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Gates Industrial Corp. Plc (GTES)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Gates Industrial Corporation Second Quarter 2026 Earnings Conference Call. All participants are in a listen-only mode. After the speakers' remarks, we'll conduct a question-and-answer session. [Operator Instructions] As a reminder, this conference call is being recorded.

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

Rich Kwas

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

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

Before the market opened today, we published our second quarter 2026 results. A copy of the release is available on our website at investors.gates.com. Our call this morning is being webcast and is accompanied by a slide presentation.

On this call, we will refer to certain non-GAAP financial measures that we believe are useful in evaluating our performance. Reconciliations of historical non-GAAP financial measures are included in our earnings release and 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 described in our most recent annual report on Form 10-K and in other filings we make with the SEC, including our Q2 quarterly report on Form 10-Q that is expected to be filed later today. We disclaim any obligation to update these forward-looking statements.

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

With that out of the way, I will turn it over to Ivo.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

Thank you, Rich. In the second quarter, we delivered strong performance as sales came in near the high end of our guidance, supported by incrementally constructive industrial end markets and contributions from our strategic growth initiatives. Sales grew approximately 7% with core revenue growth of 4.9%, which enabled us to achieve record quarterly sales and adjusted earnings per share. Our adjusted EBITDA margin was above expectations led by solid improvement in our adjusted gross margin. Importantly, we believe that we are in a good position to achieve our second half adjusted EBITDA margin target outlined earlier this year. Core growth in our industrial channels was up nicely, led by double digit growth in Industrial OEM with strength building as we exited the quarter. Broadly speaking, we generated year-over-year growth in most of our end markets during the second quarter, and book-to-bill remained above 1.

Given our solid second quarter financial results and the favorable shift in demand trends we observed exiting the quarter, we have raised our 2026 full year guidance for core sales growth and profitability. Our updated guidance implies incrementally better performance for second half of the year, relative to our initial expectations. We believe we are also on track to deliver adjusted EBITDA margin of 23.5% or higher in the second half of 2026. Brooks will provide more details on guidance later in the presentation.

Please turn to slide 4. Our second quarter sales were $942 million, which represented record quarterly sales for Gates. Total sales expanded 6.6%, inclusive of foreign currency benefits. Core sales grew 4.9%. The underlying demand continued to improve with year-over-year growth strengthening during the second half of the quarter. We saw momentum across most of the portfolio highlighted by approximate 25% growth in Personal Mobility and 20%-plus growth in commercial On-Highway. Industrial OEM sales expanded low double digits and our Industrial Aftermarket saw improved demand trends, which resulted in mid-single digit growth. In general, the bulk of our end markets have begun to inflect positively and we are in a strong position to capitalize on the building end market momentum.

Adjusted EBITDA was approximately $211 million and represented an adjusted EBITDA margin of 22.5%, modestly better than expectations. Adjusted gross margin increased by 50 basis points while we continue to make targeted investments to support our enterprise initiatives. Adjusted earnings per share increased 13% to a quarterly record of $0.44. The growth was driven by improved operating performance and other items.

On slide 5, we will review our segment highlights. In the Power Transmission segment, sales were $589 million and translated to over 5% core growth. The expansion was led by high single digit growth in our industrial end markets, which was driven by mid-teens growth in the Industrial OEM channel globally. Power Transmission Industrial Aftermarket increased mid-single digits and supported by double digit growth in EMEA and Asia Pacific. Automotive aftermarket grew high single digits, with solid growth achieved across all geographies. At the end market level, Personal Mobility grew in the mid-20s and commercial On-Highway increased similarly. Segment adjusted EBITDA margin increased 60 basis points.

In the Fluid Power segment, sales were $353 million and increased 4.2% on a core basis. Similar to Power Transmission, Industrial OEM sales were strong, growing double digits. Industrial Aftermarket increased low single digits. Fluid Power's strongest end markets were commercial On-Highway, which increased high teens and Construction, which grew mid-single digits. Of note, Diversified Industrial grew mid-single digits and represented a good contributor to the segment's growth given its relative size within the segment. We continued to grow our data center business, which expanded more than 2x versus the prior year quarter, and we anticipate sales contribution to step up in the second half as certain high value project launches occur. Adjusted EBITDA margin in the Fluid Power segment decreased 120 basis points, primarily due to footprint realignment costs, as well as targeted investments into our enterprise initiatives.

I will now turn the call over to Brooks for additional comments on our results.

Lawrence Brooks Mallard

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

Thank you, Ivo. I'll begin on slide 6 and review our core sales performance by region. All three regions had positive core growth during the second quarter. Americas grew 1.5% with low single digit growth in North

America, more than offsetting a decrease in South America, which was primarily driven by soft agricultural demand. In North America, Industrial OEM sales were up mid-single digits, fueled by solid growth in commercial On-Highway. North American automotive aftermarket grew high single digits. Importantly, overall, North America sales momentum grew as the quarter progressed, with an exit rate in the mid-single digit range.

In EMEA, core sales grew 6.4%, led by double digit growth in the industrial channels and many industrial end markets. Industrial OEM sales increased at a mid-teens level and Industrial Aftermarket grew in the double digits. At the end market level, commercial On-Highway, Diversified Industrial and Personal Mobility drove the strong growth in EMEA in the second quarter.

APAC growth accelerated in the second quarter, increasing 11.5% with China and East Asia and India delivering comparable growth led by strong double digit growth across several industrial end markets.

On slide 7, we show the primary drivers of our double digit growth in adjusted earnings per share. Underlying operational performance and favorable foreign exchange combined to contribute $0.02 per share. A lower tax rate, share count, interest and other represented $0.03 of adjusted earnings per share contribution.

Slide 8 offers an overview of our cash flow performance and balance sheet metrics for the second quarter. Our free cash flow was approximately $60 million and trailing 12 months free cash flow to adjusted net income came in at 94%, which is above our historical average. Our net leverage ratio declined to 1.8 times, which was a 0.4 times improvement compared to the prior year period. During the quarter, we repurchased approximately $22 million of our stock. Our trailing 12-month return on invested capital was 21.6%, up 30 basis points. We continue to fund high return projects that we believe will improve our growth and profitability over the mid-term.

On slide 9, let's discuss our updated 2026 outlook. We are increasing our guidance for core sales growth, adjusted EBITDA and adjusted earnings per share. We anticipate our full year core sales growth to be in the range of 2.5% to 4.5%, representing a 100 basis point increase at the midpoint. We expect our full year adjusted EBITDA to be in the range of $800 million to $830 million, which is a $10 million increase at the midpoint. Our full year adjusted earnings per share range is $1.62 to $1.70, a $0.06 increase relative to our prior guidance midpoint. Our guidance for capital expenditures and free cash flow conversion is unchanged.

For the third quarter, we estimate total revenues to be in the range of $880 million to $920 million and core revenues to be up approximately 5.5% at the midpoint. We anticipate our adjusted EBITDA margin to increase in a range of 50 basis points to 90 basis points compared to the third quarter of 2025.

I will now turn the call back to Ivo for summary remarks.

Ivo Jurek

Chief Executive Officer & Director, Gates Industrial Corp. Plc

I'll summarize our thoughts and views on slide 10. First, we've generated strong top line growth in the second quarter and we believe that we have entered the early stages of an industrial recovery. Industrial OEM schedules are generally improving, with some end markets further down the recovery curve and industrial distributor orders are solid. We are well-positioned to generate attractive growth and margin expansion as the cycle evolves. As such, we anticipate producing incrementally stronger core growth in the second half of 2026 relative to our second quarter performance. Our updated 2026 guidance implies 6% core sales growth year-over-year in the second half, representing a significant uptick from approximately 1% core sales growth realized in the first half of the year.

Second, we are delivering on our commitment to our investors and shareholders. Our first half adjusted EBITDA margin outperformed the initial guidance we outlined on our fourth quarter 2025 earnings call in February. More importantly, we are on track to achieve an adjusted EBITDA margin of at least 23.5% in the second half of this year, putting us on a good path to achieve our mid-term margin target outlined in 2024. With the industrial markets turning positive, we intend to deliver attractive incremental adjusted EBITDA margins through the cycle.

Third, we are highly focused on accelerating our top line growth and delivering above-average shareholder returns.

The strategy we deployed a few years back is yielding results. Our focus on improved operational performance has resulted in significant improvement in gross margins, and we are approaching our mid-term adjusted EBITDA margin target. We believe our investments in strategic initiatives support future sales outgrowth in excess of market growth rates. In our view, our strong second quarter execution and the clear inflection in our underlying end market demand trends provide a solid backdrop to deliver differentiated performance.

Our balance sheet is strong. We have significant optionality to deploy capital and we'll be judicious and responsible. We are broadly excited about the opportunity ahead and anticipate generating significant value for our shareholders.

Before taking your questions, I want to thank the 13,000 global Gates associates for their dedication and perseverance in meeting our customers' needs.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Thank you. Our first question comes from Steve Volkmann from Jefferies. Please go ahead. Your line is open.

Stephen Volkmann
Analyst, Jefferies LLC

Q

Great. Good morning, guys. Thank you for taking the question.

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

A

Hey, Steve. Good morning.

Stephen Volkmann
Analyst, Jefferies LLC

Q

Can we just unpack the – it seems like we're sort of on plan here. We're getting past some of these margin headwinds as we expected. As we think about the second half margin, how much of the improvement is kind of these temporary headwinds going away versus the better organic growth fall through? And I guess what I'm really trying to get at is, is as all the dust settles, how should we think about incrementals sort of on a more medium term basis within the kind of adjusted cost structure, et cetera?

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

Yeah. So I would say we're seeing the results of our footprint optimization, our restructuring, our cost optimization. That's all starting to come through and as you said, as the headwinds go away, the core growth improves, we expect to continue to improve margins as we said in the second half. If you think about the incrementals, for Q3, we're implementing pricing to offset some of the oil-related cost increases and that's going to cause a slight bit of dilution in Q3, our incrementals. So we expect them to be in the 35% to 40% range. We expect those to then move back to 45%-plus as we move into Q4, and then the first half of next year, we expect that trend to continue as the footprint optimization and the cost optimization work that we've done rolls through. And then after that, we'll update you at the end of the year on our full 2027 guide. But that's how to think about it over the next kind of 12 months or 4 quarters.

Stephen Volkmann
Analyst, Jefferies LLC
Q

Great. Very helpful. Thank you. And then just a follow-up. Was kind of surprised by EMEA up 6.4%. That seems pretty healthy given what we're hearing from a lot of folks in that region. Just anything to call out relative to that growth?

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

Yeah. Look, I mean, I think we have seen a pretty reasonably broad strength across our end market exposure. We're well diversified and we've put the company on a trajectory to continue to deliver that growth. So the end markets that are performing quite well obviously in EMEA are automotive aftermarket and the – actually the industrial – Diversified Industrial expanded very, very nicely and On-Highway expanded very nicely as well as Personal Mobility. So, we feel pretty well about how our business is performing in Europe.

Stephen Volkmann
Analyst, Jefferies LLC
Q

Thank you, guys. I'll pass it on.

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

Thanks, Steve.

Operator: Our next question comes from Mike Halloran from Baird. Please go ahead. Your line is open.

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

Hey. Morning, everyone.

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

Hey, Mike.

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

A

Good morning, Mike.

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

Q

Hey, thanks. So, it sounds like you guys are pretty constructive on the trajectory of your demand curve right now. Ivo maybe put this in context of history, when you guys have organizationally seen this type of thing before what does that mean? Put it in context. It's been a bit since you've seen – it seems like you've seen this kind of momentum. And so trying to get a sense of pervasiveness through the portfolio and then what it can mean for the organization if this has legs and it seems to be that you think it does have legs?

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

A

Yeah. Thanks, Mike. There's lot to unpack. Now, obviously, when we look backwards and we see some of the market recoveries from a historical perspective, you should anticipate a reasonably solid acceleration for kind of the first four to six quarters of the recovery. We have seen a nice expansion in PMIs. Obviously, that's no secret to anybody else. And what we are seeing is reasonably broad based recovery and support across the exposures that we have in the end markets. Now, obviously, not everything is in a solid shape yet. Agriculture, as an example, is still in bottoming out and troughing conditions today. But we should see a very constructive demand. And look, that's reflected in our second half guidance. We are stepping up our forecast for core growth rather substantially year-over-year. And we certainly believe that this is just the beginning of what we should see.

Now, let me remind you, we have also done lots of work internally on self-help. So we've developed nice exposure to some secular end markets that we believe will continue to deliver incremental performance on top of the end market support that we anticipate. And as I said on – during my prepared remarks, we feel very constructively about where the company sits presently and we're in a very good shape.

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

Q

Thanks for that. And then maybe some thoughts on pricing – price/cost environment and how that's been managed and how you think about it moving into the second half of the year?

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

A

Yeah. So we've implemented price increases to offset what we've seen from an oil and petroleum materials base increase. And so we feel good we've got pricing in place. As I said earlier, it's a little bit dilutive to our incrementals as all the pricing gets in place for Q3. And then it'll be fully in place for Q4. And it's impactful, but it's not really that big of a deal when you kind of look at some of the stuff that's happened in 2022, 2023, 2024. So it's manageable. We've got all the pricing in place, and we feel pretty good about where we stand as we move through the back half of the year. And we expect to be at least price/cost neutral in the back half of the year.

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

Q

Thank you. Appreciate it.

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

Thanks, Mike.

Operator: Our next question comes from Deane Dray from RBC Capital Markets. Please go ahead. Your line is open.

Deane Dray
Analyst, RBC Capital Markets LLC Q

Thank you. Good morning, everyone.

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

Good morning, Deane.

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

Morning.

Deane Dray
Analyst, RBC Capital Markets LLC Q

Hey, maybe you could put the spotlight on Personal Mobility and the [ph] Construction, On-Highway (00:24:33), because you don't typically see 20% numbers like that in those verticals. So just what are the dynamics there, are there any new products? Is this a catch-up? Is it an inventory sell-in higher? Just take us through. That'd be great. Thanks.

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

Yeah, sure. Thank you, Deane. I think that we spoke on our last call about the rebound in our order trends in On-Highway. Let me start with that, please. So as we start seeing some reports coming through, very significant improvement in Class 8 truck orders for the industry in North America. And particularly, they were up couple hundred percent year-on-year. So very significant recovery there. The Class 5 and Class 7 truck orders are also trending nicely positively. So we feel that that market has definitely inflected as we anticipated. And we've – we have been the beneficiary of that performance.

On Personal Mobility side, look, maybe a year or so ago, we have committed that Personal Mobility should deliver kind of a mid-20% to 30% core growth for next couple of years. That has been driven through our effort, penetration, new design wins, broadening of our product portfolio across significant – a broader based set of applications. And so you see that playing itself out. And we have not really changed our mind about delivering 25% to 30% core growth in Personal Mobility over the next couple of years and we're just on point to do just that.

Deane Dray
Analyst, RBC Capital Markets LLC Q

Great. And second question. Just to be clear, I'm not expecting the next analyst meeting to be in Bermuda. But I'd love to know just some more specifics around the redomicile move. Our understanding is [ph] England, Wales

(00:26:53) had some pretty onerous restrictions on your capital allocation flexibility for buybacks, dividends and so forth. But just take us through what we should know about the redomicile and what changes, if anything, that might entail being in Bermuda now? Thanks.

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

A

Well [indiscernible] (00:27:15).

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

A

Yes.

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

A

Okay. Well, the biggest change is we don't have to do two annual reports and IFRS reporting and things of that nature anymore. So it's a pretty good thing for us folks on the accounting side. It's going to make life easier. So, it's going to eliminate some cost. It's going to eliminate some kind of bureaucracy that we have to do in terms of filing annual reports in the UK and in the US. Having audits in the UK and in the US, things like that and then – and so it's going to make it a lot easier from that perspective. Ivo, you want to do the capital allocation?

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

A

Yeah. No. Look, I think that the overall governance environment is getting more complex globally and we just felt that as a North American company – a North American based company, we wanted to make sure that our shareholders have shareholder rights that are very well aligned to the ones of companies that operates in this country. And I think that we accomplished that by redomiciling in Bermuda, where the governance is very, very similar to the governance of companies that are domiciled in the US. So I would say that between those two attributes, those were the predominant drivers. And then obviously capital allocation – flexibility with capital allocation has been another component of the – of our thoughts. But we had reasonable level of capital allocation flexibility being domiciled in UK and Wales. So, I just think that it's better for our shareholders and it makes it less complex for our company to operate.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Great. That was really good to hear and it sounds like that was a smart move. Thanks.

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

A

Thanks, Deane.

Operator: Our next question comes from Jeff Hammond from KeyBanc Capital Markets. Please go ahead. Your line is open.

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

Q

Hey, good morning, guys.

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

A

Good morning.

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

A

Good morning, Jeff.

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

Q

If you had given me the growth rates and – to put on the map, I would have been completely wrong. That was not what I was expecting. Just and – the North America comment about going to mid-single digit, is that just kind of timing of cycle inflection or would you say 2Q is still a little muted around ERP and facility consolidation versus the other geographies? And if you look to the second half map, would it look pretty balanced across the three geographies? Thanks.

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

A

Yeah. No, thanks for the question, Jeff. I would say that North America demand has been improving very, very nicely as the quarter progressed and so, you should almost think that we were exiting June kind of already in a mid-single digit growth rate. And I would say that North America or – North America in particular was more impacted by ag, which is still weak and by automotive OEM, that production output obviously has not been terrific in North America. But that has inflected by strength that we have seen in some of the other exposure like Diversified Industrial, Personal Mobility, Construction and such and On-Highway, obviously, as I mentioned as an answer to Deane's question. So we feel quite well about that inflection and we believe that that's going to continue to accelerate in the second half of the year. Certainly all the indications are there.

South America on the other side was reasonably weak and that's predominantly driven by the fact that we have a large exposure to agriculture end market there. And that has been reasonably weak. It has had couple of very strong years in 2024 and 2025 and it's in an inflection in 2026.

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

Q

Okay. Good color, Ivo. Just on the short cycle recovery, I'm just wondering if there's any want or visibility that your distributors are doing anything in terms of wanting to restock or are they wanting to run lean and this is just all sell-through? Thanks.

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

A

Yeah. Right now, Jeff, we see just sell-through. We have seen a very nice recovery with our OE customers. And as we monitor our channel partners, our channel partners in general, they're kind of delayed one to two quarters as the recoveries take a firm hold. So I would anticipate that kind of end of – towards the end of this year or beginning of next year, that should be very supportive for continuation of growth into 2027. But presently, the channel partners are being pretty judicious and inventories are reasonably lean, they're in good place and we don't see any significant rebound that would be restocking-driven. Certainly we haven't seen that globally yet.

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

Q

Okay. Appreciate the color.

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

A

Thanks, Jeff.

Operator: Our next question comes from Andy Kaplowitz from Citigroup. Please go ahead. Your line is open.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Good morning, everyone.

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

A

Good morning, Andy.

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

A

Good morning, Andy.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Ivo, your outperformance in Asia has continued to be relatively significant. So maybe you can give more color there and to what's going on? I think you said China and East Asia about the same growth. What do you think about the durability of the strength you're seeing? Is it sort of more your self-help or is it just the markets there being pretty strong?

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

A

Look, our teams are executing extremely well in Asia, not just in China, but also in East Asia and India. We have put a strategy in place to capitalize on – frankly, on the broad based industrial activities that you see in those regions. We are well exposed to all of those. And frankly, outside of maybe energy, which we have a very little exposure to in Asia, everything have seen really a very, very decent – decent performance. So I'm quite optimistic about the fortunes in Asia for our company and certainly expect that we will continue to outperform our peer set as well as the underlying end markets there.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

And then, Brooks, could you give us a little more color on the impact on Fluid Power margin impacting Q2? I think you had cited footprint realignment costs, investments in R&D and commercial front-end costs. How are those impacts trending in the second half of 2026? I know you said you're confident in 70 basis points of year-over-year improvement for the company in Q3. Does Fluid Power trail Power Transmission a little? Like how should we think about that?

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

Yeah. So, as we said at the beginning of the year and we reiterated in our Q1 call, the footprint optimization is almost entirely around the Fluid Power business. Between that and some of the investments we're making in some of the enterprise initiatives, that's what drove the second quarter margin compression. That was expected. It was embedded in our guidance. Going forward, that should normalize and we don't expect to see – we expect to see that to continue to expand kind of along with the company margins as we move forward. So, as I said, we knew that was coming. We telegraphed it, we highlighted it and it should be nothing to see as we move forward.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc. Q

Helpful.

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

Thanks, Andy.

Operator: Our next question comes from Chris Snyder from Morgan Stanley. Please go ahead. Your line is open.

Christopher M. Snyder
Analyst, Morgan Stanley & Co. LLC Q

Thank you. I wanted to ask about the ERP dynamic in the first half and I think you guys called out maybe like a 250 basis points, 300 basis points headwind in Q1 if I remember. And I think you talked to maybe some opportunity for modest catch-up here in Q2. So just wondering if that came through and how it contributed to that 5% organic growth number? I mean, do you guys anticipate any further catch-up into the back half of the year? Thank you.

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

Yeah. So it was kind of de minimis to the overall, less than 100 basis points for the overall company in terms of catch-up. When you think about EMEA, we're about 6.5% core growth. It was maybe about 200 basis points tailwind as we called out in Q2. There'll be a slight bit of catch-up as we move through the back half of the year, but nothing meaningful. And we continued to see a little bit of SG&A headwinds. That was when you think about year-over-year headwinds. We saw some hyper-tier headwinds in Q2. Those again should go away in the second half. We're operating normally as we enter the second half of the year. So we feel very good about the implementation, how it's gone and then how things are going to be moving forward.

Christopher M. Snyder
Analyst, Morgan Stanley & Co. LLC Q

Thank you. I appreciate that. And I think earlier you were talking about some better price realization into the back half following some of the actions, I guess, put in place in Q2. I guess like I wanted to maybe get some color on how you think cost inflation tracks for the back half. You guys have resin exposure. I imagine there was some cost inflation there in Q2, Q3. But just kind of wondering like is that building off Q2 into the back half or could that actually be easing as we look into the end of the year, just kind of given some of the movements in the global commodity prices? Thank you.

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

A

Well, I can tell you, it's not easing. Actually that – the volatility of oil prices has kind of capped the cost increases that we've seen, either stable or maybe slightly moving up. So, we don't expect to see any relief. Now, we put pricing in place, as I said earlier, to completely offset – at least completely offset the cost increases that we've seen around oil-related products. We didn't see any real impact in Q2 because we were working through our lower cost inventory. And the higher cost inventory doesn't really come into play until Q3, which is how we try to match up our price increases as we move forward. So you know what, we've got price increases in place to make sure that we're in good shape. Pricing is something we think we do pretty well. We can get price increases out relatively quickly. We typically have some time to work through them and so, we feel comfortable about where we are from a price/cost perspective.

Christopher M. Snyder
Analyst, Morgan Stanley & Co. LLC

Q

All makes sense. Thank you very much.

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

A

Thanks, Chris.

Operator: Our next question comes from Brendan Shea from JPMorgan. Please go ahead. Your line is open.

Brendan Shea
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. Thanks for taking my question. I'd just like to touch a little bit more on your confidence in the second half acceleration. So can you just walk us through how much of that anticipated second half acceleration is already visible in your order book given you have a book-to-bill above 1 times? And then, how much of it is dependent more on continued demand improvement and sort of where you're seeing the most and least visibility?

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

A

Yeah, sure. Look, we – as I've indicated, we have seen strong bookings performance. I would think – you can think about kind of a high single digits year-on-year bookings growth in Q2. So we have seen very reasonable strength. I would say that, that continued through July. So we feel very confident that second half will continue to track in accordance with the trajectory that we have. We have anticipated – we've embedded in our guidance. We see very significant strength in Personal Mobility. We are ramping programs in support of our data center applications that we have been specified on. So, we do have some level of visibility to the overall underlying demand and, in a way, we've built a little bit of a backlog in Q2 as that revenue start accelerating. So, decent level of visibility from where we sit.

Brendan Shea
Analyst, JPMorgan Securities LLC

Q

Great. Thank you. And then just one more for me, please. So you've mentioned acceleration of strategic initiatives that can help you outgrow the overall market over the medium term. I guess, can you just highlight, if you could, just two or three of the initiatives you think will most meaningfully differentiate your growth and just widen that gap, please and then actually and then...

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

A

[indiscernible] (00:41:01)...

Brendan Shea
Analyst, JPMorgan Securities LLC

Q

...how [indiscernible] (00:41:01) against it, please?

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

A

Yeah. No, absolutely. One of the big initiatives that we have been speaking about for a while has been an initiative around Personal Mobility and swapping out industrial chain for our Gates belt drives. Obviously that's been growing very, very nicely. It's growing 25% to 30% from a meaningful base and the – we certainly have a line of sight of delivering that level of growth over the next couple of years on forward basis. We've spoken a number of occasions about our exposure to data centers and while that is still a reasonably small level of revenue, it's inflecting meaningfully. We've indicated that we will be multiples of last year's revenue. We have identified that we anticipate $100 million to $200 million of revenue being generated by 2028. We certainly feel high degree of confidence in being able to deliver that. One of the areas that we have been ramping up our revenue gen is in our industrial water pumps that go in the applications in the data centers. We're now in process of actually ramping up our first sizable program with a major US-based server manufacturer as we speak. So we anticipate that that's going to start delivering a nice amount of incremental revenue for us in the second half of the year.

We've spoken about industrial chain to belt conversions that are very similar in nature to what we have done with Personal Mobility. So I'd say those are probably the three of the most meaningful secular type opportunities that we feel a high degree of confidence that will give us an incremental above-market growth rate that is meaningful for our company.

Brendan Shea
Analyst, JPMorgan Securities LLC

Q

Thank you. Appreciate the color.

Operator: Our next question comes from David Raso from Evercore ISI. Please go ahead. Your line is open.

David Raso
Analyst, Evercore ISI

Q

Thank you. My question is related to margins between the segments and auto replacement. For the – by the fourth quarter, do we expect FP margins to surpass PT? And then on the auto replacement, the growth has been pretty impressive. I'm just trying to make sure I understand how much of that is the underlying market and how much is it related to recent wins? And just trying to think through that growth rate if there's some comp issue related to some of the timing of the wins? Is that – obviously, I'm – correct me if I'm wrong, I would assume that's some of your highest margin business within PT.

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

A

Look, I'm going to stay away from being too predictive on forward-looking margins. We don't really give forward-looking margins on our product lines. I will say we do expect Fluid Power to normalize in the second half. There is some footprint optimization that's going to help Fluid Power. But there's stuff we're working on Power Transmission that's going to help as well. So we expect both product lines to continue to improve their margin profile as we move forward.

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

A

Yeah. And I would say that we have done – our teams have done a rather nice job in automotive aftermarket over the last certainly two, three years. We spoke about some market share gains last year that has washed itself out in the comps. So actually our comps are reasonably difficult on forward going basis taking into an account that step up that we have seen last year and we still delivered mid-single digit core growth with automotive aftermarket business. So that business is performing quite well globally and we certainly anticipate that that business should be in a very normalized-type run rate, delivering mid – low to mid-single digit growth rate between now and kind of the next two to three years. So I hope that, that color is helpful for you.

David Raso
Analyst, Evercore ISI

Q

That is helpful. But – so you've anniversaried the wins and you were still able to do mid-single in the second quarter for auto replacement?

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

A

That is correct.

David Raso
Analyst, Evercore ISI

Q

That's correct? Okay. And I know I'm generalizing here a little bit, but given its replacement, I would you assume that's some of your highest margin revenue within PT?

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

A

Look, as we indicated, we have profitable business across all of our channels and this is not kind of like an aerospace-type business. We are – we're very proud of our OEM margins just as much as we obviously are proud of our aftermarket business margins. But it is somewhat more positive than the OE exposure and we anticipate certainly that that's going to be accretive. And look, we've indicated that we have a reasonably nice step up in profitability in the second half of the year as well. We've indicated that we will be in that 23%-plus at minimum. And so, I think that you are seeing the fruit of diligence and effort by our global teams not only to execute on things that we can control, operational performance, enterprise initiatives, but also [indiscernible] (00:46:40) a favorable performance across the markets.

David Raso
Analyst, Evercore ISI

Q

That's helpful. Thank you very much.

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

A

Thanks, David.

Operator: Our next question comes from Nigel Coe from Wolfe Research. Please go ahead. Your line is open.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Yeah. Hi. Good morning, guys. Thanks for the details here. Brooks, can you just remind us how much cost capture is [indiscernible] (00:47:06) prior framework and then how much is then rolling into the first half of next year?

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

A

How much what?

Nigel Coe
Analyst, Wolfe Research LLC

Q

Cost saving – restructuring saving,...

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

A

Oh, cost...

Nigel Coe
Analyst, Wolfe Research LLC

Q

...footprint consolidation, et cetera?

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

A

Oh – oh, yeah. So, well – so on the cost savings side, look, we've done a lot of work – as I said before, we've done a lot of work on improving margins through our footprint optimization, through our cost realignment, through restructuring and the 23.5% embeds a lot of that – or all of that and it's forward-looking forecast, right. Now, looking at the meaningful inflection that we've seen in demand, especially on the industrial side, we're balancing our footprint optimization and how quickly we move versus making sure we have plenty of capacity in place to take care of the customer. So we expect to see those benefits roll through over a little bit longer period. So I would say to the end of 2027. Now, that doesn't change our margin outlook at all. In fact if you look at our margins, we're actually at the midpoint a little bit north of 23.5% when you look at the back half, but – so, I would say it's pretty evenly spaced out over time. And we're going to manage that footprint optimization along with the customer service and capacity side of things to make sure we take full advantage of the upcycle we're seeing right now.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. We will follow up offline then. Then obviously EMEA really good performance in the quarter. I mean, I'm assuming there was a little bit of shift from 1Q to 2Q with ERP. But I'd be more curious, Ivo, if you could maybe just spell out kind of what benefits you're getting post ERP transition in terms of day-to-day operations, working capital management, et cetera? And do you think that means that you get better growth in Europe?

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

A

Look, Nigel, I think that we're still so early on post implementation. We are just one quarter out and my sense is that we will never have to talk about the implementation, because we are done and we are just now focusing on optimization. I believe that we will get nice benefits as we roll into 2027, gives us the opportunities to optimize our working capital, gives us better opportunities to track our inventories and match our manufacturing activity to what we are seeing from the underlying perspective in the end markets. So we will see more benefit. But I would say that we've done a lot – our teams have done a lot in Europe to drive penetration, market share gains and I think that you are seeing some of that accrued in our results. You're seeing terrific performance in Personal Mobility. That business has been growing very, very nicely. Our Diversified Industrial business has been growing very nicely. The OE penetration in On-Highway and commercial Construction are quite okay as well.

So we believe that the penetration, the performance, the focus on broadening our exposure in Europe is the right strategy. And we don't certainly believe that it will – we'll always grow mid to high single digits in Europe, but we certainly feel pretty well about the mid-term prospects for our business there and frankly, globally.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Yeah. And just a quick – very quick follow-on. I mean, Brooks, you don't like to give segment margin details, but as you look into 2027, is there any reason why FP margins would be any significantly different to PT?

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

A

Again, look, I think we're going to see FP normalize, which will put it back closer to PT as we move through the back half of the year. And then we have seen significant margin improvement opportunities on both sides. And so they should both improve about the same rate. There is nothing structurally different about the businesses that should cause one to be significantly better or worse than the other. So we would anticipate kind of a return to normalization of our FP and then a rate of improvement is very similar on both sides.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. That was three questions. I'll leave it there. Thanks a lot.

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

A

Thanks, Nigel.

Operator: Our last question comes from Jerry Revich from Wells Fargo. Please go ahead. Your line is open.

Jerry Revich
Analyst, Wells Fargo Securities LLC

Q

Yeah. So, hi. Good morning, everyone. Brooks, I wonder...

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

A

[ph] Hi, good morning. Jerry (00:51:58).

Jerry Revich
Analyst, Wells Fargo Securities LLC

Q

...given – hi. Given the really good margin momentum that you folks are building over the course of this year, looks like your exit rate and – midpoint math is dangerous, but looks like the exit rate is going to be somewhere in the 24% range. And you folks have outlined cost savings coming in 2027 versus 2026. Is the 24.5% margin target that you laid out back at the 2024 Analyst Day, is that within the possible range? I know the market's been weaker for a while, but it feels like you've got the underlying momentum. And if you're still expecting incremental improvement 2027 versus 2026 it feels like 24.5% margins might be feasible in 2027? Can you just touch on the puts and takes around that, please?

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

A

Thanks for the question, Jerry. And that's definitely how we are thinking about that. And I think that we have spoken about being on the trajectory of travel despite the fact that the markets have really not been supportive for us over the last two years since 2024 CMD. So we've done a lot with this franchise. We're positioning it to outperform – deliver meaningful outperformance for our shareholders and we feel well where we sit. And as I also indicated, we don't believe that 24.5% is some magic endpoint, and we will provide update as we start to think about the next CMD likely in 2027.

Jerry Revich
Analyst, Wells Fargo Securities LLC

Q

Okay. Super. And separately, we're thinking back to the 2022, 2023 timeframe. Lead times got blown out for a lot of categories and we're running pretty heavy on overtime. Can you just update us on how your footprint's evolved since then and give us a sense for what lead times look like now given the acceleration in the end demand?

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

A

Sure. I mean, we've done a lot again with that business. We've spoken about the footprint realignment, positioning ourselves to a position where we have a better access to labor, direct labor in particular. We have accomplished that. We have a number of projects that are still in production ramp up. So we feel reasonably well. Now the demand inflection that we see is meaningful and we will monitor our lead times very, very carefully and ensure that we are [ph] lock in step (00:54:31) with some of the demand that we see from our customers on forward going basis.

Jerry Revich
Analyst, Wells Fargo Securities LLC

Q

Thanks.

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

A

Okay. Thanks, Jerry.

Operator: We have no further questions. I would like to turn the call back over to Rich Kwas for closing remarks.

Rich Kwas

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

Thanks everyone, and appreciate your participation. If you have any further questions, feel free to reach out and we'll get back in touch. Thanks. Have a great day and great weekend.

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