

Q4 2018 EARNINGS PRESENTATION

FEBRUARY 12, 2019

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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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Q4 HIGHLIGHTS

- **Fourth-quarter net sales of $792.1M, representing 3.5% core revenue growth**
  - Continuing to perform well in industrial end markets and replacement channels globally
  - Solid core revenue growth driven by strong performance across key end markets in North America, which more than offset weakness in auto first-fit in China and Europe
  - FX headwinds from US Dollar strengthening against most major currencies
- **Adjusted EBITDA of $185.8M and Adjusted EBITDA Margin of 23.5%**
  - Margin expansion of 140 bps over prior year; up 130 bps excluding the impact of acquisitions
  - Maintained price/cost favorability
- **Growth initiatives progressing well**
  - New hydraulics capacity online and ramping up according to plan
  - Additional introductions of new, innovative products
- **Continued focus on deleveraging and effective capital deployment**
  - Reduced net leverage to 3.4x – clear path to further deleveraging

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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

2018 SUMMARY

- **Full-year net sales of $3,347.6M, representing 5.9% core growth**
  - Strong core revenue growth; particular strength in industrial end markets and replacement channels
  - FX favorability in H1 shifted to headwind in H2, as US Dollar strengthened significantly
- **Adjusted EBITDA of $755.8M and Adjusted EBITDA Margin of 22.6%**
  - Adjusted EBITDA growth of 13.0% over 2017
  - Margin expansion of 60 bps over prior year; up 100 bps excluding the impact of acquisitions
- **Adjusted EPS growth of over 50%**
  - Primarily driven by operating performance, reduced interest expense and lower effective tax rate
  - Growth despite headwind of 16% more shares compared to 2017
- **Execution in a complex environment**
  - Delivered upwardly revised guidance
  - Well positioned for 2019

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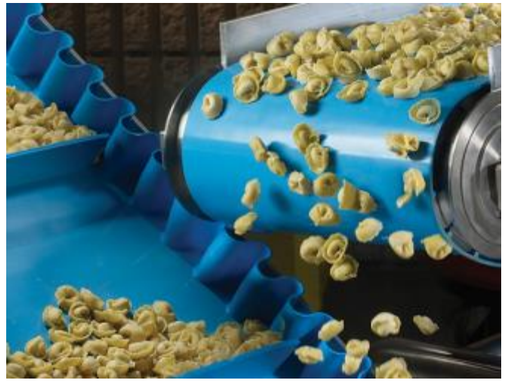
Note: Core revenue growth excludes impact of movements in average currency exchange rates and acquisitions completed in the last 12 months

POWER TRANSMISSION – Q4 & FY HIGHLIGHTS

Highlights:

- Solid full-year core growth driven by strength in industrial markets and replacement channels
- Core growth offset by significant Q4 weakness in automotive first-fit in China and Europe
- Q4 and full-year Adjusted EBITDA margin expansion – pricing & mix
- Key chain-to-belt wins in wide range of applications, including personal mobility, automated storage & retrieval systems and material handling
- New product introductions leveraging materials science and process engineering capabilities

TPU Belts



Gates thermoplastic polyurethane (TPU) belts are flexible, durable and abrasion- and chemical-resistant. In food processing applications, their sealing prevents ingress of microbes and they can be washed down in place to a microbiological level. We believe TPU belts are ideal replacements for engineered and plastic-modular chain, steel cables and ball screw systems.

(USD in millions)	Q4 2018	Δ	FY 2018	Δ
NET SALES	$490.7	(4.4%)	$2,098.8	+4.5%
ADJ. EBITDA	$114.6	(1.0%)	$492.2	+7.4%
ADJ. EBITDA MARGIN	23.4%	+90bps	23.5%	+70bps
DEPRECIATION & AMORTIZATION[(1)]	$15.9	+5.3%	$61.3	+5.9%
AMORT. OF INTANGIBLES FROM ACQ.	$18.3	(6.2%)	$75.4	(7.7%)

REVENUE GROWTH

	Q4	FY 2018
Core	(1.0%)	+3.6%
FX	(3.4%)	+0.9%
Acq.	–	–
Total	(4.4%)	+4.5%

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

FLUID POWER– Q4 & FY HIGHLIGHTS

Highlights:

- Q4 core revenue growth accelerated, primarily due to Agriculture and General Industrial markets, particularly in the replacement channel
- Double-digit full-year core revenue growth – broad industrial strength, particularly in Agriculture, Construction and General Industrial markets
- Full-year and Q4 Adjusted EBITDA margin expansion – pricing & volume
- Final increment of current capacity additions came online in Poland – ramping up according to plan
- Successful launch of new, innovative MXT family of hydraulic hoses

Industrial Hose



Gates offers a complete portfolio of industrial hose and couplings. The portfolio consists of lightweight, versatile, efficient and weather- and abrasion-resistant solutions for a wide range of applications, ranging from chemical transfer and material handling to food and beverage.

(USD in millions)	Q4 2018	Δ	FY 2018	Δ
NET SALES	$301.4	+12.2%	$1,248.8	+21.0%
ADJ. EBITDA	$71.2	+23.8%	$263.6	+24.9%
ADJ. EBITDA MARGIN	23.6%	+220 bps	21.1%	+70 bps
ADJ. EBITDA MARGIN EX-ACQ.	23.5%	+210 bps	22.1%	+170 bps
DEPRECIATION & AMORTIZATION[(1)]	$9.8	+12.6%	$36.9	+20.2%
AMORT. OF INTANGIBLES FROM ACQ.	$11.2	+4.7%	$44.9	+7.2%

REVENUE GROWTH

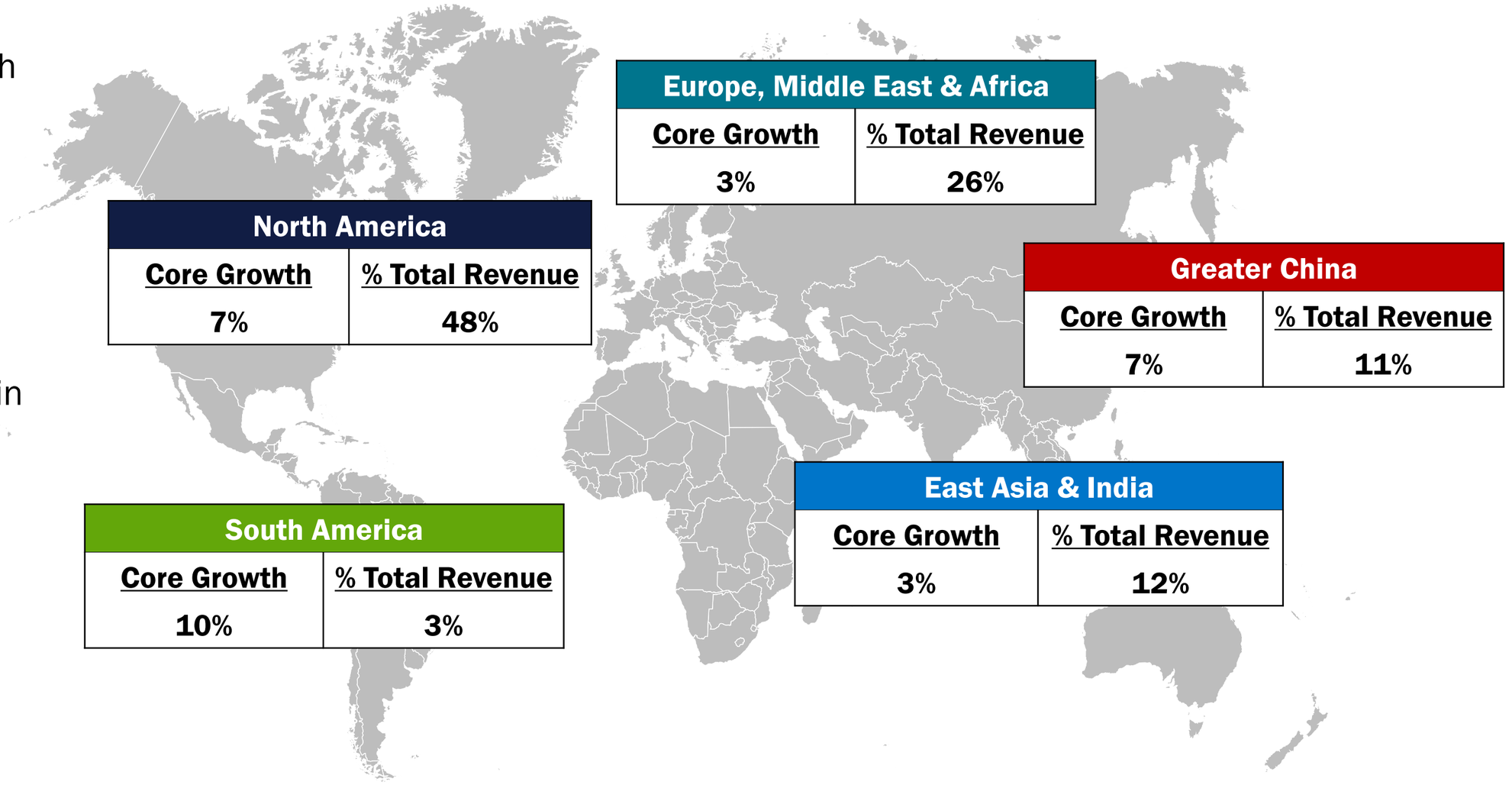
	Q4	FY 2018
Core	+12.3%	+10.5%
FX	(2.2%)	+0.1%
Acq.	+2.1%	+10.4%
Total	+12.2%	+21.0%

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

FY 2018 REVENUE BY REGION

- Emerging market growth outpaced developed market growth
- Industrial end markets grew across all regions
- Double-digit growth in replacement channels in emerging markets



North America	
Core Growth	% Total Revenue
7%	48%

Europe, Middle East & Africa	
Core Growth	% Total Revenue
3%	26%

Greater China	
Core Growth	% Total Revenue
7%	11%

East Asia & India	
Core Growth	% Total Revenue
3%	12%

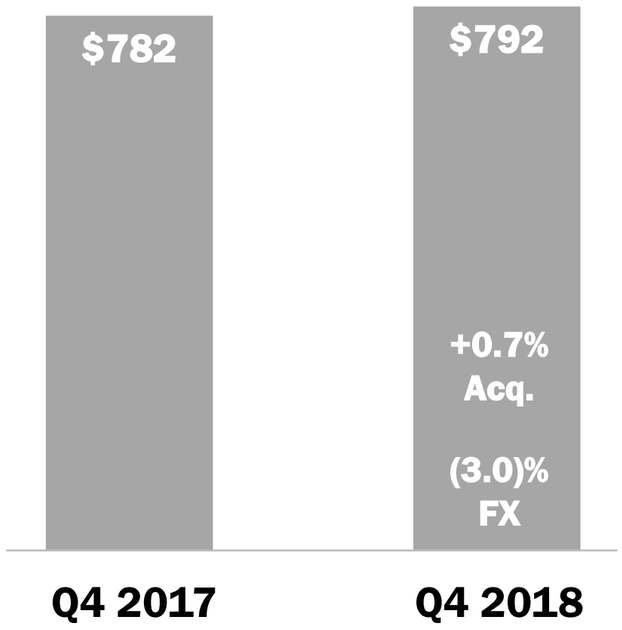
South America	
Core Growth	% Total Revenue
10%	3%

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Q4 2018 FINANCIAL PERFORMANCE

USD in millions

NET SALES



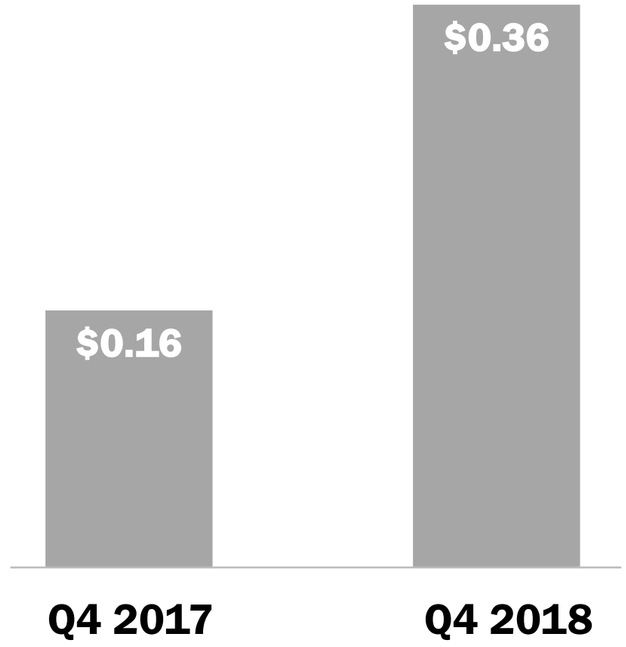
Up 1.3%
3.5% core growth

ADJUSTED EBITDA



Margin of 23.4% excl. acquisitions, up 130 bps

ADJUSTED EPS[1]



Driven by operating performance, lower interest & effective tax rate

SIGNIFICANT MARGIN EXPANSION AND EARNINGS GROWTH

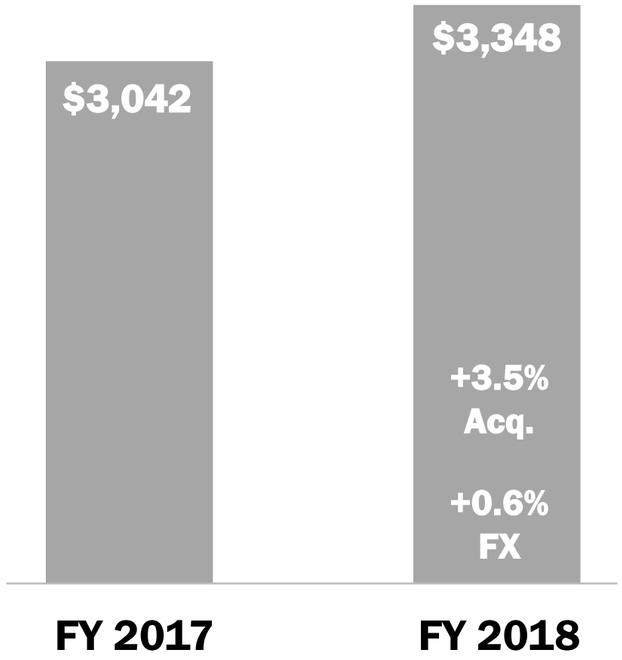
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[1] Adjusted Net Income per diluted share

FY 2018 FINANCIAL PERFORMANCE

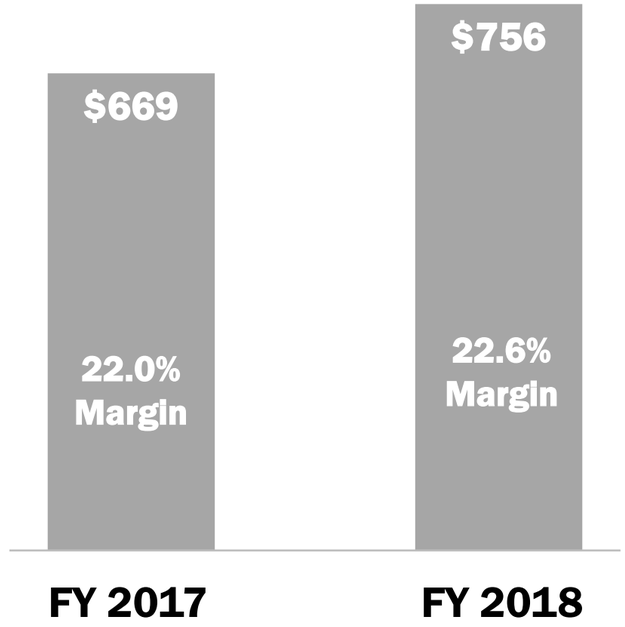
USD in millions

NET SALES



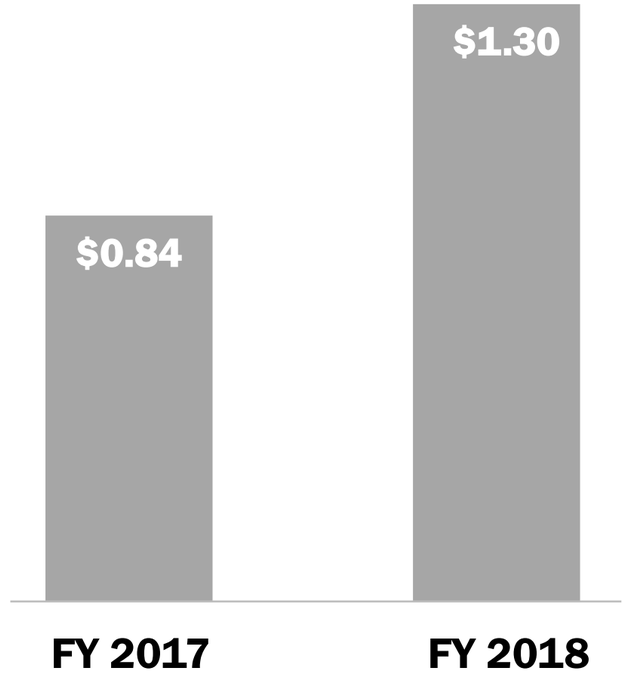
Up 10.1%
5.9% core growth

ADJUSTED EBITDA



Margin of 23.0% excl. acquisitions, up 100 bps

ADJUSTED EPS[1]



Driven by operating performance and lower interest expense

STRONG TOP LINE GROWTH AND INCREMENTAL MARGIN PERFORMANCE

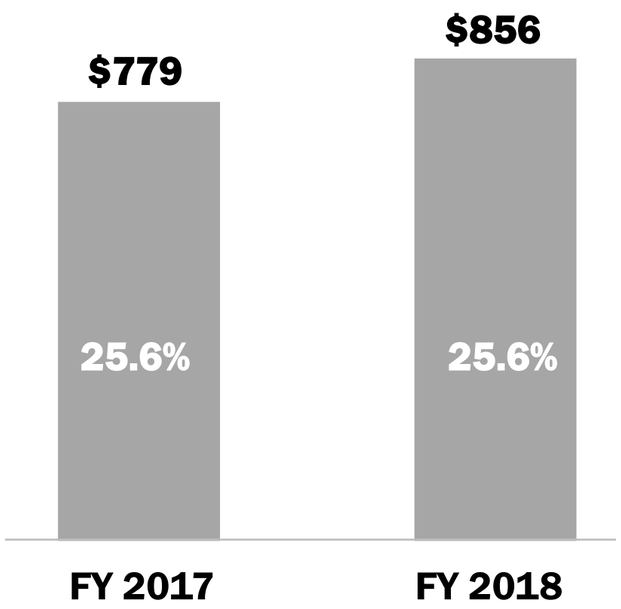
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[1] Adjusted Net Income per diluted share

BALANCE SHEET AND LIQUIDITY

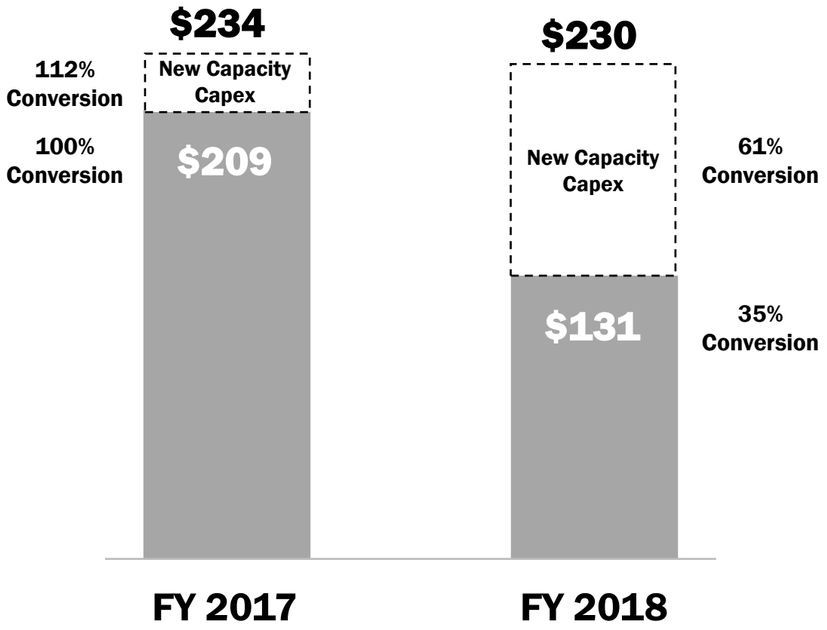
USD in millions, except multiple data

TRADE WORKING CAPITAL



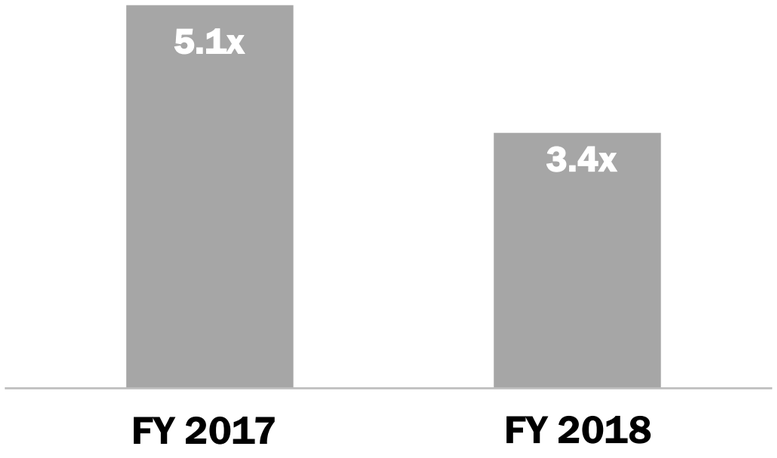
Stable working capital ratio while funding growth

FREE CASH FLOW



Continuing to invest in growth initiatives

NET LEVERAGE



Ongoing focus on deleveraging the business

CONTINUING TO DELEVERAGE WHILE INVESTING IN GROWTH

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

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2019 OUTLOOK

USD in millions	2019
Core Revenue Growth	3.0% – 5.0%
Adjusted EBITDA	$775 – $805
Capital Expenditures	~$150
Free Cash Flow Conversion	> 80%
Net Leverage	< 3.0x

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KEY TAKEAWAYS FROM 2018

- **Executed against plan, driving solid growth in 2018**
  - Supportive demand environment with growth in all major end markets – particularly strong in industrial markets
  - Replacement channels generated solid sales growth globally
  - Diversified and balanced geographic footprint providing access to attractive markets
- **Expansion of Adjusted EBITDA margin**
  - Demonstrated ability to offset inflation
  - Attractive incremental margins
- **Established foundation for 2019 and beyond**
  - Manufacturing capacity added in three different regions
  - Completion and integration of three bolt-on acquisitions in different regions
  - Reinvigorated innovation capabilities, bringing multiple new products to market
- **Initiating 2019 full-year outlook, which forecasts solid core growth & cash generation**

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APPENDIX

RECONCILIATIONS – ADJUSTED EBITDA

(USD in millions)	Q4 2018	Q4 2017	FY 2018	FY 2017
Reconciliation to Adjusted EBITDA				
Net income from continuing operations	**$ 82.4**	**$ 129.6**	**$ 271.7**	**$ 182.0**
Adjusted for:				
Income tax expense (benefit)	1.4	(105.4)	31.8	(72.5)
Net interest and other expenses	36.0	67.7	193.3	293.4
Depreciation and amortization	55.2	54.0	218.5	212.2
Transaction-related expenses	0.5	6.8	6.7	18.1
Impairment of intangibles and other assets	-	2.8	0.6	2.8
Restructuring expense	3.2	9.1	6.4	17.4
Share-based compensation	0.5	2.5	6.0	5.4
Sponsor fees (included in other operating expenses)	2.1	2.2	8.0	6.7
Inventory impairments and adjustments (included in cost of sales)	0.4	3.2	1.5	3.2
Duplicate expenses incurred on facility relocation	0.6	-	5.2	-
Severance-related expenses (included in cost of sales)	1.7	-	1.7	-
Other adjustments	1.8	0.5	4.4	0.4
Adjusted EBITDA	**$ 185.8**	**$ 173.0**	**$ 755.8**	**$ 669.1**

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RECONCILIATIONS – ADJUSTED NET INCOME

(USD in millions)	Q4 2018	Q4 2017	FY 2018	FY 2017
Reconciliation to Adjusted Net Income				
Net Income Attributable to Shareholders	**$ 75.6**	**$ 118.8**	**$ 245.3**	**$ 151.3**
Adjusted for:				
(Gain) loss on disposal of discontinued operations	(0.1)	(0.6)	0.6	(0.7)
Amortization of intangible assets arising from the 2014 acquisition of Gates	29.5	30.8	120.3	124.2
Transaction-related expenses	0.5	6.8	6.7	18.1
Impairment of intangibles and other assets	-	2.8	0.6	2.8
Restructuring expense	3.2	9.1	6.4	17.4
Share-based compensation	0.5	2.5	6.0	5.4
Sponsor fees (included in other operating expenses)	2.1	2.2	8.0	6.7
Inventory impairments and adjustments (included in cost of sales)	0.4	3.2	1.5	3.2
Adjustments relating to post-retirement benefits	0.7	1.9	3.1	2.5
Premium on redemption of long-term debt	-	-	27.0	-
Financing-related FX (gains) losses	(0.3)	11.7	(8.8)	61.2
One-time deferred tax benefit from U.S. tax reform	-	(118.2)	-	(118.2)
Other adjustments	1.9	(3.1)	0.8	(10.5)
Estimated tax effect of the above adjustments	(9.1)	(27.2)	(38.3)	(53.9)
Adjusted Net Income	**$ 104.9**	**$ 40.7**	**$ 379.2**	**$ 209.5**

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