

Q1 2019 EARNINGS PRESENTATION

MAY 7, 2019

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NON-GAAP FINANCIAL INFORMATION

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

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

ROUNDING ADJUSTMENTS

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

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Q1 HIGHLIGHTS

- **Net sales of $804.9M, representing a 2.1% decline on a core basis**
  - Organic growth impacted by China, Europe and replacement channel destocking
  - Growth of industrial business partially offsetting weakness in automotive end markets
- **Adjusted EBITDA of $165.5M and Adjusted EBITDA Margin of 20.6%**
  - Adjustments to production and inventory levels impacting margins
  - Pricing offset raw material inflation and tariff impact
- **Growth of 11% in Adjusted EPS to $0.28**
- **Outlined previously announced 3-year plan to generate targeted annualized savings of $25M**
  - Pre-tax charge of $40M over 3 years
  - Rooftop consolidations and establishment of shared-service centers
- **New product introductions continued**
  - High-pressure choke and kill hose for Oil & Gas, expanded PRO™ Series hydraulic hose & coupling portfolio
  - PowerGrip GT4 high-performance synchronous belt for Chain-to-Belt and Belt-to-Belt initiatives

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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 – Q1 HIGHLIGHTS

Highlights:

- High single-digit core revenue growth in industrial end markets
- China automotive replacement channel continued double-digit growth
- Significant weakness continued in automotive first-fit, as expected, in both Europe and China
- Destocking in North America & Europe further impacted volumes
- Launched next-generation PowerGrip GT4, a high-torque, ethylene elastomer belt for industrial applications

Industrial First-Fit Applications



Gates offers a full range of innovative power transmission products and solutions for first-fit applications that serve a diverse set of end markets such as industrial automation, material handling, logistics and food & beverage.

(USD in millions)	Q1 2019	Q1 2018	% Δ
NET SALES	$499.5	$546.0	(8.5%)
ADJ. EBITDA	$109.9	$125.3	(12.3%)
ADJ. EBITDA MARGIN	22.0%	22.9%	(90) bps
DEPRECIATION & AMORTIZATION[(1)]	$16.4	$15.5	+5.8%
AMORT. OF INTANGIBLES FROM ACQ. OF GATES	$18.4	$19.6	(6.1%)

REVENUE GROWTH:

Core	(3.7%)
FX	(4.8%)
Acq.	–
Total	(8.5%)

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

FLUID POWER – Q1 HIGHLIGHTS

Highlights:

- Core growth up slightly against difficult compare in Q1 2018
  - Global replacement channels grew in the mid single-digits
  - Solid performance in emerging markets
- Q1 affected by start-up and other inefficiencies, which should abate in H2 of 2019
- Introduced innovative, high pressure choke and kill hose for Oil & Gas applications

Oil & Gas Applications



Gates provides global availability of mission-critical hoses to serve the Oil & Gas end market. The recent product launch of the Gates choke and kill hose provides a state-of-the-art solution for high pressure land and offshore well-control applications.

(USD in millions)	Q1 2019	Q1 2018	% Δ
NET SALES	$305.4	$306.0	(0.2%)
ADJ. EBITDA	$55.6	$58.6	(5.1%)
ADJ. EBITDA MARGIN	18.2%	19.2%	(100) Bps
ADJ. EBITDA MARGIN EX-ACQ.	18.0%	19.2%	(120) Bps
DEPRECIATION & AMORTIZATION[(1)]	$10.0	$8.9	+12.4%
AMORT. OF INTANGIBLES FROM ACQ. OF GATES	$11.3	$11.0	+2.7%

REVENUE GROWTH:

Core	+0.8%
FX	(2.8%)
Acq.	+1.8%
Total	(0.2%)

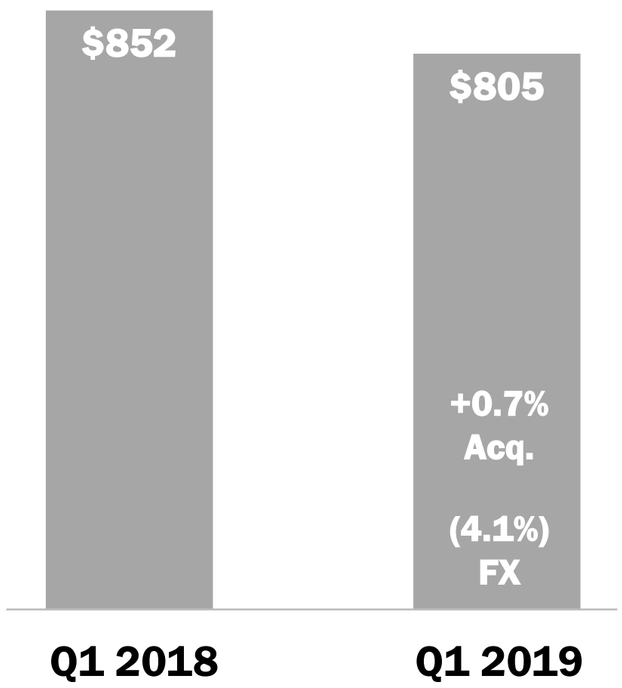
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(1) Excludes the amortization of intangible assets arising from the 2014 acquisition of Gates.

Q1 2019 FINANCIAL PERFORMANCE

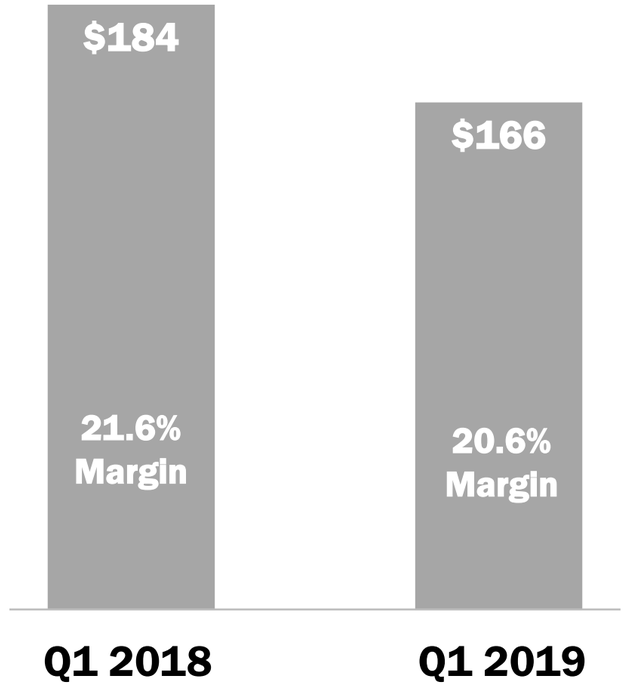
USD in millions

NET SALES



2.1% core decline

ADJUSTED EBITDA



100 bps decline, driven by lower volumes and FX

ADJUSTED EPS[1]



Adjusted EPS growth driven by lower interest and tax

VOLUME DECLINES AND FX IMPACTING PROFITABILITY

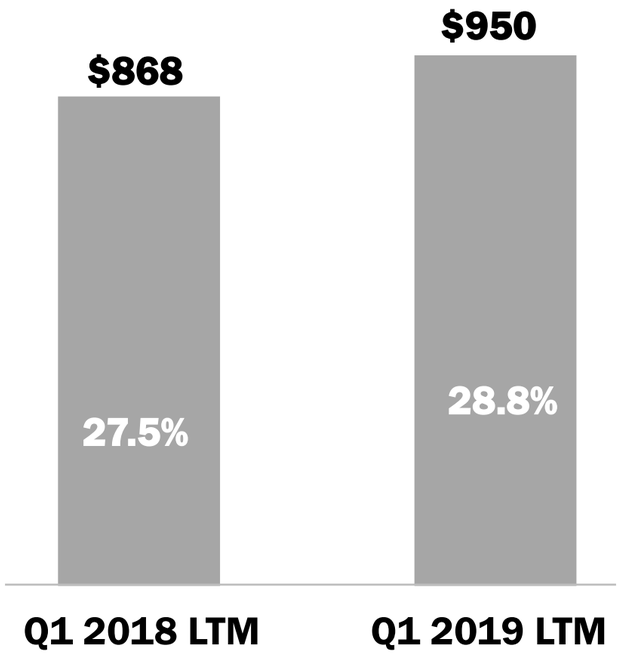
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[1] Adjusted Net Income per diluted share

BALANCE SHEET AND LIQUIDITY

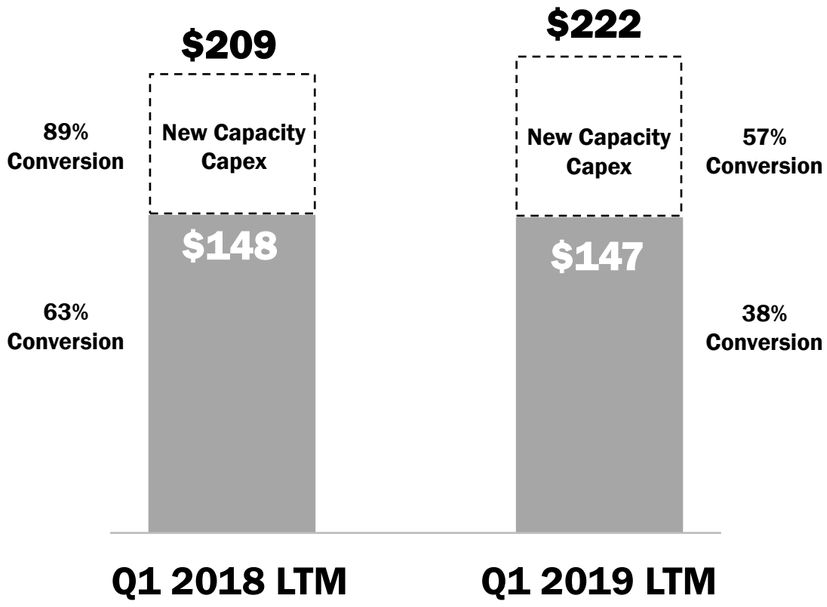
USD in millions, except multiple data

TRADE WORKING CAPITAL



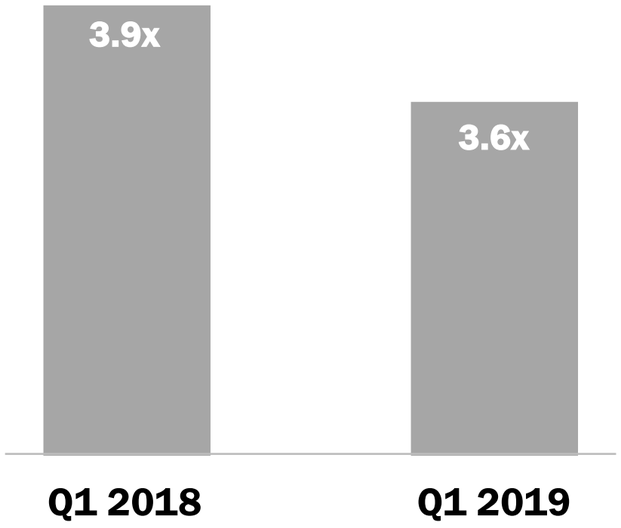
Inventory build contributing to higher working capital

FREE CASH FLOW



New capacity investment slowing after first quarter

LEVERAGE



Year-over-year reduction in net leverage

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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RESTRUCTURING PROGRAM

(USD in millions)	FY 2019	FY 2020	FY 2021
Estimated Restructuring Costs	$(10)	$(25)	$(5)
Target Savings	1	15	25
Net	**$(9)**	**$(10)**	**$20**

- Plan to spend $40M over 3 years
- Expected annualized savings of $25M by FY 2021
- Targeting actions in three categories
  - Operations footprint consolidation
  - Functional globalization
  - Establishment of shared-service centers
- Cash payback expected in < 2 years

TOTAL RESTRUCTURING COSTS OF ~$40M FOR ANNUALIZED SAVINGS OF ~$25M

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2019 OUTLOOK

USD in millions	PREVIOUS	CURRENT
Core Revenue Growth	3.0% – 5.0%	0% – 2.0%
Adjusted EBITDA	$775 – $805	$740 – $760
Capital Expenditures	~$150	~$140
Free Cash Flow Conversion	> 80%	> 80%
Net Leverage	< 3.0x	~3.0x

ANTICIPATING A MORE FAVORABLE OPERATING ENVIRONMENT IN SECOND HALF OF 2019

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KEY TAKEAWAYS FROM Q1

- **Slower than anticipated start to the year**
  - First half growth challenging with EMEA/China, destocking, tougher compare
  - Normalizing inventory and production levels during H1
- **Adjusted EBITDA margin down 100 bps from prior year Q1**
  - Lower volumes and some related production cost headwinds
  - Managing transition from constrained supply to normalization of supply and demand
  - Lower gross margin level will continue through Q2, expected to improve during H2
- **Anticipating H2 core growth and gross margin to be an improvement over H1**
  - Headwinds to growth rate improve and compare becomes less challenging
  - New products contribution to second half growth
- **Announced details of multi-year restructuring program**
- **Adjusting 2019 full-year outlook to reflect slower start to the year**

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APPENDIX

RECONCILIATIONS – ADJUSTED EBITDA

(USD in millions)	Q1 2019	Q1 2018	LTM Q1 2019	LTM Q1 2018
Reconciliation to Adjusted EBITDA				
Net income from continuing operations	**$ 605.1**	**$ 29.4**	**$ 847.4**	**$ 185.4**
Adjusted for:				
Income tax (benefit) expense	(539.7)	11.7	(519.6)	(73.3)
Net interest and other expenses	34.8	77.2	150.9	314.7
Depreciation and amortization	56.1	55.0	219.6	214.8
Transaction-related expenses	0.4	4.7	2.4	20.8
Impairment of intangibles and other assets	-	0.3	0.3	3.1
Restructuring expenses (income)	3.3	(0.3)	10.0	15.3
Share-based compensation	2.6	1.6	7.0	6.2
Sponsor fees (included in other operating expenses)	1.8	1.9	7.9	7.1
Inventory impairments and adjustments (included in cost of sales)	-	-	1.5	3.2
Duplicate expenses incurred on facility relocation	-	2.3	2.9	2.3
Severance-related expenses (included in cost of sales)	-	-	1.7	-
Other adjustments	1.1	0.1	5.4	0.4
Adjusted EBITDA	**$ 165.5**	**$ 183.9**	**$ 737.4**	**$ 700.0**

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RECONCILIATIONS – ADJUSTED NET INCOME

(USD in millions)	Q1 2019	Q1 2018	LTM Q1 2019	LTM Q1 2018
Reconciliation to Adjusted Net Income				
Net Income Attributable to Shareholders	**$ 613.7**	**$ 24.2**	**$ 834.8**	**$ 156.7**
Adjusted for:				
Loss (gain) on disposal of discontinued operations	0.3	0.1	0.8	(0.3)
Amortization of intangible assets arising from the 2014 acquisition of Gates	29.7	30.6	119.4	122.9
Transaction-related expenses	0.4	4.7	2.4	20.8
Impairment of intangibles and other assets	-	0.3	0.3	3.1
Restructuring expenses (income)	3.3	(0.3)	10.0	15.3
Share-based compensation	2.6	1.6	7.0	6.2
Sponsor fees (included in other operating expenses)	1.8	1.9	7.9	7.1
Inventory impairments and adjustments (included in cost of sales)	-	-	1.5	2.0
Adjustments relating to post-retirement benefits	(1.3)	1.0	0.8	1.9
Premium on redemption of long-term debt	-	27.0	-	27.0
Financing-related FX (gains) losses	(0.9)	(9.4)	(0.3)	51.6
One-time deferred tax benefit from U.S. tax reform	-	-	-	(118.2)
One-time net tax benefit	(541.3)	-	(541.3)	-
One-time non-controlling interest adjustment	(15.0)	-	(15.0)	-
Other adjustments	(0.9)	(0.4)	0.3	(7.4)
Estimated tax effect of the above adjustments	(10.0)	(9.7)	(38.6)	(54.3)
Adjusted Net Income	**$ 82.4**	**$ 71.6**	**$ 390.0**	**$ 234.4**

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RECONCILIATIONS – FREE CASH FLOW AND FREE CASH FLOW CONVERSION

(USD in millions)	Q1 2019	Q1 2018	LTM Q1 2019	LTM Q1 2018
Reconciliation of Free Cash Flow				
Cash Provided by Operations	(47.7)	(26.5)	292.3	305.9
Capital Expenditures [1]	(22.9)	(60.5)	(145.1)	(157.7)
Free Cash Flow	**$ (70.6)**	**$ (87.0)**	**$ 147.2**	**$ 148.2**

(USD in millions)	LTM Q1 2019	LTM Q1 2018
Reconciliation of Free Cash Flow Conversion		
Free Cash Flow	147.2	148.2
Adjusted Net Income	390.0	234.4
Free Cash Flow Conversion	**37.7%**	**63.2%**

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