

Q3 2020 EARNINGS PRESENTATION

NOVEMBER 3, 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," "predicts," "intends," "trends" "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, productivity improvements, product initiatives, restructuring activities, and statements regarding the impact of and the recovery from the COVID-19 pandemic and our 2020 framework. Such forward-looking statements are subject to various risks and uncertainties, including, among others, the uncertainties relating to the impact of the COVID-19 pandemic and associated governmental measures on the company's business, operations, employees, financial condition and results of operations, risks inherent to the manufacturing industry, macroeconomic factors beyond the Company's control such as end-market recovery, 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 28, 2019, filed with the Securities and Exchange Commission ("SEC") as supplemented by the risks and uncertainties set forth in the Company's Quarterly Report on Form 10-Q for the quarter ended March 28, 2020, as such factors may be further 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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Q3 2020 OVERVIEW

- **Safety of employees and communities remains top priority**
- **Business model demonstrating its resilience**
- **Automotive replacement channel leading the recovery**
- **Operational initiatives driving gross margin expansion**
- **Innovation efforts expanding across product portfolio**
- **Well positioned to capitalize on expected continuation of end market recovery**

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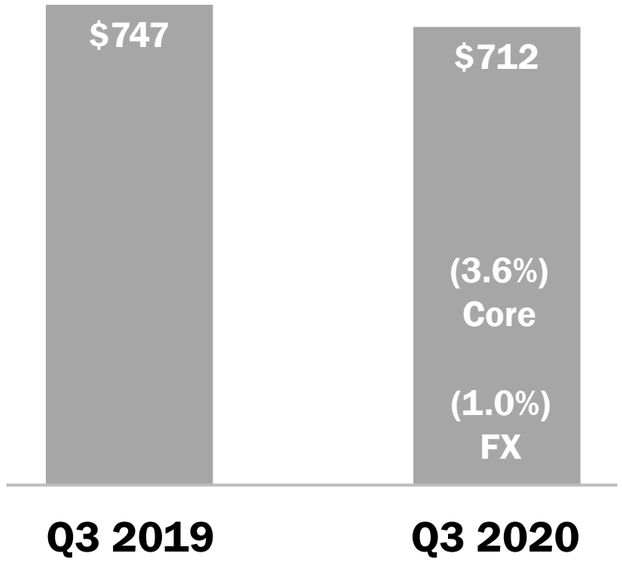
Q3 2020 FINANCIAL PERFORMANCE

USD in millions

NET SALES



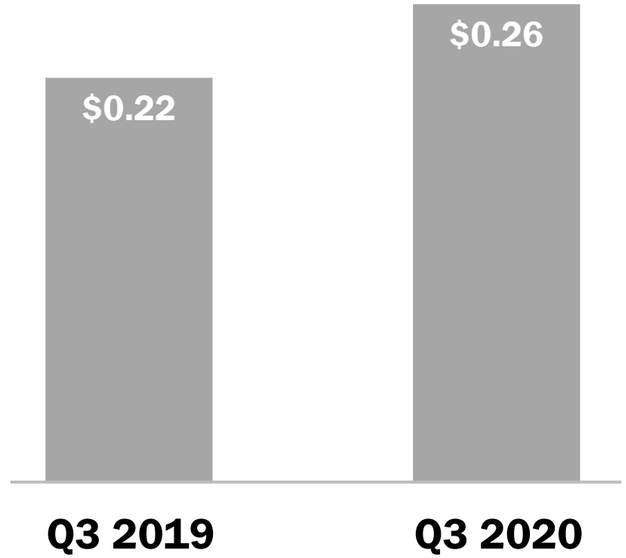
23% sequential acceleration

ADJUSTED EBITDA



Gross margin expansion driving 14% decremental margin[2]

ADJUSTED EPS[1]



Adjusted EPS growth of 18%

RESILIENT TOP-LINE PERFORMANCE – OPERATIONAL INITIATIVES DRIVING MARGIN IMPROVEMENT

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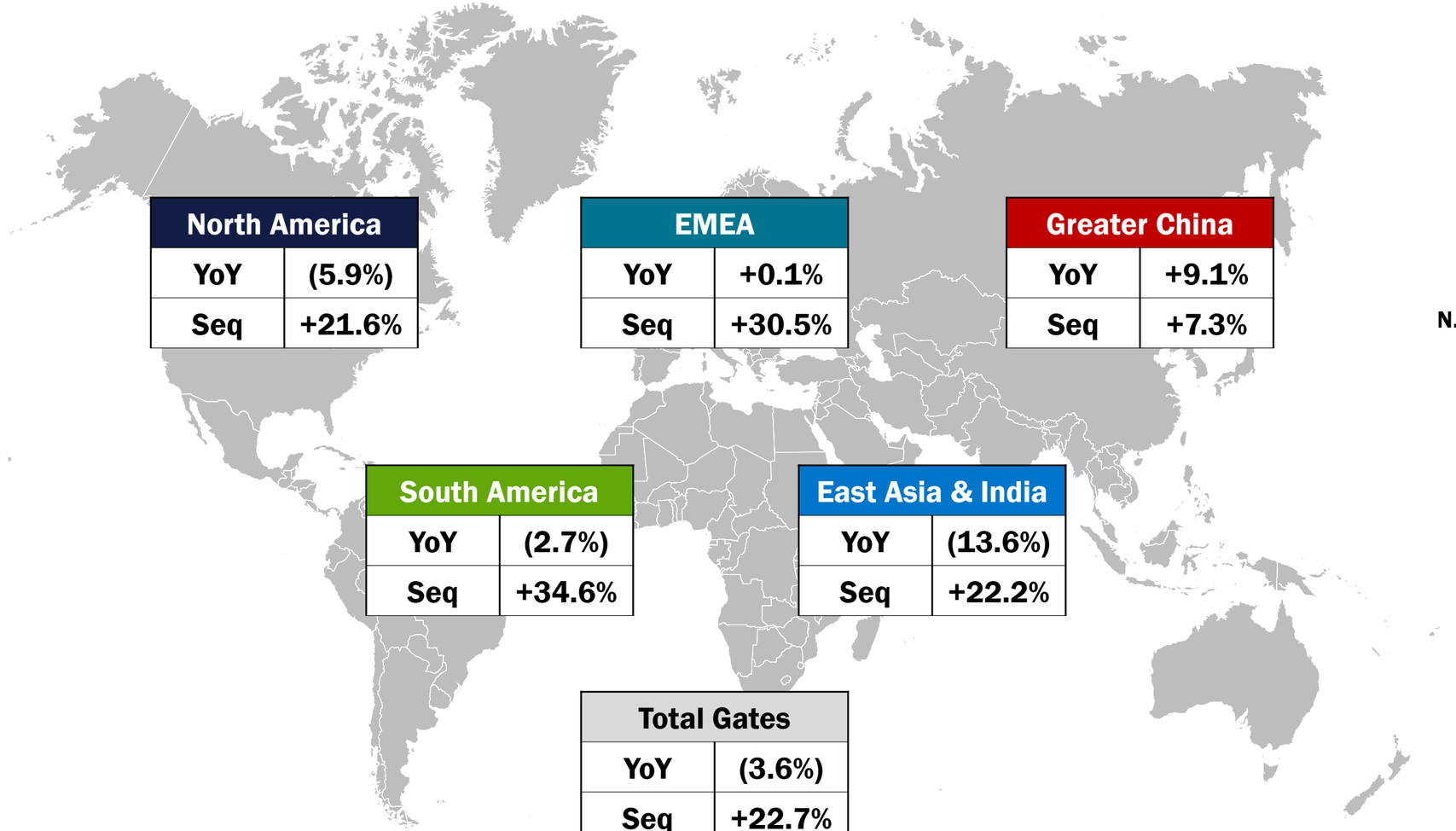
[1] Adjusted Net Income per diluted share

[2] Decremental margin is calculated as the change in Adjusted EBITDA vs. the prior-year period divided by the change in revenue vs. the prior-year period

Q3 REGIONAL PERFORMANCE – CORE REVENUE



North America	
YoY	(5.9%)
Seq	+21.6%

EMEA	
YoY	+0.1%
Seq	+30.5%

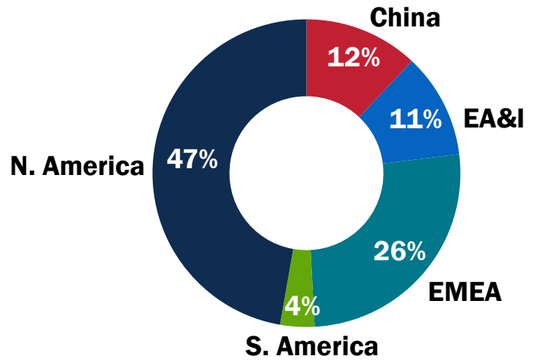
Greater China	
YoY	+9.1%
Seq	+7.3%

South America	
YoY	(2.7%)
Seq	+34.6%

East Asia & India	
YoY	(13.6%)
Seq	+22.2%

Total Gates	
YoY	(3.6%)
Seq	+22.7%

Q3 CORE REVENUE



SIGNIFICANT SEQUENTIAL IMPROVEMENT ACROSS SEGMENTS IN ALL REGIONS

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Q3 SUMMARY

- **Sequential improvement in all regions**
  - Core growth in China and Europe, significant improvement in North America to nearly flat core revenue
- **Resilient business, with sales into replacement channels returning to core growth**
  - Automotive replacement channel outperforming globally
- **Sales into industrial end markets returned to core growth**
  - Strongest performance in general industrial and agriculture end markets

CONVERSIONS TO BELTS PROGRESSING

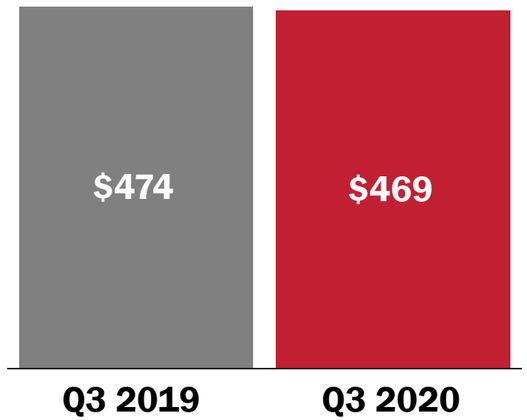




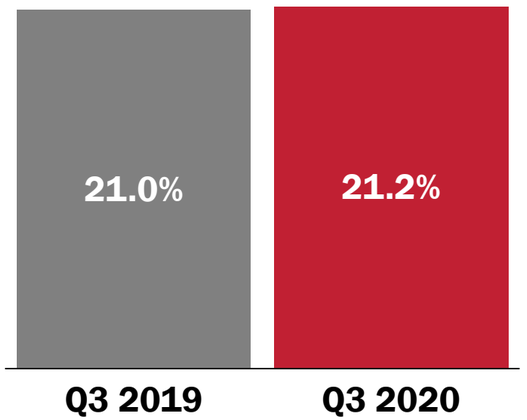
We converted the HVAC units and baggage conveying systems at a major US airport to our synchronous belts, resulting in significantly reduced energy and maintenance costs, and improved uptime.

- **Total Growth: (1.1%)**
  - Core Growth: (0.4%)
  - FX: (0.7%)

REVENUE



ADJ. EBITDA MARGIN



- **GPS initiatives contributing to margin expansion on flat volumes**
- **Improved decremental margin of 8%**

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FLUID POWER

Q3 SUMMARY

- **Sequential improvement in all regions**
  - Core growth in China accelerated significantly from Q2
- **Sales into replacement channels outperforming first-fit**
  - Sales into first-fit channels showing largest sequential improvement
- **Industrial end markets on path to recovery, but still challenged**
  - Most significant sequential improvement in construction end market

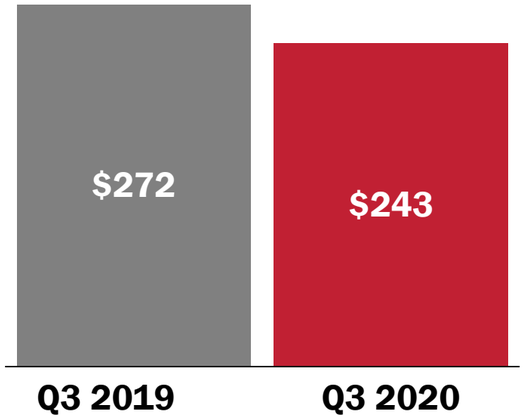
STATIONARY HYDRAULICS IN FOCUS



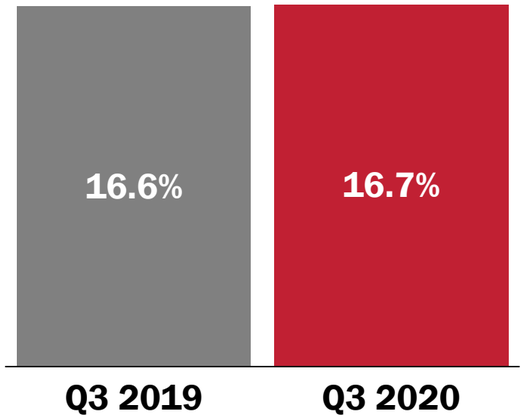
New products enabled a recent stationary hydraulics design win in Asia at a global manufacturer of injection molding machines.

- **Total Growth: (10.7%)**
  - Core Growth: (9.3%)
  - FX: (1.4%)

REVENUE



ADJ. EBITDA MARGIN



- **Margin expansion driven by operational improvements**
- **Increased utilization of new manufacturing plants**
- **Improved decremental margin of 16%**

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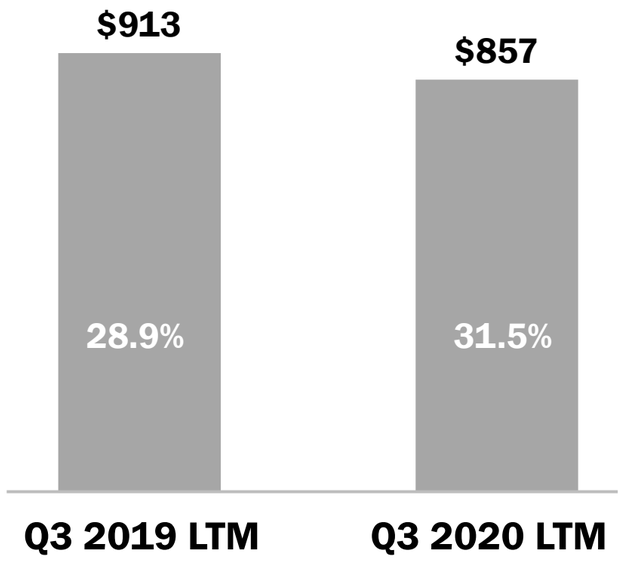
BALANCE SHEET AND CASH FLOW

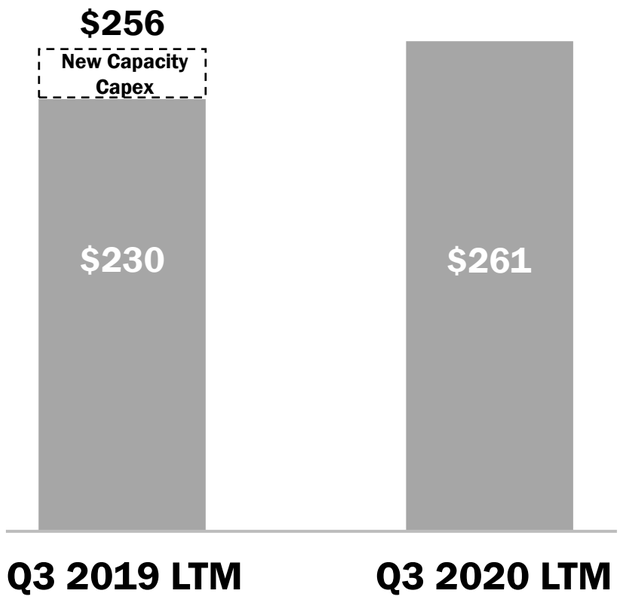
USD in millions, except multiple data

TRADE WORKING CAPITAL



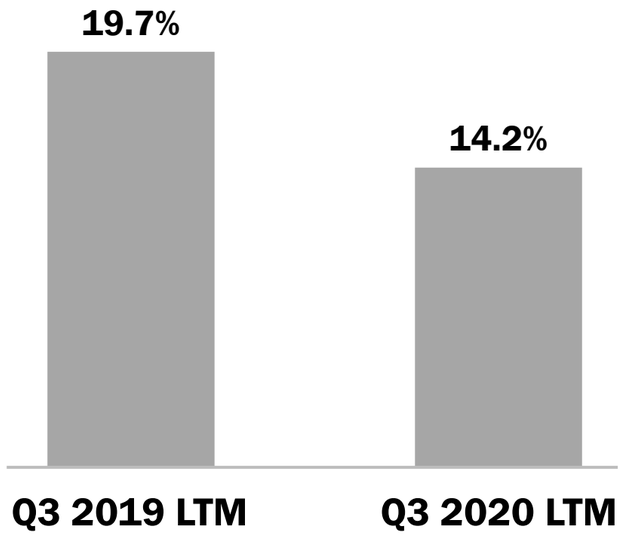
Reduced investment in receivables and inventory

FREE CASH FLOW



128% Free Cash Flow Conversion

ROIC



Q2 ’20 negatively impacting LTM operating income

SUBSTANTIAL FREE CASH FLOW GENERATION THROUGH PERIOD OF CHALLENGING MARKET CONDITIONS

Notes: Trade Working Capital: Trade Accounts Receivable plus Inventory minus Trade Accounts Payable; Trade Working Capital is also shown as % of LTM Revenues
LTM Free Cash Flow: Net Cash Provided by Operations minus capital expenditures; Free Cash Flow Conversion shown as % of Adjusted Net Income
ROIC: Tax-effected LTM Adjusted EBIT divided by total assets minus cash, accounts payable, deferred tax assets, taxes receivable and intangibles related to 2014 acquisition of Gates

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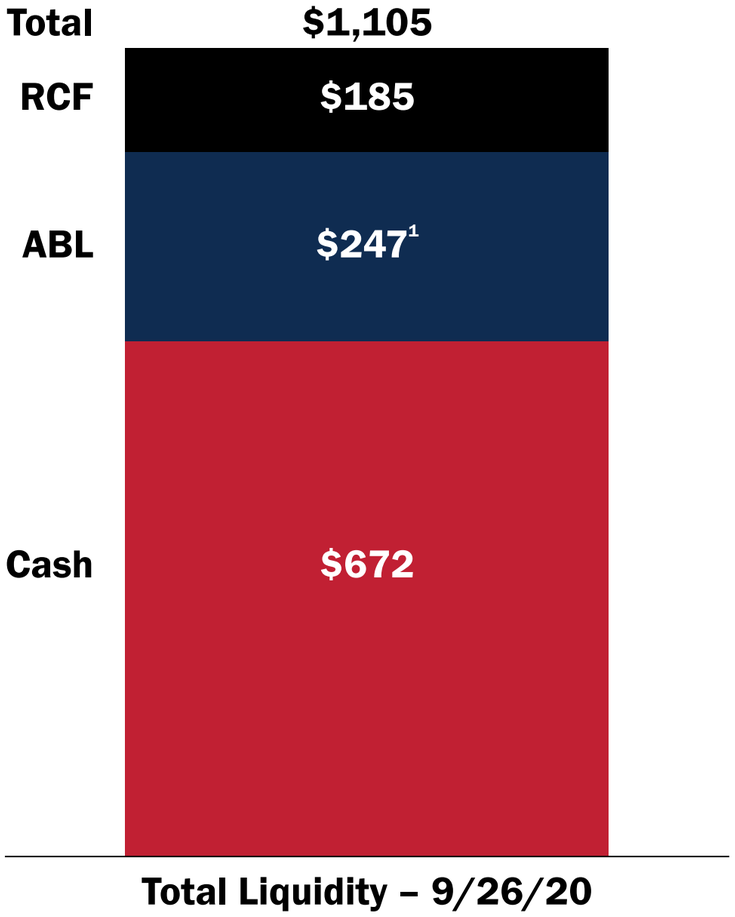
LIQUIDITY

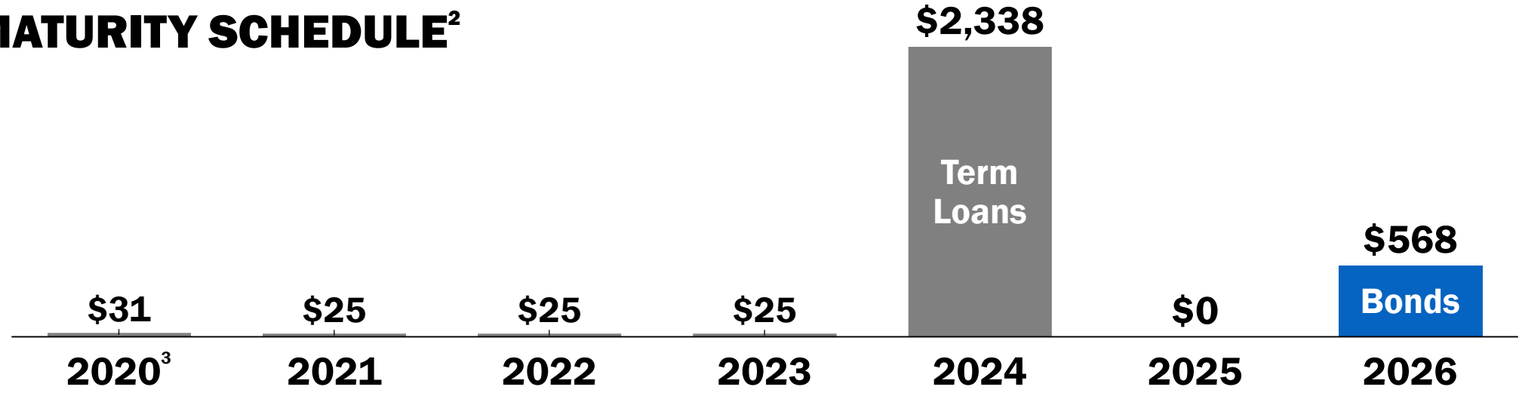
USD in millions



FINANCIAL COVENANTS

- **Revolving credit facility (RCF)**
  - Undrawn – can be drawn up to 30% with no financial covenants
  - >30% draw requires senior secured net leverage <7.15x credit facility EBITDA (3.6x as of Q3 2020)
- **Asset-backed loan (ABL)**
  - Undrawn – can be drawn up to 90% with no financial covenants
  - >90% draw requires fixed charge coverage >1.0x (2.2x as of Q3 2020)

MATURITY SCHEDULE[2]



STRONG FINANCIAL POSITION OF OVER $1.1 BILLION PROVIDES FLEXIBILITY

(1) ABL net borrowing capacity as of 9/26/20
(2) RCF and ABL mature in 2023, if drawn
(3) Remaining portion of required 2020 principal payments is $13M

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2020 FRAMEWORK

- **Q4 expected to reflect continued sequential improvement**
  - Absent broad re-implementation of movement restrictions, change in Q4 core revenue anticipated to be in the range of (3%)–1% year-over-year

- **Improving profitability**
  - Second-half decrementals expected to be 10% – 15%, compared to previous expectation of ~30%

- **Solid cash flow generation**
  - Investing in working capital to support increased demand
  - Capex of ~$70M expected for the full year
  - Non-cash deferred tax impact
  - Free Cash Flow Conversion expected to be > 80% of Adjusted Net Income

BUSINESS POSITIONED TO DRIVE IMPROVED PROFITABILITY, PARTICULARLY AS VOLUMES RECOVER

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SUMMARY

- **Strong execution through historically challenging market conditions**
- **Business firmly on trajectory of recovery**
- **Better positioned today than when exiting previous downturns**
  - Optimized cost structure, poised for growth
  - More efficient and flexible manufacturing footprint with greater machine capacity in place
  - Focus on innovation, with additional revitalization of the product portfolio to come
  - Restructuring program well underway and proceeding to plan
- **Operational initiatives expected to drive elevated incrementals during recovery**
- **Strong cash profile and liquidity position**

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Gates

APPENDIX

RECONCILIATIONS – ADJUSTED EBITDA

(USD in millions)	Q3 2020	Q3 2019	LTM Q3 2020	LTM Q3 2019
Reconciliation to Adjusted EBITDA				
Net Income from Continuing Operations	**$ 45.7**	**$ 37.5**	**$ 83.2**	**$ 751.7**
Adjusted for:				
Income tax (benefit) expense	(16.0)	4.4	(29.6)	(496.4)
Net interest and other expenses	34.2	34.8	140.1	143.3
Depreciation and amortization	53.6	55.1	218.0	222.6
Transaction-related expenses	5.4	1.0	7.1	1.2
Asset impairments	1.4	0.7	5.1	0.7
Restructuring expenses	7.3	0.3	28.5	7.1
Share-based compensation expense	4.9	4.1	18.0	11.0
Sponsor fees (included in other operating expenses)	0.2	1.1	3.5	7.0
Inventory impairments (included in cost of sales)	-	1.0	1.3	1.7
Duplicate expenses incurred on facility relocation	-	-	-	0.6
Severance expenses (included in cost of sales)	0.3	2.5	1.9	4.7
Other primarily severance-related expenses (included in SG&A)	3.0	1.8	4.2	6.8
Other adjustments	-	0.7	(2.2)	(0.3)
Adjusted EBITDA	**$ 140.0**	**$ 145.0**	**$ 479.1**	**$ 661.7**

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RECONCILIATIONS – ADJUSTED NET INCOME

(USD in millions, except share numbers and per share amounts)	Q3 2020	Q3 2019	LTM Q3 2020	LTM Q3 2019
Reconciliation to Adjusted Net Income				
Net Income Attributable to Shareholders	**$ 41.9**	**$ 35.5**	**$ 74.5**	**$ 746.3**
Adjusted for:				
Loss on disposal of discontinued operations	0.1	0.1	0.3	0.5
Amortization of intangible assets arising from the 2014 acquisition of Gates	29.5	29.5	117.0	118.3
Transaction-related expenses	5.4	1.0	7.1	1.2
Asset impairments	1.4	0.7	5.1	0.7
Restructuring expenses	7.3	0.3	28.5	7.1
Share-based compensation expense	4.9	4.1	18.0	11.0
Sponsor fees (included in other operating expenses)	0.2	1.1	3.5	7.0
Inventory impairments (included in cost of sales)	-	1.0	1.3	1.7
Adjustments relating to post-retirement benefits	(1.4)	(0.7)	(3.2)	(1.9)
Financing-related FX gains	(2.1)	(0.4)	(3.8)	(1.3)
One-time net tax benefit	-	-	-	(513.0)
One-time non-controlling interest adjustment	-	-	-	(15.0)
Other adjustments [(1)]	0.8	2.5	(14.0)	3.3
Estimated tax effect of the above adjustments	(12.2)	(9.5)	(31.0)	(38.2)
Adjusted Net Income	**$ 75.8**	**$ 65.2**	**$ 203.3**	**$ 327.7**
Diluted weighted average number of shares outstanding	292,441,599	291,113,102		
Adjusted Net Income per diluted share	**$ 0.26**	**$ 0.22**		

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(1) During the twelve months ended September 26, 2020, other adjustments included $17.9 million in relation to the non-controlling interest share of the adjustments above, primarily restructuring expenses incurred in relation to the closure of our manufacturing facility in Korea.

RECONCILIATIONS – FREE CASH FLOW AND FREE CASH FLOW CONVERSION

(USD in millions)

	Q3 2020	Q3 2019	LTM Q3 2020	LTM Q3 2019
Reconciliation of Free Cash Flow				
Net Cash Provided by Operations	$ 55.9	$ 81.4	$ 331.2	$ 316.4
Capital Expenditures [1]	(18.0)	(16.4)	(70.2)	(86.3)
Free Cash Flow	**$ 37.9**	**$ 65.0**	**$ 261.0**	**$ 230.1**

(USD in millions)

	LTM Q3 2020	LTM Q3 2019
Reconciliation of Free Cash Flow Conversion		
Free Cash Flow	$ 261.0	$ 230.1
Adjusted Net Income	$ 203.3	$ 327.7
Free Cash Flow Conversion	**128.4%**	**70.2%**

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

RECONCILIATIONS – RETURN ON INVESTED CAPITAL (ROIC)

(USD in millions)	Q3 2020	Q3 2019
Return On Invested Capital (ROIC)		
LTM Adjusted EBITDA	**$ 479.1**	**$ 661.7**
LTM Total depreciation and amortization	(218.0)	(222.6)
LTM Amortization of intangible assets arising from the 2014 acquisition of Gates	117.0	118.3
LTM Adjusted EBIT	**378.1**	**557.4**
Notional tax at 25%	(94.5)	(139.3)
LTM Tax-effected Adjusted EBIT	**$ 283.6**	**$ 418.1**
Total Assets	$ 7,335.7	$ 7,285.9
Adjusted for:		
Cash	(672.3)	(456.1)
Taxes receivable	(53.9)	(59.0)
Deferred tax assets	(620.4)	(552.6)
Accounts payable	(339.4)	(328.5)
Intangibles arising from the acquisition of Gates	(3,652.8)	(3,768.7)
Invested Capital	**$ 1,996.9**	**$ 2,121.0**
Return On Invested Capital	**14.2%**	**19.7%**

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