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Gates Industrial Corp. Plc (GTES)

Q1 2026 Earnings Call

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David Tarantino

Analyst, KeyBanc Capital Markets, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome everyone to the Gates Industrial Corporation First Quarter 2026 Earnings Call. Today's conference is being recorded. 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]

At this time, I would like to turn the conference over to Rich Kwas, Senior Vice President, Investor Relations. Please go ahead.

Rich Kwas

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

Greetings, and thank you for joining us on our first quarter 2026 earnings call. I'll briefly cover our non-GAAP and forward-looking language, before passing the call over to our CEO, Ivo Jurek. He'll be followed by Brooks Mallard, our CFO.

Before the market opened today, we published our first quarter results. Copy of the release is available on our website at investors.gates.com. Our call this morning is being webcasted 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 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 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 Annual Report on Form 10-K that was filed in February 2026. We disclaim any obligation to update these forward-looking statements.

We'll be attending several conferences over the coming weeks and look forward to meeting with many of you. And before we start, please note, all comparisons are against the prior-year period, unless stated otherwise.

Now, I'll turn the call over to Ivo.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

Thank you, Rich, and good morning, everyone. We appreciate your participation on our call today. I will start on slide 3 with a brief recap of the first quarter. Our team executed well on our business priorities during the first quarter, navigating successfully through a fair level of business transition.

In particular, our Europe team successfully implemented a new ERP system and achieved higher efficiency rates as the quarter progressed. Exiting the quarter, our Europe business has stabilized and was delivering revenues on par with prior pre-ERP implementation periods, although with still somewhat above-normal operating costs. We anticipate our operational efficiency in Europe to stabilize further during the second quarter.

On a global basis, our sales dollars and margin rate were broadly consistent with expectations we have outlined in February. Excluding the impact of the anticipated headwinds from the ERP transition and the two fewer working days that affected the first two months of the quarter, overall demand trends improved during the quarter. Core sales growth approximated mid-single digits year-over-year in March.

We finished the quarter with a book-to-bill solidly above 1. As we sit here today and based on our present run rates, we feel good about our core sales growth prospects for the year, absent of any additional potential escalation of the conflict in the Middle East. In addition, we do not anticipate any material financial impact from the recent revisions in Section 232 tariffs. As such, we are reiterating our 2026 financial guidance.

Please turn to slide 4. Our first quarter sales were \$851 million, representing a core sales decrease of 2.9%. Relative to our core sales guidance provided in February, we experienced some small incremental distribution inefficiencies associated with the ERP transition, which led to a build of past due backlog as we exited the quarter. We expect to recover these sales in the second quarter, and Brooks will go into more detail later on the call.

The European ERP transition and fewer working days relative to a prior-year period combined represented approximately a 600 basis points headwind to our core sales. Entering 2026, we experienced a positive inflection in industrial OEM orders, and that trend has continued.

Adjusted EBITDA was \$177 million, in line with expectations, resulting in an adjusted EBITDA margin of 20.8%, down 130 basis points year-over-year. The decrease was primarily driven by inefficiencies related to the ERP transition and the impact of having two fewer working days compared to prior-year period.

Our adjusted gross margin was 40.5%, down approximately 20 basis points. Our adjusted earnings per share was \$0.35 and down slightly. The fewer working days in the quarter and ERP transition combined to represent a \$0.07 headwind to adjusted EPS. Operational performance and a lower adjusted tax rate were modest benefits.

On slide 5, I will cover segment highlights. All year-over-year comparisons were substantially impacted by the ERP conversion as well as the fewer working days. Looking past these items, we saw a very solid trend across both of our segments, with noted underperformance in commercial on-highway production, common to both.

In the Power Transmission segment, we generated revenues of \$533 million in the quarter, a decrease of approximately 2.5% on a core basis, primarily driven by the fewer working days and ERP transition in Europe. The Power Transmission segment realized accelerating order trends during March.

Personal mobility expanded 6% and our growth rate was affected by project timing as well as the ERP transition in Europe, the region with the largest exposure to personal mobility. We anticipate a return to our normalized levels in personal mobility starting in Q2. Additionally, the construction end market continued to improve and the ag market is recovering.

In the Fluid Power segment, our sales were \$318 million, with a decrease in core sales of approximately 3.5%. Fewer working days and the Europe ERP implementation, again, contributed to the decline. We realized strong

double-digit growth in APAC during the quarter. Broadly, order intake was strong exiting the quarter. I would note that the commercial on-highway was relatively weak in the quarter. That said, North American orders have inflected positively to start 2026.

Our data center business continues to perform in line with our expectations, and revenue grew approximately 700% from a low base in the 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 6 and discuss our core sales performance by region. In the Americas, core sales declined approximately 2.6% in the first quarter. Two fewer working days in our first quarter relative to the prior-year period had an unfavorable impact on growth. North America core sales were down a little less than 2%. Excluding the working days impact, North America core sales would have increased compared to the prior year.

In EMEA, core sales declined approximately 8.5% year-over-year, most of which was incurred in February. While production outpaced targets, finished goods shipping lagged production output in February and through the first part of March. This led to slightly lower than expected revenues of around \$4 million and higher past due backlog than normal as we exited Q1.

Overall, we were pleased with our improvement through the quarter. We delivered positive core growth in EMEA in March, and that trend has continued through the early stages of Q2. We expect to further improve our distribution efficiencies through the second quarter and exit at normalized levels of shipping output and past due backlog. Our APAC region grew almost 4%. Industrial OEM and auto aftermarket, both grew nicely and fueled the performance.

Slide 7 shows the components of our year-over-year change to adjusted earnings per share. On a combined basis, the temporary headwinds of the ERP transition and fewer working days represented a \$0.07 headwind to adjusted earnings per share. Underlying operating performance contributed \$0.02 per share. Other items, including a lower tax rate and share count, represented a \$0.02 benefit.

Slide 8 provides an overview of our free cash flow and balance sheet position. Over the last 12 months, we delivered free cash flow conversion of approximately 101%. Stronger operating cash flow drove positive free cash flow for the quarter. We continue to strengthen the balance sheet, exiting the quarter with net leverage at 1.9 times, representing an improvement of approximately 0.4 turns compared to the first quarter of 2025.

Our capital allocation approach remains balanced, and we repurchased additional shares in the first quarter. In late February, we received a credit rating upgrade from Moody's to Ba2 from Ba3. Our return on invested capital remains strong, while incurring margin headwinds associated with the ERP transition and continuing to make investments in our key process and growth initiatives.

Turning to slide 9, we have reiterated our full-year 2026 financial guidance. We anticipate core growth to improve over the course of the year. For the second quarter, we are guiding revenues to a range of \$905 million to \$945 million. At the midpoint, core growth is estimated to be approximately 3.5% year-over-year. We project adjusted EBITDA margin to decline 30 basis points compared to the prior-year period, influenced by temporary impacts from the ERP transition and our footprint optimization projects, which we expect to benefit adjusted EBITDA margin performance in the second half of this year.

I'll now turn it back to Ivo for closing thoughts.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

Thanks, Brooks. On slide 10, let me summarize our key messages. First, our team executed well and showed a great degree of resiliency during a period of significant business transition. We delivered slightly better adjusted EBITDA margin than expected and solid free cash flow on a seasonal basis. Our European business has operated as expected post the ERP transition, and our team is highly focused on driving incremental efficiencies with the new system in place. We have shifted our operational focus to optimizing customer service fill rates to pre-ERP implementation levels, which were at world-class.

Second, we continue to see improving demand trends across most of our end markets. Industrial OEM orders are gaining momentum, and we experienced good demand trends in April. In EMEA, our revenue is trending nicely above expectations to start the quarter. As such, we have good confidence in achieving our core revenue growth guidance with where we sit today.

Third, we believe our business is in a strong position. We are executing on our footprint optimization projects and anticipate achieving an adjusted EBITDA margin approaching 23.5% in the second half of the year. In addition, our balance sheet is in a strong shape. We announced a small acquisition today, acquiring Timken's industrial belt business, which we expect to close in the third quarter. The acquisition augments our Power Transmission position in North America and should supplement growth moving forward. We intend to remain opportunistic deploying capital to enhance shareholder returns.

Before taking your questions, I want to thank all of our global Gates associates for their diligence and effort supporting our customers' needs and executing on our strategic goals.

With that, I will now turn the call back 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'll take our first question from Michael Halloran at Baird.

Michael Halloran

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

Hey. Good morning, everyone.

Q

Rich Kwas

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

Hey, Mike.

A

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

Good morning.

A

Michael Halloran

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

Hey. So maybe we just start where you were leaving off there a little bit, Ivo. So it sounds like core growth would have been positive in the quarter, excluding the ERP and some of the days issues. Feels like the trajectory is what you're wanting to see exiting 1Q into 2Q holistically. Maybe just confidence in the sustainability as we sit here today. Any areas of concern? What are your customers saying? Just kind of generically help us understand how you think this tracks through the year?

Q

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

Yeah, Mike. Good morning and thank you for the question. Look, we actually had a terrific quarter. Taking into account the quantified issues that we have highlighted on our Q3 earnings call last year, outlining that we have a major ERP upgrade that we are going to do on basically 24% of the global company's revenues in a big bang type event, and we have executed in an amazing way. I'm super proud of our Europe team. They have done a fantastic job, and the business performed as we have anticipated.

A

The business continues to behave in a very strong fashion. Net of the two less selling days and the ERP, we would have been basically up 300 basis points on core, which is right in line with what we have expected for the year and is basically trending towards the midpoint of our annual guidance. April, we have exited in a very strong position as well. The order flow is very solid. We have highlighted on last couple of calls that we have seen a very nice inflection in the industrial OEM order flow that remained throughout Q1 and into April.

So as far as I see it today, I feel quite confidently that we are in a very good position to be able to achieve our annual guidance. And we've actually put the business in a position to be able to do really well as the revenue generation capabilities and the end market stabilize. So we're in a very good shape.

Michael Halloran

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

Q

Yeah. That makes a lot of sense. And maybe just the Timken belts purchase, why does it make sense now? What capabilities does it add that you lacked before? And then any sense of size, revenue, profitability, any of that?

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. Look, it was very opportunistic. We were approached some time ago about the opportunity to acquire an asset that, frankly, when you talk about around the edges of what you do, this is right front and center of what we do, right? This is highly complementary in nature for us. The business has evolved. I think that there have been some highlights about what that business was about 10 years ago. I think the business has gone through some transitions.

We are buying assets in a facility in Mexico that is going to be highly complementary for us. The size, we think that that business can kind of add maybe \$5 million a month in annualized revenue. And so it's highly complementary, and I believe that it will be very accretive to us as we embed it into our operations and it has the opportunity to continue to accelerate our growth rate.

Michael Halloran

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

Q

Makes a lot of sense. Appreciate it. Thank you.

Rich Kwas

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

A

Thanks, Mike.

Operator: We'll move to our next question from Jeff Hammond at KeyBanc.

David Tarantino

Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Good morning. This is David Tarantino on for Jeff.

Rich Kwas

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

A

Hey, David.

David Tarantino

Analyst, KeyBanc Capital Markets, Inc.

Q

Maybe could you give us a little color on kind of the margin trends if you kind of back out the ERP transition? And maybe give us some color on price/cost relative to the increased inputs, particularly around any kind of oil derivative impacts or any tariff impacts you expect moving forward. It looks like the year is kind of playing out in line with expectations overall.

Lawrence Brooks Mallard

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

A

Okay. All right, David. That's a lot to unpack, so get ready. So, first, let's start with the headwinds, the margin headwinds. As I look at Q1, conservatively, I would say we had at least 200 basis points of EBITDA margin headwinds. At least half of that was associated with the ERP transition in Europe. So that's a combination of lower sales, as we talked about, and then the impact of higher temporary SG&A costs as we move through the hyper care phase of that go-live. Those costs are temporary. They'll come out as we exit Q2.

And then the other half is a combination of the footprint optimization kind of cost out that we talked about in the first half of the year, as well as the impact of less days, right, just kind of the leverage part of the less days. And so you kind of take that into account, we're kind of pushing up toward 23% EBITDA from a one-off perspective.

And then I look at Q2, the midpoint, we're at 22.2% I think, 22.3% – 22.2%. And I see we still have about 100 basis points of headwind. Again, about half of that coming from ERP, almost entirely coming from hyper care and increased SG&A, and then the rest really coming around the footprint and cost actions that should be complete by the end of Q2. And so, again, before we start to get any of the savings or anything, we're approaching 23%.

And so as I look at those kind of two data points and I look at the 23.5% that Ivo talked about in the back half of the year, boy, I mean, we feel pretty good. We feel pretty good getting through the ERP transition, exiting the way we did, eking out a little core growth in EMEA and then kind of looking at the rest of the business and starting to get a little bit of growth there. We feel pretty good about things.

From a tariff perspective, we don't really expect any impact from the Section 232 stuff. Most of ours was classified as automotive. And so that really doesn't impact us at all. We have a little bit of headwinds, maybe 20 bps of kind of dilution as we price for tariffs. We're not even counting that though in any of our numbers. We're going to get to where we need to get irrespective of that.

When you think about what's going on in the Middle East and the cost of oil and how that kind of impacts through the enterprise, obviously, that's going to impact things like resins and polymers and compounds. It's going to impact things that have high energy use like aluminum and steel. You're seeing those go up. And then there's ripple effects through the rest of the P&L.

When it comes to pricing for inflation, we're very confident on that, right? We've always been able to price for inflation. We're getting out ahead of that. And we learned some lessons as we think back post-COVID and the Russia-Ukraine conflict, and we're really focused on surety of supply for our customer.

In addition, we've done a lot of work around our supply base, so supplier development, alternative materials, different things like that. And we feel like we're in a very solid position in terms of making sure we can take care of our customers, get surety of supply, not have any kind of interruptions in the business. And then also, as I said, we know we can price for inflation, and we will make sure we take care of that. In addition, we're sticking by our guidance in the second half, and we feel pretty good about it, okay?

David Tarantino

Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Yeah, that's really helpful. And then maybe following up on the demand trends. Could you just give us a little bit more color on the underlying demand trends relative to the strong order take you highlighted? How do the current customer conversations track with that initial end-market framework you guys provided last quarter?

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. Look, I mean, I don't think that anything really has fundamentally changed. I mean, if there was a change, I would say, maybe the – particularly North America on-highway order flow has gotten better than where it was kind of exiting 2025.

Outside of that, we see pretty solid demand trends across the portfolio. We see good behavior in automotive aftermarket. We feel well about industrial off-highway. I mean, obviously, commercial construction has been quite strong. Ag has been recovering very, very nicely. Energy and resources have stabilized. So that's kind of more still neutral around the edges, but we anticipate that there may be an inflection taking into account what's happening in the Middle East. Diversified industrial is in a good place. Auto is soft. Auto OE is soft, but it's such a small part of our business, and it is right where we anticipated.

So when I take a look at where we sit, we feel very confidently that the midpoint of our guide for the year is super achievable.

Operator: We'll take our next question from Nigel Coe at Wolfe Research.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Thanks. Good morning. And by the way, congratulations on the deal. I think this is your first deal as a public company, right, Ivo?

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

It is. Thank you, Nigel. And it's kind of – it's a really nice tuck-in transaction that it's not even middle of the fairway, I mean in the middle of your household.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Yeah, it does seem like hand in glove. Maybe just a bit more details on what you're seeing sort of through April. Number one, given the short cycle nature of your product, I'm just trying to understand why the push from the ERP transition. So, just want to understand how you're recovering those sales, because I think we tend to think of short cycle sort of like one and done, it's lost, doesn't recover. So just kind of want to understand that.

And then it sounds like you're seeing recovery in industrial OEM. You mentioned on-highway as an area of recovery as well. I'm just wondering if some of the strength you're seeing is really being driven by some of this heavy industry recovery.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. Thank you. A lot to unpack. So, look, why do we feel that we're going to recover the sales in Europe? Because we really – the way to think about it, Nigel, is that we went live basically in the first week of February. And you have to back-flush the system. So no matter what you do, you kind of lose one week of activity and then you fire back your assets and you restart them. And so everything was going the way that we've anticipated. We just – it just took us – think about it as one more day to un-gum our distribution centers. And we've just simply run out of calendar in March.

Europe revenue in March was on par with prior-year pre-ERP implementation. So they were fully recovered. And frankly, in the month of April, at the beginning of April, they recovered the revenue from Q1. So actually, our Europe business was up almost double digits in the month of April. So they've had full recovery. They are performing well. We are doing a really good job. The team is just executing in a world-class level. So I feel quite well that we have recovered completely and not really lost any revenue. So again, one day, and that was nicely recovered.

When it comes to these demand trends, I believe that what you see on the heavier industry is more in line with that underlying economy around the large projects that are coming out of ground around the data centers and power gen and power infrastructure, and you need lots of construction equipment, earthmoving equipment, and so on and so forth.

And we've anticipated that those businesses were quite weak for an extended period of time. And I think that you and I discussed that on our Q3 earnings that the outlook has been stabilizing, and we are now starting to actually see the outlook turn nicely positive. And so PMI is above 50%, and that's good for kind of the overall underlying trend. And look, I'm not prepared to declare victory in here, but I feel pretty positively about the demand trends.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Well, ISM 52.6% I think this morning, so fourth month above 50%. So it's a bit of a trend now. But thanks for that, Ivo. And then just going back to the previous question about the inflation recovery, is there more price coming into 2Q versus 1Q? And then, Brooks, this selling day headwind in 1Q, does that come back in 4Q? Do we have some tailwind in the back half of the year?

Lawrence Brooks Mallard

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

A

We have an extra day in Q4. So that's – as we kind of move through the year, you'll – whenever we actually talk about Q4, you'll see it a little bit higher and it'll be because of that extra day. From a pricing perspective, you might see a little leak into the end of Q2, but that's mostly going to be a second half event. So that will evolve over Q2. And we'll give more guidance as we see how things evolve and we start to roll out our Q3 guidance after this quarter.

Nigel Coe

Analyst, Wolfe Research LLC

Q

That's great. Thanks, guys.

Rich Kwas

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

A

Thanks, Nigel.

Operator: We'll take our next question from Julian Mitchell at Barclays.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. Just trying to understand the sort of ERP catch-up. So I think you had 3% sort of underlying growth ex-ERP in the first quarter, and then you're guiding for around that rate for Q2 and I think for the second

half as well. But just wondered if you might have some ERP catch-up that would push up that underlying growth in the balance of the year from the 3% you did in Q1, particularly as your order trends seem pretty good and you had a good book-to-bill.

So I'm just trying to square those things. So I guess, I'd say, if you're running at 3% every quarter underlying but then you should get a catch-up from ERP and the orders seem better, why is it 3% every quarter through the year?

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. Look, Julian, good question, right? So the ERP catch-up, where I was talking about the ERP catch-up, we basically were about a day worse than what we've anticipated. We've lost seven working days. And so the order trends are very, very solid. We are early in the year. I don't think that it is prudent to be making any adjustments to guidance this early in the year.

Of course, when you take a look at the order trends, you would – and I think that you probably hear it from our responses, we feel a lot more positively around where we sit for the year, but it's quite early in the year. And we will execute on what's within our control and manage our revenue generation to deliver on the guidance that we have put forward at this point in time.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Got it. And then just my follow-up around price versus volumes in the revenue line. Maybe I missed it, but did you mention what price was in first quarter? And then I think for the year as a whole, you'd guided 1, 1.5 points of price. Is that still the case or there's a bit extra now because of the higher cost inflation?

Lawrence Brooks Mallard

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

A

Yeah. As I said before, Julian, we're kind of seeing how things evolve. We've begun to roll out some price increases, and then we're looking at the impact of some other things. And so there will definitely be an evolution of price versus volume as we work our way through the second quarter. But this is all relatively kind of late breaking, and we're still kind of working through some of the numbers.

And so I would say, stay tuned for the second half of the year. We reiterated our guide. We feel comfortable with our numbers, both from a top line and a profitability perspective. And we'll update you on the components of it as we work through how all this oil increase in cost impacts our numbers, okay?

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Got it. But in the first quarter, sort of reported price was, what, 1.5 points or something?

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

A little bit higher.

Lawrence Brooks Mallard

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

A

Yeah, a little bit higher. I mean, we have a little bit more tariff pricing in the first half of this year because we kicked that off in the third quarter of last year. That's a little bit more – in the original numbers, a little bit more price-heavy in the first half related to tariffs.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

Operator: We'll move to our next question from Andy Kaplowitz at Citigroup.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Hey. Good morning, everyone.

Rich Kwas

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

A

Hey, Andy.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

So I think you said personal mobility up 6% in Q1, I know affected by ERP. I know you've talked about personal mobility growing sort of that high-20s to 30% over the next few years. I think you said Q2 returned to more normalized growth run rates in personal mobility. So maybe just update us, is that the case? Can you get back to those rates? And do you still expect 2026 to grow at that sort of normalized high growth rate in personal mobility?

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. Thank you, Andy. Absolutely. We've had some delays with a couple of projects that were supposed to ramp up in Q1. They are ramping up in Q2. And the ERP was an outsized impact because a very significant amount of our revenue base is euro-based. And so that drove a pretty meaningful impact to the Q1 growth rate. But as I indicated in the prepared remarks, we certainly believe that that business is going to grow and deliver that mid-20s growth rate as we have committed in our original guidance.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Okay. And I think I have to ask you about that other big growth driver, data centers. I mean, I think you said up 700% off a low base. I don't know, that probably puts you at, what, like \$10 million for the quarter, maybe a little bit more, you tell me. But is there a way to more directly refine what 2026 could look like? And then, obviously, we're all wondering how you fare versus that \$100 million to \$200 million rate by 2028. Like, so how is the progress versus that?

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. Look, we feel very good about where we sit today. I mean, our order intake and billings are strong in data centers, indicating a really nice acceleration of penetration. I mean, obviously, it is from a small base last year, but we started to accelerate our revenue gen and order intake in Q4. We continue to develop a much more wholesome understanding of the infrastructure partners and the semiconductor partners, cooling technology and their needs.

And look, we continue to drive and tailor our technology for those needs. We are launching new products. Those products, we believe, put us at the forefront of the incremental improvements that are needed to facilitate much better liquid cooling flow rates to improve the efficiency from the existing infrastructure and be kind of a leading-edge supplier kind of on the next generation of the chips that are now being developed.

So we are kind of building, and kind of the traditional approach that I have probably demonstrated over the last 10 years, we go after an application that is exciting and emerging. We develop that highly specialized knowledge and we tailor our products that will offer differentiated performance, and we build a sustainable, durable revenue stream on a forward-going basis. And I think that our data continues to demonstrate that we are on that trajectory. And I've committed to you all and to our shareholders kind of \$100 million to \$200 million of revenue by 2028. And I believe that we are on the trajectory.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

So bottom line, on track toward that goal in Q1...

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

That's correct.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

...is how you'd characterize it. Okay.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

That is correct.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

Rich Kwas

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

A

Thanks, Andy.

Operator: We'll go next to Deane Dray at RBC Capital Markets.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everyone.

Rich Kwas

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

A

Good morning, Dean.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Good morning, Dean.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Hey. Would love to circle back on the Timken deal, and congrats. Ivo, can you just give us some color strategically what this brings to Gates? Is this a product line extension? Because if I look at the SKUs, they're awfully similar. Maybe it's some on the sports equipment side. And does it bring any new distribution partners maybe to the table? I like seeing the manufacturing facility coming in, but maybe we could start there. Thanks.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. Good morning, Deane. Yeah, those are all really good questions. I mean, I would think about it more as kind of a industry consolidation more than anything else. I mean, as you know, Gates is the global leading supplier of all types of belts in all sorts of different applications. And this was just another competitor for us that was small. And I think that Timken felt that it was not at the front and center of what they wanted to focus on, on a forward-going basis. And it is something that is additive to us more across the customer base.

I think that the technologies and the type of applications that they participated in and that business participates in is very – it's complementary and it's not something that is super new. We will be switching a whole bunch of the portfolio into Gates Construction, and the factory is nice to have. So I think that you should just think about it more as a kind of industry consolidation than anything else.

And they have some good folks there that's always nice to bring into our family, and we welcome the employees to Gates organization with open arms. And we just think that it's a good transaction. It's right at the core of what we do. And we feel that we are the right owner and a good steward of that business on a forward-going basis.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Yeah. That's really good to hear. And I know we don't have the terms. But based upon the seller's previous comments about margins, it looks like this is coming in well below the power transmission margins for Gates. So that would suggest there's some nice accretion opportunity. Can you give any color or context there?

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. Look, I mean, I think that the business is certainly coming in kind of below what our North America Power Transmission fleet average is. A lot of that business is, frankly, OEM business. So in just a natural way, that's got a little bit lower margins. But for us, again, this is kind of core of what we do. So we believe that we have a significant opportunity to drive margins to be at a company fleet average, and that would just indicate that there's

a very nice opportunity to improve profitability on that asset. And it should be a very good transaction for us once we have the opportunity to integrate it in and start running it under the Gates operating system and, frankly, drive the margins to where they should be.

Deane Dray

Analyst, RBC Capital Markets LLC

All good to hear. Thank you.

Q

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

Thanks.

A

Rich Kwas

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

Thanks, Deane.

A

Operator: Our next question comes from Chris Snyder at Morgan Stanley.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Thank you. I wanted to follow up on some of the commentary on the ERP disruption and potential catch-up. I guess, if we assume the ERP was a 3-point headwind in the quarter, I guess, would imply about \$25 million, \$30 million impact. But then I think, Ivo, you said that Europe has fully caught up on the lost revenue in April. So I just want to make sure I'm understanding that right. Like, was Europe a sub-segment of that \$25 million to \$30 million? Just trying to understand how much catch-up there really was there in April. Thank you.

Q

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

Yeah. Chris, thanks for the question. Let me just clarify. We came about \$5 million light to the midpoint that we have guided on Q1. So my comment has been more around the \$5 million that we came a little bit light on in Q1 that we have fully recovered, not the incremental \$25 million that you are stipulating. That is something that we anticipate we will recover as the year progresses.

A

Lawrence Brooks Mallard

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

And that was built into our original guidance, right? And so Ivo was bridging the gap on Q1 versus the balance of the year.

A

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Got it. Thank you. Yeah. It felt like the \$25 million to \$30 million was a lot. So I appreciate that clarification. Thank you. And then if I could just follow up on data center. It's very nascent for you guys now. And I guess, my question is, is this just a nascent market since it's tied to liquid cooling, which is still in the very early stages? Or is there already an established player that's out there in the market that you guys have to go and take share from? Because I think it's understandable why you guys have a right to win there. But then also just the question is, if

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this market is already developing, why aren't you guys meaningful share already? But correct me if you already are meaningful share. Thank you.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. Look, I think it is a nascent market, right? I mean, I think that we all started to talk about liquid cooling much more profoundly in about 12 months ago. We have started to quantify our growth rates in that market pretty meaningfully in the second half of the year. I think that our order intake does indicate that we are taking a fair share of that revenue.

There are well-established players, just like Gates is an established player, that will be competing for the available infrastructure build-out. But there's so many projects that, in our view, there will be room for more players to come in and for everybody to have plenty of opportunity to build strong, solid revenue stream as this business becomes mainstream. And my sense is we didn't just kind of come up with 2028 as some random date. I mean, we feel that by 2028, this should become – this should transition from emerging applications to mainstream, where all data centers will be liquid cool.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Thank you, Ivo. Appreciate that.

Rich Kwas

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

A

Thanks, Chris.

Operator: Next, we'll move to David Raso at Evercore ISI.

David Raso

Analyst, Evercore ISI

Q

Hi. Thank you for the time. With the second half of the year implying organics around 4.5%, I'm curious, the order strength that you mentioned multiple times for March and April, can you give us a sense of what the order growth is trending right now year-over-year?

Lawrence Brooks Mallard

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

A

Yeah. So, look, we've – obviously, order growth is outpacing core growth certainly in Q1, as we saw backlog build kind of across the business. And I think it's an indication of the industrial OEM strength that Ivo talked about. And so when – that's really as we've been going through a little bit of a trough that we've seen on the industrial side, the strength in the industrial OEM business has given us pretty good confidence. And so we had backlog build in Q1. We continue to – we saw strength in April, which is why we highlighted that. And so orders are on pace to support our core growth number right now.

And I'd say also, remember that the second half of the year, there is that extra day that we have in the second half of the year that kind of offsets the two days in the first quarter. And so that gives you a little bit higher growth rate in the second half. And then also, there's some catch-up throughout the year on the EMEA side. And so when we

look at it kind of from an overall perspective, we feel like it's pretty evenly paced throughout the year from a core growth perspective.

David Raso

Analyst, Evercore ISI

Q

And the organic growth...

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

And, David, what I would remind everybody is...

David Raso

Analyst, Evercore ISI

Q

Sorry, go ahead, Ivo.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. What I would – I'm sorry, what I would remind also everybody is that prior-year comparisons are a little more difficult too, right, because we had that big step-up in [ph] AR (00:48:27) business of the channel win that we had. So...

Lawrence Brooks Mallard

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

A

In the first half.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah, in the first half. So actually, the underlying performance in Q1 was quite good.

David Raso

Analyst, Evercore ISI

Q

Well, that's what I was just wondering, I mean, are we already seeing orders running above that second half organic growth rate? It's just the tone that you had was pretty bullish and just trying to set that up.

Lawrence Brooks Mallard

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

A

Yeah. I think when you look at the one-offs that I talked about in terms of the extra day, you look at the order rate right now and you look at the trend and kind of – and what we've guided to for Q2, again, we feel pretty confident in our guide and we feel good about where we stand from an orders perspective and a sales perspective.

David Raso

Analyst, Evercore ISI

Q

And lastly, second quarter...

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

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And it's early in the year as well, right, David? It's very early in the year.

David Raso

Analyst, Evercore ISI

Q

Yeah. All right. Appreciate it. And I think if I heard you correctly about the second quarter, while the guide for the margin is around, I think, 22.2%, do you feel there's still about 100 bps in there of, I guess, ERP drag, if I heard correctly? Is that the right way to think about it than...

Lawrence Brooks Mallard

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

A

Well, obviously...

David Raso

Analyst, Evercore ISI

Q

Yeah. Please go ahead.

Lawrence Brooks Mallard

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

A

Yeah. It's about half ERP and half footprint optimization cost out. So it's kind of similar to what it was in Q1, but it's half. And so we – you progress from 20.8% to 22.2%, you still have 100 bps of headwind. So you're kind of knocking on 23% from an EBITDA perspective when you adjust for the one-off. So when – again, if you talk about the 23.5% target in the second half of the year, we feel pretty good about that.

David Raso

Analyst, Evercore ISI

Q

All right. I appreciate the time. Thank you.

Rich Kwas

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

A

Thanks. Yes.

Operator: We'll move to our next question from Jerry Revich at Wells Fargo.

Jerry Revich

Analyst, Wells Fargo Securities LLC

Q

Yes. Hi. Good morning, everyone.

Rich Kwas

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

A

Hey, Jerry.

Jerry Revich

Analyst, Wells Fargo Securities LLC

Q

Ivo, Brooks, I'm wondering if you could just talk about the difference in demand cadence you're seeing on the replacement market by end market, if you have that type of visibility. We were surprised to hear from somebody else in the supply chain that parts demand in truck applications was really soft in the first quarter. I'm wondering if you're seeing that or if you have that level of granularity and visibility. And any other replacement demand trends that you can talk about in terms of cadence would be helpful.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. We don't really break out our replacement channels by end market. What I will tell you is that the aftermarket in Q1 was quite healthy, absent of the two things that we have listed. It was running at a trend line. So I would not be able to tell you that there was something out of ordinary that was not behaving well.

Our aftermarket is actually quite okay. And when I take a look at POS, the POS data was very healthy. So there wasn't any indication of somebody trying to pull demand forward. We didn't see that. I mean, the sales out kind of outpaced our sales in slightly.

So everything is – I see normal operating conditions. I wouldn't call that as extraordinarily out of line on a positive or that it is negative at all. I think it's behaving the way that we anticipated.

Jerry Revich

Analyst, Wells Fargo Securities LLC

Q

Super. And separately, nice to see the transaction announced this morning. Can you talk about – as you look at the M&A pipeline, are there additional opportunities that we should be thinking about over the next 12 to 18 months? What's the range of capital if you do have an active pipeline, what's the range of capital that you think you could deploy beyond the announcement today?

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

A

Yeah. Look, we have a very healthy balance sheet. We spent – I spent years on trying to get this balance sheet to be durable. We are right in line with what we have committed in our last CMD. We feel that we have a ton of capacity. I think that we are operating the business quite well. We're driving profitability forward. And we believe that there are many opportunities presently.

Our pipeline is very robust. We are doing presently a ton of work on a number of assets that would be highly accretive to what we do. Again, front and center to our portfolio. We not – we are really not looking at anything that would be an extension or a third leg. We don't believe that that is the most meaningful way to add to our scale. And so we will talk to you as these things develop further. But I would say, yeah, there's a very good likelihood of more announcements coming certainly within this calendar year.

Jerry Revich

Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: And we'll take our next question from Tomo Sano at JPMorgan.

Tomohiko Sano

Analyst, JPMorgan Securities Japan Co. Ltd.

Hello, everyone.

Q

Rich Kwas

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

Hi, Tomo.

A

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

Hi. Good morning.

A

Tomohiko Sano

Analyst, JPMorgan Securities Japan Co. Ltd.

Thank you. Could you share your perspective on business opportunities for Gates in robotics, especially humanoid applications? Based on your discussion with the customers and your technology services, what is Gates' potential in this space? And are there any specific technology services you see as key differentiators?

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Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

Yeah. Good morning. Look, yes, we do see opportunities. There are some nice opportunities that we already participate on today. We have a very nice small-scale business in China, in particular, and in Japan in robotics. I would not be in a position, frankly, to tell you today whether or not there's some humanoid opportunities very specifically, but we do have a very nice robotics power transmission business with small belts that are perhaps more cost efficient than the alternative technologies. And so we believe that it's going to be a small accretive end market as it develops on forward-going basis.

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Tomohiko Sano

Analyst, JPMorgan Securities Japan Co. Ltd.

Thank you. And just a follow-up on the Timken acquisitions. Could you talk about expected impact on a net leverage following these acquisitions? And how should we think about the capital allocation strategies, including the balance sheet, please?

Q

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

Yeah, it's immaterial. I mean, it was a super positive purchase price, opportunistic purchase price that we've acquired this business. It will be not meaningful on our net leverage.

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Tomohiko Sano

Analyst, JPMorgan Securities Japan Co. Ltd.

Thank you.

Q

Rich Kwas

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

Thanks, Tomo.

A

Operator: And that concludes our Q&A session. I will now turn the conference back over to Rich for closing remarks.

Rich Kwas

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

Thanks, everybody, for participating. If you have any further questions, feel free to reach out to me. Otherwise, have a great weekend. Take care.

Operator: And this concludes today's conference call. Thank you for your participation. You may now disconnect.

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