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Gates Industrial Corp. Plc (GTES)

Q4 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Gates Corporation Fourth Quarter and Full Year 2025 Earnings Conference 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'd now like to turn the conference over to Rich Kwas, VP of Investor Relations and Strategy. Rich, please go ahead.

Richard M. Kwas

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

Greetings and thank you for joining us on our fourth quarter and full year 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 fourth quarter and full year 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, you'll 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 the slide presentation, each of which is available in the Investor Relations section of our website.

Please refer now to slide 2 of the presentation, which provides a reminder that our remarks will include forward-looking statements within the meaning of the Private Securities Litigation Reform Act. These forward-looking statements are subject to risk 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 Q3 quarterly report on Form 10-Q that was filed in October 2025. We disclaim any obligation to update these forward-looking statements.

We will be attending several conferences over the coming weeks and look forward to meeting with many of you. And before we start, please note that all comparisons are against the prior year period unless stated otherwise. Also, moving forward, please note we will be making changes to our geographic disclosures in our future presentations. We'll consolidate China and East Asia and India into an Asia-Pacific disclosure, and we will consolidate North America and South America into an Americas disclosure. This approach aligns with how we manage our in-region, for-region strategy.

Now, I'll turn the call 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 today. Let's begin on slide 3 of the presentation. Let me begin with a brief recap of the year. Gates delivered solid results in 2025. We've posted nearly 1% core growth and outperformed our end markets, many of which remain in contraction.

Our secular growth drivers are accelerating, with personal mobility business exceeding 25% core growth in 2025 and our data center business growing 4x compared to 2024. In addition, the Gates team delivered record adjusted earnings metrics in 2025 during an uneven macro environment, producing both record adjusted EBITDA dollars and record adjusted EPS.

Furthermore, we've made incremental improvements to our balance sheet, bringing our net leverage ratio down to 1.85 times at year-end 2025. We've returned capital to shareholders via share repurchases and were aggressive during the fourth quarter, repurchasing over \$100 million of our shares at an attractive valuation. We believe our business is well positioned to accelerate core growth with our various strategic top line initiatives as well as to expand margins. In essence, we are exiting the down cycle with a structurally improved business while delivering near-record adjusted EBITDA margin performance.

We entered 2026 with cautious optimism about an industrial demand recovery. Our book-to-bill exiting 2025 was nicely above 1 time and order trends in January sustained a positive threshold. We are seeing improving industrial OEM demand activity and are positioned to support an uptake in demand. Our enterprise resource planning system transition has kicked off successfully and we are operating our business in Europe a bit ahead of our expectations. Our other footprint optimization initiatives are also on track. Brooks will provide more color on these items and our 2026 guidance later in the presentation.

On slide 4, we show our record performance against key financial metrics for 2025. Adjusted EBITDA dollars grew to an all-time record and we generated near-record adjusted EBITDA margins. Our adjusted EPS grew 9% to a record \$1.52, which was the top end of our guidance in what we believe was a troughing demand landscape accompanied by uncertain trade policy. Our net leverage ratio decreased by almost 0.4 turns and we finished

below 2 times net leverage for the first time. We are proud of these accomplishments and believe the company is well positioned moving forward to capitalize on a potential industrial recovery.

Please turn to slide 5 to review our full year EPS performance. Our adjusted EPS grew \$0.13 or 9% year-over-year to \$1.52. The bulk of the year-over-year growth in adjusted EPS came from operating performance, which contributed \$0.10 year-over-year. We were pleased with the operating performance contribution, particularly considering the relatively soft demand backdrop in several of our end markets.

On slide 6, I'll review our fourth quarter results. The sales were \$856 million, which represented core growth of nearly 1%. Total revenues grew slightly above 3% and benefited from favorable foreign currency translation. At the end market level, while mixed, we realized growth in our industrial markets, led by the off-highway markets and personal mobility. A decrease in automotive OEM was a partial offset. At the channel level, OEM sales expanded approximately 4% while aftermarket sales declined about 1%. Aftermarket did not increase as much as expected, as many of our distributors carefully managed their inventory into calendar year-end.

In addition, we faced a difficult comparison from prior year period. We were pleased with the growth in OEM sales, which represented a nice step up from third quarter levels. Our adjusted EBITDA approximated \$188 million in the fourth quarter and our adjusted EBITDA margin measured 21.9%, up approximately 10 basis points compared to the prior year period. We managed SG&A spending well, which offset unfavorable mix and lower production output.

Our adjusted earnings per share was \$0.38, an increase of approximately 7% year-over-year. Higher operating income contributed the year-over-year growth, partially offset by other items.

On slide 7, we'll cover our segment highlights. In power transmission segment, we generated revenues of \$537 million in the quarter and flat core growth versus prior year period. Our personal mobility business grew 28% year-over-year and our off-highway business expanded low-single digits. At the channel level, our automotive OEM business decreased, but our industrial OEM sales grew solid double digits year-over-year.

In the fluid power segment, our sales were \$320 million, an approximated 1% core growth. Our off-highway markets grew low-double digits, partially offset by declines in on-highway, diversified industrial, and energy. At the channel level, industrial aftermarket sales declined mid-single digits, partially offset by a mid-single digits increase in industrial OEM sales. Our automotive aftermarket increased high-single digits compared to prior year period.

I'll 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 8 and discuss our core sales performance by region. In North America, core sales decreased about 2.5% in Q4 compared to the prior year period. At the channel level, aftermarket sales decreased low-single digits and OEM sales were about flat. The aftermarket decrease was influenced by distributor inventory management that Ivo referenced earlier in his remarks as well as a tough automotive aftermarket comparison as we started loading new product for the North American distribution partner we secured in 2024 during the fourth quarter of last year. We saw a nice increase in OEM industrial sales, which were up approximately 4%, offset by lower automotive OEM sales. At the end market level, core sales in diversified industrial, commercial on-highway, and automotive fell versus the year ago period, while off-highway and personal mobility increased.

In EMEA, core sales grew 5.8% in Q4 compared to the prior year period. Industrial markets are beginning to recover with construction, agriculture, and personal mobility all producing double-digit growth. Commercial on-highway and diversified industrial also posted solid growth, while automotive OEM was a headwind. At the channel level, OEM sales increased double digits, while aftermarket sales expanded low-single digits.

China core sales grew about 3.5% year-over-year. Industrial markets were mixed, but we experienced strong growth in commercial, on-highway, personal mobility, and construction. Automotive OEM declined.

East Asia and India realized a slight decrease in core sales versus last year. Declines in diversified industrial and automotive more than offset growth in agriculture and commercial on-highway. In South America, our core sales in Q4 grew slightly compared to prior year period, fueled by commercial on-highway and agriculture, partially offset by automotive OEM, energy and construction.

Slide 9 shows the components of our year-over-year improvement in adjusted earnings per share. Operating performance contributed \$0.03 of benefit and foreign exchange related to favorable currency translation represented \$0.01 of improvement. Other items combined to be approximately a \$0.02 offset.

Slide 10 provides an overview of our free cash flow and balance sheet position. Our free cash flow conversion was 238% of adjusted net income for the fourth quarter, which brought our full-year 2025 free cash flow conversion to 92%. Of note, our 2025 free cash flow conversion included over \$30 million of cash restructuring related to footprint optimization initiatives and other restructuring, which is above average spending for our business.

Our net leverage ratio declined to 1.85 times at the end of the year, which was over a 0.3 turns improvement relative to year-end 2024. We finished 2025 with a record low net leverage ratio and over \$800 million of cash on the balance sheet. In December, S&P upgraded our credit rating to BB from BB- with a stable outlook. Further, we believe the strength of our business is return on invested capital, which ended the year at 23.4%. We continue to make investments in capital projects and enterprise initiatives that we believe will deliver enhanced efficiencies and improve profitability over the medium to long term.

Turning to slide 11, we outline our initial 2026 guidance. We believe the majority of our end markets should grow in 2026, and Ivo will address this in more detail in a few minutes. As such, we estimate our core sales to grow in a range of 1% to 4% versus the prior year period. We forecast our adjusted EBITDA to be in the range of \$775 million to \$835 million. At the midpoint, we estimate our adjusted EBITDA margin rate to be up slightly year-over-year. Please recall, we are incurring costs related to our ERP transition in Europe as well as our footprint optimization initiatives that we anticipate will dampen our adjusted EBITDA margin performance during the first half of the year.

Collectively, we estimate the cost will represent about a 100 basis points drag year-over-year on our adjusted EBITDA margin during the first half of 2026, all else equal. We anticipate these costs to run off by the middle of the year and expect benefits from our footprint optimization initiatives to contribute approximately \$10 million of adjusted EBITDA in the second half of the year.

We have initiated an adjusted earnings per share range of \$1.52 per share to \$1.68 per share, which represents 5% growth at the midpoint. Our adjusted earnings per share guidance assumes no incremental share repurchases. At the end of the year, we had approximately \$194 million outstanding under our current share repurchase authorization.

We have budgeted \$120 million of capital expenditures for 2026. We project 90%-plus free cash flow conversion, assuming above-average spending on CapEx and cash restructuring.

For the first quarter, we are guiding to a range of \$845 million to \$875 million in revenue, which factors a core sales decline of 2% to 2.5% year-over-year at the midpoint. Our core sales guidance incorporates a 500 basis points core growth headwind related to this quarter having two fewer business days relative to the prior year period as well as estimated efficiencies related to our ERP transition. We anticipate recovering most of the sales impacted during the balance of the year.

For the first quarter, we estimate an adjusted EBITDA margin decrease of 140 basis points at the midpoint, again negatively impacted by the aforementioned headwinds of working days and the ERP transition.

On slide 12, we outline the key drivers of our anticipated year-over-year adjusted earnings per share growth for 2026. Moving from left to right, we estimate contribution from operating performance will contribute about \$0.03 per share. Importantly, this estimate is net of anticipated cost associated with our ERP implementation in Europe and footprint optimization activities. The weaker US dollar is anticipated to yield favorable translation benefit of approximately \$0.04 per share. Tax, interest, share count, and other items net to \$0.01 of adjusted earnings per share contribution.

I will now turn the call back to Ivo.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

Thank you, Brooks. On slide 13, we show our assumptions for end markets for 2026. Relative to 2025, we believe most of our end markets will be flat to up in 2026. Specifically, we estimate end markets that represent almost 80% of our sales should grow this year, including improved demand dynamics for our industrial off-highway and diversified industrial end markets. We believe these end markets have troughed and anticipate some recovery in 2026.

Furthermore, we expect stable demand for automotive OEM and industrial on-highway in 2026. We continue to expect auto aftermarket and personal mobility market demand to remain constructive in 2026. In general, we believe our business will have some market tailwinds this year. As a reminder, this would be the first time in about three years that our business would be experiencing end market support.

With that, let me provide some closing thoughts on slide 14. First, 2025 was a record year for our company. We generated record annual adjusted EBITDA dollars and adjusted earnings per share and reduced our net leverage ratio to under 2 times. We delivered these results in what we believe was troughing demand environment for some of our key end markets.

Second, with more demand stability, we are optimistic about 2026 top line potential. While our book-to-bill was solidly above 1 time exiting 2025 and we are realizing improved order rates to start the year, we remain pragmatic this early in the year. That said, while we are incrementally optimistic about our near-term growth prospects, we do not anticipate a sharp recovery in 2026.

Third, we are highly focused on our key strategic revenue initiatives to generate market outgrowth. We continue to invest resources in personal mobility and data center markets in which we expect to increase our market share through the end of the decade. We anticipate both verticals to grow at significantly higher rates than our fleet

average. While we are intent on driving attractive core growth, our balance sheet is well positioned to support potential inorganic growth opportunities that may become available.

Before taking your questions, I want to thank all of our global Gates associates for their effort and commitment supporting our customers' needs and helping make 2025 a successful year for Gates.

With that, I will now turn the call back over to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] We also ask that you limit yourself to one question and one follow-up. For any additional questions, please re-queue. And your first question comes from the line of Andy Kaplowitz with Citigroup. Please go ahead.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Good morning, everyone.

Q

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

Good morning, Andy.

A

Lawrence Brooks Mallard

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

Hey, good morning, Andy.

A

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Ivo, can we delve into your commentary a little more regarding that book-to-bill over 1 times in Q4 in January or orders conferring that trend? As you know, we've kind of seen green shoots before and they haven't fully developed, so maybe you can give us a little more color on what's driving your order acceleration. Would you call it more broad-based and have you seen your aftermarket distributors stock these stockings, which you said was happening in Q4 yet?

Q

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

Yeah, Andy, thank you. Look, we've actually seen probably the most positive order trend exiting 2025 in maybe two or three years. And in general, when I kind of look, as you know, I have a reasonably good tenure here. As I look to my past two cycles, I think, that we have seen here, you have to see recovery in industrial OE segment that in general leads the other end markets or the other applications where we participate. And so this was the first time that we have seen in a while that we have seen a reasonably nice recovery or very strong recovery in order trends in the industrial OE. So that was a very positive sign for us.

A

I would say that both I think that the end markets and the off-highway are stabilizing and we are clearly seeing a nice outperformance over those markets. In Q4, we did see kind of a choppiness, particularly in the industrial

distribution. I think that folks were kind of exiting the year trying to manage their inventories. Nothing that I would say was disconcerting to me, but I would anticipate a little better recovery as we progress through Q1 to Q2 in the industrial aftermarket in particular.

In January, we've kind of seen continuation of that trend of what we have seen exiting 2025. So as I said in the prepared remarks, we are cautiously optimistic. To your point, Andy, I would like to see – I would like to see PMI a few months north of 50. As you said, we have seen that head fake both years in 2024 and in 2025. So, hopefully we will be seeing that validation of that PMI activity and we can confirm ultimately over the next couple of months that that's occurring and I think that would bode really well, particularly for the latter parts of the year as we progress through the year. So cautiously optimistic, would say that based on what we have seen so far should indicate should bode well for 2026.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Ivo, that's helpful. And I just want to go back to Q4 for a minute. Your adjusted EBITDA margin was down a little bit sequentially on flattest sales. I know you mentioned mix. Maybe it was this aftermarket destock. Was there anything else that sort of hit you there? Difficult price cost, any sort of dynamics there? Because I think you mentioned mix too for Q4.

Lawrence Brooks Mallard

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

A

Yeah, I would say the other thing is, we managed our output as we exited the year and we were really focused on making sure that we had our working capital positions in a good position as we exited the year. So we trimmed our production output. That resulted in better than forecasted cash flow as we ended up over 90%, a little bit over 92%. And our best leverage metrics ever. And also we bought back \$105 million worth of stock in Q4. So it was really around managing our internal output and setting ourselves up to make sure that we had a good strong start to 2026.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Yeah, Brooks, that's what I thought. Thank you.

Lawrence Brooks Mallard

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

A

Yeah.

Richard M. Kwas

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

A

Thanks, Andy.

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 morning. Maybe just wanted to try and understand sort of the phasing of the year a little bit more clearly. So first quarter, I think, is something like 20% of the EBITDA for the year. And you've obviously got a lot of the

ERP and footprint headwinds loaded into that. Trying to understand kind of how you're thinking about the second quarter, could we expect organic growth in that quarter? Is that what's embedded?

And maybe I missed it, but any sense of kind of the first half of the year, how much of EBITDA that should be? I think often it's about 50%, but realize this year has some first half dynamics going on.

Lawrence Brooks Mallard

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

A

Yeah, Julian. So if you think about it in halves, we have about 100 bps net headwind kind of in the first half of the year relative to the ERP implementation and the footprint optimization. So you kind of think about it in pieces, right? We kind of have the 50 bps – 150 bps midpoint in Q1. So that would lead you to believe kind of be 50 bps midpoint in Q2. I would say that once we get through Q1, given that our midpoint is 250 bps of core growth, you should expect organic core growth each quarter as we move through the year.

And as we looked at our seasonalization, it's pretty balanced. It's pretty balanced for the year. So I would expect we're going to be less – I mean, if you take that 100 bps and apply it, absent that, you're going to have the – you have two less shipping days in the first half versus the second half. And so that's going to affect it a little bit. But absent the 100 bps of headwind, pretty normalized split between the front and the back.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Okay, got it. So the first half is maybe like a high-40s share of the year's EBITDA or something.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

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That's right. Yeah.

Lawrence Brooks Mallard

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

A

Exactly.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Perfect. And then just a follow-up, Ivo, you mentioned data center exposure a couple of times. Understandably, I think sales, you said, were up 4x last year. So maybe just flesh out kind of what is the dollar kind of revenue base in your data center exposure? Kind of what are the products you're doing the best in? And do you have any sense of kind of backlog there or growth expectations in revenue for the year ahead in data center, please?

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah, look, we anticipate that the business in 2026, again, is going to grow multiples of 2025. That being said, we see obviously a very nice adoption of the liquid cooling. And we anticipated that's going to be there for an extended period of time. Our products, again, to remind everybody, are hoses, coupling fittings, and water pumps. I think that we see a nice penetration across all three of these product lines that we offer. And we've kind of flushed that \$100 million to \$200 million target there for 2028.

And I think that, as I've indicated last year, we should see nice progression through 2026 into 2027 to ultimately reach that target by 2028. So everything that I see today, Julian, gives me reasonably good level of confidence that we're getting a fair share. I think that I've indicated that – if I just think about orders as an example in Q4 sequentially, our orders grew 350%. And year-on-year, our orders grew nearly 700%. So, we are seeing, A, the pipeline being built up nicely. We are seeing good conversion. And, yes, it was from a reasonably small base last year or the year prior to that as well. But that's ramping up nicely. And again, it's not going to be two or three points of revenue as a percent of our total revenue pie that's going to take a couple more years, maybe through 2028. But, we feel pretty good about where we sit and we see a nice ramp up. But, look, we also have a very terrific presence in all of our businesses. And so I think that that's just going to be a nice contribution to above-market growth rate.

Julian Mitchell*Analyst, Barclays Capital, Inc.*

Great. Thank you.

Q

Richard M. Kwas*Vice President, Investor Relations & Strategy, Gates Industrial Corp. Plc*

Thanks, Julian.

A

Operator: Your next question comes from the line of Tomo Sano with JPMorgan Chase. Please go ahead.

Tomohiko Sano*Analyst, JPMorgan Securities Japan Co. Ltd.*

Good morning, everyone.

Q

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

Hey, Good morning.

A

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

Good morning, Tomo.

A

Tomohiko Sano*Analyst, JPMorgan Securities Japan Co. Ltd.*

Thank you for taking my questions. I'd like to ask about personal mobility. It was up 28% in Q4. And how sustainable is this into 2026? And could you give us more color of key demand product and supply drivers as well as the cost [ph] priorities (33:03) from the customer perspective? Thank you.

Q

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

Yeah, thank you for your question, Tomo. That business has been doing outstanding – it's been performing in an outstanding fashion for us in 2025. What we have indicated is that we anticipate that business is going to continue to grow high 20s, kind of a 30% compound annually through 2028. And we certainly have an incredibly high degree of confidence that we will continue to do that. We see a continuation of very strong trends. Our pipeline has been very robust. We've been converting that pipeline, as we demonstrate through our invoiced revenue, and

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now it's becoming, again, a meaningful part of our revenue contribution. So we have a high degree of confidence that that business will continue to grow. And as you're driving adoption of electrified mobility, two-wheel mobility, that is extremely well suited for changing that technology from chain to belt. So, we feel that that's a great business for a very, very long time, a very long horizon of future visibility.

Tomohiko Sano

Analyst, JPMorgan Securities Japan Co. Ltd.

Q

Thank you. And follow-up on a net leverage and M&A pipeline and strategies, please. So if you could talk about the net leverage perspective is into 2026, and any opportunities for inorganic growth, which is a mandate for being in the key sort of bolt-on acquisitions or you were thinking about more platform types of acquisitions, please.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

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Yeah, look, I would remind everybody that on this metric, we are quite nicely ahead of what we've committed to shareholders in terms of deleveraging. I also say that the business, the cash generation profile and the profitability of this business is so terrific that we in a natural way de-lever about half a turn a year. So, that can give you some perspective of what the range of leverage could be as we exit 2026.

That being said, coming back to M&A, look, we don't anticipate that we would be doing any type of transformational M&A. We do have a significantly increased appetite to execute logical and non-transformational M&A. that may be businesses that could be nice bolt-ons and there are things out there that we are looking at today, and there could be businesses that could be of more scale while non-transformational, they could be nicely additive to our portfolio.

So we're looking at full spectrum. We'll be very pragmatic. We also believe that our stock is quite inexpensive, so we will be very carefully measuring the returns where we can generate the best value creation for our shareholders, and we'll be very, very committed to deploy our capital in a way that rewards our shareholders.

Tomohiko Sano

Analyst, JPMorgan Securities Japan Co. Ltd.

Q

Thank you, Ivo.

Richard M. Kwas

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

A

Thanks, Tomo.

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

Hey, Deane.

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Deane Dray

Analyst, RBC Capital Markets LLC

Hey. Can we just circle back on the footprint optimization? I know you've given us your assumptions, but could you remind us on either the number of facilities or what percent of your manufacturing square footage these actions represent?

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Lawrence Brooks Mallard

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

Yeah, well, from a facilities perspective, including manufacturing and distribution, it's kind of in the single digits kind of number. I mean, we're still working through that. And from a manufacturing footprint perspective, I don't have that right in front of me, so I'd have to go back and check on that.

A

I will tell you we feel better as we look at the different cost actions we're taking relative to the footprint optimization and the restructuring and getting our cost aligned. We feel better about where we are in terms of the cost out. And if anything, remember we said we were going to have \$10 million year-over-year savings in the back half of 2026 and then another \$10 million in the first half of 2027.

Probably feel better about the upside related to that as we look at the cost actions we're taking and kind of how things are unfolding. So, I would say when you look at our target, probably upside and sooner rather than later in terms of achieving that target. And we'll be in a better position kind of midway through 2026, I think, to talk about that in more detail in terms of where we are and what we're doing as opposed to where we are right now, because there's still a lot of things that we have to announce and things we have to talk to different people about. So – but net-net, we feel good about where we are right now in terms of the whole savings that we communicated to you all.

Deane Dray

Analyst, RBC Capital Markets LLC

All right. That's helpful. I appreciate that. And then as a follow-up, Brooks, can you talk about what the upgraded S&P does for you? Is there an interest save that we might see? And then related to it, just a really good quarter on free cash flow conversion, but this is seasonally your strongest free cash flow quarter. Is there any opportunity to level out the free cash flow? I know there's some seasonal aspects, but you just remind us because instead of having the hockey stick in 4Q. Thanks.

Q

Lawrence Brooks Mallard

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

Yeah. So, on the S&P look, I think on the one hand, you always hope that there's some upside when you get upgraded. On the other hand, when you look at the way our debt trades and you look at how people pile into our debt, when we either issue new term loans or we reprice or anything like that, I wonder if we don't trade through a lot of that, we end up getting really good interest rates and really good participation. So, I don't know that we would get – I don't know what the actual impact of that would be, but what we would expect, if anything, there'd be some upside to what's always really good trading in terms of our debt.

A

The second part of your question, part of the issue is because we're seasonal in terms of usually our sales in the first half, a lot of the working capital kind of comes through in the second half, and that's why you see that hockey stick on the working capital. We get more sales in the first half and more collections and things like that in the second half. So, we're always trying to get more seasonal in terms of – or we're trying to get more normalized in terms of our working capital, but I'm not sure how much upside there is to that, to be honest with you.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Deane, let me maybe chime in a couple of more points in here, right? So, vis-a-vis SAP implementation – S&P.

Richard M. Kwas

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

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Yeah.

Lawrence Brooks Mallard

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

A

Yeah, in terms of rate increase.

Richard M. Kwas

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

A

Never mind.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Thank you.

Richard M. Kwas

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

A

Thanks, Deane.

Lawrence Brooks Mallard

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

A

Yeah.

Operator: Your next question comes from the line of Jeff Hammond with KeyBanc. Please go ahead.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, good morning, guys.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Good morning, Jeff.

Lawrence Brooks Mallard

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

Hey, good morning.

A

Richard M. Kwas

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

Hi Jeff.

A

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Just on this ERP noise, I think third quarter you said \$30 million to \$35 million. One, is that unchanged? And then just, is that inclusive of the revenue disruption or is that additive? And how much revenue disruption do you think you have in the first half all in?

Q

Lawrence Brooks Mallard

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

Yeah, well, I think most of the revenue disruption is going to be in Q1, and then we kind of get it back as we go through the balance of the year. The \$30 million to \$35 million is really kind of the all-in cost net of – without the revenue in there, right? That's just the cost headwind, and that's like the 100 bps of that that's flowing through adjusted EBITDA.

A

And so then – so if you think of 100 bps in the first half, that also includes footprint optimization, so it's not all ERP. In the first half, that'd be kind of approximately \$20 million, and then there's about \$10 million or \$15 million that's restructuring and add back that's in the first half as well. So that's where that \$30 million to \$35 million number comes back, about \$20 million of it kind of flowing through the adjusted EBITDA number in terms of higher SG&A inefficiencies, stuff that you can't necessarily add back, and then the \$10 million to \$15 million that you could add back.

I would say also since we're talking about that, our launch has gone better than planned, I would say. We're pretty conservative and pragmatic in terms of how we look at things, but our plants are making what they need to make. We're working out the parameters in terms of the front to back, and we're getting the right signals sent to the plants to produce stuff for the distribution centers. I would say right now, what we're really working on is tweaking some of the kind of external stuff when you think about advanced shipping notices to customers and different things like that. We're just tweaking that a little bit to get them aligned with kind of a standard SAP functionality, and so we're really pleased with the launch. We started up, we're making stuff, we're shipping stuff, and we feel really good about where we are with the SAP implementation right now.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Okay, great. I think auto aftermarket's been a pretty good trend for you guys. Just what are you seeing underlying there? What are – where do kind of channel inventories stand and then when do you expect that we lap this kind of new customer comp dynamic? Thanks.

Q

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah, so the markets are quite stable. We feel reasonably good about that. The cars are getting older, people are driving, the underlying economy is reasonably okay, so we feel very constructive about that market kind of being what it traditionally is outside of us acquiring large customer like we did last year. So I think more green shoots than not. In terms of lapping, we should be through that tough comp by the end of Q1, so basically from Q2 onwards, it should be more normalized. But, let me remind you, I mean we did see growth in aftermarket in Q4 as well despite the fact that we had a reasonably tough comp.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Okay, thank you.

Q

Richard M. Kwas

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

Thanks, Jeff.

A

Operator: Your next question comes from the line of Steve Volkmann with Jefferies. Please go ahead.

Stephen Volkmann

Analyst, Jefferies LLC

Great. Good morning, guys. Thanks for taking the question. Just a couple of quick follow-ups, one short term, one longer term. Any words of wisdom as we think about segment margins, both as we go through the transformation and the ERP, and then sort of beyond that, is there anything we should think about sort of first quarter and full year from the segment perspective?

Q

Lawrence Brooks Mallard

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

Yeah, I don't know that – I mean some of the footprint optimization stuff's a little bit more weighted toward fluid power, but I would say some of the cost alignment stuff, some of the other restructuring we're doing, maybe a little bit more PT. So, I don't know that there's a material difference in terms of how the margins are going to shake out. I would say it's going to be pretty broad-based, and [indiscernible] (46:02) a little bit more PT, and so there'll probably be a little bit more headwind on PT in the first half, and then that'll come back in the second half in terms of how the ERP project will play out. So, maybe a little bit more of the headwinds on PT, but then it'll equal out the second half.

A

Stephen Volkmann

Analyst, Jefferies LLC

Okay, great. And then maybe longer term, obviously you guys have been on a successful sort of long-term journey here in order to get margins where you want them. It feels like we're almost to the finish line, and maybe second half of 2026 is sort of the finish line. I don't know, correct me if you think I'm wrong, but I guess I'm curious sort of what's next after that. Do you become more acquisitive? Do you focus more on growth? Is it kind of a compounder story from there? How do you vision the company once you kind of get where you want to be on margin?

Q

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah, thank you for the question. It's very thoughtful, Steve. Look, let me kind of start with the journey a little bit, right? So, if I look back, and let's just kind of presume that we have troughed and we are exiting the down cycle here. I certainly believe that that's the case. Again, I'm not going to forecast when it's going to completely rebound, but let's just presume that we have troughed and we're exiting the down cycle.

We're exiting the down cycle with over 300 basis points of improved profitability versus the prior down cycle. So, we have materially improved the quality of the company. We also believe that we have projects in play that will give us an ability to continue to drive profitability to the midterm target. And frankly, when I look at what we have been able to achieve in a very negative end market backdrop, we are nicely ahead what we've committed to the shareholders, despite the fact that the end markets have been very, very negative for the last three years.

So, that gives me a high degree of confidence that we have a nice way to go beyond what we have committed in terms of profitability with the improvements that we continue to do structurally to this business. Now, put it aside. We have nicely improved our balance sheet. We're generating a ton of free cash flow that gives us ton of optionality. I think that when you listen to some of the things that Brooks said about, how well we have executed on the ERP implementation, I think that when we have a decent plan in place, we execute well and we manage to execute well despite many different impediments that are unplanned that we have to absorb.

So, I think that we now have an optionality to go in and start adding nice pieces to our portfolio that we have within Gates and drive synergies with potential M&A transactions that would give us the opportunity to get to our company fleet averages. So, in a nutshell, Steve, I think that it's a little bit all of the above. I think that we can continue to drive profitability forward on a structural basis. I believe that the incremental capacity that our balance sheet offers us now, and we were very patient to get to this point in time, gives us the opportunity to add different assets in, improve those assets, and start compounding earnings on a forward-going basis.

Stephen Volkmann

Analyst, Jefferies LLC

Great. I appreciate it.

Q

Richard M. Kwas

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

Thanks, Steve.

A

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

Michael Halloran

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

Hey, good morning, everyone.

Q

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

Hey, good morning.

A

Lawrence Brooks Mallard

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

Good morning.

A

Richard M. Kwas

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

Hey Mike.

A

Michael Halloran

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

Just a quick follow-up to the first half of that last question there. So, how do you think about what your incremental margins look like once you get through the ERP consolidation and you get a more normal run rate for growth?

Q

Lawrence Brooks Mallard

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

Well, so, I'm struggling to figure out what normal is. So, after we get to the ERP implementation, we ought to be – as we're working through the footprint optimization and restructuring stuff, we ought to be at an enhanced level of drop-through, 45% plus over about a 12-month period. Okay?

A

Now, through the cycle, what we've said is we think that the drop-through should be more like 35%. And the reason being is you're definitely going to mix toward more OEM-type business through the cycle as you kind of go to the upside or as you go to kind of the core growth increase. And that's why it's a little bit less than you might otherwise think, right? You might think more like 40%, but you're definitely going to mix to the OEM side, which is going to be a little bit lower from a gross margin perspective. And it's got some better cash flow characteristics, but from a margin perspective, that's where it probably is.

And then as you move through the cycle, that can flex a little bit up and down. But I would say, second half of 2026 through the first half of 2027, we're going to be 45% plus. And then after that, more normalized basis, 35% on the low end, maybe moving up to 40%, depending on what the mix is.

Michael Halloran

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

That's great. Super helpful. And then just a question on how you're thinking about the year here. If you adjust for the first quarter, the 500 basis points between those two items, are you assuming relatively normal seasonality if you adjust for those factors? It doesn't sound like you're embedding some sort of improvement of scale in the revenue build to the year. So maybe just talk about what those assumptions look like.

Q

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

Yeah, that's the right way to think about it. You know, Mike, we've quantified the headwinds associated with fewer shipping days in Q1 and some of the efficiency losses due to the ERP implementation. Again, we feel better about the ERP implementation, but you still need to improve efficiency and get everybody comfortable operating in this new structure.

A

Once that normalizes from Q3 through Q4, it's more normalized. You will gain back one day – one calendar day in the Q4 versus kind of the loss of two days in Q1. So more or less normal calendar.

Michael Halloran

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

Great. Appreciate it. Thank you.

Q

Richard M. Kwas

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

Thanks, Mike.

A

Operator: Your next question comes from the line of Jerry Revich with Wells Fargo. Please go ahead.

Jerry Revich

Analyst, Wells Fargo Securities LLC

Yes. Hi. Good morning, everyone.

Q

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

Good morning, Jerry.

A

Lawrence Brooks Mallard

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

Good morning.

A

Jerry Revich

Analyst, Wells Fargo Securities LLC

Hi. I wanted to ask, just given the improved demand environment, if we do see sales move towards above the high end of your guided range, how would you counsel us to think about operating leverage in that scenario?

Q

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

And I think that Brooks just highlighted that, Jerry, about, 45% plus incremental leverage on incremental...

A

Lawrence Brooks Mallard

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

...in the back half.

A

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

...yeah, in the back half on the incremental revenue.

A

Lawrence Brooks Mallard

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

Yeah. And that's really kind of the footprint optimization and restructuring flowing through on top of the kind of 35% normal leverage. But if we were to see things move more towards the high end, it's going to be very OEM based. It's going to be picked up in the industrial OEM side of things where you start to see those things start to rebound. And like I said, a little bit lower margin profile there, but still pretty nice, so.

A

Jerry Revich

Analyst, Wells Fargo Securities LLC

Q

Got it. That's constructive. And then in terms of where lead times stand today, you mentioned the year reorders. How far out are we from a lead time standpoint? How does that compare versus other periods of time where demand was equally tight? Can you just give us a perspective? And can you just talk about for the industrial replacement side, it feels like we're seeing a really strong desire to restock across end markets there. Is that part of the driver of the order acceleration that you step through? Any additional color there would be helpful.

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

A

Yeah, look, I think that I've indicated that the significant inversion in order uptake that we have seen was predominantly on the OE side, presently on the industrial OE side. So, we are seeing that our lead times are still normal. We haven't seen any creep up at this point in time. Obviously, we are in a very good position vis-a-vis our capacity. We have been improving the business in the last three years, spending capital to ensure that we can capitalize on the upcycle when it comes. I would say that we again need to see the industrial distributors want to restock. But I would also say that in general, they are quite late to the party. And my anticipation would be we should start seeing that more maybe in Q2 of this year, if history serves as a guide. So, we are well positioned. Again, we have trimmed our working capital exiting Q4. We've positioned ourselves for maximum benefit as the recoveries take hold.

Jerry Revich*Analyst, Wells Fargo Securities LLC*

Q

Yeah, thank you.

Richard M. Kwas*Vice President, Investor Relations & Strategy, Gates Industrial Corp. Plc*

A

Thanks, Jerry.

Operator: Your next 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.

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

A

Hi Nigel.

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

A

Good morning, Nigel.

Nigel Coe*Analyst, Wolfe Research LLC*

Q

We've got a lot of ground here, so – hey, guys. Yeah, so just maybe just kind of piggybacking off that previous question. You laid out your end market assumptions, Ivo. And I'm just wondering when we look at the industrial, off-highway, on-highway, are you seeing any difference between OE and aftermarket in your plan?

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

So, right now, we are seeing a nice inversion in the OE side. Again, I would anticipate, Nigel, that we will start seeing improvements in the industrial aftermarket kind of into second quarter of this year. But it gives me a great deal of confidence, I would say, that when you see that inversion, that's a very good sign. When you combine that with at least the very early indications on the PMI, while I'm not certainly ready to call it yet, because we did have a couple of head fakes last couple of years. This feels better than in 2024 and 2025. And so, we start getting a couple more data points on the PMIs. And I think, things should work out pretty nicely for everybody in the industrial complex, Gates included.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Yeah. So, I'm just curious if you're baking in any sort of mix headwinds for the year, it doesn't sound like it is, but that'd be helpful. And then on the pricing, I'm sorry if I missed this in your prepared remarks, but what are you baking in for price contribution for the year? And then expanding out to the raw material basket, unlike a lot of the companies we cover, you're facing a whole lot of steel and base metal inflation. In fact, some of your raw materials should be a little bit deflationary or flat. So, I'm just curious how you view in the price cost equations for the year.

Lawrence Brooks Mallard

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

A

Yes.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Go ahead, no problem.

Lawrence Brooks Mallard

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

A

Okay. So, yeah, I think, look, we got some carryover tariff pricing that's still in. I mean, but pricing is going to be relatively low kind of 100 bps to 150 bps for the year. One thing that we look at – you look at tariffs, you look at utilities, you look at material, but also you've heard me talk about labor inflation as well, right? And especially around the world where you see kind of outsized labor inflation. So, we take all those into account. But right now, things are fairly stable. And so, we feel like we've got things covered from a pricing perspective, but it's relatively normalized, maybe a little bit less than normal, given the state of things right now.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Great. Thank you.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

And Nigel, maybe I'll just pin something in here too. We've done quite a bit of work on raw material improvements over the last couple of years that has nicely supported improvement – structural improvement in the business. That's not going to stop. So, we're going to continue to drive that and continue to position ourselves into position of strength and better profitability as we move into 2026 and 2027.

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

David Raso

Analyst, Evercore ISI

Q

Yeah, I was just curious. Currency in the guide, I'm just trying to figure out what the overall margin guide is with the EBITDA number. Are you including about 2% of currency? So, we're looking at 4.5% total sales growth?

Richard M. Kwas

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

A

A little less than that, David. It's like 1.5 points or thereabouts. We did the first half.

Lawrence Brooks Mallard

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

A

Yeah, it's very weighted in the first half. And in the second half, it kind of normalizes out. So let me kind of find my currency stuff here. Yeah. So, if you think about it from a translation perspective, it's a little bit kind of 125 bps for the year, but weighted much more in the first half. So, 125 bps in terms of kind of growth.

David Raso

Analyst, Evercore ISI

Q

Okay. That's full year. Okay. Following up on the comment about pricing 100 bps, 150 bps. I mean, it's implying volume up only 1%. And again, I appreciate early year being conservative on extrapolating trends. But I mean, if personal mobility is up 30%, that's 1% growth for the entire company. So, I'm just trying to understand, is it just, hey, we're just being cautious in the beginning? Or is there some other area of decline? Obviously, I'm basing a little bit on slide 13. You only have one market that's down, right, energy and resources. And I'm just trying to just understand the level of conservatism in the top line.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. David, I think that you have framed it correctly. I will restate what I said earlier, right? We have seen a couple of head fakes in 2024 and 2025. While I do feel, we as a management team feel better when you look backwards into how things progress when you do have a recovery. The signs are very positive. But we are very pragmatic in our outlook for the start of the year. Again, we have only seen one PMI print that has given us, I think all of us, a nice degree of boosting confidence that things are going to improve. We are seeing that follow through our industrial orders. Some of these markets are reasonably well behaved.

Personal mobility is doing really well. You stated it correctly. So we are more constructive on these end markets. But there are some markets that there are question marks, right? What will happen without an OE? I mean, I think that that's probably going to be somewhat of a headwind overall when you take a look at the consumer, the pricing, the timing of recovery. While we are – again we are more positive on those end markets, it will not happen on January 15, right? It will not happen on February 2. Some of these markets are going to be progressing through a rolling recovery. And so while we are positive, we are being pragmatic. And I would much rather let you know in the next earnings call or the one thereafter that we are seeing terrific improvement and great follow through. And I think everybody is going to be much happier about that.

Lawrence Brooks Mallard

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

A

And I will remind, we have one less shipping day in 2026 that we did in 2025.

David Raso

Analyst, Evercore ISI

Q

All right. I appreciate that. All right. Thank you.

Lawrence Brooks Mallard

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

A

Yeah.

Richard M. Kwas

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

A

Thanks, David.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Thank you.

Operator: That concludes our question-and-answer session. I will turn it back over to Rich Kwas for closing comments.

Richard M. Kwas

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

Thanks, everyone. Thanks, everyone, for your interest in Gates. If you have any follow-up questions, feel free to touch base with me. Have a great day and rest of the week.

Operator: This concludes today's conference call. Thank you for your participation and you may now disconnect.

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