

Q4 2019 EARNINGS PRESENTATION

FEBRUARY 4, 2020

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FORWARD-LOOKING STATEMENTS

This presentation contains, and management may make on our call today, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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," "projects," "predicts," "intends," "plans," "estimates," "anticipates" or the negative version of these words or other comparable words. These statements include, but are not limited to, statements related to expectations regarding the performance of the Company's business, financial results, liquidity and capital resources, product introductions and growth initiatives, restructuring activities, end market conditions, right-sizing cost structure and statements regarding our 2020 outlook. Such forward-looking statements are subject to various risks and uncertainties, including, among others, risks inherent to the manufacturing industry, macroeconomic factors beyond the Company's control, continued operation of our manufacturing facilities; our ability to forecast and meet demand; market acceptance of new products, and the significant influence of the Company's majority shareholders, investment funds affiliated with The Blackstone Group Inc. Additional factors that could cause the Company's results to differ materially from those described in the forward-looking statements can be found under the section entitled "Risk Factors" of the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2018, filed with the Securities and Exchange Commission ("SEC"), as such factors may be updated from time to time in the Company's periodic filings with the SEC, which are accessible on the SEC's website at www.sec.gov. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in the Company's filings with the SEC. The Company undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

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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SUMMARY

- **Fourth-quarter and full-year revenue and EBITDA in line with expectations**
- **Net sales of $725.7M in Q4, representing a 7.6% decline on a core basis**
  - Key regional markets saw sequential improvement during the quarter
    - Solid core growth in China of 5.7%, notable sequential improvement in Europe
  - North America industrial end markets remain weak – mobile hydraulics driven
- **Adjusted EBITDA of $135.1M and Adjusted EBITDA Margin of 18.6% for Q4**
  - Gross margin as anticipated; variable cost base was generally right-sized exiting the year
  - Restructuring actions to address fixed cost structure on plan
- **Full-year 2019 Free Cash Flow conversion at over 95% of Adjusted Net Income**
  - Q4 Free Cash Flow of $179M, conversion rate of 317% of Adjusted Net Income
  - Strong Free Cash Flow generation reflective of the company's business model
- **Solid positioning for 2020**
  - New product introductions and growth initiatives position us well as markets recover
  - Signs of improvement in key end markets indicate a more supportive environment in 2020

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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:

- Q4 core revenue down low-single-digits vs. PY; up sequentially, driven by solid core growth in China
- In Europe, growth in replacement channel business offset by continued weakness in first-fit channels
- Q4 industrial core revenue in North America down low-single-digits vs. PY
- Adj. EBITDA impacted by volume declines and production inefficiencies
- Key chain-to-belt wins in wide range of applications, including personal mobility, material handling & automation and fitness equipment

G-Force™ RedLine™ CVT Belts



Gates G-Force RedLine CVT (continuously variable transmission) belts are engineered to withstand the increasingly harsh operating environments of today's ATVs and UTVs. A patented, fiber-reinforced compound delivers greater heat resistance and durability, as well as higher load and peak-torque capacity, for both enthusiasts and professional racers.

(USD in millions)	Q4 2019	Δ	FY 2019	Δ
NET SALES	$470.3	(4.2%)	$1,945.7	(7.3%)
ADJ. EBITDA	$97.4	(15.0%)	$412.6	(16.2%)
ADJ. EBITDA MARGIN	20.7%	(270)bps	21.2%	(230)bps
DEPRECIATION & AMORTIZATION[(1)]	$14.0	(11.9%)	$60.7	(1.0%)
AMORT. OF INTANGIBLES FROM ACQ.	$19.1	+4.4%	$74.5	(1.2%)

REVENUE GROWTH

	Q4	FY 2019
Core	(3.4%)	(4.6%)
FX	(0.8%)	(2.7%)
Acq.	–	–
Total	(4.2%)	(7.3%)

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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 down slightly from Q3
- Solid initiative-driven core growth in China, led by general industrial and construction end markets
- Broad weakness across industrial end markets in Europe and North America – mobile hydraulics driven
- Adjusted EBITDA impacted by volume declines and production inefficiencies
- Commitment to product innovation remains – new MXG hydraulic hose family is latest application of materials science advances

MXG™ 4K Hydraulic Hose



MXG 4K hoses represent Gates' latest innovation in premium hydraulics, the result of advanced material development and processing technologies. Designed to replace conventional spiral hoses, typically used in the most demanding applications, MXG hoses provide a more flexible, lighter-weight solution with increased durability and temperature performance.

(USD in millions)	Q4 2019	Δ	FY 2019	Δ
NET SALES	$255.4	(15.3%)	$1,141.4	(8.6%)
ADJ. EBITDA	$37.7	(47.1%)	$198.4	(24.7%)
ADJ. EBITDA MARGIN	14.8%	(880) bps	17.4%	(370) bps
DEPRECIATION & AMORTIZATION[(1)]	$11.4	+16.3%	$43.3	+17.3%
AMORT. OF INTANGIBLES FROM ACQ.	$10.3	(8.0%)	$43.7	(2.7%)

REVENUE GROWTH

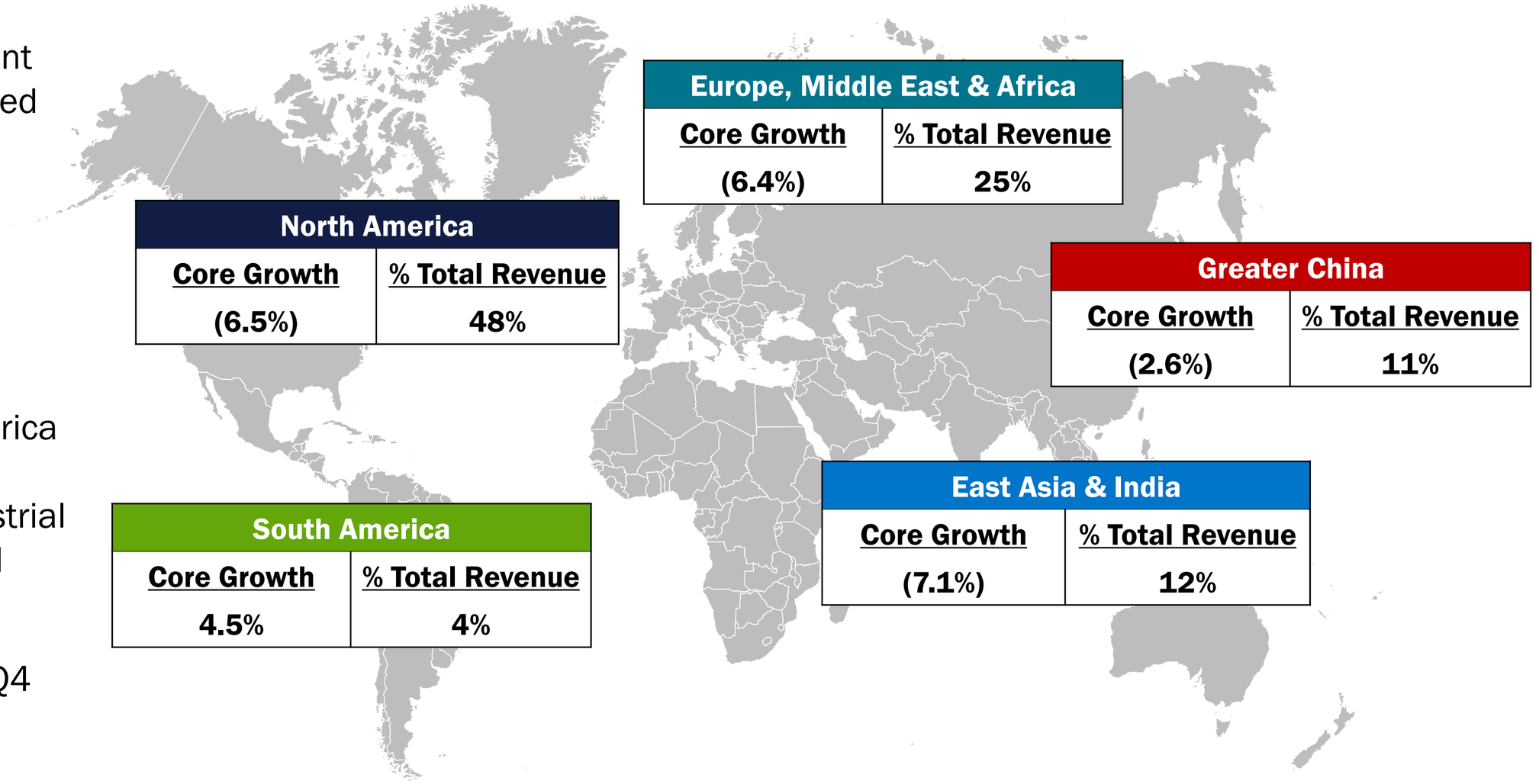
	Q4	FY 2019
Core	(14.5%)	(7.6%)
FX	(0.8%)	(1.6%)
Acq.	-	+0.6%
Total	(15.3%)	(8.6%)

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

FY 2019 REVENUE BY REGION

- Sales into replacement channels outperformed those into first-fit channels
- Emerging markets outpaced developed markets
- Growth in South America led by strong performance in industrial replacement channel
- EMEA and China improved notably in Q4



North America	
Core Growth	% Total Revenue
(6.5%)	48%

Europe, Middle East & Africa	
Core Growth	% Total Revenue
(6.4%)	25%

Greater China	
Core Growth	% Total Revenue
(2.6%)	11%

East Asia & India	
Core Growth	% Total Revenue
(7.1%)	12%

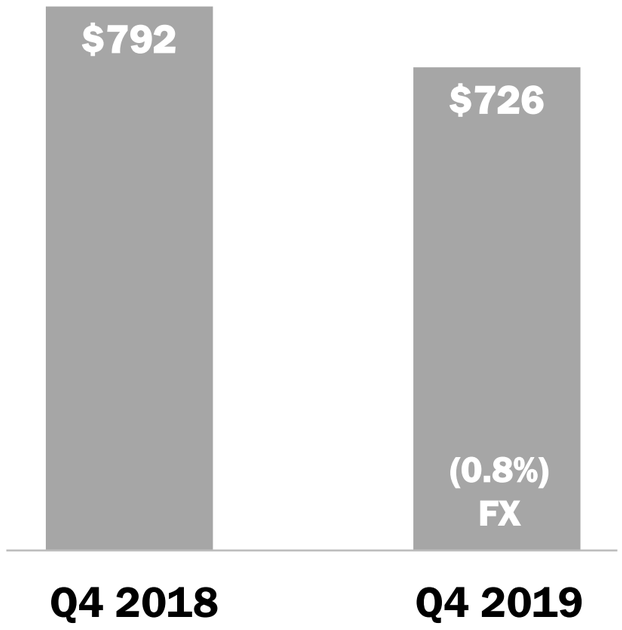
South America	
Core Growth	% Total Revenue
4.5%	4%

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Q4 2019 FINANCIAL PERFORMANCE

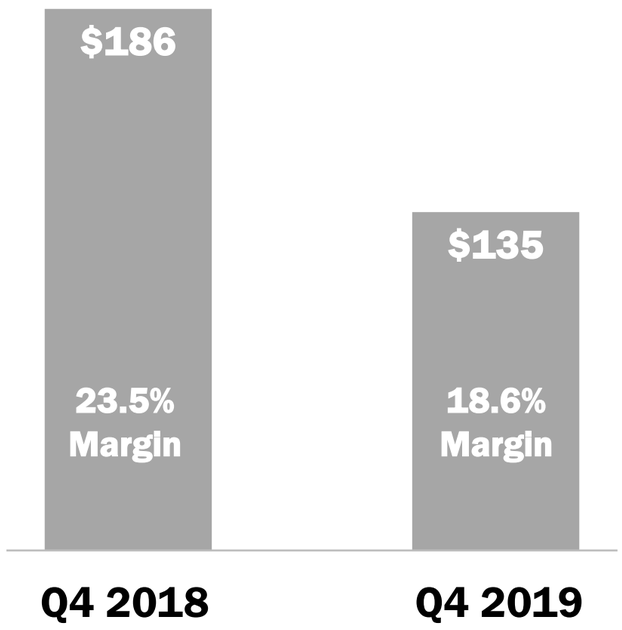
USD in millions, except per share amounts

NET SALES



7.6% core decline

ADJUSTED EBITDA



Margin contraction on lower volumes and difficult compare

ADJUSTED EPS[1]



Adjusted EPS decline driven by lower operating results

RESULTS IN LINE WITH EXPECTATIONS AMID DIFFICULT MARKET ENVIRONMENT

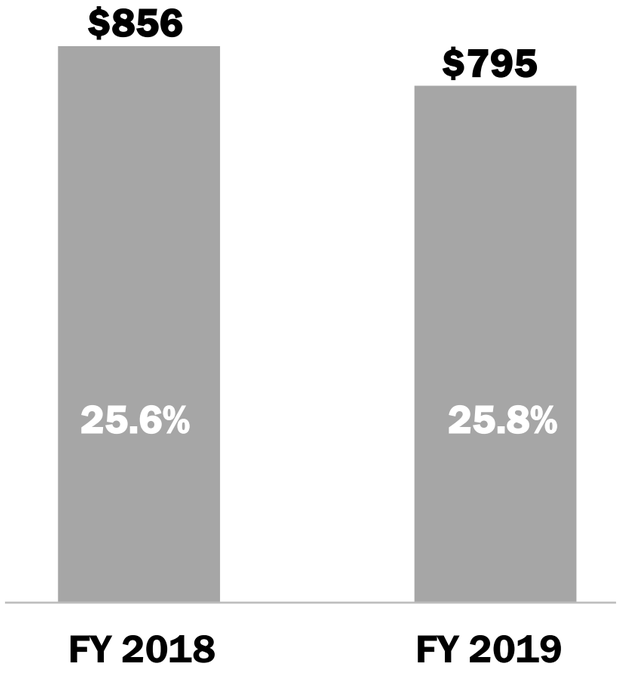
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[1] Adjusted Net Income per diluted share

BALANCE SHEET AND LIQUIDITY

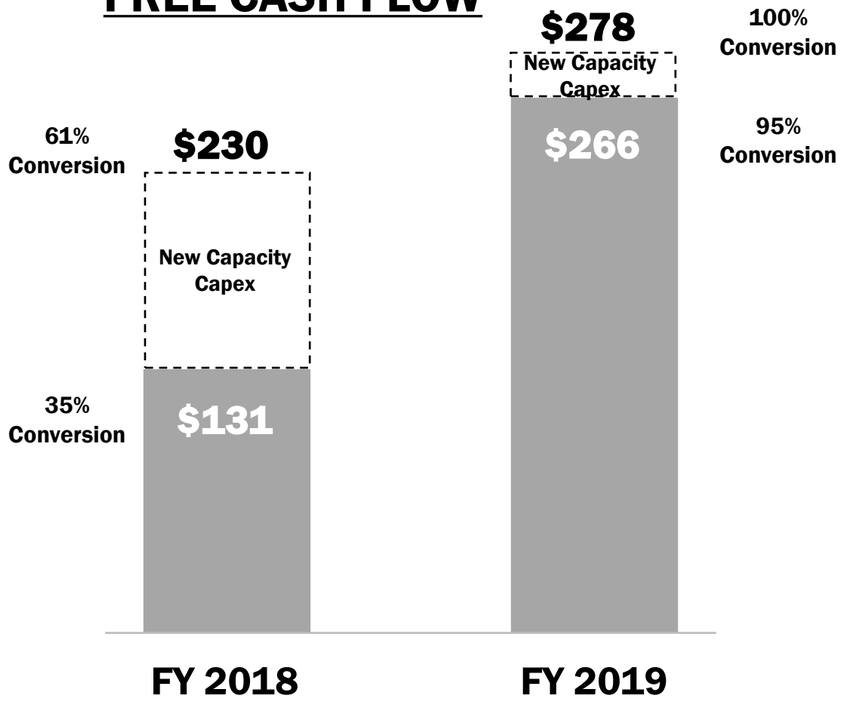
USD in millions, except multiple data

TRADE WORKING CAPITAL



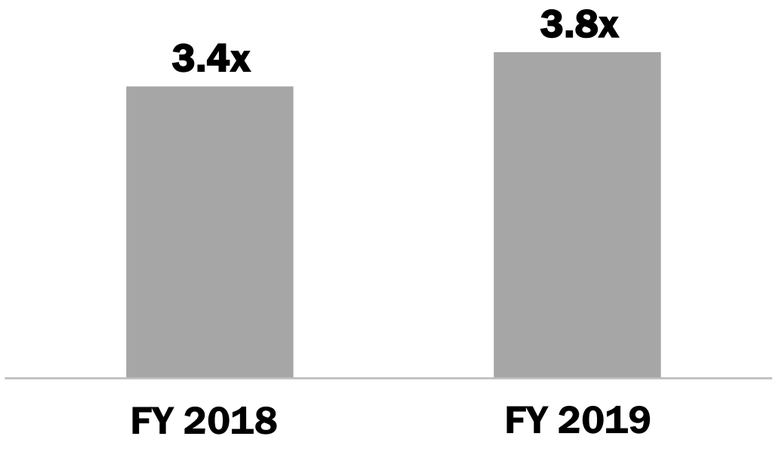
Working capital right-sized exiting 2019

FREE CASH FLOW



Improving FCF conversion back towards historical levels

NET LEVERAGE



Leverage impacted by lower Adjusted EBITDA

STRONG FREE CASH FLOW GENERATION DESPITE WEAK DEMAND ENVIRONMENT

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 (defined as the principal amount of our debt less the carrying amount of cash and cash equivalents) divided by Adjusted EBITDA

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2020 OUTLOOK

USD in millions	2020
Core Revenue	(1.0)% – 2.0%
Adjusted EBITDA	$610 – $640
Capital Expenditures	~$100
Free Cash Flow Conversion	> 80%

IMPROVING END MARKET BACKDROP, EXPECTATION OF INCREMENTAL GROWTH AS YEAR PROGRESSES

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KEY TAKEAWAYS

- **Managing to end market conditions; exited the year well positioned for 2020**
  - Right-sized variable cost structure and inventory levels
  - Initiated multi-year set of restructuring activities to address fixed cost base
- **Maintained investment in new products and innovative solutions**
  - MXG hydraulic hose platform – latest application of materials science & process technology advances
  - Launched two new industrial belt platforms based on next-generation elastomers that are higher performance and more environmentally friendly
- **2020 full-year outlook**
  - Growth initiatives and improving end market conditions expected to contribute to growth in second half
  - Incremental margins expected to exceed 2019 decremental margins
  - Continued focus on deleveraging in 2020 and maintaining strong free cash flow generation

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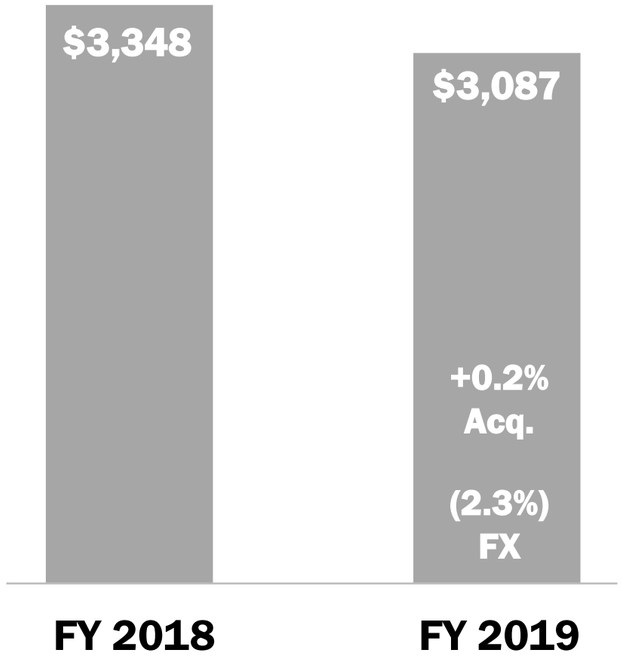

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APPENDIX

FY 2019 FINANCIAL PERFORMANCE

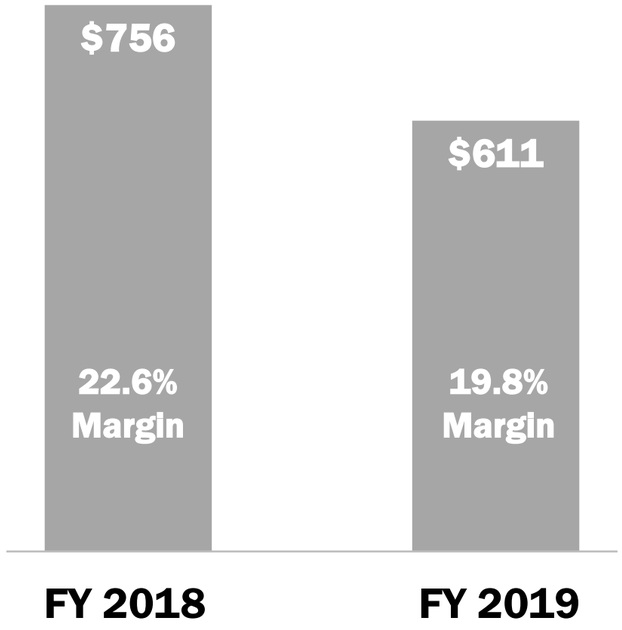
USD in millions, except per share amounts

NET SALES



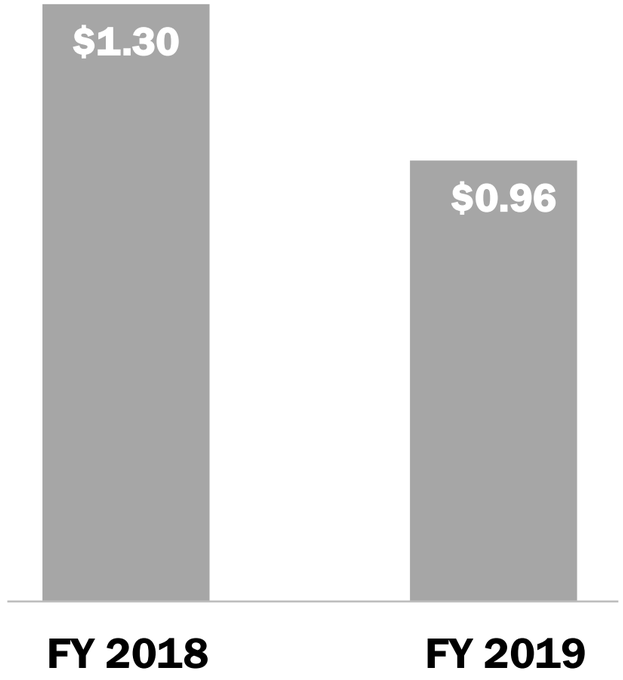
5.7% core decline

ADJUSTED EBITDA



280 bps decline, driven by impact of lower volumes

ADJUSTED EPS[1]



Adjusted EPS decline driven by lower operating results

ACTIONS TAKEN DURING CHALLENGING YEAR TO POSITION BUSINESS FOR END MARKET RECOVERY

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[1] Adjusted Net Income per diluted share

RECONCILIATIONS – ADJUSTED EBITDA

(USD in millions)	Q4 2019	Q4 2018	FY 2019	FY 2018
Reconciliation to Adjusted EBITDA				
Net income from continuing operations	**$ 25.4**	**$ 82.4**	**$ 694.7**	**$ 271.7**
Adjusted for:				
Income tax expense (benefit)	1.9	1.4	(495.9)	31.8
Net interest and other expenses	40.7	36.0	148.0	193.3
Depreciation and amortization	54.8	55.2	222.2	218.5
Transaction-related expenses	1.9	0.5	2.6	6.7
Impairment of intangibles and other assets	-	-	0.7	0.6
Restructuring expenses	2.1	3.2	6.0	6.4
Share-based compensation expense	4.5	0.5	15.0	6.0
Sponsor fees (included in other operating expenses)	1.6	2.1	6.5	8.0
Inventory impairments and adjustments (included in cost of sales)	(0.1)	0.4	1.2	1.5
Duplicate expenses incurred on facility relocation	-	0.6	-	5.2
Severance-related expenses (included in cost of sales)	1.0	1.7	4.0	1.7
Other primarily severance-related expenses (included in SG&A)	0.4	3.8	3.4	4.4
Other adjustments	0.9	(2.0)	2.6	-
Adjusted EBITDA	**$ 135.1**	**$ 185.8**	**$ 611.0**	**$ 755.8**

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RECONCILIATIONS – ADJUSTED NET INCOME

(USD in millions, except share numbers and per share amounts)	Q4 2019	Q4 2018	FY 2019	FY 2018
Reconciliation to Adjusted Net Income				
Net Income Attributable to Shareholders	**$ 19.4**	**$ 75.6**	**$ 690.1**	**$ 245.3**
Adjusted for:				
(Gain) loss on disposal of discontinued operations	-	(0.1)	0.6	0.6
Amortization of intangible assets arising from the 2014 acquisition of Gates	29.4	29.5	118.2	120.3
Transaction-related expenses	1.9	0.5	2.6	6.7
Impairment of intangibles and other assets	-	-	0.7	0.6
Restructuring expenses	2.1	3.2	6.0	6.4
Share-based compensation expense	4.5	0.5	15.0	6.0
Sponsor fees (included in other operating expenses)	1.6	2.1	6.5	8.0
Inventory impairments and adjustments (included in cost of sales)	(0.1)	0.4	1.2	1.5
Adjustments relating to post-retirement benefits	(0.6)	0.7	(3.2)	3.1
Premium on redemption of long-term debt	-	-	-	27.0
Financing-related FX losses (gains)	0.2	(0.3)	(0.8)	(8.8)
One-time deferred tax benefit from U.S. tax reform	-	-	-	-
One-time net tax benefit	-	-	(513.0)	-
One-time non-controlling interest adjustment	-	-	(15.0)	-
Other adjustments	0.2	1.9	1.6	0.8
Estimated tax effect of the above adjustments	(2.1)	(9.1)	(31.2)	(38.3)
Adjusted Net Income	**$ 56.5**	**$ 104.9**	**$ 279.3**	**$ 379.2**
Diluted weighted average number of shares outstanding	290,649,100	294,701,563	291,627,461	291,698,273
Adjusted Net Income per diluted share	**$ 0.19**	**$ 0.36**	**$ 0.96**	**$ 1.30**

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RECONCILIATIONS – FREE CASH FLOW AND FREE CASH FLOW CONVERSION

(USD in millions)

Reconciliation of Free Cash Flow

	Q4 2019	Q4 2018	FY 2019	FY 2018
Cash Provided by Operations	$ 203.7	$ 171.2	$ 348.9	$ 313.5
Capital Expenditures [1]	(24.6)	(27.8)	(83.1)	(182.7)
Free Cash Flow	**$ 179.1**	**$ 143.4**	**$ 265.8**	**$ 130.8**

(USD in millions)

Reconciliation of Free Cash Flow Conversion

	Q4 2019	Q4 2018	FY 2019	FY 2018
Free Cash Flow	$ 179.1	$ 143.4	$ 265.8	$ 130.8
Adjusted Net Income	$ 56.5	$ 104.9	$ 279.3	$ 379.2
Free Cash Flow Conversion	**317.0%**	**136.7%**	**95.2%**	**34.5%**

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