



Q1 2022 EARNINGS PRESENTATION

MAY 4, 2022





FORWARD-LOOKING STATEMENTS

This presentation contains, and management may make on our call today, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, you can identify these forward-looking statements by the use of words such as "outlook," "believes," "expects," "potential," "continues," "may," "will," "should," "could," "seeks," "predicts," "intends," "trends," "plans," "estimates," "anticipates" or the negative version of these words or other comparable words. These statements include, but are not limited to, statements related to expectations regarding the performance of the Company's business and financial results (including growth initiatives and margin expansion), expectations regarding the supply chain (including raw material and logistics availability, timeliness and costs), demand trends and growing backlog, cash generation capabilities, capital deployment options, investments in innovation, investments in production capacity, product initiatives, pricing actions, and statements regarding the impact of and the recovery from the COVID-19 pandemic and our outlook for 2022. Such forward-looking statements are subject to various risks and uncertainties, including, among others, economic, political and other risks associated with international operations (including those related to the Russia-Ukraine conflict), the uncertainties relating to the impact of the COVID-19 pandemic and associated governmental measures, risks inherent to the manufacturing industry, macroeconomic factors beyond the Company's control (including material and logistics availability, inflation, supply chain and labor challenges and end-market recovery), continued operation of our manufacturing facilities, our ability to forecast and meet demand, market acceptance of new products, and the significant influence of the Company's majority shareholders, investment funds affiliated with Blackstone Inc. Additional factors that could cause the Company's results to differ materially from those described in the forward-looking statements can be found under the section entitled "Risk Factors" of the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2022, filed with the Securities and Exchange Commission ("SEC"), as such factors may be updated from time to time in the Company's periodic filings with the SEC, which are accessible on the SEC's website at www.sec.gov. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in the Company's filings with the SEC. The Company undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

NON-GAAP FINANCIAL INFORMATION

This presentation includes certain non-GAAP financial measures, which management believes are useful to investors. Non-GAAP financial measures should be considered only as supplemental to, and not as superior to, financial measures prepared in accordance with GAAP. Please refer to the Appendix of this presentation and our earnings release filed with the SEC and posted on our website at investors.gates.com for a reconciliation of historical non-GAAP financial measures to the most directly comparable financial measures prepared in accordance with GAAP.

Because GAAP financial measures on a forward-looking basis are not accessible, and reconciling information is not available without unreasonable effort, we have not provided reconciliations for forward-looking non-GAAP measures. For the same reasons, we are unable to address the probable significance of the unavailable information, which could be material to future results.

ROUNDING ADJUSTMENTS

Certain monetary amounts, percentages and other figures included in this presentation have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables or charts may not be the arithmetic aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% or, as applicable, when aggregated, may not be the arithmetic aggregation of the percentages that precede them.



■ **Record Q1 revenue performance**

- Strong underlying demand and order trends continued
- Backlog expanded – significant COVID disruptions impacted ability to supply
- Initiatives in higher-growth end markets and new products offset incremental volatility

■ **Profitability in line with expectations amidst challenging operating conditions**

- Price/cost neutral, offsetting dollar impact of continued inflation
- Operational inefficiencies from COVID began to improve in North America and Europe
- Availability of raw material improved, some challenges remain

■ **Opportunistic deployment of capital – nearly \$200M of shares repurchased since late Q4**

POSITIVE DEMAND TRENDS & FOCUSED EXECUTION WHILE NAVIGATING DYNAMIC OPERATING ENVIRONMENT



Q1 2022 – FINANCIAL PERFORMANCE

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\$893M

Net Sales

4.1% core growth year-over-year

- Solid growth in industrial end markets, led by Mobility, Energy and Diversified Industrial
- HSD growth in replacement channel sales more than offset decline in Auto First-Fit

\$157M

Adjusted EBITDA

17.6% Adjusted EBITDA margin

- Price/cost neutral on dollar basis
- Significant production inefficiencies from COVID disruptions

\$0.26

Adjusted Earnings per Share⁽¹⁾

Earnings ahead of expectations

- Better-than-expected Adjusted EBITDA combined with lower income tax expense

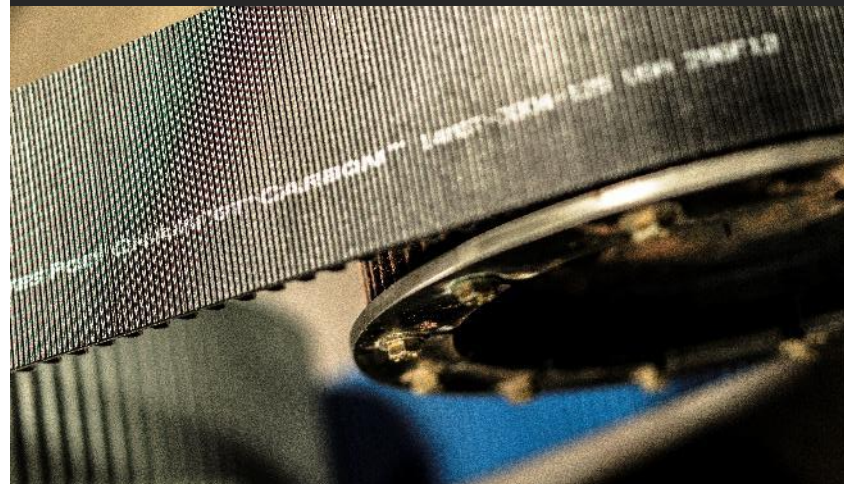
SOLID Q1 RESULTS IN VOLATILE OPERATING ENVIRONMENT



FINANCIAL PERFORMANCE

HIGHLIGHTS

POWER TRANSMISSION



NET SALES

\$556M

ADJUSTED EBITDA

\$98M

MARGIN

17.6%

- Core revenue growth of 2.9%
- Strongest growth in Mobility, Diversified Industrial and Off-Highway end markets
- Targeted capacity investments ramping up to support higher-growth end markets and broader Chain-to-Belt initiative

FLUID POWER



NET SALES

\$338M

ADJUSTED EBITDA

\$59M

MARGIN

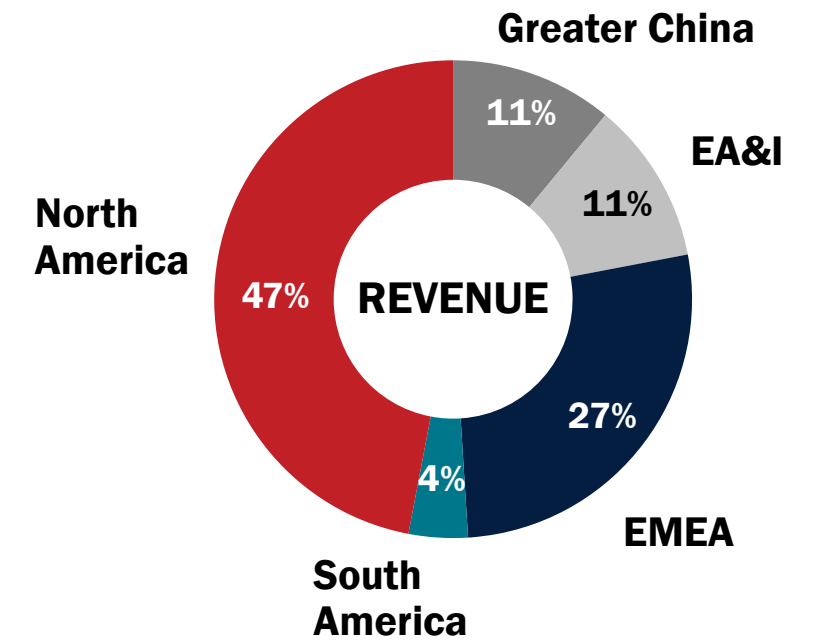
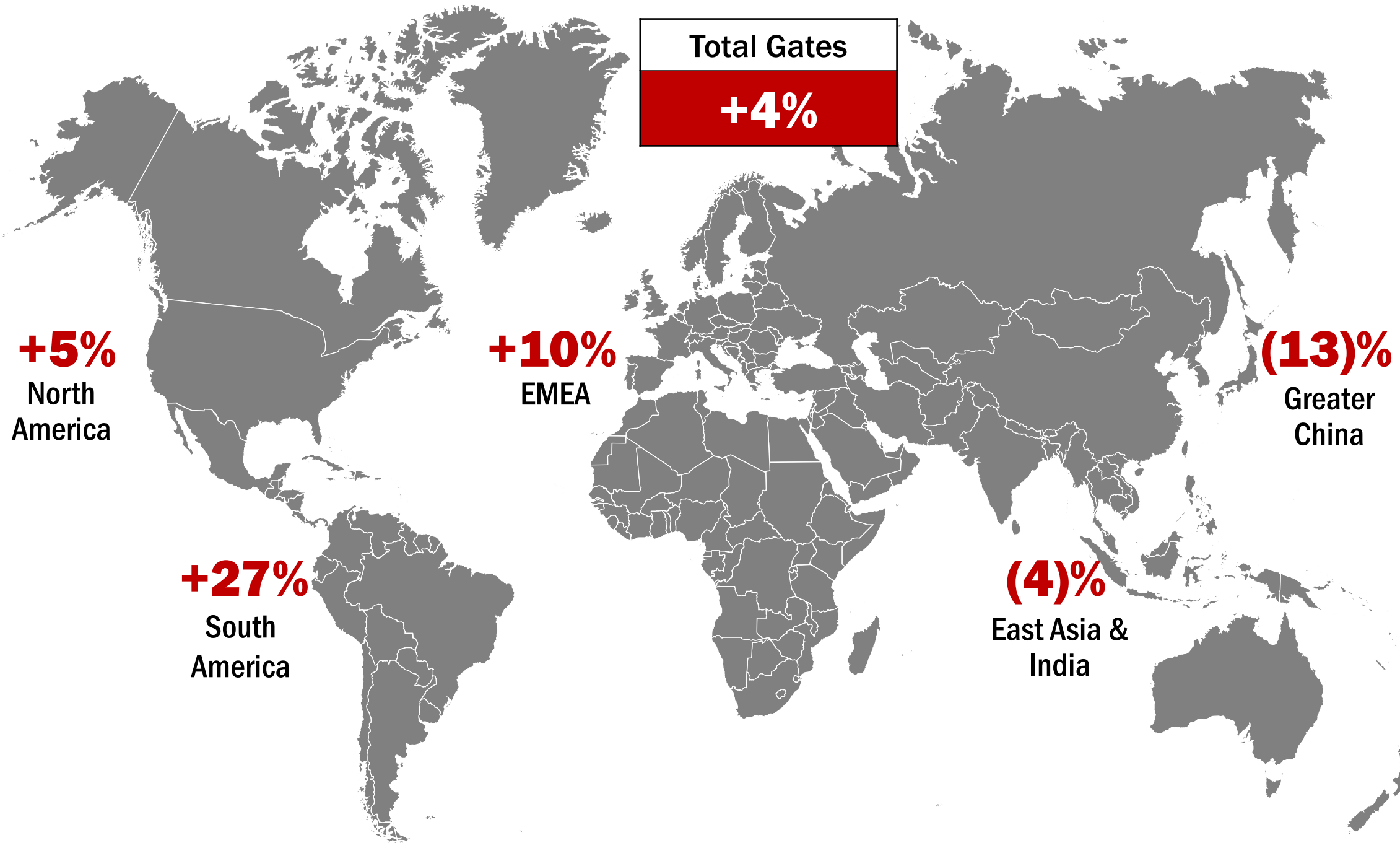
17.5%

- Core revenue growth of 6.3%
- Strongest growth in Energy and On-Highway end markets
- Expanding share with channel partners in NA and EMEA
- Innovation and new product introductions continue to support growth & competitive positioning



Q1 2022 – REGIONAL CORE REVENUE PERFORMANCE

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- Solid performance in North America and EMEA – executing well in a volatile environment
- China impacted by significant COVID disruptions
- Broad-based strength drove record quarter in South America

PERFORMANCE IN EUROPE & AMERICAS OFFSETTING COVID-RELATED HEADWINDS IN ASIA



Q1 2022 – CAPITAL EFFICIENCY & CASH FLOW

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\$216M

LTM Free Cash Flow

Growth of 19% compared to prior-year LTM period

- Typical seasonal cash outflow in Q1
- Tactically investing in inventory to offset raw material and logistics volatility

3.2x

Net Leverage

Reduction of 16% compared to prior year

- Cash generation and Adjusted EBITDA growth driving reduction in Net Leverage
- Net leverage impacted by 0.3x due to share repurchases

19.2%

ROIC

Increase of 220 bps compared to prior year

- Improvement in ROIC driven primarily by higher LTM Adjusted EBITDA

RETURN OF CAPITAL TO SHAREHOLDERS APPROACHING \$200 MILLION

Notes: LTM Free Cash Flow: Net Cash Provided by Operations minus capital expenditures for the last twelve months

Net Leverage: Net Debt (defined as the principal amount of our debt less the carrying amount of cash and cash equivalents) divided by LTM Adjusted EBITDA

ROIC: Tax-effected LTM Adjusted EBIT divided by total assets minus cash, accounts payable, income tax-related assets and intangibles related to 2014 acquisition of Gates



FULL YEAR 2022

CORE REVENUE GROWTH	ADJUSTED EBITDA	ADJUSTED EPS	CAPITAL EXPENDITURES	FREE CASH FLOW CONVERSION
5% – 9%	\$755M – \$805M	\$1.20 – \$1.30	\$100M – \$120M	> 90%

- Maintaining full-year outlook
- Currently anticipate performance of focused growth initiatives offsetting impact of geopolitical headwinds and COVID lockdowns
- Substantial margin expansion expected in second half from strong pricing and more stable operating environment



■ **Positive start to the year in challenging environment**

- Managing well through volatile operating environment
- Offsetting significant inflation with price increases

■ **Well positioned to navigate macro & geopolitical uncertainty**

- Prioritizing initiatives in higher-growth end markets backed by secular tailwinds
- Resilient business model – solid growth of sales into replacement channels

■ **Reaffirming guidance**

- Pricing momentum expected to continue
- Operational improvements and incremental capacity supporting second-half margin expansion





APPENDIX





ADJUSTED EPS – SUMMARY WALK



Q1 2021		\$0.33	
OPERATING PERFORMANCE	(0.13)		Impact of inflation, supply chain and labor headwinds offsetting pricing benefits
INCOME TAX EXPENSE	0.05		Lower income tax expense driven by release of valuation allowance in current quarter
OTHER	0.01		
Q1 2022		\$0.26	



RECONCILIATIONS – ADJUSTED EBITDA AND NET LEVERAGE

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(USD in millions)

Reconciliation to Adjusted EBITDA

Net Income from Continuing Operations

Adjusted for:

	Q1 2022	Q1 2021	LTM Q1 2022	LTM Q1 2021
Net Income from Continuing Operations	\$ 37.4	\$ 76.5	\$ 292.2	\$ 126.9
Income tax (benefit) expense	(2.2)	18.9	(2.7)	15.7
Net interest and other expenses	33.2	33.2	134.4	138.7
Depreciation and amortization	55.1	55.8	221.9	219.5
Transaction-related expenses	0.8	2.4	2.1	7.8
Asset impairments	-	-	0.6	5.2
Restructuring expenses	0.5	2.9	5.0	38.3
Share-based compensation expense	24.1	6.3	42.4	23.2
Sponsor fees (included in other operating (income) expenses)	-	-	-	0.2
Inventory impairments and adjustments (included in cost of sales) ⁽¹⁾	7.6	-	9.0	1.4
Severance expenses (included in cost of sales)	-	-	-	0.9
Severance expenses (included in SG&A)	0.3	0.3	0.7	7.8
Other items not directly related to current operations ⁽²⁾	-	-	(9.3)	(3.5)
Adjusted EBITDA	\$ 156.8	\$ 196.3	\$ 696.3	\$ 582.1

Adjusted EBITDA margin

Net Sales	\$ 893.4	\$ 881.3	\$ 3,486.5	\$ 2,964.2
Adjusted EBITDA	\$ 156.8	\$ 196.3	\$ 696.3	\$ 582.1
Adjusted EBITDA margin	17.6%	22.3%	20.0%	19.6%

Reconciliation to Net Leverage

Total principal amount of debt	\$ 2,624.0	\$ 2,686.7
Less: Cash and cash equivalents	(406.8)	(447.4)
Net Debt	\$ 2,217.2	\$ 2,239.3
Net Leverage (Net Debt divided by LTM Adjusted EBITDA)	3.2 x	3.8 x

1) During the three and twelve months ended April 2, 2022, inventory impairments and adjustments included \$7.6 million for the reversal of the adjustment to remeasure certain inventories on a Last-in, First-out ("LIFO") basis. The recent inflationary environment has caused LIFO values to drop below First-in, First-out ("FIFO") values because LIFO measurement results in the more recent inflated costs being matched against current sales while historical, lower costs are retained in inventories.

2) During the last twelve months ended April 2, 2022, other items not directly related to current operations included a \$9.3 million net gain on the sale of a purchase option on a building that we lease in Europe.



RECONCILIATIONS – ADJUSTED NET INCOME

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(USD in millions, except share numbers and per share amounts)

Reconciliation to Adjusted Net Income

Net Income Attributable to Shareholders

Adjusted for:

	Q1 2022	Q1 2021	LTM Q1 2022	LTM Q1 2021
Net Income Attributable to Shareholders	\$ 30.9	\$ 67.3	\$ 260.7	\$ 111.1
Loss on disposal of discontinued operations	0.1	0.1	-	0.4
Amortization of intangible assets arising from the 2014 acquisition of Gates	29.6	30.4	119.5	118.6
Transaction-related expenses	0.8	2.4	2.1	7.8
Asset impairments	-	-	0.6	5.2
Restructuring expenses	0.5	2.9	5.0	38.3
Share-based compensation expense	24.1	6.3	42.4	23.2
Sponsor fees (included in other operating expenses)	-	-	-	0.2
Inventory impairments and adjustments (included in cost of sales) ⁽¹⁾	7.6	-	9.0	1.4
Adjustments relating to post-retirement benefits	(1.6)	(1.2)	(5.0)	(5.2)
Financing-related FX losses (gains)	2.5	1.1	9.0	(4.5)
Other adjustments ⁽²⁾	(2.1)	(2.4)	(18.1)	(13.1)
Estimated tax effect of the above adjustments	(14.2)	(9.1)	(36.7)	(42.7)
Adjusted Net Income	\$ 78.2	\$ 97.8	\$ 388.5	\$ 240.7
Diluted weighted average number of shares outstanding	296,238,212	296,363,267		
Adjusted Net Income per diluted share	\$ 0.26	\$ 0.33		

1) During the three and twelve months ended April 2, 2022, inventory impairments and adjustments included \$7.6 million for the reversal of the adjustment to remeasure certain inventories on a LIFO basis. The recent inflationary environment has caused LIFO values to drop below FIFO values because LIFO measurement results in the more recent inflated costs being matched against current sales while historical, lower costs are retained in inventories.

2) During the last twelve months ended April 2, 2022, other adjustments included a \$9.3 million net gain on the sale of a purchase option on a building that we lease in Europe. During the last twelve months ended April 3, 2021, other adjustments included \$18.3 million in relation to the non-controlling interest share of the adjustments above, primarily restructuring expenses incurred in relation to the closure of our manufacturing facility in Korea.



RECONCILIATIONS – FREE CASH FLOW

(USD in millions)

Reconciliation of Free Cash Flow

	Q1 2022	Q1 2021	LTM Q1 2022	LTM Q1 2021
Net Cash (Used In) Provided By Operating Activities	\$ (105.4)	\$ (24.0)	\$ 301.0	\$ 253.9
Capital Expenditures ⁽¹⁾	(18.0)	(20.2)	(84.8)	(72.7)
Free Cash Flow	<u>\$ (123.4)</u>	<u>\$ (44.2)</u>	<u>\$ 216.2</u>	<u>\$ 181.2</u>

(USD in millions)

Reconciliation of Free Cash Flow Conversion

	LTM Q1 2022	LTM Q1 2021
Free Cash Flow	\$ 216.2	\$ 181.2
Adjusted Net Income	\$ 388.5	\$ 240.7
Free Cash Flow Conversion	<u>55.6%</u>	<u>75.3%</u>

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



RECONCILIATIONS – RETURN ON INVESTED CAPITAL (ROIC)

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(USD in millions)

Return On Invested Capital (ROIC)

LTM Adjusted EBITDA

LTM Total depreciation and amortization

LTM Amortization of intangible assets arising from the 2014 acquisition of Gates

LTM Adjusted EBIT

Notional tax at 25%

LTM Tax-effected Adjusted EBIT

Total Assets

Adjusted for:

Cash

Taxes receivable

Deferred tax assets

Prepaid taxes

Accounts payable

Intangibles arising from the acquisition of Gates

Invested Capital

Return On Invested Capital

	Q1 2022	Q1 2021
	\$ 696.3	\$ 582.1
	(221.9)	(219.5)
	119.5	118.6
	593.9	481.2
	(148.5)	(120.3)
	\$ 445.4	\$ 360.9
	\$ 7,399.1	\$ 7,376.4
	(406.8)	(447.4)
	(47.5)	(48.8)
	(610.0)	(629.1)
	(13.4)	(4.7)
	(494.5)	(439.9)
	(3,510.8)	(3,678.4)
	\$ 2,316.1	\$ 2,128.1
	19.2%	17.0%