

Q3 2019 EARNINGS PRESENTATION

NOVEMBER 5, 2019

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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 these 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.

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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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Q3 SUMMARY

- **Net sales of $746.6M, representing an 8.5% decline on a core basis**
  - Industrial end markets decelerated through the quarter, as expected
  - Destocking continued in industrial replacement channels, particularly North America
  - Automotive replacement channel destocking appears to have normalized
  - Economic and trade instability impacting all major regions
- **Adjusted EBITDA of $145.0M and Adjusted EBITDA Margin of 19.4%**
  - Volume decline impacting gross margin performance
  - Variable manufacturing costs mostly right-sized during the quarter
- **Adjusted EPS of $0.22 impacted by operating performance**
- **Free Cash Flow Conversion of 100% in the quarter**
- **Previously announced restructuring plan execution on track – first action announced**
- **Maintaining full-year 2019 guidance**

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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:

- China automotive replacement business continued double-digit growth
- Deceleration of industrial end markets from Q2, driven by destocking
- Automotive first-fit remains down, as expected, in both Europe and China, but showing signs of stabilizing
- Volume decline impacting Adjusted EBITDA margin
- Chain-to-Belt initiative continuing to gain momentum
  - Key wins in food & beverage, automation and material handling applications, particularly in emerging markets

Gates Offers Full Belt Drive Systems



Gates provides full belt drive systems, including key metal components such as sprockets, pulleys and sheaves to ensure peak performance is achieved. A properly engineered system is critical to ensure the belt drive achieves peak performance to reduce machine downtime and maximize energy efficiency.

(USD in millions)	Q3 2019	Q3 2018	Δ
NET SALES	$474.4	$512.5	(7.4%)
ADJ. EBITDA	$99.7	$119.0	(16.2%)
ADJ. EBITDA MARGIN	21.0%	23.2%	(220) bps
DEPRECIATION & AMORTIZATION[(1)]	$16.3	$14.7	+10.9%
AMORT. OF INTANGIBLES FROM ACQ. OF GATES	$18.7	$18.5	+1.1%

REVENUE GROWTH:

Core	(6.0%)
FX	(1.4%)
Total	(7.4%)

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

FLUID POWER – Q3 HIGHLIGHTS

Highlights:

- Core revenue decline driven by weakening industrial end markets
  - Significant deceleration in North America
  - Destocking continued in replacement channels
- Continued weakness in Industrial First-Fit channels, as OEMs take a wait-and-see approach to trade uncertainty
- Adjusted EBITDA margin contraction attributable to lower volumes in decelerating demand environment
- New product innovation continuing
  - Introduced smart crimper with integrated IoT technology

Gates eCrimper: A Crimper-Connected Value Stream



Our new eCrimper is a cloud-based hydraulic and industrial hose crimper that integrates the latest IoT technology into the Gates crimper product line. This latest innovation ensures the proper crimp, every time, while also enabling insights into customer consumption, product usage and demand creation.

(USD in millions)	Q3 2019	Q3 2018	Δ
NET SALES	$272.2	$315.9	(13.8%)
ADJ. EBITDA	$45.3	$62.2	(27.2%)
ADJ. EBITDA MARGIN	16.6%	19.7%	(310) bps
DEPRECIATION & AMORTIZATION[(1)]	$9.3	$9.1	+2.2%
AMORT. OF INTANGIBLES FROM ACQ. OF GATES	$10.8	$11.4	(5.3%)

REVENUE GROWTH:

Core	(12.7%)
FX	(1.1%)
Total	(13.8%)

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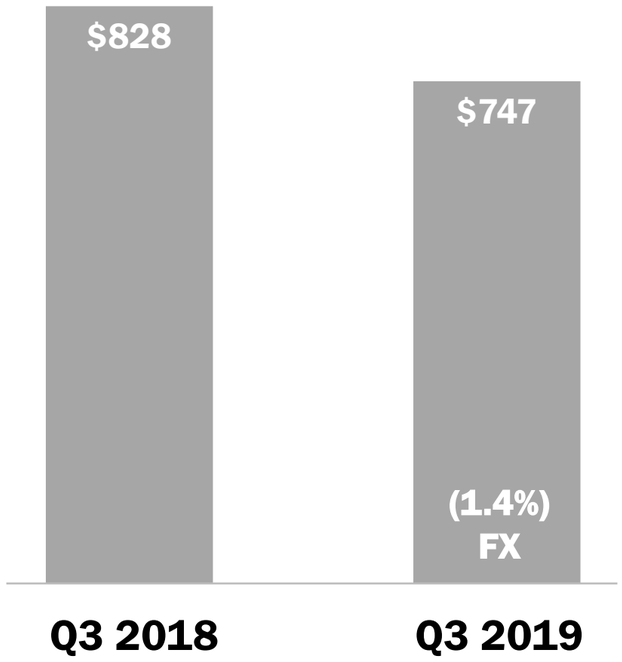
(1) Excludes the amortization of intangible assets arising from the 2014 acquisition of Gates.

Q3 2019 FINANCIAL PERFORMANCE

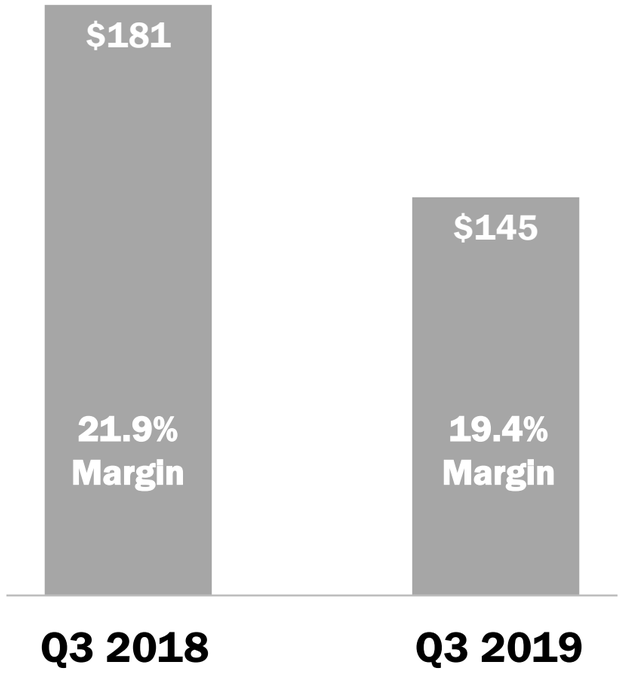
USD in millions

NET SALES



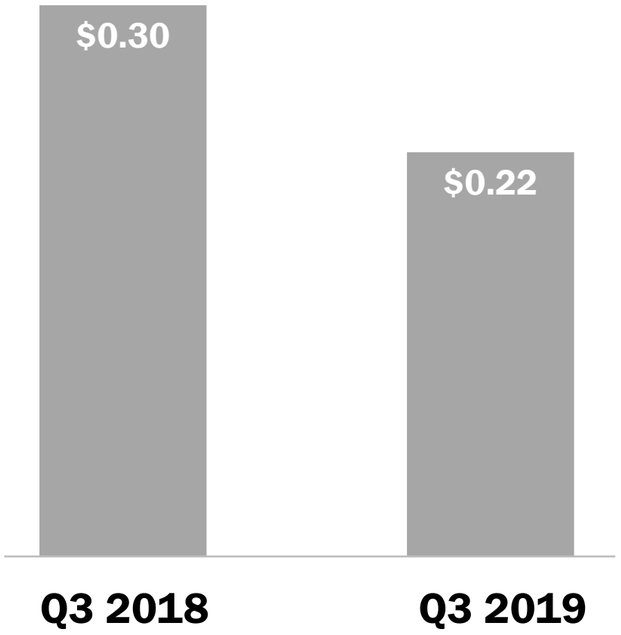
8.5% core decline, in line with expectations

ADJUSTED EBITDA



250 bps decline, driven by lower volumes

ADJUSTED EPS[1]



Adjusted EPS decline driven by lower operating performance

DECREMENTAL MARGIN IMPROVED FROM PRIOR QUARTER

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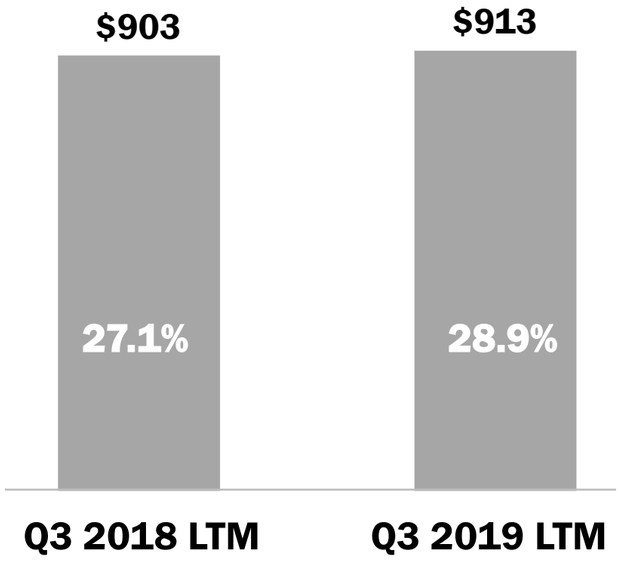
[1] Adjusted Net Income per diluted share

BALANCE SHEET AND LIQUIDITY

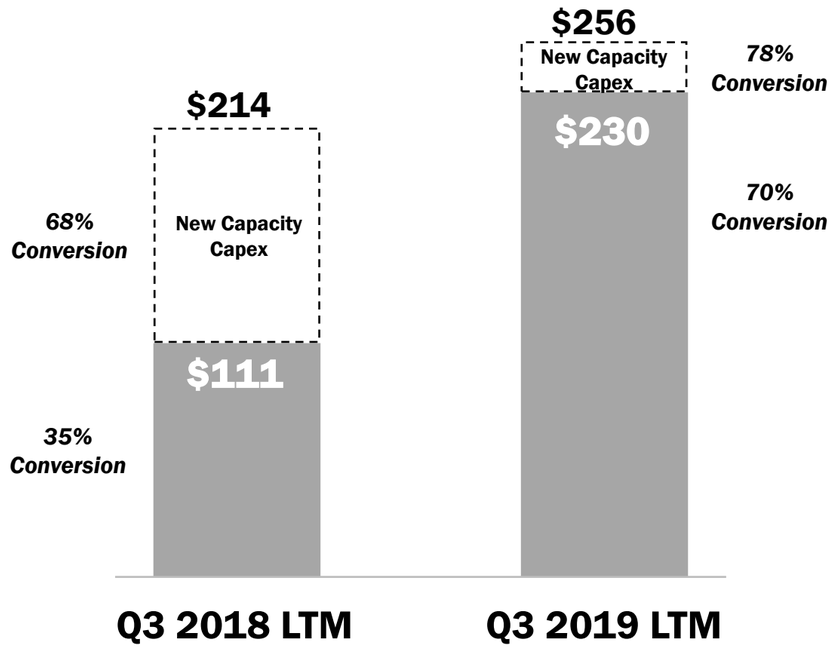
USD in millions, except multiple data

TRADE WORKING CAPITAL



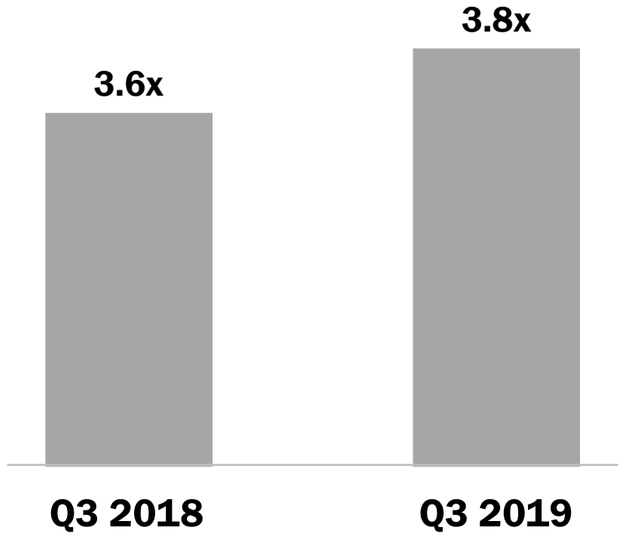
Focusing on inventory reductions

FREE CASH FLOW



Improving Free Cash Flow conversion

NET LEVERAGE



Leverage impacted by lower operating results

INCREASED FREE CASH FLOW DESPITE WEAKER DEMAND ENVIRONMENT

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	
Core Revenue Growth	(5.0%) – (7.0%)
Adjusted EBITDA	$590 – $630
Capital Expenditures	~$110
Free Cash Flow Conversion	> 80%

MAINTAINING FULL-YEAR GUIDANCE

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SUMMARY

- **Demand environment decelerated as anticipated, driven by industrial markets**
  - Softness in industrial end markets continues, most notably in mobile hydraulics
  - Signs of stabilization in Automotive First-Fit and normalization of destocking in Automotive Replacement channel
- **Focused on managing what is within our control**
  - Executing appropriate cost reductions and recently announced restructuring program
  - Capex spending normalizing to historical levels as a percentage of sales
  - Reducing inventory levels and driving improvement in Free Cash Flow
- **Executing on large organic growth opportunities and investing in the business**
  - Remain committed to materials science and new product innovation to support vitality
  - Continuing to invest in capex projects such as VA/VE and process improvements for growth and margin expansion
- **Maintaining full-year 2019 guidance**

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APPENDIX

RECONCILIATIONS – ADJUSTED EBITDA

(USD in millions)	Q3 2019	Q3 2018	LTM Q3 2019	LTM Q3 2018
Reconciliation to Adjusted EBITDA				
Net income from continuing operations	**$ 37.5**	**$ 67.0**	**$ 751.7**	**$ 318.9**
Adjusted for:				
Income tax expense (benefit)	4.4	7.2	(496.4)	(75.0)
Net interest and other expenses	34.8	43.6	143.3	225.0
Depreciation and amortization	55.1	53.7	222.6	217.3
Transaction-related expenses	1.0	0.2	1.2	13.0
Impairment of intangibles and other assets	0.7	0.2	0.7	3.4
Restructuring expenses	0.3	1.2	7.1	12.3
Share-based compensation expense	4.1	2.3	11.0	8.0
Sponsor fees (included in other operating expenses)	1.1	1.9	7.0	8.1
Inventory impairments and adjustments (included in cost of sales)	1.0	-	1.7	4.3
Duplicate expenses incurred on facility relocation	-	1.5	0.6	4.6
Severance-related expenses (included in cost of sales)	2.5	-	4.7	-
Other adjustments	2.5	2.4	6.5	3.1
Adjusted EBITDA	**$ 145.0**	**$ 181.2**	**$ 661.7**	**$ 743.0**

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RECONCILIATIONS – ADJUSTED NET INCOME

(USD in millions, except share numbers and per share amounts)	Q3 2019	Q3 2018	LTM Q3 2019	LTM Q3 2018
Reconciliation to Adjusted Net Income				
Net Income Attributable to Shareholders	**$ 35.5**	**$ 59.9**	**$ 746.3**	**$ 288.5**
Adjusted for:				
Loss on disposal of discontinued operations	0.1	0.3	0.5	0.1
Amortization of intangible assets arising from the 2014 acquisition of Gates	29.5	29.9	118.3	121.0
Transaction-related expenses	1.0	0.2	1.2	13.0
Impairment of intangibles and other assets	0.7	0.2	0.7	3.4
Restructuring expenses	0.3	1.2	7.1	12.3
Share-based compensation expense	4.1	2.3	11.0	8.0
Sponsor fees (included in other operating expenses)	1.1	1.9	7.0	8.1
Inventory impairments and adjustments (included in cost of sales)	1.0	-	1.7	4.3
Adjustments relating to post-retirement benefits	(0.7)	0.8	(1.9)	4.3
Premium on redemption of long-term debt	-	-	-	27.0
Financing-related FX (gains) losses	(0.4)	4.3	(1.3)	3.2
One-time deferred tax benefit from U.S. tax reform	-	-	-	(118.2)
One-time net tax benefit	-	-	(513.0)	-
One-time non-controlling interest adjustment	-	-	(15.0)	-
Other adjustments	2.5	0.7	3.3	(4.2)
Estimated tax effect of the above adjustments	(9.5)	(11.1)	(38.2)	(56.4)
Adjusted Net Income	**$ 65.2**	**$ 90.6**	**$ 327.7**	**$ 314.4**
Diluted weighted average number of shares outstanding	291,113,102	298,453,946		
Adjusted Net Income per diluted share	**$ 0.22**	**$ 0.30**		

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RECONCILIATIONS – FREE CASH FLOW AND FREE CASH FLOW CONVERSION

(USD in millions)

	Q3 2019	Q3 2018	LTM Q3 2019	LTM Q3 2018
Reconciliation of Free Cash Flow				
Cash Provided by Operations	$ 81.4	$ 48.4	$ 316.4	$ 312.3
Capital Expenditures [1]	(16.4)	(40.7)	(86.3)	(201.3)
Free Cash Flow	**$ 65.0**	**$ 7.7**	**$ 230.1**	**$ 111.0**

(USD in millions)

	LTM Q3 2019	LTM Q3 2018
Reconciliation of Free Cash Flow Conversion		
Free Cash Flow	$ 230.1	$ 111.0
Adjusted Net Income	$ 327.7	$ 314.4
Free Cash Flow Conversion	**70.2%**	**35.3%**

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