30-Jul-2025

Gates Industrial Corp. Plc (GTES)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. My name is Eric, and I will be your conference operator today. At this time, I would like to welcome everyone to the Gates Industrial Corporation Q2 2025 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn the call over to Rich Kwas, Vice President-Investor Relations. Please go ahead.

Rich Kwas
Vice President-Investor Relations & Strategy, Gates Industrial Corp. Plc

Greetings, and thank you for joining us on our second quarter 2025 earnings call. I'll briefly cover our non-GAAP and forward-looking language before passing the call over to our CEO, Ivo Jurek, who will be followed by Brooks Mallard, our CFO.

Before the market opened today, we published our second quarter 2025 results. A copy of the release is available on our website at investors.gates.com. Our call this morning is being webcast and is accompanied by a slide presentation.

On this call, we will refer to certain non-GAAP financial measures that we believe are useful in evaluating our performance. Reconciliations of historical non-GAAP financial measures are included in our earnings release and slide presentation, each of which is available in the Investor Relations section of our website.

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Please refer now to slide 2 of the presentation, which provides a reminder that our remarks include forward-looking statements within the meaning of the Private Securities Litigation Reform Act. These forward-looking statements are subject to risks that could cause actual results to be materially different from those expressed in or implied by such forward-looking statements. These risks include, among others, matters that we have described in our most recent annual report on Form 10-K and in other filings we make with the SEC, including our Q1 quarterly report on Form 10-Q that was filed in April 2025. We disclaim any obligation to update these forward-looking statements.

This quarter, we will be attending the Jefferies Industrials Conference, the Morgan Stanley Laguna Conference, and the RBC Capital Markets Global Industrials Conference all in September and look forward to meeting many of you. Before we start, please note all comparisons are against the prior year period, unless stated otherwise.

And now I'll turn it over to Ivo.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

Thank you, Rich. Good morning, everyone, and thank you for joining us on our call today.

Let's begin on slide 3 of the presentation. In the second quarter, Gates delivered solid results as revenues outperformed our guidance supported by more favorable currency expense. Core revenue performance was in line with our April guidance. Core growth in our replacement channel was up supported by low-single-digit growth in both automotive and industrial. In the industrial end markets, personal mobility had another quarter of double-digit growth and off-highway was flat, with growth in agriculture, offsetting a decline in construction.

We delivered solid operating performance in the quarter with adjusted EBITDA margin solidly exceeding 22%, in line with our expectations. Gross margin expanded 40 basis points as we continue to make progress with our various enterprise initiatives. Our balance sheet continues to trend towards our short-term target of below 2 times net leverage. Our net leverage declined to 2.2 times at the quarter end. Our free cash flow grew year-over-year.

We have updated our 2025 guidance, raising our adjusted EBITDA midpoint to $780 million, and our adjusted EPS midpoint to $1.48. We have maintained our core growth midpoint of 1.5% and narrowed the range. Brooks will discuss the updated guidance in more detail later in the presentation.

We continue to execute well in an uncertain macro environment, and we are focused on what we can control. Our in-region, for-region operational structure is proving itself effective as the enacted tariffs continue to fluctuate, and we have been able to mitigate the impact to our business.

Please turn to slide 4. Second quarter total sales were $884 million, which represented a 0.6% decline on a core basis. Foreign currency was slightly positive versus the prior year period. During the second quarter, underlying demand conditions for our products were as expected. We experienced strong growth in personal mobility, which we had anticipated at the start of the year. Our replacement channels were constructive, posting low-single-digit growth. Notably, the industrial replacement channel realized positive core growth for the first time since Q1 2023. Our automotive end market was approximately flat with growth in auto replacement, offset by decline in auto OEM. Additionally, industrial OEM sales were under pressure, primarily due to soft demand in construction and on-highway.

Adjusted EBITDA was $199 million with adjusted EBITDA margin coming in at 22.5%, a decrease of 30 basis points. Of note, a one-time $7 million gain on a real estate transaction recognized in the year-ago period had an

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80 basis point impact on the adjusted EBITDA margin comparison. Gross margin was 40.8% in the quarter and has remained above 40% for five consecutive quarters, despite uneven demand trends. We continue to progress towards our mid-term margin targets for both gross profit margin and adjusted EBITDA margin.

Adjusted earnings per share was $0.39, an increase of approximately 8%. Underlying operating performance contributed $0.04, partially offset by the non-recurring real estate gain of $0.02 recognized in the year-ago period and unfavorable foreign exchange of $0.01. Lower interest expense and lower share count contributed about $0.02 on combined basis.

On slide 5, we'll review our segment highlights. In the Power Transmission segment, we generated revenues of $550 million in the quarter and were up slightly on a core basis. High-single-digit growth in industrial OEM sales was mostly offset by decline in automotive OEM sales. Personal mobility grew 18% in the quarter, and we continued to execute well on the ramp-up of new design wins. The replacement channel was stable with slight growth year-over-year. We are investing in our commercial [ph] front end (00:23:48) and innovation in areas of strategic growth potential to position the company to capitalize on opportunities ahead of us.

In the Fluid Power segment, our sales were $334 million, which translated to a 2.5% decrease on a core basis. End market dynamics were mixed in the quarter. On-highway was incrementally weaker as commercial truck production forecasts have been revised lower, particularly in North America. Softer construction demand continued, however, this was partially offset by low-single-digit growth in agriculture, which is the first positive read since Q4 2022. We believe the ag market is close to the bottom of the current destocking cycle.

Demand in replacement business was healthy, supported by automotive and industrial, which each grew low-single-digits. Industrial OEM sales declined low-double-digits on a core basis. Additionally, we are beginning to see a meaningful acceleration of quoting and booking activity in the data center market, which we expect to positively benefit the Fluid Power segment towards end of this year and mainly as we enter 2026.

Adjusted EBITDA margin for the Power Transmission segment declined 50 basis points year-over-year, partly due to higher spending on research and development projects to support new product development in personal mobility and industrial chain to belt. Fluid Power expanded adjusted EBITDA margins by 10 basis points and benefited from more stable revenue performance in the off-road markets and favorable replacement activity, partially offset by investments in data center initiatives.

I will now pass the call over to Brooks for further comments on our results.

Lawrence Brooks Mallard

Executive Vice President & Chief Financial Officer, Gates Industrial Corp. Plc

Thank you, Ivo. I'll begin on slide 6 and review our core sales performance by region. Our key Asian geographies grew contributing nicely to the quarter. This was offset by mixed macro conditions in the Americas and EMEA. In North America, core sales declined 1.3% and were primarily affected by lower OEM demand. Industrial OEM channel sales decreased low-teens and were most impacted by lower demand in construction and on-highway. North American replacement channel sales expanded low-single-digits led by mid-single-digit growth in industrial replacement, demonstrating a gradually improving trend. Auto replacement increased low-single-digits. At the end market level, personal mobility and diversified industrial were solid contributors.

In EMEA, core sales fell just over 1%. OEM sales were down mid-single-digits with automotive weakness more than offsetting low-single-digit growth in industrial. Replacement sales were mixed with automotive replacement

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core growth in the low-single-digits and industrial replacement down mid-single digits. The energy and diversified industrial end markets were also down year-over-year.

East Asia & India posted approximately 4% core growth and saw growth across all industrial end markets. Automotive OEM sales were down slightly, but this was more than offset by mid-teens growth in automotive replacement. China core sales expanded slightly year-over-year, with growth in industrial end markets, partially offset by declines in automotive. South America core sales declined low-single-digits.

On slide 7, we lay out the key drivers of our year-over-year change in adjusted earnings per share. Underlying operating performance contributed approximately $0.04 per share, driven by gross margin expansion. The operating performance was offset by a $0.02 headwind from the non-recurring favorable benefit realized in the prior year period. Foreign exchange was a $0.01 drag on earnings per share. Lower interest expense and a lower share count contributed $0.02 on a combined basis.

Slide 8 offers an overview of our cash flow performance and balance sheet metrics for the second quarter. Our free cash flow was $74 million, growing 11% year-over-year and represented 73% conversion to adjusted net income. Our last 12 months free cash flow conversion is also trending up, reaching 80% in the quarter. Our net leverage ratio declined to 2.2 times, which was a 0.1 times improvement compared to the prior year period as well as the first quarter. Our cash balance continues to build and exceeded $700 million in the quarter. Furthermore, we intend to pay down an additional $100 million of gross debt at the end of July.

Through a balanced capital deployment strategy, we believe we're on track to reduce our net leverage below 2 times by year-end 2025. Our trailing 12-month return on invested capital was 21.3%, and we continue to invest in high-return internal projects that we believe will improve our competitive position.

Turning to our updated 2025 guidance on slide 9. We have increased our adjusted EBITDA and adjusted earnings per share guidance at the midpoint. We are updating our full year 2025 core revenue growth expectation to be in the range of 0.5% to 2.5%, maintaining the midpoint at 1.5%. We have increased our adjusted EBITDA guidance to a range of $765 million to $795 million, a $15 million increase at the midpoint due to more favorable foreign currency trends since the beginning of the year. Please recall, heading into the year, we had about a $10 million profit headwind on foreign exchange relating to a favorable hedge impact that we realized in 2024.

As FX rates have swung to be favorable from a translation perspective, we have seen it roll through and have adjusted our guidance upwards $15 million. Embedded in the adjustment is the realization of some actual and expected unfavorable FX hedge impacts that we should realize in 2025. We now expect adjusted earnings per share to be in the range of $1.44 per share to $1.52 per share, an increase of $0.04 at the midpoint. Our guidance for capital expenditures and free cash flow conversion remains unchanged.

For the third quarter, we estimate total revenues to be in the range of $845 million to $885 million and core revenues to be up approximately 3% at the midpoint. For the third quarter, we expect our adjusted EBITDA margin to increase in a range of 50 basis points to 90 basis points compared to Q3 2024.

Before I turn the call over to Ivo, I'll provide a brief update on tariffs. At current tariff rates, we now expect an annualized impact of approximately $50 million and anticipate incurring approximately 35% to 40% of the impact in the second half of 2025. We intend to cover 85% to 90% of the projected impact of price and employ various operational and supply chain actions to cover the remainder. We continue to expect to be neutral for the year on a dollar basis.

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I will now turn the call back to Ivo.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

Thank you, Brooks. On slide 10, we outlined our data center product portfolio and the types of customers we are presently supporting. On the left side, you see a sample of our product portfolio. We launched our Data Master Hose last year and added larger sizes to accommodate the increased flow requirements required by the industry. Earlier this month, we introduced our Universal Quick Disconnect fitting specified for the data center environment in multiple sites. Our electric pump is gaining traction and we continue to scale up pump portfolio to accommodate the higher flow rates required in liquid-cooled data centers, while preserving a compact size and energy efficiency.

On the right side, you see we are serving a wide array of customers, from data center operators to service contractors, and everyone in between. Currently, we are in negotiations with a major hyperscaler to supply in 2026. We have also secured a design win for our data center electric pump with an Asian-based EMS supplier in support of a large US-based server manufacturer that we estimate could be worth multiple millions of dollars in revenues as we get into full production in 2026. We have developed relationships with service contractors and engineering firms that are actively involved in the buildout of data centers, and one additional business to supply our Data Master MegaFlex hose in support of data center campus project located in Texas.

Additionally, we have established close working relationships with the critical infrastructure providers for the data center market and anticipate having additional design wins awarded through these partners in the near future. We are pleased with the momentum in our product development and commercial coverage, and we believe that our revenue base is poised to inflect nicely over the next couple of years.

On slide 11, I'll provide a brief update on our personal mobility business. We continue to make investments to enter new applications and support new product development, as well as expand and scale commercial competencies to drive penetration. Our innovation efforts are translating into relevance across new applications. We have product offerings available for e-mountain bikes and [ph] value e-bikes (00:35:41), relatively new markets for us that are gaining traction and augments our mid- to long-term penetration opportunity.

Our innovation efforts are centered on adding incremental performance at lower costs. At Gates, we are redefining how designers achieve transmission of power to motion while enhancing look and feel. Our opportunity pipeline currently exceeds $300 million, and we believe the business is well-positioned to exceed $300 million of revenues by 2028, which implies a compound annual growth rate of approximately 30%. product portfolio and fulfillment capabilities to drive further market outgrowth. Of note, we believe the industrial off-road market has started to bottom, and we realized core growth in agriculture for the first time in two years this past quarter.

Concurrently, we remain highly focused on improving our gross margins through a mix of material cost savings, footprint optimization and productivity. Second, our business possesses multiple secular growth opportunities. In personal mobility, the design wins we have achieved over the last couple of years are fueling outgrowth as the two-wheeler market has stabilized. Moreover, our opportunity pipeline exceeds $300 million, which provides us good visibility to our future outgrowth potential given our historical win rates.

As we discussed previously on the data center slide, we are beginning to book relevant wins. We believe the expansion of the liquid cooling market, coupled with the product development and people investments we are making, positions us to organically grow business nicely through the end of the decade. Both personal mobility and data centers add a secular growth algorithm to our shareholder value proposition.

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Lastly, we anticipate our investments in the new belts and sprockets are going to bring belt drives close to cost parity with chains over the next few years and potentially unlock a meaningful uptick in the Chain to Belt conversions across stationary industrial automation applications. Our new product innovation pipeline is growing to support new applications as well as to improve existing ones. And I am optimistic that our vitality rate is poised to increase nicely over the mid-term. call back over to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Nigel Coe with Wolfe Research. Please go ahead.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Thanks. Good morning, guys. Appreciate the first question. So, I think just the first question would be the confidence and conviction in that pivot to growth in the third quarter, the 3%. So just curious to what degree you're seeing. Obviously, the comps are getting easier, so that's one factor. But what are you seeing in order rates, backlog? And then maybe just the incremental price contribution in 3Q versus 2Q, just any help there would be welcome?

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. Good morning, Nigel. Thank you for your question. Look, our order rates have been as we have anticipated, as we kind of entered Q2 and kind of as we exited July. We continue to see a nice portion of our end markets that seem to be troughing with maybe the on-highway exposure continuing to still decelerate a bit. But that's probably the primary market maybe with oil and gas that are still kind of going down to a degree. But if you think about industrial replacement, industrial replacement is seeing improvements in demand. Automotive replacement remains stable and very accretive for us, obviously, globally. And personal mobility, as I've indicated, has accelerated meaningfully post kind of a two-year destock that we have dealt with last year and the year before.

So, our degree of confidence is reasonably good that we will start seeing a very nice accretion in growth rates. I mean, it will be steady from where we sit. Yes, as you indicated, more – maybe easier comp is a part of it. Personal mobility is going to continue to power forward and accelerate, as I've indicated, into the second half. We got a little bit of price. So, all in, we feel reasonably positively about – obviously, about the guidance that we have provided the Street.

Nigel Coe
Analyst, Wolfe Research LLC

Q

That's great. Thanks, Ivo. And my follow-on is a shock horror surprise on data centers. I mean, really appreciate the color on the pipeline. I think you've said in the past, Ivo, that this could easily be similar scale to the personal mobility market. So, call it, $100 million, $150 million in the next two or three years. Has your view changed on that opportunity sets based on what you've seen out there?

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Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc
A

I want to be very careful how I represent it, Nigel, but I would probably say that I maybe see it even more bullishly than at that point in time. Obviously, there's no linear path from where we sit today up. But, look, we are invoicing dramatically more revenue today than we have done prior year from a very small base, obviously. But the amount of programs that we are involved with across the portfolio that we have delineated, and I would be remiss if I didn't throw our belts in there that go into the industrial HVACs. So, our entire portfolio of products participate in data center cooling.

And I think what – the inflection that we see, Nigel, is driven by the more rapid adaption of liquid cooling now, as everybody is realizing that just forced air is not going to get you there. That's evolving superfast and it's putting actually quite a bit of strain on our organization. And that's why we spoke a little bit about more investment to be able to keep up with it, to sample, to get certified, qualified, put on a stack. It's looking quite all right for us. I think that, that – certainly that $150 million that I've spoken about is probably doable.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Great. Thanks, Ivo.

Rich Kwas
Vice President-Investor Relations & Strategy, Gates Industrial Corp. Plc
A

Thanks, Nigel.

Operator: Your next question comes from the line of Deane Dray with RBC Capital Markets. Please go ahead.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

Thank you. Good morning, everyone.

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc
A

Good morning, Deane.

Lawrence Brooks Mallard
Executive Vice President & Chief Financial Officer, Gates Industrial Corp. Plc
A

Hey. Good morning.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

Hey. Just want to circle up on the auto OE softness, and look, everyone is seeing that. But what I think is unique about Gates is, historically, you've always had strategically selectivity in terms of what auto OE first fit business you would go after. So on – is the softness in any way reflected on some of the discretionary business that you have declined to pursue, or is it entirely just lower production?

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Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Thank you for your question, Deane. And I think that you're correct. I've spoken many years about selective participation, and we continue to – we continue with that philosophy moving forward. It's really not that important part of our revenue stream. Again, to remind everybody, we've taken it from about 17%, 18% at the IPO down to less than 10% presently. And we will continue with our process of selective participation. We have tremendous amount of growth initiative, organically focused that we believe will continue to dilute further that revenue mix. But I would also say that there is a weakness, in particular, in Europe in production. North America was slightly – maybe slightly a less in volumes than what I think the original assumptions used to be. But it's not – that's not been the issue. The issue has been really more around Europe and the impact, I think, of tariffs on the production that was especially targeted for exports.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

That's really helpful. And just second question is, I find it really interesting your point on the Chain to Belt conversion. Talking about how belts and sprockets are kind of reaching a point where there's a – they're equal to the kind of legacy chain costs. So, what's been driving that, give maybe some numbers around how those two cost points compare? And does that make it even more compelling and accelerating this whole conversion?

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. Thank you for the question. It's a little more complex question. And I'll try to be brief. Look, when we started this journey in 2018, 2019, the cost premium of belt drive to a chain drive was about 2.5x of a chain drive, if you use a belt drive. But the payback on switching away from chain drive to a belt drive was very, very good because of the value we provide, uptime, no need to tension the drive, no need to lubricate, lower energy consumption. So, the payback was very good for installed base. But when we talked to machine builders, machine builders really wanted us to get much closer to the cost parity so that when they design belt drive in, there would not be a cost premium. And as you can imagine, there are two different end users, an OEM that's building the equipment that's got different value drivers versus the end user that's utilizing the apparatus that's really more focused on efficiency and reduced maintenance amount.

So, we've worked quite diligently over the last four years or five years investing in alternative technologies of manufacturing, construction. And we are coming up with a sprocket technology that we believe is going to give us a rather substantial cost advantage and it's the sprocket, in particular, that is required to drive that cost down. And so, while we are not at cost parity yet and as I indicated in my prepared remarks, we are probably 12 months to 24 months away from that.

We believe that we are making rather meaningful progress with our cost structure and the technology evolution that will get us so much closer to that cost parity and open doors for adaption at [ph] the OEM space (00:49:49) on the industrial application side and stationary application side. we didn't forecast tariffs that brought in tremendous amount of volatility and uncertainty in some of the things that we have been dealing with in Q2. And I think that people are kind of still processing about back half of the year. We're quite encouraged about ag. Again, ag was over a two years, two-and-a-half years negative. So, I think that we're starting to see some stability in there.

PMI, PMIs have been terrible, obviously. As you know, kind of with the exception of a couple of months, it's maybe like 34 months that we have had negative PMI print that I think is starting to stabilize. It's still below 50, but

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it's starting to bring some stability. And my anticipation is and certainly that's when I look at our industrial replacement order rates, it would indicate that while it's not great, it's not decelerating. And actually, in Q2, we had a positive print on industrial replacement, which was quite good.

Off-road still remains a headwind, particularly in construction. On-road is incrementally worse. So, I would say that those two end markets are still not great. But our automotive replacement business continues to power forward and is quite positive delivering great deal of stability for our revenue stream historically and on forward-going basis. And auto is kind of around the edges what we've anticipated, maybe a little worse in Europe, but it's hanging in there in Asia, and maybe marginally worse in North America. And personal mobility is just superhot. It's rebounding nicely and it's giving us the opportunity to offset some of the negative print in some of the other markets. So, hopefully, that gives you a bit of color.

Jeffrey D. Hammond
Analyst, KeyBanc Capital Markets, Inc.

Q

Oh, that's good. Can you just talk about how you're thinking about buyback into the second half of the year and just the confidence that you hit your free cash flow conversion? I know there's – some people have talked about benefits from the tax bill, but [ph] you're just (00:52:58) confidence in hitting the free cash flow targets as well? we take a balanced approach. We are committed to getting our gross debt below $2 billion. We're committed to getting our leverage below 2 times, right? And so, that means we've got to lock in some of the cash generation by paying down debt, which we're going to do in Q3. We still think our stock is undervalued. So, stock buyback remains a good option for us. So, from a capital deployment perspective, all options are on the table as we continue to generate cash.

From generating our 90% cash conversion, look, over the past year-and-a-half, we've invested in working capital. We've improved our service levels dramatically. We think it's paid dividends for us, particularly on the replacement business. And now that that's leveled off and some of our enterprise initiatives around supply chain are working, we feel like we'll be able to dial down that investment, certainly not increase it and dial it down some and drive working capital down and maintain our service levels and be able to serve our replacement customers as well as we ever have. So, we've got good conviction that not only can we continue to invest from a capital spending perspective, but we've been investing more over the past six quarters. But we can continue to deliver very nice cash generation and cash conversion for 2025 and onward.

Jeffrey D. Hammond
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Thanks so much.

Rich Kwas
Vice President-Investor Relations & Strategy, Gates Industrial Corp. Plc

A

Thanks, Jeff.

Operator: Your next question comes from the line of Julian Mitchell with Barclays. Please go ahead.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Hi. Good afternoon. Maybe just the first question around the EBITDA margin outlook. So, I think the second half guide is embedding sort of high-30s operating leverage year-on-year in both quarters. I just wanted to make sure

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that that's roughly accurate? And is that a good sort of place holder when we start to think about 2026, assuming that that sort of low-single-digit organic sales growth backdrop can remain intact?

Lawrence Brooks Mallard
Executive Vice President & Chief Financial Officer, Gates Industrial Corp. Plc

A

No, you're spot on. The high-30s, almost [ph] to 40% (00:55:30) leverage, but then how we're thinking about the back half of the year is where we should be. Yeah, I think about 2026 and going forward, we're going to continue to drop through on core growth to kind of that mid-30s level plus, the enterprise initiatives should put us in that kind of 40-handle range in terms of the drop through on the additional sales. And you look at where our growth opportunities are in mobility, the replacement business is doing well, and that's a little bit of a favorable mix kicker in there. So, we feel pretty confident about that from a incremental earnings perspective.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

That's helpful. Thanks, Brooks. And then maybe one for Ivo, more on the sort of demand backdrop. I guess one part is just have you seen anything interesting in terms of recent sort of cadence of demand moving around in the last month or two? And then maybe related to that, when you're looking at your sort of half a dozen main end market verticals, have you changed the perspective on any of them today in terms of the year's outlook versus January or April? It sounded like perhaps on-highway, North America is one that's changed for the worse. Any others to call out?

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. Julian, good afternoon to you. Not meaningfully. I think that the end markets are still around the edges, more or less, as you have described. I would just say they've been meaningfully mid-single-digit kind of a worse in on-highway as I've described. The rest of the markets are kind of hanging in there. Look, we're speaking about markets, not about our opportunity to drive growth. So, as an example, I take a look at mobility and what we have represented by mobility. I mean, the end units are not growing, which is driving dramatic level of penetration post-COVID destock. And so, while the market maybe remaining somewhat positive around the edges for us, we're delivering significant growth because of the design wins that we have won over the last couple of years.

So, I think that we're primarily focused on self-help, Julian, where we believe that we can deliver revenue above market growth rate. And that's really what we want to continue to demonstrate taking onboard some of the feedback that we have been receiving over the last couple of years from the market. I would though highlight that we do see in a particular the data center, a liquid-cooling market that's kind of a feeding frenzy now. It's really quite amazing how much – how many opportunities there are and just landing them. And this will be an opportunity for us where unlike maybe some of the other traditional markets that Gates used to participate, we should start recognizing revenue reasonably quickly. So, we anticipate we're going to have some revenue from products that we're going to be ramping up actually in Q4. I mean, it's not going to be massive, but it's going to be a preproduction type revenue and then a meaningful step-up into 2026.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

That's great. Thank you.

Rich Kwas
Vice President-Investor Relations & Strategy, Gates Industrial Corp. Plc

A

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Thank you, Julian.

Operator: Your next question comes from the line of Mike Halloran with Baird. Please go ahead.

Michael Halloran
Analyst, Robert W. Baird & Co., Inc.

Q

Hey. Good morning, everyone.

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Good morning, Michael.

Lawrence Brooks Mallard
Executive Vice President & Chief Financial Officer, Gates Industrial Corp. Plc

A

Hey.

Michael Halloran
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Couple of things. More follow-up than anything. One, just want to clarify, you guys are – other than maybe personal mobility, it doesn't sound like you're saying fundamentals are necessarily you're assuming in guidance an acceleration in underlying fundamentals more steady as she goes, normal sequentials in the back half of the year against relatively easy comps, and then layering on some growth initiatives. Is that a fair characterization?

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yes, it is.

Michael Halloran
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. And then second question on the data center side of things, just curious what the opportunity set looks like either organically or inorganically, either new product development or acquisitions layer on kind of broaden out the exposures there relative to what you're already doing, obviously, very exciting. I'm curious if there's other tangential areas you see that complement what you're already pushing forward on?

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. Look, I think it's a terrific question. I would probably punt on the M&A side, to be honest with you, because our opportunity set organically is rather significant. I think that when we start talking about build-out of our portfolio about a year, year-and-half back, or whenever it was, we were kind of scoping certain penetration of liquid-cooling of new data center space. I would venture to say that it's going to be dramatically bigger than what we thought that it will couple of years ago. So, in essence, I think that there's going to be a lot more liquid-cooling penetration on forward-going basis that I think anybody anticipated. We have built a really nice portfolio around the core competencies that we have as a company.

So, we are not really stretching ourselves and reaching out to any sort of adjacent technologies. We are just chopping wood and keeping our head down with core portfolio, tailoring our products around the requirements of

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liquid-cooling. Obviously, high degree of requirements, high reliability, precision, reliability of supply. Those are core strengths to Gates Corporation. That's where we are good. And we believe that we will have a meaningful opportunity to deliver nice growth as we move forward over the next 12, 24, 36 months.

Michael Halloran
Analyst, Robert W. Baird & Co., Inc.

Q

Thanks, Ivo. Appreciate it.

Rich Kwas
Vice President-Investor Relations & Strategy, Gates Industrial Corp. Plc

A

Thanks, Mike.

Operator: Your next question comes from the line of Damian Karas with UBS. Please go ahead.

Zachary Walljasper
Analyst, UBS Securities LLC

Q

Hi. It's actually Zach Walljasper on for Damian today. Just quick question, clarifying the guidance for the year. I heard earlier comments about like FX being a tailwind to the revision higher in EBITDA. But I was just curious [ph] EBITDA margin – I was curious FX versus the more operational efficiency in the nature. And then my second question is just around pricing. You guys put through a lot of price earlier in the year, but now we have copper and steel and there is increasing focus and are secure. So, what do you guys prepare to do and then what's customers' feedback then to the pricing? Thank you. to be weaker this year versus what it was last year, right? I think we were pretty clear on that in terms of the remarks. But that's where the revision to the upside is coming, both from an earnings per share and from an EBITDA perspective. On the pricing side, look, we waited to roll out our pricing, so significantly later than we usually do because of the impact of tariffs. And so, we're going to see sequentially as we move from Q2 to Q3 a little bit more upside than we would normally see.

Having said that, we've dialed our pricing back based on some of the tariff changes and based on some of the other things that are going on. And so, we've said from the beginning, we're going to be dollar neutral on tariffs. We don't have to do as much stuff operationally because of some of the changes. And we don't need quite as much pricing as we thought we did because of some of the changes. And so, we feel like we're in a really good spot on tariffs. And then – and as we talked about the growth algorithm in the second half being a little bit higher, I mean, that's part of it as well. We're getting a little bit of a bump from a little bit more second half pricing relative to the first half than we normally see.

Zachary Walljasper
Analyst, UBS Securities LLC

Q

All right. Super clear. Thank you, guys.

Rich Kwas
Vice President-Investor Relations & Strategy, Gates Industrial Corp. Plc

A

Thanks.

Operator: Your next question comes from the line of David Raso with Evercore ISI. Please go ahead.

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David Raso
Analyst, Evercore ISI

Q

Hi. Thank you very much. I was just curious, the cadence for the rest of the year on the organic, obviously, PT has been outgrowing FT for a while. I'm just curious, given some of the bigger deltas potentially with the off-highway OEMs, do you expect Fluid to outgrow PT in the fourth quarter? I'm just getting a sense of the growth rates exiting 2025 and 2026. Any help between the business segments would be helpful.

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

I don't think so, Dave, because Fluid Power is pretty significantly represented with on-highway in construction obviously, as you know, big hydraulics consumer, and so on, so forth. So, I think that PT has the opportunity to continue to outperform, particularly taking into account personal mobility. But we do see that most of our data center revenue obviously is going to be in FP. So, that's going to be accretive predominantly 2026.

David Raso
Analyst, Evercore ISI

Q

Okay. So, the ag improvement, we don't see construction up in the fourth quarter. I mean, it sounds like you think ag might be up. But just trying to extrapolate [indiscernible] (01:06:03) FP versus PT?

Ivo Jurek
Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

I wouldn't be providing guidance at this point in time further than what we have provided on commercial construction. I mean, there's a probability that we can start seeing some inflection potentially as we exit the year. But I want to see another quarter of the market before I will be more – before I lean towards providing additional color.

David Raso
Analyst, Evercore ISI

Q

And on the savings, the activities around the factories and so forth, any base case savings that roll from 2025 to 2026 as we think about any margin help from those actions and maybe any offsets? You mentioned some of the incremental spending on new product for personal mobility. I'm just trying to set up some puts and takes for exiting 2025 into 2026. Thank you.

Lawrence Brooks Mallard
Executive Vice President & Chief Financial Officer, Gates Industrial Corp. Plc

A

Yeah. I mean, we had embedded some of the things that we've already done in 2025 into our guidance. So, that's already in there for 2025. There'll be a slight bit of carryover as you move from 2025 to 2026. But as we said in our earnings presentation, because of all the moving parts with tariffs and the trade negotiations and things like that, things have just taken a little bit longer. And so, we're not going to see the full throughput of some of our restructuring activities until the end of 2026, right? So, we'll start to generate those through 2026, but we won't see the full impact until the end of 2026.

David Raso
Analyst, Evercore ISI

Q

That's helpful. Thank you.

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Rich Kwas

Vice President-Investor Relations & Strategy, Gates Industrial Corp. Plc

A

Thanks, Dave.

Operator: I'll now turn the call back over to Rich Kwas for closing remarks. Please go ahead.

Rich Kwas

Vice President-Investor Relations & Strategy, Gates Industrial Corp. Plc

Right. Thanks, everyone. If you have any further questions, please feel free to reach out. Otherwise, have a great rest of the week. Take care.

Operator: Ladies and gentlemen, this concludes today's call. Thank you, all, for joining. And you may now disconnect.

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