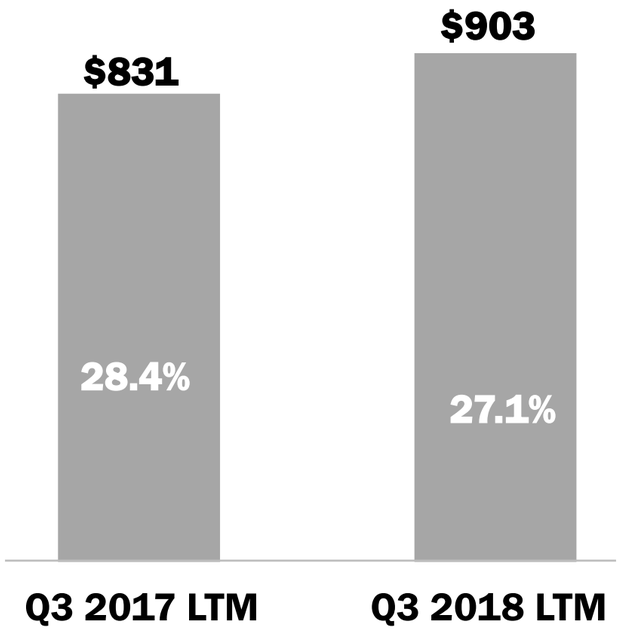
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[1] Adjusted Net Income per diluted share

BALANCE SHEET AND LIQUIDITY

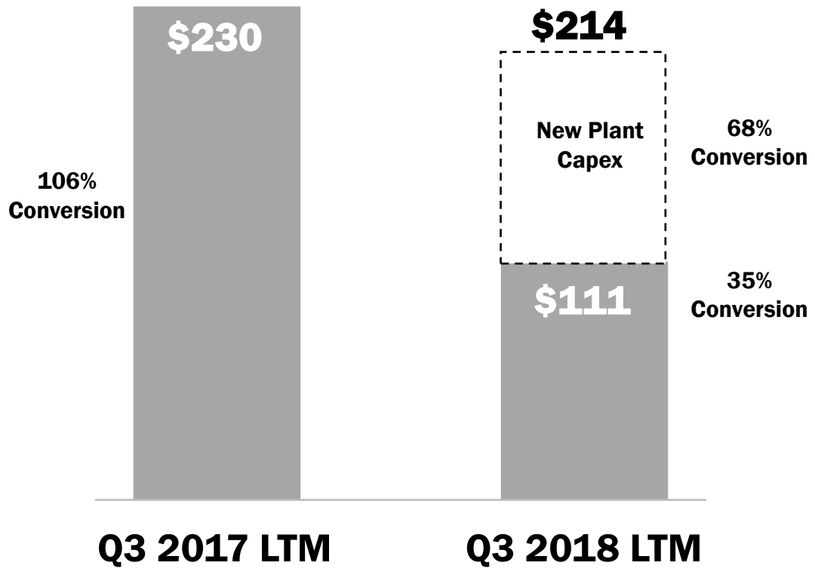
USD in millions, except multiple data

TRADE WORKING CAPITAL



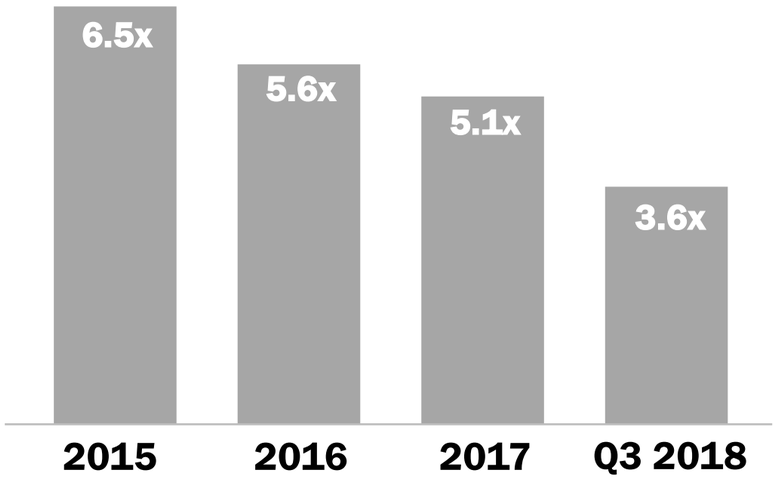
Improved 160 bps as % of LTM net sales, excluding acquisitions

FREE CASH FLOW



Continuing to invest in growth initiatives

LEVERAGE



Ongoing focus on deleveraging

CONTINUING TO DELEVERAGE WHILE INVESTING IN GROWTH

Note: Trade Working Capital: Trade Accounts Receivable plus Inventory minus Trade Accounts Payable
LTM Free Cash Flow: Net Cash Provided by Operations minus capital expenditures; Free Cash Flow Conversion shown as % of Adjusted Net Income
Leverage: Net Debt divided by LTM Adjusted EBITDA

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2018 OUTLOOK

USD in millions	2018 Range
Revenue Growth	**10.0% – 12.0%**
Core Revenue Growth	**6.0% – 7.0%**
Adjusted EBITDA	**$745 – $765**
Capital Expenditures	**~$180**

- Maintaining full-year 2018 guidance

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KEY TAKEAWAYS FROM Q3

- **Strong growth continues**
  - Supportive end market demand – growth in all of our major end markets
  - Replacement channels generating solid sales growth globally
  - Price offsetting raw material inflation – 2018 will be price/cost positive
- **Expansion of Adjusted EBITDA margin**
  - Sustained period of excess Fluid Power demand
  - Headwinds from running at full hydraulics utilization and new plant start-up costs
  - Additional costs from initiatives undertaken to maximize output
- **Investment in growth**
  - Fluid Power capacity additions progressing as planned – 2 of 3 capacity increments operational
  - Accelerating pace of new product introductions
  - Acquisition integration activities progressing as planned
- **Maintaining 2018 full-year outlook**

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APPENDIX

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RECONCILIATIONS – ADJUSTED EBITDA

(USD in millions)	Q3 2018	Q3 2017	LTM Q3 2018	LTM Q3 2017
Reconciliation to Adjusted EBITDA				
Net income from continuing operations	**$ 67.0**	**$ 18.1**	**$ 318.9**	**$ 59.1**
Adjusted for:				
Income tax expense (benefit)	7.2	15.9	(75.0)	38.9
Net interest and other expenses	43.6	65.9	225.0	276.1
Depreciation and amortization	53.7	52.0	217.3	210.4
Transaction-related expenses	0.2	7.2	13.0	11.7
Impairment of intangibles and other assets	0.2	-	3.4	1.8
Restructuring expense	1.2	2.4	12.3	11.7
Share-based compensation	2.3	1.2	8.0	3.8
Sponsor fees (included in other operating expenses)	1.9	1.5	8.1	6.1
Inventory impairments and adjustments (included in cost of sales)	-	-	3.1	21.3
Other adjustments	3.9	(0.1)	8.9	3.1
Adjusted EBITDA	**$ 181.2**	**$ 164.1**	**$ 743.0**	**$ 644.0**

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RECONCILIATIONS – ADJUSTED NET INCOME

(USD in millions)	Q3 2018	Q3 2017	LTM Q3 2018	LTM Q3 2017
Reconciliation to Adjusted Net Income				
Net Income Attributable to Shareholders	**$ 59.9**	**$ 13.2**	**$ 288.5**	**$ 42.4**
Adjusted for:				
Loss (gain) on disposal of discontinued operations	0.3	(0.1)	0.1	(8.7)
Amortization of intangible assets arising from the 2014 acquisition of Gates	29.9	30.2	121.0	125.0
Transaction-related expenses	0.2	7.2	13.0	11.7
Impairment of intangibles and other assets	0.2	-	3.4	1.4
Restructuring expense	1.2	2.4	12.3	11.7
Share-based compensation	2.3	1.2	8.0	3.8
Sponsor fees (included in other operating expenses)	1.9	1.5	8.1	6.1
Inventory impairments and adjustments (included in cost of sales)	-	-	3.1	21.3
Adjustments relating to post-retirement benefits	0.8	(2.7)	4.3	2.2
Premium on redemption of long-term debt	-	-	27.0	-
Financing-related FX losses	4.3	14.8	3.2	45.2
One-time deferred tax benefit from U.S. tax reform	-	-	(118.2)	-
Other adjustments	0.7	(2.6)	(3.0)	(7.2)
Estimated tax effect of the above adjustments	(11.1)	(7.2)	(56.4)	(38.7)
Adjusted Net Income	**$ 90.6**	**$ 57.9**	**$ 314.4**	**$ 216.2**

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