

Q4 2020 EARNINGS PRESENTATION

FEBRUARY 8, 2021

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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 outlook for 2021. 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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Q4 2020 – OVERVIEW

- Strong Q4 results – broad-based growth across end markets
- Operational initiatives and volume drove solid margin performance
- Strong free cash flow generation
- $300M term loan repayment
- Initiating full-year 2021 guidance

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Q4 2020 – FINANCIAL PERFORMANCE

9.4%

Revenue Growth

Net Sales of $794M, up 8.6% year-over-year on a core basis

- Initiatives contributing to ~MSD above-market growth
- Strength in Diversified Industrial, Off-Highway and On-Highway end markets

20.5%

Adjusted EBITDA Margin

Adjusted EBITDA of $163M, up 20% year-over-year

- Margin expansion of 190 bps – volume & productivity initiatives offsetting COVID-19 headwinds
- Strong incremental margin[2] of 40%, or ~55% when normalizing variable compensation in Q4 2019

$0.20

Adjusted Earnings per Share[1]

Year-over-year increase driven by operational performance

- Amortization charge incurred in connection with debt paydown
- Higher tax due to increased earnings and different jurisdictional mix

RAPID TOP-LINE RECOVERY WITH SUSTAINABLE MARGIN IMPROVEMENT

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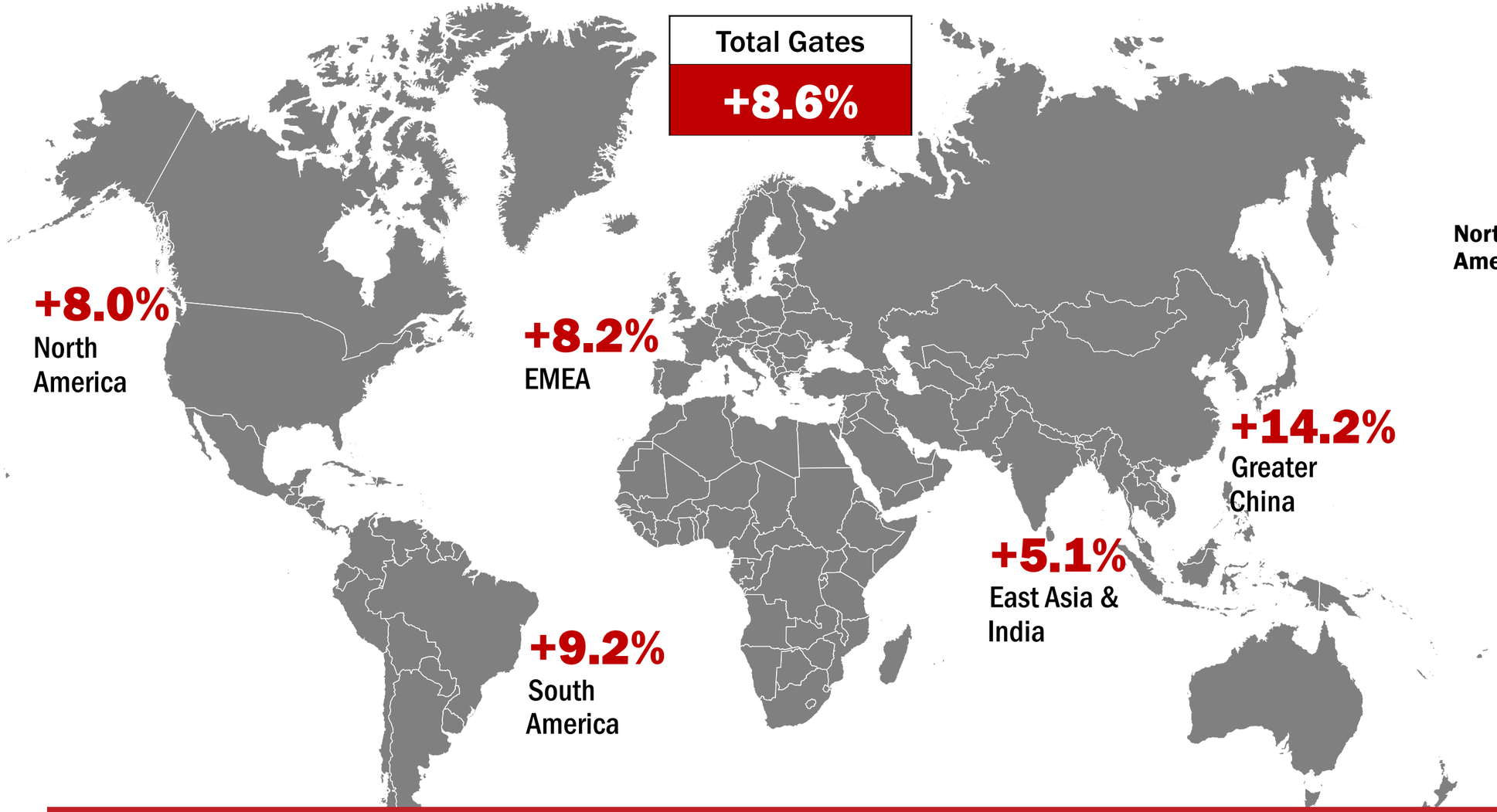
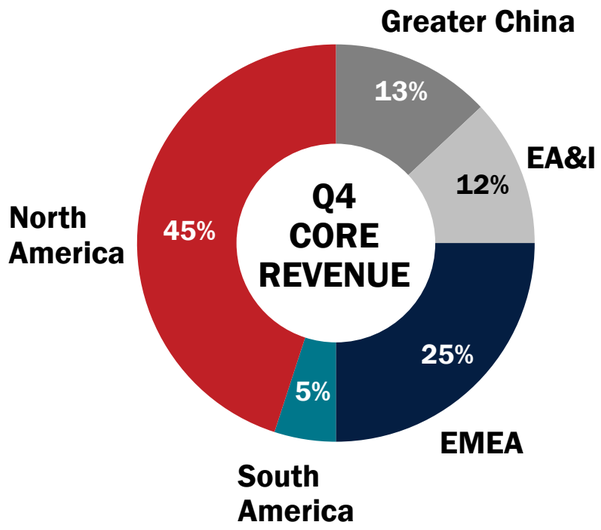
(1) Adjusted Net Income per diluted share

(2) Incremental 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

Q4 2020 – REGIONAL CORE REVENUE PERFORMANCE





INITIATIVE-DRIVEN GROWTH OUTPACING MARKET

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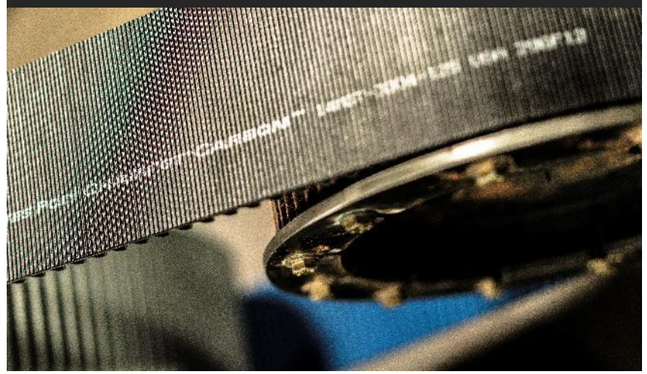
Q4 2020 – SEGMENT HIGHLIGHTS

POWER TRANSMISSION



NET SALES (YOY % GROWTH)	ADJUSTED EBITDA MARGIN	HIGHLIGHTS
$520M	**22.4%**	▪ Most significant growth in Diversified Industrial and On-Highway applications ▪ Margin expansion driven by volume and operational initiatives ▪ Key design wins in robotics, fitness and aggregates applications
Core 9.0% FX 1.5% **TOTAL 10.5%**	**+170 bps** YEAR OVER YEAR	

FLUID POWER



NET SALES (YOY % GROWTH)	ADJUSTED EBITDA MARGIN	HIGHLIGHTS
$274M	**16.8%**	▪ Strongest performance in Off-Highway and Diversified Industrial end markets ▪ Margin expansion driven by volume, operational initiatives and efficiencies in new plants ▪ New products driving above-market growth
Core 7.7% FX (0.3)% **TOTAL 7.4%**	**+200 bps** YEAR OVER YEAR	

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Q4 2020 – CAPITAL EFFICIENCY & CASH FLOW

118%

LTM Free Cash Flow Conversion

Strong Free Cash Flow generation in challenging environment

- LTM Free Cash Flow of $242M
- Benefiting from lower working capital and capex, as well as lower cash taxes and interest, compared to prior year

340 bps

Reduction in Trade Working Capital as % of LTM Sales from Q3

24.7% of annualized Q4 2020 net sales compared to 27.4% in Q4 2019

- Working capital decreased $71M from Q3 2020, as Q4 revenue accelerated sequentially
- Despite the year-over-year increase in Q4 revenue, working capital was a net source of cash in 2020

15.2%

ROIC

Solid ROIC despite lower operating income

- Improvement of 100 bps compared to Q3 2020

SUBSTANTIAL FREE CASH FLOW GENERATION WHILE INVESTING TO SUPPORT GROWTH

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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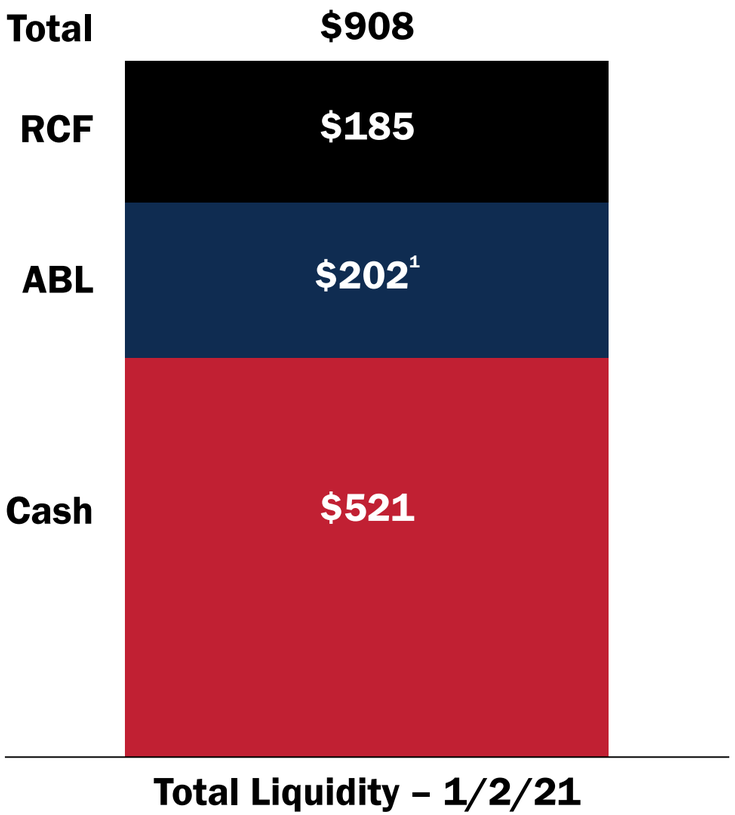
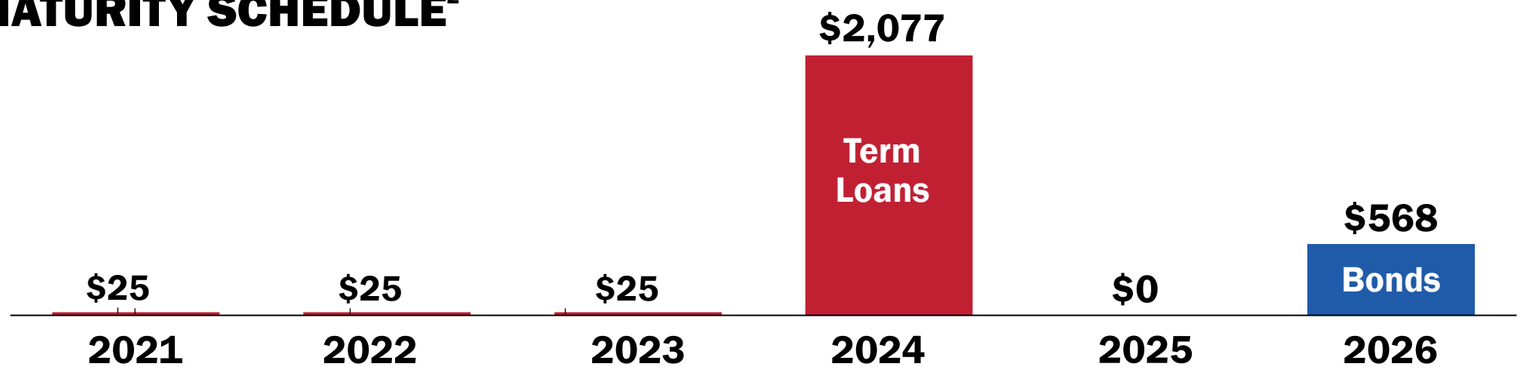
LIQUIDITY

USD in millions



- **Repaid $300M of USD term loan at the end of Q4**
- **Annual interest expense savings of $11M**
- **Project to reach target of 3.0x net leverage by the end of 2021**

MATURITY SCHEDULE[2]



STRONG, FLEXIBLE FINANCIAL POSITION AFTER SIGNIFICANT DEBT REPAYMENT

(1) ABL net borrowing capacity
(2) RCF and ABL, currently undrawn on cash basis, mature in 2023

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2020 – FINANCIAL PERFORMANCE

(9.5)%

Revenue Growth

Net Sales of $2.8B, down 8.4% on a core basis

- Strong second-half recovery, with revenue growth of 2.3% compared to H2 2019
- Sales into replacement channels showed resilience

18.1%

Adjusted EBITDA Margin

Adjusted EBITDA of $507M

- Solid execution to manage decremental margins with relatively limited temporary cost actions
- Second-half incremental Adjusted EBITDA margin[1] of 66%

$0.70

Adjusted Earnings per Share[2]

Full-year Adjusted EPS impacted by lower operating results

- Second-half improvement, with 10% growth in Adjusted Net Income compared to H2 2019

RESILIENT PERFORMANCE WITH SOLID EXECUTION THROUGH HISTORICALLY CHALLENGING ENVIRONMENT

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[1] Incremental 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

[2] Adjusted Net Income per diluted share

2021 OUTLOOK

CORE REVENUE GROWTH	ADJUSTED EBITDA MARGIN	CAPITAL EXPENDITURES	FREE CASH FLOW CONVERSION
9% – 14%	21% – 22%	$90 – $110	80%+

USD IN MILLIONS

- **Q1 expected to deliver strong year-over-year growth and margin improvement**
  - Revenue expected to be in the range of $810M – $840M
  - Adjusted EBITDA expected to be $170M to $185M

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END MARKET EXPOSURES





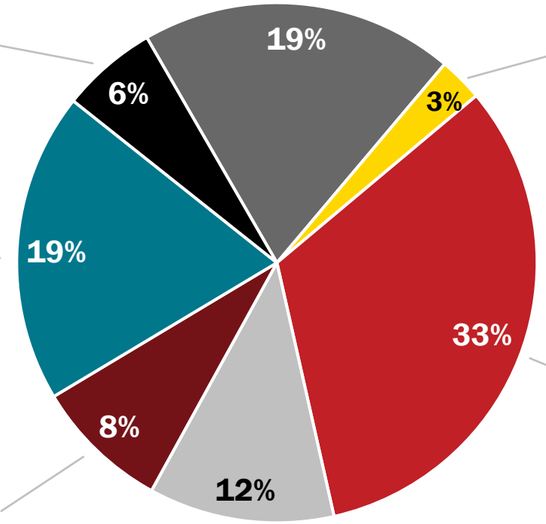






DIVERSIFIED INDUSTRIAL

- General/Light Mfg
- Pharma & Healthcare
- Process Industries
- Food & Beverage
- Industrial Automation
- Warehousing
- Logistics
- Building Products
- Forestry, Packaging & Paper
- Lawn, Garden & Landscaping
- Consumer & Office Products
- HVAC & Building Automation



ENERGY & RESOURCES

- Oil & Gas
- Mining
- Renewables

MOBILITY & RECREATION

- Bikes, Motorcycles, Scooters
- Powersports Vehicles
- Fitness Equipment

INDUSTRIAL OFF-HIGHWAY

- Ag
- Construction

AUTO REPLACEMENT

- Independent Repair Shops
- eCommerce
- Dealer Service

INDUSTRIAL ON-HIGHWAY

- Heavy-Duty Truck
- Bus

AUTO OEM

- Passenger Vehicles
- Light Commercial Vehicles











FOCUSED INITIATIVES IN ATTRACTIVE END MARKETS PROVIDE OPPORTUNITY FOR ABOVE-MARKET GROWTH

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SUMMARY

- **Business positioned to deliver initiative-driven ~MSD market outperformance**
  - End markets in process of recovering
  - Initiatives accelerating top-line growth
  - New products providing further competitive differentiation
- **Runway for margin expansion with improving volumes and operational initiatives**
  - Cost structure optimized – transitioning to continuous improvement
  - Lower-cost, more-flexible manufacturing footprint in place to support growth
  - Limited temporary cost actions in 2020
- **Strengthening balance sheet**
  - Reduced gross debt, while maintaining strong liquidity position
  - Optionality increases as net leverage continues to come down

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APPENDIX

ADJUSTED EPS – SUMMARY WALKS

Q4 2019	$0.19	
OPERATING PERFORMANCE	0.09	Revenue growth and margin improvement
INCOME TAX EXPENSE	(0.07)	Higher pre-tax profit and impact from jurisdictional mix of earnings
AMORTIZATION OF DEFERRED FINANCING FEE	(0.01)	Incurred as a result of Q4 2020 debt repayment
Q4 2020	**$0.20**	

2019	$0.96	
OPERATING PERFORMANCE	(0.36)	Revenue and margin decline
INCOME TAX EXPENSE	0.08	Changes in valuation allowances, tax law changes and audit settlements
OTHER ITEMS	0.02	Lower interest expense, depreciation
2020	**$0.70**	

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RECONCILIATIONS – ADJUSTED EBITDA

(USD in millions)	Q4 2020	Q4 2019	FY 2020	FY 2019
Reconciliation to Adjusted EBITDA				
Net Income from Continuing Operations	**$ 32.5**	**$ 25.4**	**$ 90.3**	**$ 694.7**
Adjusted for:				
Income tax expense (benefit)	12.2	1.9	(19.3)	(495.9)
Net interest and other expenses	40.7	40.7	140.1	148.0
Depreciation and amortization	55.4	54.8	218.6	222.2
Transaction-related expenses	-	1.9	5.2	2.6
Asset impairments	0.1	-	5.2	0.7
Restructuring expenses	10.9	2.1	37.3	6.0
Share-based compensation expense	6.3	4.5	19.8	15.0
Sponsor fees (included in other operating expenses)	-	1.6	1.9	6.5
Inventory impairments and adjustments (included in cost of sales)	-	(0.1)	1.4	1.2
Severance expenses (included in cost of sales)	0.1	1.0	1.0	4.0
Other primarily severance-related expenses (included in SG&A)	4.2	0.4	8.0	3.4
Other adjustments	0.2	0.9	(2.9)	2.6
Adjusted EBITDA	**$ 162.6**	**$ 135.1**	**$ 506.6**	**$ 611.0**

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RECONCILIATIONS – ADJUSTED NET INCOME

(USD in millions, except share numbers and per share amounts)	Q4 2020	Q4 2019	FY 2020	FY 2019
Reconciliation to Adjusted Net Income				
Net Income Attributable to Shareholders	**$ 24.3**	**$ 19.4**	**$ 79.4**	**$ 690.1**
Adjusted for:				
Loss on disposal of discontinued operations	-	-	0.3	0.6
Amortization of intangible assets arising from the 2014 acquisition of Gates	29.9	29.4	117.5	118.2
Transaction-related expenses	-	1.9	5.2	2.6
Asset impairments	0.1	-	5.2	0.7
Restructuring expenses	10.9	2.1	37.3	6.0
Share-based compensation expense	6.3	4.5	19.8	15.0
Sponsor fees (included in other operating expenses)	-	1.6	1.9	6.5
Inventory impairments and adjustments (included in cost of sales)	-	(0.1)	1.4	1.2
Adjustments relating to post-retirement benefits	(1.9)	(0.6)	(4.5)	(3.2)
Financing-related FX (gains) losses	(1.3)	0.2	(5.3)	(0.8)
One-time net tax benefit	-	-	-	(513.0)
One-time non-controlling interest adjustment	-	-	-	(15.0)
Other adjustments [1]	2.7	0.2	(11.5)	1.6
Estimated tax effect of the above adjustments	(13.3)	(2.1)	(42.2)	(31.2)
Adjusted Net Income	**$ 57.7**	**$ 56.5**	**$ 204.5**	**$ 279.3**
Diluted weighted average number of shares outstanding	293,163,825	291,649,100	292,115,964	291,627,461
Adjusted Net Income per diluted share	**$ 0.20**	**$ 0.19**	**$ 0.70**	**$ 0.96**

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(1) During the year ended January 2, 2021, other adjustments included $17.7 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)

	Q4 2020	Q4 2019	FY 2020	FY 2019
Reconciliation of Free Cash Flow				
Net Cash Provided by Operations	$ 181.5	$ 203.7	$ 309.0	$ 348.9
Capital Expenditures [1]	(21.8)	(24.6)	(67.4)	(83.1)
Free Cash Flow	**$ 159.7**	**$ 179.1**	**$ 241.6**	**$ 265.8**

(USD in millions)

	FY 2020	FY 2019
Reconciliation of Free Cash Flow Conversion		
Free Cash Flow	$ 241.6	$ 265.8
Adjusted Net Income	$ 204.5	$ 279.3
Free Cash Flow Conversion	**118.1%**	**95.2%**

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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)	Q4 2020	Q4 2019
Return On Invested Capital (ROIC)		
LTM Adjusted EBITDA	**$ 506.6**	**$ 611.0**
LTM Total depreciation and amortization	(218.6)	(222.2)
LTM Amortization of intangible assets arising from the 2014 acquisition of Gates	117.5	118.2
LTM Adjusted EBIT	**405.5**	**507.0**
Notional tax at 25%	(101.4)	(126.8)
LTM Tax-effected Adjusted EBIT	**$ 304.1**	**$ 380.2**
Total Assets	$ 7,426.3	$ 7,411.3
Adjusted for:		
Cash	(521.4)	(635.3)
Taxes receivable	(55.1)	(45.1)
Deferred tax assets	(672.6)	(587.1)
Accounts payable	(417.4)	(374.7)
Intangibles arising from the acquisition of Gates	(3,755.7)	(3,788.8)
Invested Capital	**$ 2,004.1**	**$ 1,980.3**
Return On Invested Capital	**15.2%**	**19.2%**

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