

Q2 2019 EARNINGS PRESENTATION

AUGUST 6, 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 historical 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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Q2 SUMMARY

- **Net sales of $809.9M, representing a 4.8% decline on a core basis**
  - Industrial end markets decelerated globally throughout the quarter
  - Europe market conditions remain soft and China seeing further weakness from trade uncertainties
- **Adjusted EBITDA of $165.4M and Adjusted EBITDA Margin of 20.4%**
  - Significant volume decline is impacting gross margin performance
  - Pricing offset raw material inflation and tariffs
  - Investments in new products and facilities a headwind in the current market conditions
- **Adjusted EPS of $0.26 impacted by operating performance**
- **Q2 LTM Free Cash Flow Conversion in line with prior year**
- **Accelerating and expanding announced restructuring plan to remove structural fixed costs**
- **Resetting guidance to reflect current environment**

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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 – Q2 HIGHLIGHTS

Highlights:

- China automotive replacement business continued double-digit growth
- Deceleration of industrial end markets from Q1
- Continued weakness in automotive first-fit, as expected, in both Europe and China
- Additional destocking across replacement channels
- Volume decline and related manufacturing inefficiencies driving decline in Adjusted EBITDA margin
- Chain-to-Belt initiative continuing to gain momentum
  - Key wins in Personal Mobility applications, particularly in emerging markets

Carbon Drive Belt Technology



Gates Carbon Drive belts replace chains with a solution that's stronger, cleaner, quieter, more reliable and virtually maintenance-free. Mountain, road, urban and e-bikers alike benefit from a smarter alternative in Gates Carbon Drive.

(USD in millions)	Q2 2019	Q2 2018	% Δ
NET SALES	$501.5	$549.6	(8.8%)
ADJ. EBITDA	$105.6	$133.3	(20.8%)
ADJ. EBITDA MARGIN	21.1%	24.3%	(320) bps
DEPRECIATION & AMORTIZATION[(1)]	$16.5	$15.2	+8.6%
AMORT. OF INTANGIBLES FROM ACQ. OF GATES	$18.3	$19.0	(3.7%)

REVENUE GROWTH:

Core	(5.3%)
FX	(3.5%)
Acq.	–
Total	(8.8%)

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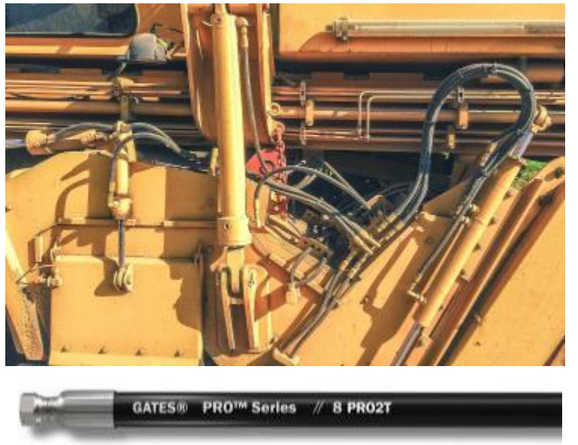
(1) Excludes the amortization of intangible assets arising from the 2014 acquisition of Gates.

FLUID POWER – Q2 HIGHLIGHTS

Highlights:

- Core revenue decline driven by weakening across industrial end markets
  - Significant deceleration in first-fit channel, particularly in Ag
  - Destocking across replacement channels
- Adjusted EBITDA margin contraction attributable to lower volumes and long-term investments in new products and manufacturing footprint
- New product innovation continuing
  - Introduced comprehensive range of advanced modular hoses to enhance replacement channel leadership
  - MXT continues to gain momentum with several hundred customers worldwide

Gates PRO Series Hydraulic Hose



Gates further expanded its PRO™ Series hydraulic hose family with product additions specifically designed to meet leading European specifications. These additions – which will be made in our new Poland facility – will enable further growth and market penetration in Europe.

(USD in millions)	Q2 2019	Q2 2018	% Δ
NET SALES	$308.4	$325.5	(5.3%)
ADJ. EBITDA	$59.8	$71.6	(16.5%)
ADJ. EBITDA MARGIN	19.4%	22.0%	(260) bps
ADJ. EBITDA MARGIN EX-ACQ.	19.5%	22.0%	(250) bps
DEPRECIATION & AMORTIZATION[(1)]	$10.1	$9.1	11.0%
AMORT. OF INTANGIBLES FROM ACQ. OF GATES	$11.3	$11.3	0.0%

REVENUE GROWTH:

Core	(3.9)%
FX	(1.9)%
Acq.	+0.5%
Total	(5.3)%

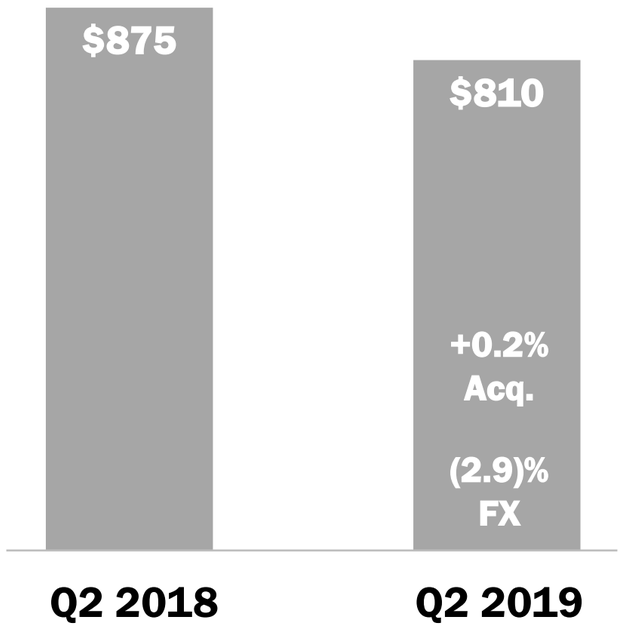
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Q2 2019 FINANCIAL PERFORMANCE

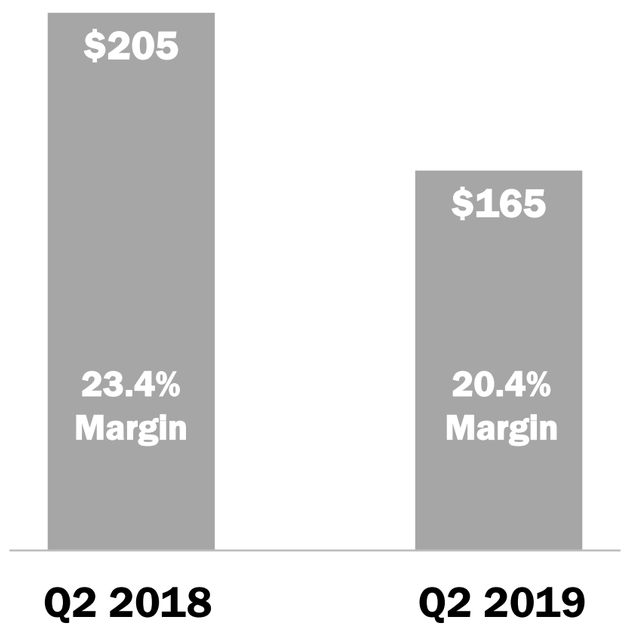
USD in millions

NET SALES



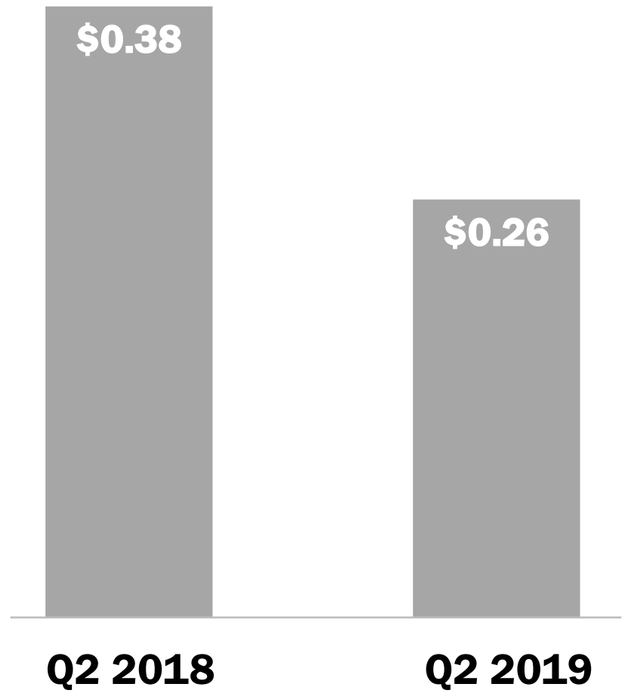
4.8% core decline

ADJUSTED EBITDA



300 bps decline, driven by production inefficiencies & FX

ADJUSTED EPS[1]



Adjusted EPS decline driven by lower operating performance

ACCELERATING RESTRUCTURING TO ADDRESS LOWER DEMAND ENVIRONMENT

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[1] Adjusted Net Income per diluted share

RESTRUCTURING PROGRAM

(USD in millions)	FY 2019	FY 2020	FY 2021
Estimated Restructuring Costs	$(10)	$(30)	$(20)
Target Savings	1	20	40
Net	**$(9)**	**$(10)**	**$20**

- Plan to spend approximately $60M over 3 years
- Expect annualized savings of $40M by FY 2021
- Targeting actions in three categories
  - Footprint optimization / fixed cost reduction
  - Functional globalization
  - Establishment of shared-service centers
- Cash payback expected in < 2 years

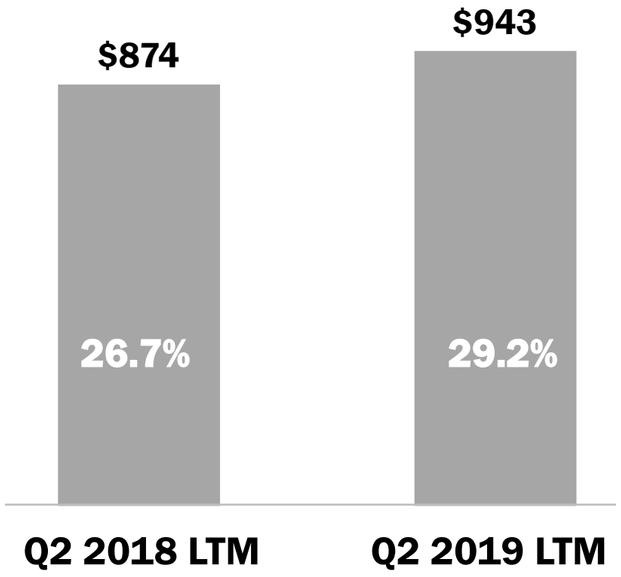
RESTRUCTURING PROGRAM INCREASED TO EXPECTED ANNUALIZED SAVINGS OF $40M

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BALANCE SHEET AND LIQUIDITY

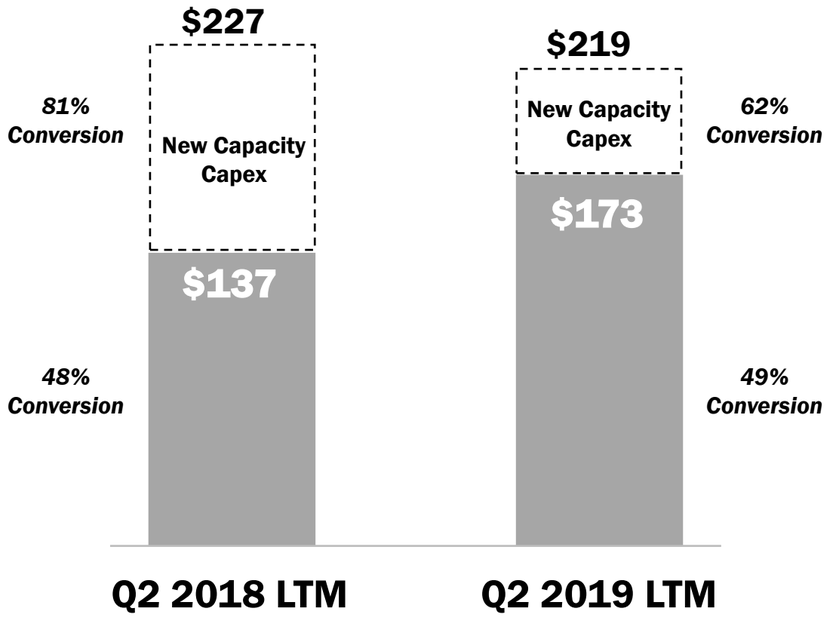
USD in millions, except multiple data

TRADE WORKING CAPITAL



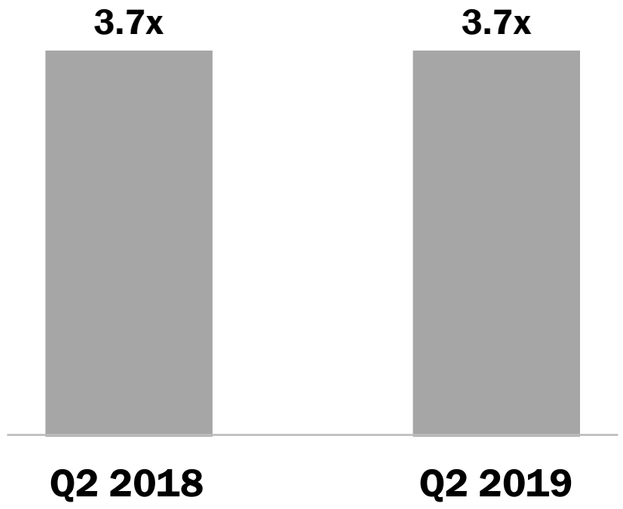
Elevated inventory levels driving higher working capital

FREE CASH FLOW



Free Cash Flow impacted by higher working capital

NET LEVERAGE



Leverage stable despite lower operating results

CAPEX RETURNING TO MORE NORMAL LEVELS WILL ENHANCE FUTURE FREE CASH FLOW GENERATION

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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2019 OUTLOOK

USD in millions	PREVIOUS	CURRENT
Core Revenue Growth	0% – 2.0%	(5.0)% – (7.0)%
Adjusted EBITDA	$740 – $760	$590 – $630
Capital Expenditures	~$140	~$110
Free Cash Flow Conversion	>80%	>80%

RESET OF FULL-YEAR OUTLOOK TO REFLECT CURRENT MARKET CONDITIONS

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SUMMARY

- **Decelerating demand environment – focused on managing what is under our control**
  - Continuing to reduce compressible costs in line with the deceleration we have experienced
  - Accelerating and expanding restructuring program to reduce fixed costs
  - Reducing capex and focusing on working capital improvements to drive free cash flow
  - Remain committed to product innovation and manufacturing process improvements
- **Resetting our guidance for second half, reflective of the current environment**
  - Given short-cycle business, pragmatic to reflect the current environment continuing through H2
- **Deleveraging remains a corporate priority**
  - Current market conditions result in timing of meeting deleveraging objectives extending
  - Normalizing capex spend, focused on Free Cash Flow Conversion
- **Continue to execute on large organic growth opportunities**
  - Chain-to-Belt key wins in broad range of end markets, including personal mobility and industrial automation
  - MXT hose gaining traction globally in both replacement and first-fit channels with its compelling value proposition

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APPENDIX

RECONCILIATIONS – ADJUSTED EBITDA

(USD in millions)	Q2 2019	Q2 2018	LTM Q2 2019	LTM Q2 2018
Reconciliation to Adjusted EBITDA				
Net income from continuing operations	**$ 26.7**	**$ 92.9**	**$ 781.2**	**$ 270.0**
Adjusted for:				
Income tax expense (benefit)	37.5	11.5	(493.6)	(66.3)
Net interest and other expenses	37.7	36.5	152.1	247.3
Depreciation and amortization	56.2	54.6	221.2	215.6
Transaction-related (income) expenses	(0.7)	1.3	0.4	20.0
Impairment of intangibles and other assets	-	0.1	0.2	3.2
Restructuring expenses	0.3	2.3	8.0	13.5
Share-based compensation expense	3.8	1.6	9.2	6.9
Sponsor fees (included in other operating expenses)	2.0	2.1	7.8	7.7
Inventory impairments and adjustments (included in cost of sales)	0.3	1.1	0.7	4.3
Duplicate expenses incurred on facility relocation	-	0.8	2.1	3.1
Severance-related expenses (included in cost of sales)	0.5	-	2.2	-
Other adjustments	1.1	0.1	6.4	0.6
Adjusted EBITDA	**$ 165.4**	**$ 204.9**	**$ 697.9**	**$ 725.9**

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RECONCILIATIONS – ADJUSTED NET INCOME

(USD in millions)	Q2 2019	Q2 2018	LTM Q2 2019	LTM Q2 2018
Reconciliation to Adjusted Net Income				
Net Income Attributable to Shareholders	**$ 21.5**	**$ 85.6**	**$ 770.7**	**$ 241.8**
Adjusted for:				
Loss (gain) on disposal of discontinued operations	0.2	0.3	0.7	(0.3)
Amortization of intangible assets arising from the 2014 acquisition of Gates	29.6	30.3	118.7	121.3
Transaction-related (income) expenses	(0.7)	1.3	0.4	20.0
Impairment of intangibles and other assets	-	0.1	0.2	3.2
Restructuring expenses	0.3	2.3	8.0	13.5
Share-based compensation expense	3.8	1.6	9.2	6.9
Sponsor fees (included in other operating expenses)	2.0	2.1	7.8	7.7
Inventory impairments and adjustments (included in cost of sales)	0.3	1.1	0.7	4.3
Adjustments relating to post-retirement benefits	(0.6)	0.6	(0.4)	0.8
Premium on redemption of long-term debt	-	-	-	27.0
Financing-related FX losses (gains)	0.3	(3.4)	3.4	13.7
One-time deferred tax benefit from U.S. tax reform	-	-	-	(118.2)
One-time net tax expense (benefit)	28.3	-	(513.0)	-
One-time non-controlling interest adjustment	-	-	(15.0)	-
Other adjustments	(0.2)	(1.4)	1.5	(7.5)
Estimated tax effect of the above adjustments	(9.6)	(8.4)	(39.8)	(52.5)
Adjusted Net Income	**$ 75.2**	**$ 112.1**	**$ 353.1**	**$ 281.7**

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RECONCILIATIONS – FREE CASH FLOW AND FREE CASH FLOW CONVERSION

(USD in millions)	Q2 2019	Q2 2018	LTM Q2 2019	LTM Q2 2018
Reconciliation of Free Cash Flow				
Cash Provided by Operations	111.5	120.4	283.4	326.8
Capital Expenditures [1]	(19.2)	(53.7)	(110.6)	(190.2)
Free Cash Flow	**$ 92.3**	**$ 66.7**	**$ 172.8**	**$ 136.6**

(USD in millions)	LTM Q2 2019	LTM Q2 2018
Reconciliation of Free Cash Flow Conversion		
Free Cash Flow	172.8	136.6
Adjusted Net Income	353.1	281.7
Free Cash Flow Conversion	**48.9%**	**48.5%**

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