

Q2 2023 EARNINGS PRESENTATION

AUGUST 4, 2023

LEGAL DISCLAIMERS

CAUTIONARY NOTE REGARDING 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 our outlook for the third quarter and full year 2023, performance of the Company's business and financial results (including margin expansion, operational performance and improvements, cost structures, free cash flow generation, balance sheet management, throughput and productivity rates, and our capital allocation strategy), our manufacturing footprint, volumes, our ability to create shareholder value and return capital to shareholders, demand and backlog trends, incentive compensation, our footprint optimization plan, currency-related trends, and the recovery of certain markets, including China. 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, 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 largest 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.

© 2023 Gates Corporation. All rights reserved.

Q2 2023 KEY HIGHLIGHTS

- **Revenue outpaced guidance midpoint**
  - Solid core growth of ~4% YoY
  - Automotive outperformed industrial markets
- **EBITDA margin improved +120 bps YoY**
  - Adjusted EBITDA margin above 21%
  - Gross margin expanded 170 bps
- **Free cash flow conversion exceeded 100%**
  - Working capital normalizing
  - Seasonally strong free cash flow conversion for 1H
  - Net leverage of 2.8x at quarter-end
- **Raising full year EPS guidance**

RETURNED $250 MILLION TO SHAREHOLDERS VIA ~21.9M SHARE REPURCHASE

© 2023 Gates Corporation. All rights reserved.

Q2 2023 – FINANCIAL PERFORMANCE

$936M

Net Sales

~4% Core Growth YoY

- Strong automotive growth
- Industrial demand uneven

$197M

Adjusted EBITDA

21.1% Adjusted EBITDA margin

- Improved operating environment
- Gross margin drove adjusted EBITDA margin improvement

$0.36

Adjusted Earnings per Share[1]

Operating income expanded ~15% YoY

- Operating income contributed $0.06 of EPS improvement
- Net interest expense was ($0.03) headwind

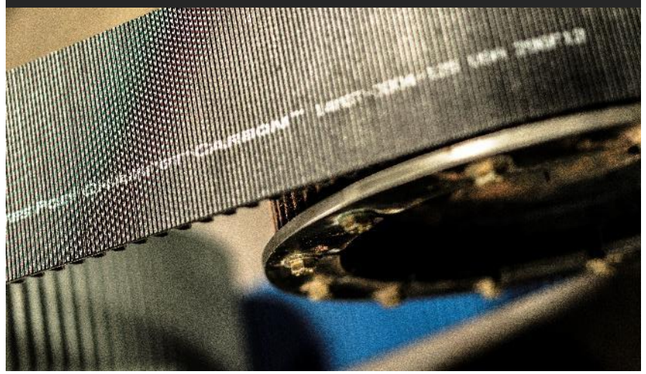
SOLID GROWTH AND OPERATING LEVERAGE YEAR OVER YEAR

© 2023 Gates Corporation. All rights reserved.

[1] Adjusted Net Income per diluted share

Q2 2023 – SEGMENT RESULTS

POWER TRANSMISSION



PERFORMANCE		HIGHLIGHTS
NET SALES	$574M	▪ Strong automotive growth across both first-fit and replacement channels globally
ADJUSTED EBITDA	$119M	▪ Improved operating environment helped fuel 180 bps margin expansion YoY
ADJUSTED EBITDA MARGIN	20.7%	

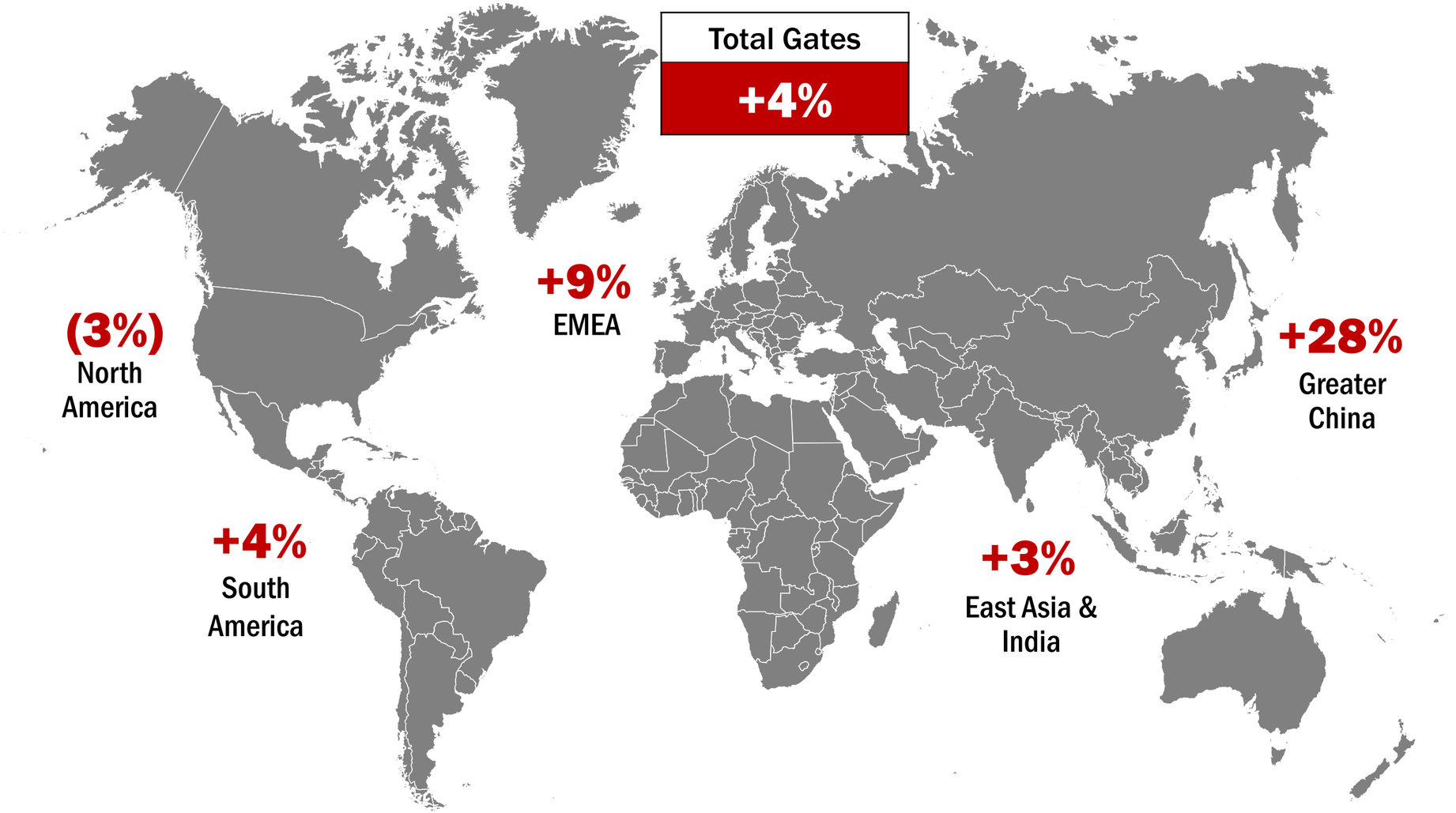
FLUID POWER

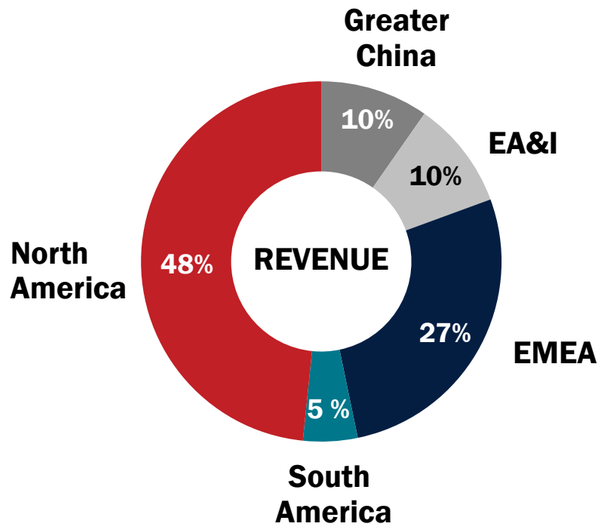


NET SALES	$362M	▪ Construction, Energy, and On-Highway largely offset declines in Agriculture and Diversified Industrial
ADJUSTED EBITDA	$78M	▪ Modest margin expansion on relatively flat revenue
ADJUSTED EBITDA MARGIN	21.6%	

© 2023 Gates Corporation. All rights reserved.

Q2 2023 – REGIONAL CORE REVENUE PERFORMANCE



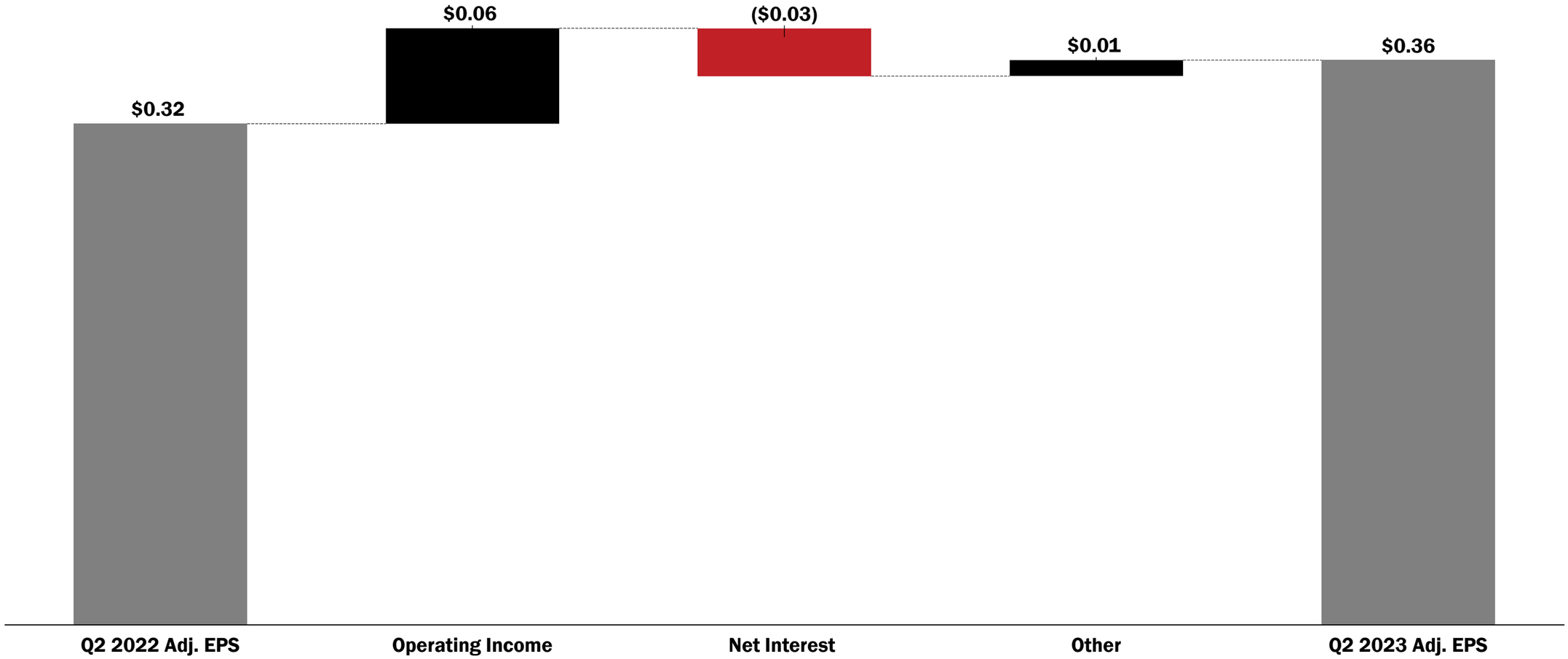


North America affected by record revenue performance in prior year period; EMEA realized auto strength

HEALTHY GROWTH IN EMEA; BROAD AUTOMOTIVE STRENGTH

© 2023 Gates Corporation. All rights reserved.

Q2 2023 ADJUSTED EPS WALK



Note: Figures don't add due to rounding.

EARNINGS GROWTH DRIVEN BY GROSS MARGIN IMPROVEMENT

© 2023 Gates Corporation. All rights reserved.

Q2 2023 – CAPITAL EFFICIENCY & CASH FLOW

$116M
Free Cash Flow

114% conversion

- Stable trade working capital
- LTM FCF conversion = 135%

2.8x
Net Leverage

Net leverage ratio fell 0.5x YoY

- Returned $250M of capital to shareholders
- Improving net leverage metrics

20.6%
ROIC

ROIC expanded 250 basis points YoY

- Improved profitability
- Normalizing working capital trends

CONTINUE TO STRENGTHEN BALANCE SHEET & BUILD CAPITAL ALLOCATION OPTIONALITY

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

© 2023 Gates Corporation. All rights reserved.

UPDATED 2023 GUIDANCE

	PRIOR 2023	UPDATED 2023	B/W (Midpoint)
CORE REVENUE GROWTH	1 – 5%	0 to +2%	(2%)
ADJUSTED EBITDA	$700M – $750M	$710M – $740M	No Change
ADJUSTED EPS	$1.13 – $1.23	$1.18 – $1.24	+$0.03
CAPITAL EXPENDITURES	~$100M	<$100M	Down Slightly
FREE CASH FLOW CONVERSION	100%	100%+	Higher

Q3 ESTIMATES

- **Revenues: $860M - $890M**
  - Core growth flattish YoY at midpoint; currency favorable vs Q3 2022
- **Adjusted EBITDA Margin: Flat at midpoint**
  - Gross margin expansion offset by higher variable comp and SG&A

INCREASED FORECASTS FOR ADJUSTED EPS, ADJUSTED EBITDA MARGIN AND FREE CASH FLOW CONVERSION

© 2023 Gates Corporation. All rights reserved.

SUMMARY THOUGHTS

- **Improving margins as environment normalizes**
  - Better operational performance offsetting weaker industrial volume
  - Streamlining manufacturing footprint
  - Operational improvements sets the foundation for future gross margin expansion opportunity
- **Improving balance sheet flexibility**
  - Increasing free cash flow generation commitment for year
  - Expect to deliver YoY improvement in net leverage ratio at year-end
  - Balanced approach to capital deployment

ON PACE FOR STRONG IMPROVEMENT IN ADJUSTED EBITDA MARGIN RATE AND FREE CASH FLOW CONVERSION YEAR OVER YEAR

© 2023 Gates Corporation. All rights reserved.


Gates

APPENDIX

Q2 2023 ADJUSTED EPS – SUMMARY WALK

Q2 2022	**$0.32**	
OPERATING INCOME	0.06	Improved operating performance from pricing and gross margin improvement
NET INTEREST EXPENSE	(0.03)	Higher interest rate
OTHER	0.01	Income tax expense, minority interest and share count
Q2 2023	**$0.36**	

© 2023 Gates Corporation. All rights reserved.

Q2 2023 ADJUSTED EBITDA & INCREMENTAL MARGIN

(USD in millions)

Reconciliation to Adjusted EBITDA Margin and Incremental Margin

	Q2 2023	Q2 2022	Change
Power Transmission Net Sales	$ 573.9	$ 543.0	$ 30.9
Power Transmission Adjusted EBITDA	$ 119.0	$ 102.4	$ 16.6
Adjusted EBITDA Margin	**20.7%**	**18.9%**	**180 bps**
Incremental Margin			**53.7%**
Fluid Power Net Sales	$ 362.4	$ 363.8	$ (1.4)
Fluid Power Adjusted EBITDA	$ 78.3	$ 77.7	$ 0.6
Adjusted EBITDA Margin	**21.6%**	**21.4%**	**20 bps**
Incremental Margin			**(42.9%)**
Total Net Sales	$ 936.3	$ 906.8	$ 29.5
Total Adjusted EBITDA	$ 197.3	$ 180.1	$ 17.2
Adjusted EBITDA Margin	**21.1%**	**19.9%**	**120 bps**
Incremental Margin			**58.3%**

© 2023 Gates Corporation. All rights reserved.

RECONCILIATIONS – CORE REVENUE GROWTH

(USD in millions)	Power Transmission	Fluid Power	Q2 2023
Reconciliation of Core Revenue Growth			
Net sales for the quarter ended July 1, 2023 [1]	**$ 573.9**	**$ 362.4**	**$ 936.3**
Impact on net sales of movements in currency rates	7.1	(1.6)	5.5
Core revenue for the quarter ended July 1, 2023	**$ 581.0**	**$ 360.8**	**$ 941.8**
Net sales for the quarter ended July 2, 2022	543.0	363.8	906.8
Increase in net sales on a core basis (core revenue)	**$ 38.0**	**$ (3.0)**	**$ 35.0**
Core revenue growth (decline)	**7.0%**	**(0.8%)**	**3.9%**

(USD in millions)	Power Transmission	Fluid Power	YTD Q2 2023
Reconciliation of Core Revenue Growth			
Net sales for the six months ended July 1, 2023 [1]	**$ 1,122.0**	**$ 712.0**	**$ 1,834.0**
Impact on net sales of movements in currency rates	32.5	4.1	36.6
Core revenue for the year ended July 1, 2023	**$ 1,154.5**	**$ 716.1**	**$ 1,870.6**
Net sales for the six months ended July 2, 2022	1,098.6	701.6	1,800.2
Increase in net sales on a core basis (core revenue)	**$ 55.9**	**$ 14.5**	**$ 70.4**
Core revenue growth	**5.1%**	**2.1%**	**3.9%**

© 2023 Gates Corporation. All rights reserved.

(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)	Q2 2023	Q2 2022	YTD Q2 2023	YTD Q2 2022	LTM Q2 2023	LTM Q2 2022
Reconciliation to Adjusted EBITDA						
Net Income from Continuing Operations	**$ 71.3**	**$ 59.3**	**$ 102.2**	**$ 96.7**	**$ 248.4**	**$ 246.1**
Adjusted for:						
Income tax expense (benefit)	9.6	12.3	24.9	10.1	29.7	(2.0)
Net interest and other expenses	48.2	41.1	89.3	74.3	141.2	143.4
Depreciation and amortization	54.0	55.8	108.5	110.9	214.8	220.8
Transaction-related expenses	0.6	0.5	0.8	1.3	1.6	2.4
Asset impairments	-	0.6	-	0.6	0.5	1.2
Restructuring expenses	2.2	3.2	7.7	3.7	13.5	4.5
Share-based compensation expense	6.8	3.5	16.3	27.6	33.0	39.4
Inventory impairments and adjustments [1] (included in cost of sales)	3.5	3.6	4.1	11.2	13.8	12.5
Severance expenses (included in cost of sales)	-	-	0.5	-	1.3	-
Severance expenses (included in SG&A)	0.3	0.1	0.9	0.4	1.0	0.8
Credit loss related to customer bankruptcty (included in SG&A) [2]	0.7	-	11.4	-	11.4	-
Cybersecurity incident expenses [3]	-	-	5.1	-	5.1	-
Other items not directly related to current operations [4]	0.1	0.1	0.1	0.1	0.2	(8.7)
Adjusted EBITDA	**$ 197.3**	**$ 180.1**	**$ 371.8**	**$ 336.9**	**$ 715.5**	**$ 660.4**
Adjusted EBITDA margin						
Net Sales	$ 936.3	$ 906.8	$ 1,834.0	$ 1,800.2	$ 3,588.0	$ 3,478.2
Adjusted EBITDA	$ 197.3	$ 180.1	$ 371.8	$ 336.9	$ 715.5	$ 660.4
Adjusted EBITDA margin	**21.1%**	**19.9%**	**20.3%**	**18.7%**	**19.9%**	**19.0%**
Reconciliation to Net Leverage						
Total principal amount of debt					$ 2,581.6	$ 2,582.5
Less: Cash and cash equivalents					(565.0)	(393.2)
Net Debt					**$ 2,016.6**	**$ 2,189.3**
Net Leverage (Net Debt divided by LTM Adjusted EBITDA)					**2.8 x**	**3.3 x**

(1) During the three, six and twelve months ended July 1, 2023, inventory impairments and adjustments included $3.5 million, $4.1 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 $0.7 million, $11.4 million and $11.4 million pre-tax charge for the three, six and twelve months ended July 1, 2023, respectively, 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 July 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.

© 2023 Gates Corporation. All rights reserved.

RECONCILIATIONS – ADJUSTED NET INCOME

(USD in millions, except share numbers and per share amounts)	Q2 2023	Q2 2022	YTD Q2 2023	YTD Q2 2022	LTM Q2 2023	LTM Q2 2022
Reconciliation to Adjusted Net Income						
Net Income Attributable to Shareholders	**$ 64.9**	**$ 53.1**	**$ 91.3**	**$ 84.0**	**$ 228.1**	**$ 216.9**
Adjusted for:						
Loss on the disposal of discontinued operations	0.1	0.2	0.4	0.3	0.5	0.6
Amortization of intangible assets arising from the 2014 acquisition of Gates	29.2	29.1	58.2	58.7	115.1	118.4
Transaction-related expenses	0.6	0.5	0.8	1.3	1.6	2.4
Asset impairments	-	0.6	-	0.6	0.5	1.2
Restructuring expenses	2.2	3.2	7.7	3.7	13.5	4.5
Share-based compensation expense	6.8	3.5	16.3	27.6	33.0	39.4
Inventory impairments and adjustments [1] (included in cost of sales)	3.5	3.6	4.1	11.2	13.8	12.5
Adjustments relating to post-retirement benefits	(0.8)	(1.6)	(1.5)	(3.2)	(4.8)	(5.5)
Financing and other FX related losses (gains)	6.0	9.6	7.6	12.1	(12.4)	18.2
One-time deferred tax benefit from unrecognized tax benefit [2]	-	-	-	-	(26.4)	-
Credit loss related to customer bankruptcy (included in SG&A) [3]	0.7	-	11.4	-	11.4	-
Cybersecurity incident expenses [4]	-	-	5.1	-	5.1	-
Other adjustments [5]	(0.8)	(1.6)	(2.6)	(3.7)	(5.1)	(16.9)
Estimated tax effect of the above adjustments	(10.8)	(10.0)	(24.4)	(24.2)	(38.9)	(38.6)
Adjusted Net Income	**$ 101.6**	**$ 90.2**	**$ 174.4**	**$ 168.4**	**$ 335.0**	**$ 353.1**
Diluted weighted average number of shares outstanding	279,915,448	286,038,818				
Adjusted Net Income per diluted share	**$ 0.36**	**$ 0.32**				

(1) During the three, six and twelve months ended July 1, 2023, inventory impairments and adjustments included $3.5 million, $4.1 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 July 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) 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 $0.7 million, $11.4 million and $11.4 million pre-tax charge for the three, six, and twelve months ended July 1, 2023, respectively, 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.

(4) 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.

(5) During the last twelve months ended July 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.

© 2023 Gates Corporation. All rights reserved.

RECONCILIATIONS – FREE CASH FLOW & FREE CASH FLOW CONVERSION

(USD in millions)	Q2 2023	Q2 2022	YTD Q2 2023	YTD Q2 2022	LTM Q2 2023	LTM Q2 2022
Reconciliation of Free Cash Flow						
Net Cash Provided By (Used In) Operating Activities	$ 131.4	$ 23.6	$ 183.9	$ (81.8)	$ 531.5	$ 188.8
Capital Expenditures [1]	(15.2)	(20.1)	(29.8)	(38.1)	(78.7)	(81.1)
Free Cash Flow	**$ 116.2**	**$ 3.5**	**$ 154.1**	**$ (119.9)**	**$ 452.8**	**$ 107.7**

(USD in millions)	Q2 2023	Q2 2022	YTD Q2 2023	YTD Q2 2022	LTM Q2 2023	LTM Q2 2022
Reconciliation of Free Cash Flow Conversion						
Free Cash Flow	$ 116.2	$ 3.5	$ 154.1	$ (119.9)	$ 452.8	$ 107.7
Adjusted Net Income	$ 101.6	$ 90.2	$ 174.4	$ 168.4	$ 335.0	$ 353.1
Free Cash Flow Conversion	**114.4%**	**3.9%**	**88.4%**	**(71.2%)**	**135.2%**	**30.5%**

© 2023 Gates Corporation. All rights reserved.

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

RECONCILIATIONS – RETURN ON INVESTED CAPITAL (ROIC)

(USD in millions)	Q2 2023	Q2 2022
Return On Invested Capital (ROIC)		
LTM Adjusted EBITDA	**$ 715.5**	**$ 660.4**
LTM Total depreciation and amortization	(214.8)	(220.8)
LTM Amortization of intangible assets arising from the 2014 acquisition of Gates	115.1	118.4
LTM Adjusted EBIT	**615.8**	**558.0**
Notional tax at 25%	(154.0)	(139.5)
LTM Tax-effected Adjusted EBIT	**$ 461.8**	**$ 418.5**
Total Assets	$ 7,276.9	$ 7,198.0
Adjusted for:		
Cash	(565.0)	(393.2)
Taxes receivable	(54.9)	(64.9)
Deferred tax assets	(618.4)	(557.6)
Prepaid taxes	(11.4)	(13.4)
Accounts payable	(470.7)	(478.8)
Intangibles arising from the acquisition of Gates	(3,318.5)	(3,382.2)
Invested Capital	**$ 2,238.0**	**$ 2,307.9**
Return On Invested Capital	**20.6%**	**18.1%**

© 2023 Gates Corporation. All rights reserved.