

Q1 2023 EARNINGS PRESENTATION

MAY 4, 2023

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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 and financial results (including growth initiatives, margin expansion and Free Cash Flow conversion), statements regarding the supply chain (including raw material and logistics availability, timeliness and costs), demand trends and growing backlog, currency-related trends, working capital opportunities, capital deployment options (including share repurchases), our strategic initiatives (including our ability to strengthen our supply chain and operations, our ability to enhance our revenue mix and cash conversion, increased investments in new product development and industrial verticals, inventory reduction, and our capital allocation strategy), initiatives intended to drive higher margins and cash flow conversion, the recovery of certain markets, including China, and statements regarding the impact of and the recovery from the COVID-19 pandemic, our footprint optimization plan and our outlook for the second quarter and full year 2023. Such forward-looking statements are subject to various risks and uncertainties, including, among others, risks related to changing economic, political and other risks associated with international operations, risks inherent to the manufacturing industry, macroeconomic factors beyond the Company's control (including material and logistics availability, bank failures, inflation, supply chain and labor challenges and end-market recovery), risks related to catastrophic events, including global pandemics such as the COVID-19 pandemic, continued operation of our manufacturing facilities, including as a result of cybersecurity attacks, 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 Blackstone 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 31, 2022, 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, including expected Core Revenue Growth, Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Earnings per Share, Net Leverage and Free Cash Flow conversion for 2023. 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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Q1 2023 KEY HIGHLIGHTS

- **Revenue above mid-point of Q1 guidance**
  - Posted mid-single digit core growth; estimate cybersecurity event impacted core growth by ~150 bps
  - EMEA growth of 10%; all regions outside of China posted positive core growth
- **Strong margin expansion of 180 bps**
  - Continued solid commercial execution
  - Supply chain slowly improving; performance is normalizing
- **Positive free cash flow**
  - Meaningful inventory decrease vs. prior year
  - Seasonally strong cash generation
- **Announced $250M share repurchase authorization post quarter-end**

GLOBAL TEAMS DEMONSTRATING RESILIENCY AND CONTINUED SOLID EXECUTION

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Q1 2023 – FINANCIAL PERFORMANCE

$898M

Net Sales

4% Core Growth YoY

- Solid growth in most end markets
- F/X was a 3.5% headwind

$175M

Adjusted EBITDA

19.4% Adjusted EBITDA margin

- YoY margin expansion of 180 bps
- Price/cost position in balance
- Gross margin expanded on supply chain stabilization

$0.25

Adjusted Earnings per Share[1]

Operating Income Grew ~28% YoY

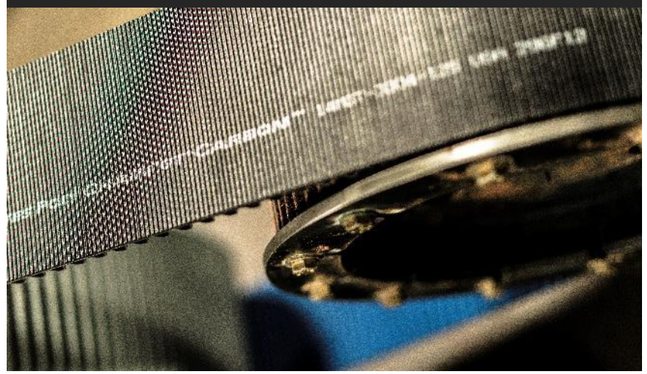
- Interest expense ~$8M higher ($0.03 EPS headwind)
- Higher tax expense was a $0.06 EPS drag vs. prior year

HEALTHY MARGIN EXPANSION FUELED STRONG OPERATING EARNINGS CONTRIBUTION

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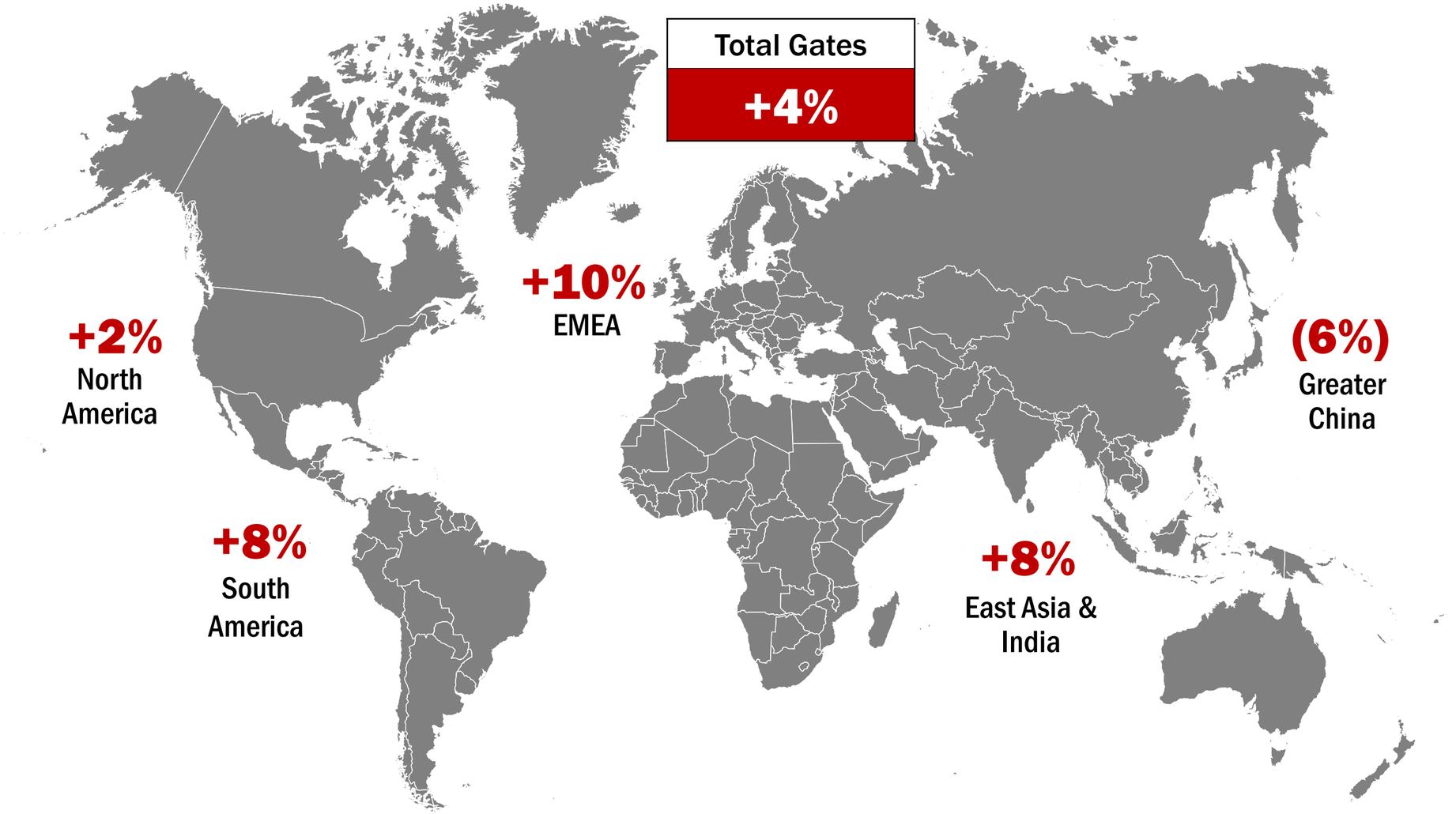
[1] Adjusted Net Income per diluted share

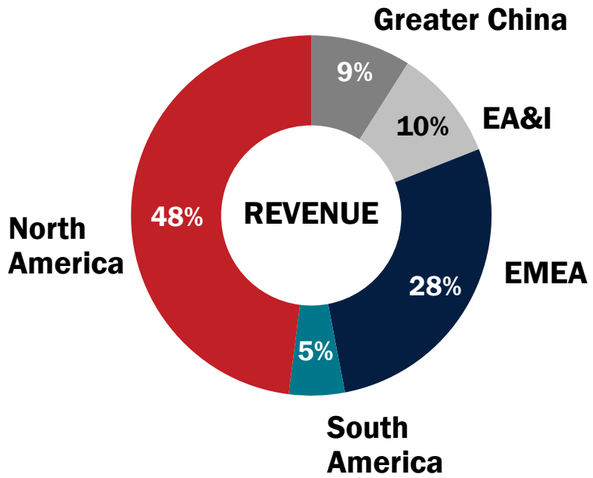
Q1 2023 – SEGMENT RESULTS

	PERFORMANCE		HIGHLIGHTS
POWER TRANSMISSION 	NET SALES	$548M	▪ Healthy growth in Energy, Construction and Personal Mobility offset China COVID pressure ▪ Polymer supply normalizing ▪ Booked significant wins in Personal Mobility ▪ Margin expansion driven by balanced price-cost position and improving supply chain
	ADJUSTED EBITDA	$108M	
	ADJUSTED EBITDA MARGIN	19.6%	
FLUID POWER 	NET SALES	$350M	▪ Growth fueled by Energy, Construction, and Auto Replacement markets ▪ Meaningful new business wins in Agriculture and Construction ▪ Margin improving with normalizing operating conditions
	ADJUSTED EBITDA	$67M	
	ADJUSTED EBITDA MARGIN	19.1%	

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Q1 2023 – REGIONAL CORE REVENUE PERFORMANCE



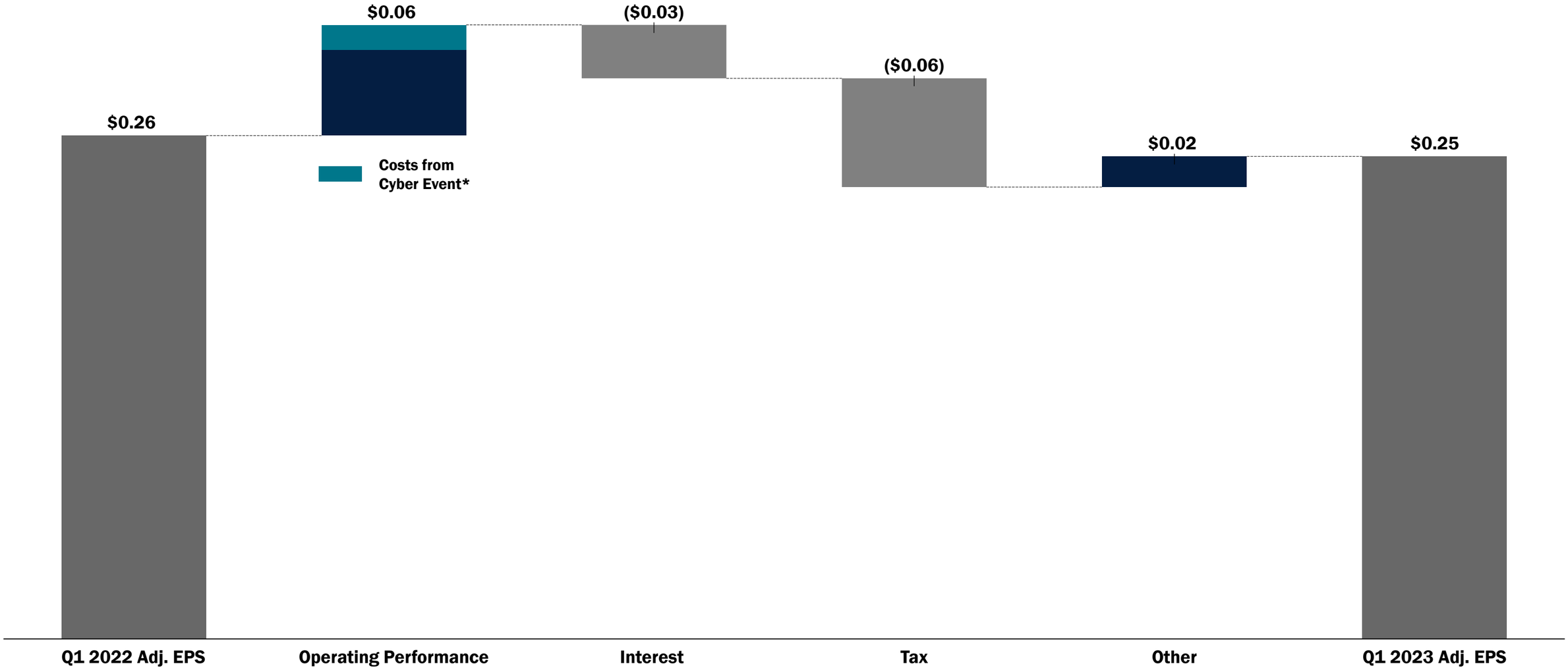


EMEA sales remained robust; China sales gained momentum as quarter progressed

HEALTHY FINISH TO THE QUARTER LED BY CHINA RECOVERY & EMEA STRENGTH

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Q1 2023 ADJUSTED EPS WALK



* Non-recurring costs related to the cybersecurity incident added back to adjusted EPS.

STRONG OPERATIONAL IMPROVEMENT MITIGATED BY HIGHER TAX AND INTEREST EXPENSE

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Q1 2023 – CAPITAL EFFICIENCY & CASH FLOW

$38M
Free Cash Flow

Seasonally strong cash conversion

- Significant favorable swing in working capital use vs. Q1 2022
- LTM Free Cash Flow Conversion approximated 105%

2.7x
Net Leverage

Net leverage ratio fell 0.5x YoY

- First time under 3x for Q1 as a public company
- Near-term focus on reducing net debt and increasing balance sheet optionality

20.1%
ROIC

ROIC expanded YoY

- Stronger profitability and more efficient use of working capital

SOLID START TO THE YEAR

Notes: Free Cash Flow: Net cash provided by (used in) operating activities less capital expenditures
Free Cash Flow Conversion: LTM Free Cash Flow (Net Cash Provided by Operations minus capital expenditures) expressed as a percentage of LTM 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 LTM Adjusted EBITDA
ROIC: Tax-effected LTM Adjusted EBIT divided by total assets minus cash, accounts payable, income tax-related assets and intangibles related to 2014 acquisition of Gates

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2023 OUTLOOK – REITERATING FULL YEAR GUIDANCE

FULL YEAR 2023				
CORE REVENUE GROWTH	ADJUSTED EBITDA	ADJUSTED EPS	CAPITAL EXPENDITURES	FREE CASH FLOW CONVERSION
1% – 5%	$700M – $750M	$1.13 – $1.23	~$100M	100%

Q2 ESTIMATES

- Revenues: $915M - $945M
  - Low single digit core growth vs. Q2 2022
  - Slight F/X headwind assumed YoY
- Adjusted EBITDA margin
  - 50 to 100 bps increase YoY

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SUMMARY THOUGHTS

- **Solid execution to start 2023**
  - Resilient performance including unanticipated challenges from cybersecurity incident
  - More stability in global supply chain resulted in better operational performance
  - Focused on driving improved service levels
- **Balance sheet/capital returns**
  - Positive free cash flow in Q1 – targeting 100% free cash flow conversion for full year
  - Net leverage metrics improving
  - Share repurchase authorization announced

STRONG GLOBAL EXECUTION – OFFSETTING INCREMENTAL HEADWINDS

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Gates

APPENDIX

Q1 2023 ADJUSTED EPS – SUMMARY WALK

Q1 2022	**$0.26**	
OPERATING PERFORMANCE	0.06	Improved operating performance from pricing and margin improvement
INCOME TAX EXPENSE	(0.06)	Higher income tax expense from higher pre-tax income combined with decrease in one-time tax benefit
Other	(0.01)	
Q1 2023	**$0.25**	

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RECONCILIATIONS – CORE REVENUE GROWTH

(USD in millions)

Reconciliation of Core Revenue Growth

	Power Transmission	Fluid Power	Q1 2023
Net sales for the quarter ended April 1, 2023 [1]	**$ 548.1**	**$ 349.6**	**$ 897.7**
Impact on net sales of movements in currency rates	25.4	5.7	31.1
Core revenue for the quarter ended April 1, 2023	**$ 573.5**	**$ 355.3**	**$ 928.8**
Net sales for the quarter ended April 2, 2022	555.6	337.8	893.4
Increase in net sales on a core basis (core revenue)	**$ 17.9**	**$ 17.5**	**$ 35.4**
Core revenue growth	**3.2%**	**5.2%**	**4.0%**

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(1) Throughout this document the terms "net sales" and "revenue" are used interchangeably in reference to the GAAP measure "net sales."

RECONCILIATIONS – ADJUSTED EBITDA AND NET LEVERAGE

(USD in millions)	Q1 2023	Q1 2022	LTM Q1 2023	LTM Q1 2022
Reconciliation to Adjusted EBITDA				
Net Income from Continuing Operations	**$ 30.9**	**$ 37.4**	**$ 236.4**	**$ 292.2**
Adjusted for:				
Income tax expense (benefit)	15.3	(2.2)	32.4	(2.7)
Net interest and other expenses	41.1	33.2	134.1	134.4
Depreciation and amortization	54.5	55.1	216.6	221.9
Transaction-related expenses	0.2	0.8	1.5	2.1
Asset impairments	-	-	1.1	0.6
Restructuring expenses	5.5	0.5	14.5	5.0
Share-based compensation expense	9.5	24.1	29.7	42.4
Inventory impairments and adjustments [1] (included in cost of sales)	0.6	7.6	13.9	9.0
Severance expenses (included in cost of sales)	0.5	-	1.3	-
Severance expenses (included in SG&A)	0.6	0.3	0.8	0.7
Credit loss related to customer bankruptcty (included in SG&A) [2]	10.7	-	10.7	-
Cybersecurity incident expenses [3]	5.1	-	5.1	-
Other items not directly related to current operations [4]	-	-	0.2	(9.3)
Adjusted EBITDA	**$ 174.5**	**$ 156.8**	**$ 698.3**	**$ 696.3**
Adjusted EBITDA margin				
Net Sales	$ 897.7	$ 893.4	$ 3,558.5	$ 3,486.5
Adjusted EBITDA	$ 174.5	$ 156.8	$ 698.3	$ 696.3
Adjusted EBITDA margin	**19.4%**	**17.6%**	**19.6%**	**20.0%**
Reconciliation to Net Leverage				
Total principal amount of debt			$ 2,486.5	$ 2,624.0
Less: Cash and cash equivalents			(594.9)	(406.8)
Net Debt			**$ 1,891.6**	**$ 2,217.2**
Net Leverage (Net Debt divided by LTM Adjusted EBITDA)			**2.7 x**	**3.2 x**

(1) During the three and twelve months ended April 1, 2023, inventory impairments and adjustments included $0.6 million and $12.6 million, respectively, for the reversal of the adjustment to remeasure certain inventories on a Last-in-First-out ("LIFO") basis. The recent inflationary environment has caused LIFO values to drop below First-in, First-out ("FIFO") values because LIFO measurement resulted in the more recent inflated costs being matched against current sales while historical, lower costs are retained in inventories.

(2) On January 31, 2023, one of our customers filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. In connection with the bankruptcy proceedings, we evaluated our potential risk and exposure relating to our outstanding pre-petition accounts receivable balance from the customer and have recorded a $10.7 million pre-tax charge to reflect our estimated recovery. We will continue to monitor the circumstances surrounding the bankruptcy in determining whether adjustments to this recovery estimate are necessary.

(3) On February 11, 2023, Gates determined that it was the target of a malware attack. Cybersecurity incident expenses include legal, consulting, and other costs incurred as a direct result of this incident, some of which may be partially offset by insurance recoveries.

(4) During the last twelve months ended Apr 2, 2022, other adjustments included a $9.3 million net gain on the sale of a purchase option on a building that we lease in Europe.

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RECONCILIATIONS – ADJUSTED NET INCOME

(USD in millions, except share numbers and per share amounts)	Q1 2023	Q1 2022	LTM Q1 2023	LTM Q1 2022
Reconciliation to Adjusted Net Income				
Net Income Attributable to Shareholders	**$ 26.4**	**$ 30.9**	**$ 216.3**	**$ 260.7**
Adjusted for:				
Loss on the disposal of discontinued operations	0.3	0.1	0.6	-
Amortization of intangible assets arising from the 2014 acquisition of Gates	29.0	29.6	115.0	119.5
Transaction-related expenses	0.2	0.8	1.5	2.1
Asset impairments	-	-	1.1	0.6
Restructuring expenses	5.5	0.5	14.5	5.0
Share-based compensation expense	9.5	24.1	29.7	42.4
Inventory impairments and adjustments [1] (included in cost of sales)	0.6	7.6	13.9	9.0
Adjustments relating to post-retirement benefits	(0.7)	(1.6)	(5.6)	(5.0)
Financing and other FX related losses	1.6	2.5	(8.8)	9.0
One-time deferred tax benefit from unrecognized tax benefit [2]	-	-	(26.4)	-
Other adjustments [3]	(1.8)	(2.1)	(5.9)	(18.1)
Credit loss related to customer bankruptcy (included in SG&A) [4]	10.7	-	10.7	-
Cybersecurity incident expenses [5]	5.1	-	5.1	-
Estimated tax effect of the above adjustments	(13.6)	(14.2)	(38.1)	(36.7)
Adjusted Net Income	**$ 72.8**	**$ 78.2**	**$ 323.6**	**$ 388.5**
Diluted weighted average number of shares outstanding	287,878,415	296,238,212		
Adjusted Net Income per diluted share	**$ 0.25**	**$ 0.26**		

(1) During the three and twelve months ended April 1, 2023, inventory impairments and adjustments included $0.6 million and $12.6 million, respectively, for the reversal of the adjustment to remeasure certain inventories on a Last-in-First-out ("LIFO") basis. The recent inflationary environment has caused LIFO values to drop below First-in, First-out ("FIFO") values because LIFO measurement resulted in the more recent inflated costs being matched against current sales while historical, lower costs are retained in inventories.

(2) During the last twelve months ended April 1, 2023, a one-time deferred tax benefit of $26.4 million from unrecognized tax benefits due to lapsed statute of limitations was recognized.

(3) During the last twelve months ended Apr 2, 2022, other adjustments included a $9.3 million net gain on the sale of a purchase option on a building that we lease in Europe.

(4) On January 31, 2023, one of our customers filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. In connection with the bankruptcy proceedings, we evaluated our potential risk and exposure relating to our outstanding pre-petition accounts receivable balance from the customer and have recorded a $10.7 million pre-tax charge to reflect our estimated recovery. We will continue to monitor the circumstances surrounding the bankruptcy in determining whether adjustments to this recovery estimate are necessary.

(5) On February 11, 2023, Gates determined that it was the target of a malware attack. Cybersecurity incident expenses include legal, consulting, and other costs incurred as a direct result of this incident, some of which may be partially offset by insurance recoveries.

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RECONCILIATIONS – FREE CASH FLOW & FREE CASH FLOW CONVERSION

(USD in millions)	Q1 2023	Q1 2022	LTM Q1 2023	LTM Q1 2022
Reconciliation of Free Cash Flow				
Net Cash Provided By (Used In) Operating Activities	$ 52.5	$ (105.4)	$ 423.7	$ 301.0
Capital Expenditures [1]	(14.6)	(18.0)	(83.6)	(84.8)
Free Cash Flow	**$ 37.9**	**$ (123.4)**	**$ 340.1**	**$ 216.2**

(USD in millions)	LTM Q1 2023	LTM Q1 2022
Reconciliation of Free Cash Flow Conversion		
Free Cash Flow	$ 340.1	$ 216.2
Adjusted Net Income	$ 323.6	$ 388.5
Free Cash Flow Conversion	**105.1%**	**55.6%**

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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)	Q1 2023	Q1 2022
Return On Invested Capital (ROIC)		
LTM Adjusted EBITDA	**$ 698.3**	**$ 696.3**
LTM Total depreciation and amortization	(216.6)	(221.9)
LTM Amortization of intangible assets arising from the 2014 acquisition of Gates	115.0	119.5
LTM Adjusted EBIT	**596.7**	**593.9**
Notional tax at 25%	(149.2)	(148.5)
LTM Tax-effected Adjusted EBIT	**$ 447.5**	**$ 445.4**
Total Assets	$ 7,282.4	$ 7,399.1
Adjusted for:		
Cash	(594.9)	(406.8)
Taxes receivable	(41.3)	(47.5)
Deferred tax assets	(607.2)	(610.0)
Prepaid taxes	(11.4)	(13.4)
Accounts payable	(452.1)	(494.5)
Intangibles arising from the acquisition of Gates	(3,348.2)	(3,510.8)
Invested Capital	**$ 2,227.3**	**$ 2,316.1**
Return On Invested Capital	**20.1%**	**19.2%**

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