



Q1 2020 EARNINGS PRESENTATION

MAY 5, 2020





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," "projects," "predicts," "intends," "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, financial results, liquidity and capital resources, product introductions and growth initiatives, restructuring activities, end market conditions, right-sizing cost structure and statements regarding the future impact of the COVID-19 pandemic and our 2020 outlook. Such forward-looking statements are subject to various risks and uncertainties, including, among others, the uncertainties relating to the impact of the COVID-19 pandemic and associated governmental measures on the company's business, operations, employees, financial condition and results of operations, risks inherent to the manufacturing industry, macroeconomic factors beyond the Company's control, 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 The Blackstone Group 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 December 28, 2019, filed with the Securities and Exchange Commission ("SEC"), as will be supplemented by the risks and uncertainties set forth in the Company's Quarterly Report on Form 10-Q for the quarter ended March 28, 2020, as such factors may be further 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.



- **Response driven by three guiding principles**
 - Keep our employees and communities safe
 - Comply with local and federal regulations
 - Support our customers, many of whom operate in “essential industries”
- **Mobilized a centralized crisis response team in February**
 - Senior leadership across all critical functions responsible for managing global coordination and response
 - Daily direct engagement with leadership in every region
- **Increased health and safety protocols at all locations**
 - Following CDC, WHO and local government guidelines
 - Enhanced cleaning protocols and implemented social distancing measures, visitor restrictions
 - Implemented global self-quarantine and remote work policies to enable business continuity
- **Managed facility shutdowns in response to government mandates and demand fluctuations**
 - Nearly all facilities currently operational, production aligned with demand conditions
- **Dedication and commitment of our employees enabling successful navigation of the environment**



- **Net sales of \$710M, representing a 10% decline on a core basis**
 - Exceeded our expectations excluding COVID-19, which we estimate negatively impacted core revenue by ~7%
- **Adjusted EBITDA of \$121M and Adjusted EBITDA Margin of 17.0%**
 - Absorbed COVID-19 impact and delivered improved decrements
- **Adjusted EPS of \$0.21**
- **Free Cash Flow of \$16M, up \$87M compared to Q1 2019**
- **Strong liquidity position**
 - Over \$1.0B available as of May 1, no meaningful maturities of current borrowings until 2024
- **Continue to operate and supply our mission-critical components to customers around the world**



Q1 Summary:

- Segment significantly impacted by COVID-19 in China and related temporary customer shut-downs before showing signs of recovery
- Modest growth in Europe, led by automotive end markets
- Slight sequential deceleration in North America, as expected, driven by industrial end markets
- Volume decline impacting Adjusted EBITDA margin
- Continued focus on innovation with recent launch of next-generation industrial v-belt

Next-Generation Industrial V-Belt



Gates' recently launched Xtreme V-Force™ Mega v-belt platform provides best-in-class performance for industrial first-fit and replacement applications. The belt leverages the latest advances in materials science and is based on ethylene elastomer compounds, which eliminates chloroprene from the belt construction.

(USD In millions)	<u>Q1 2020</u>	<u>Q1 2019</u>	<u>Δ</u>
NET SALES	\$441.2	\$499.5	(11.7%)
ADJ. EBITDA	\$79.5	\$109.9	(27.7%)
ADJ. EBITDA MARGIN	18.0%	22.0%	(400) bps
DEPRECIATION & AMORTIZATION⁽¹⁾	\$15.9	\$16.4	(3.0%)
AMORT. OF INTANGIBLES FROM ACQ. OF GATES	\$18.2	\$18.4	(1.1%)

REVENUE GROWTH:

Core	(9.8%)
FX	(1.9%)
Total	(11.7%)



Q1 Summary:

- Notable sequential improvement from Q4 '19 in North America
- Weakness in Europe led by industrial end markets, impacted by temporary customer shut-downs in March
- China impacted by reductions in customer activity due to COVID-19, largely in construction, before showing signs of recovery in late-March
- Adjusted EBITDA margin contraction attributable to lower volumes
- Large pipeline of opportunities related to recent new products
 - MXT hose family had best quarter to date, with increasing adoption rates at both first-fit and replacement channel customers

Modular Hose



Gates' growing portfolio of modular coolant hoses, already one of the broadest in the industry before the launch of over 150 new configurations in Q1, continues to gain rapid adoption in replacement channels. These sophisticated, multi-branch hoses provide heating and cooling solutions for electric and internal combustion heavy-duty truck and passenger vehicle applications.

(USD In millions)	<u>Q1 2020</u>	<u>Q1 2019</u>	<u>Δ</u>
NET SALES	\$268.9	\$305.4	(12.0%)
ADJ. EBITDA	\$41.3	\$55.6	(25.7%)
ADJ. EBITDA MARGIN	15.4%	18.2%	(280) bps
DEPRECIATION & AMORTIZATION⁽¹⁾	\$9.7	\$10.0	(3.0%)
AMORT. OF INTANGIBLES FROM ACQ. OF GATES	\$11.1	\$11.3	(1.8%)

REVENUE GROWTH:

Core	(10.6%)
FX	(1.4%)
Total	(12.0%)



Q1 REVENUE BY REGION

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- 19 plants
- Govt. order has closed 1 plant in Mexico since Apr 24
- Industrial end markets down low-double-digits, driven by mobile hydraulics
- Automotive replacement channel down mid-single-digits

North America

Core Growth
(9%)

- 2 plants
- Both have remained operational
- Decline driven by automotive end markets, down high-teens

South America

Core Growth
(14%)

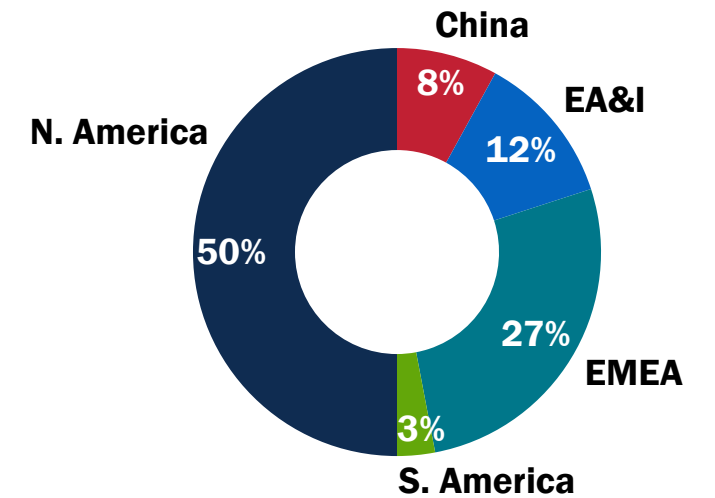
Europe, Middle East & Africa

Core Growth
(3%)

- 10 plants
- Govt. mandate closed 1 plant in Spain from Mar 31 to Apr 11
- Govt. directive closed 2 plants in Turkey for 3 weekends in Apr
- Low-teens decline in industrial first-fit channel offset high-single-digit automotive replacement growth

Greater China

Core Growth
(30%)



- 5 plants
- All closed by govt. mandate from Jan 25 to Feb 9
- Weakness across all end markets

East Asia & India

Core Growth
(10%)

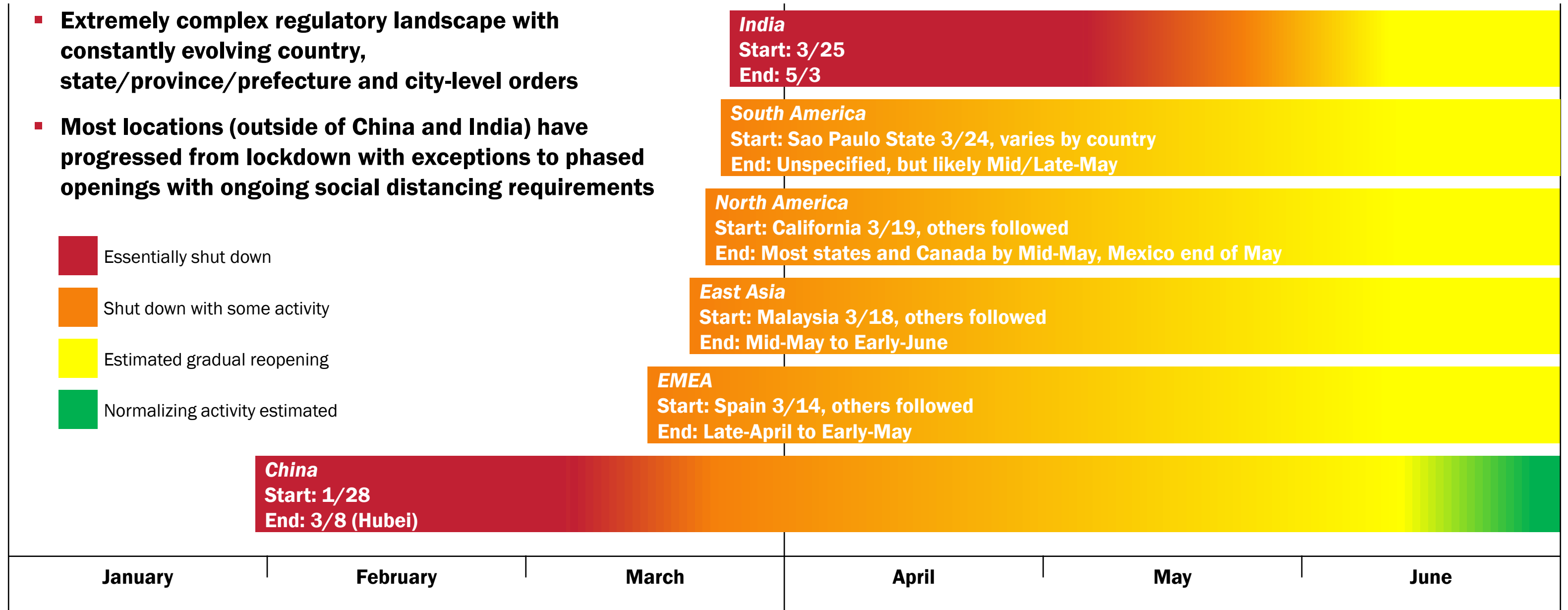
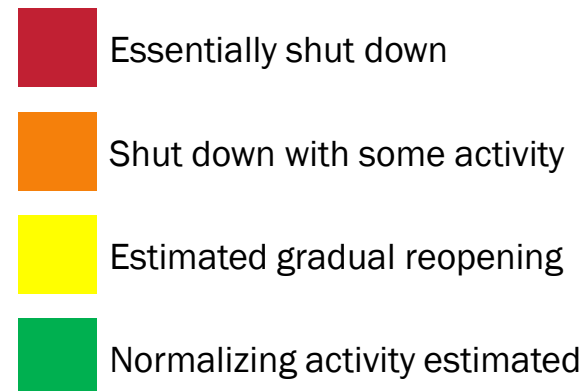
- 7 plants
- Govt. mandate closed 4 plants in India Mar 24 to May 3
- Industrial end market weakness, down mid-teens

LOCAL MANUFACTURING & SUPPLY CHAINS HAVE MUTED IMPACT OF TEMPORARY PLANT CLOSURES



MOVEMENT RESTRICTIONS IMPACTING ECONOMIES GLOBALLY 8

- **Extremely complex regulatory landscape with constantly evolving country, state/province/prefecture and city-level orders**
- **Most locations (outside of China and India) have progressed from lockdown with exceptions to phased openings with ongoing social distancing requirements**



CHINA'S ECONOMIC ACTIVITY PROGRESSIVELY RECOVERING – POTENTIAL MODEL FOR OTHER REGIONS AS RESTRICTIONS EASE

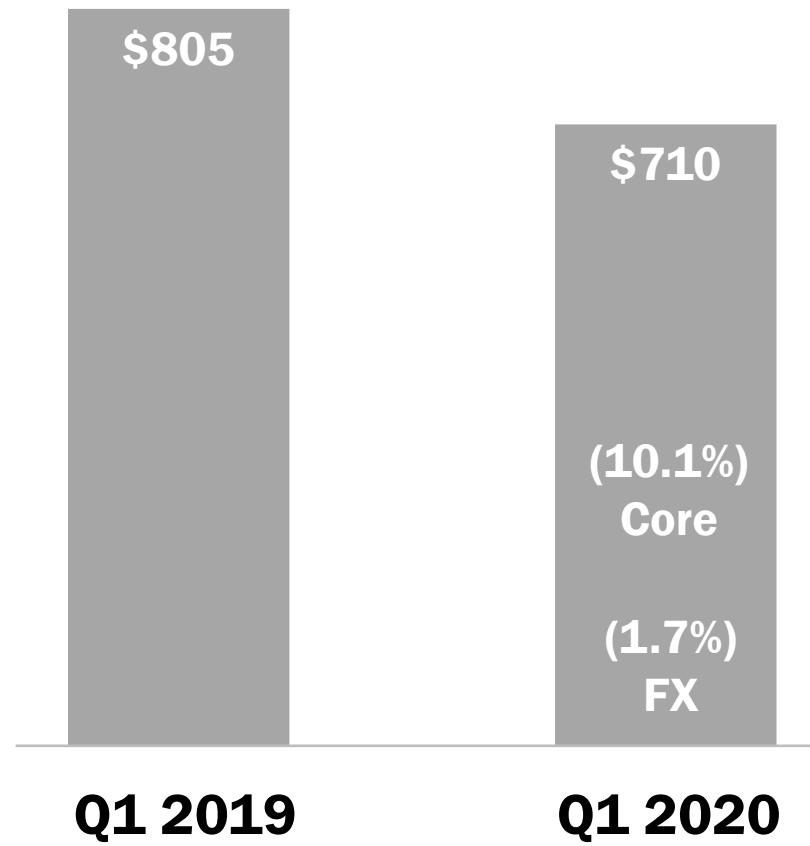


Q1 2020 FINANCIAL PERFORMANCE

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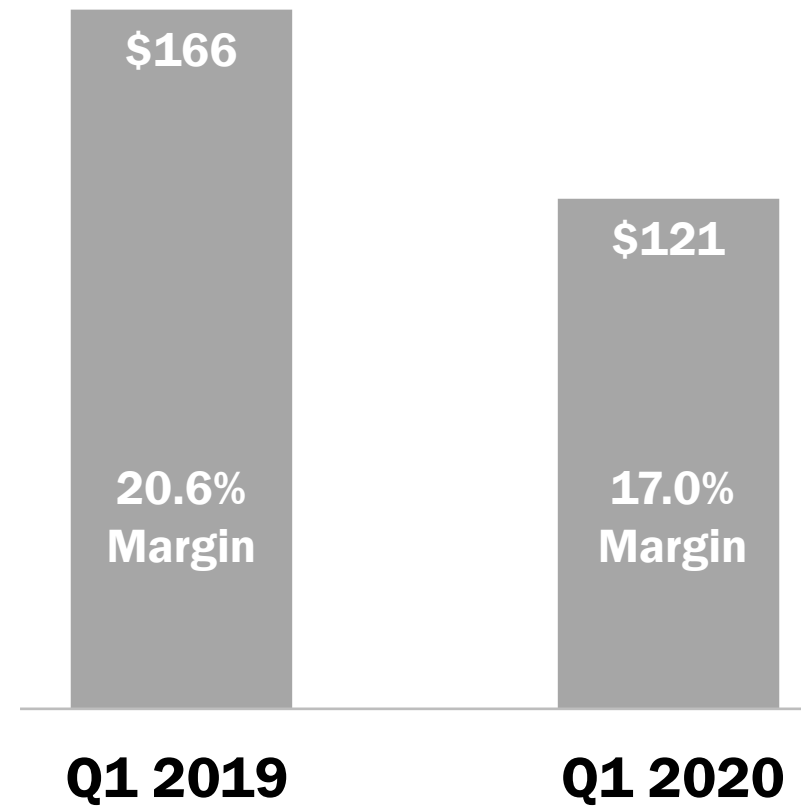
USD in millions

NET SALES



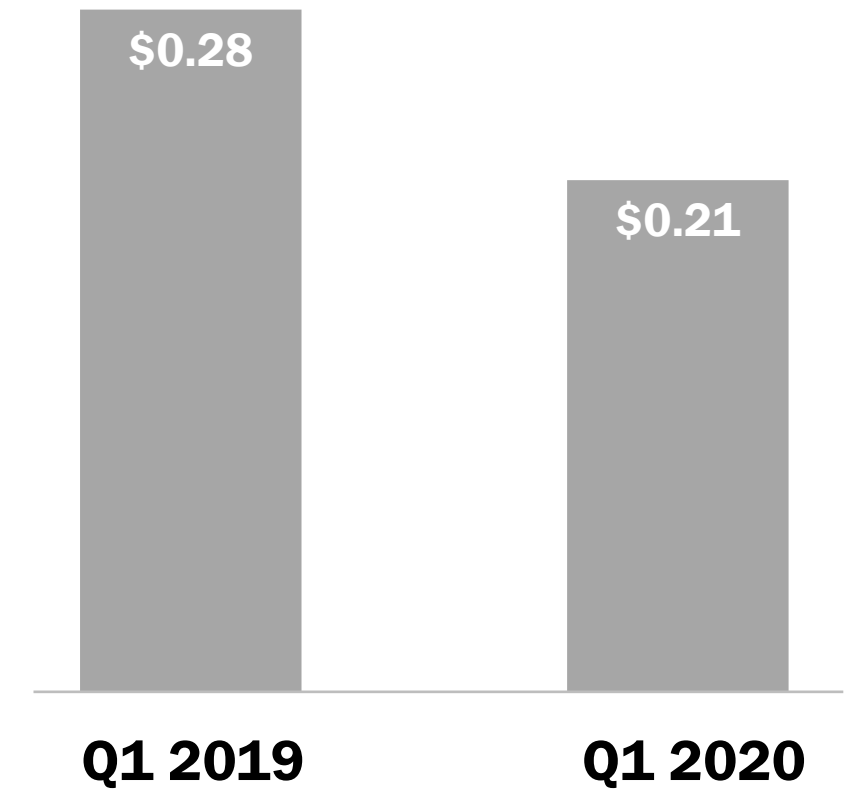
11.8% decline, ahead of expectations ex-COVID 19

ADJUSTED EBITDA



360 bps decline, driven by lower volumes

ADJUSTED EPS⁽¹⁾



Adjusted EPS decline driven by lower operating performance

IMPROVED DECREMENTAL MARGIN DESPITE SIGNIFICANT COVID-19 IMPACT IN Q1

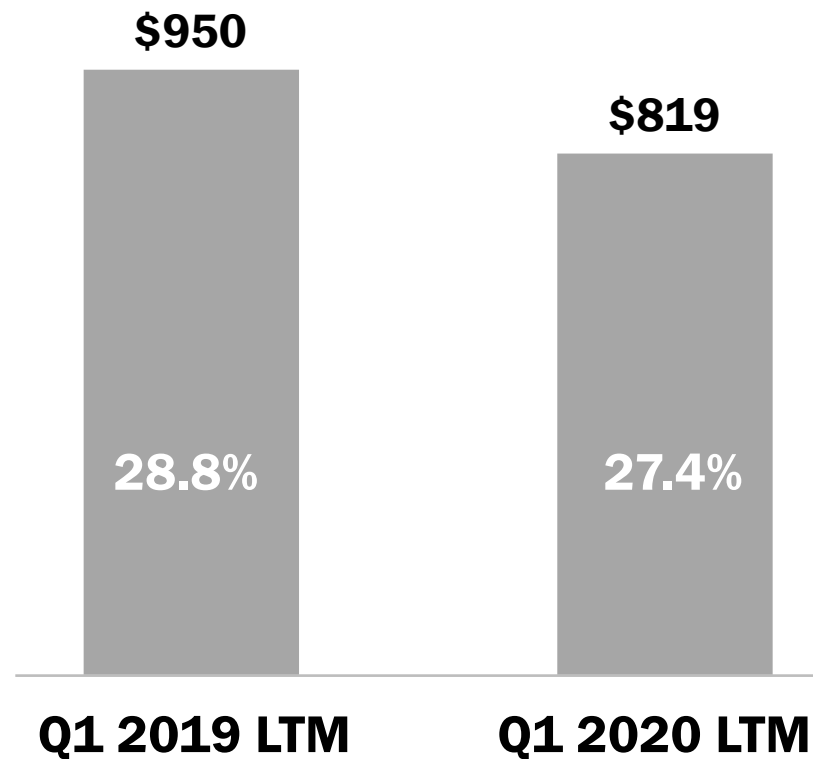


BALANCE SHEET AND CASH FLOW

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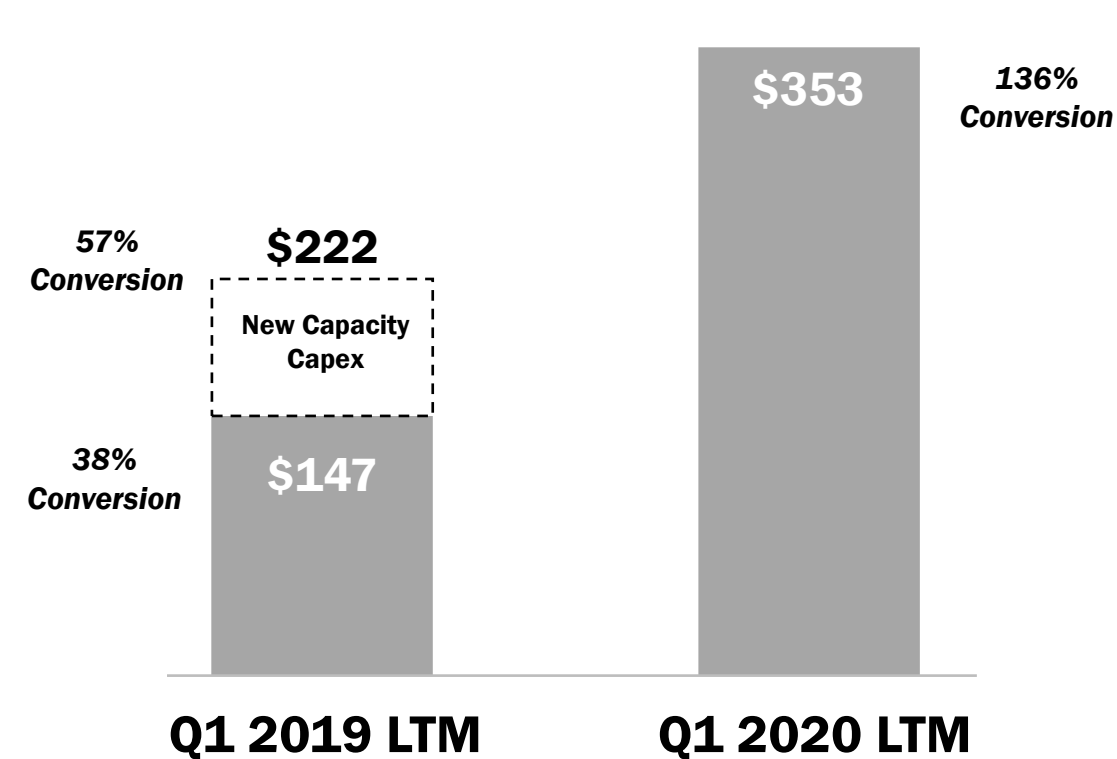
USD in millions, except multiple data

TRADE WORKING CAPITAL



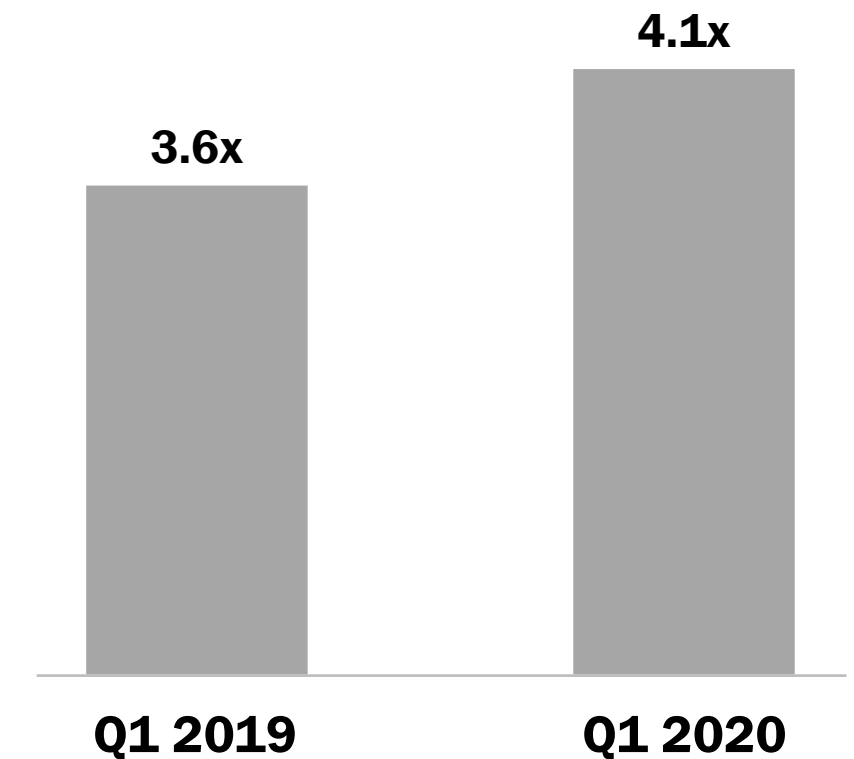
Significant reductions in receivables and inventory

FREE CASH FLOW



Strong Free Cash Flow Conversion

NET LEVERAGE



Leverage impacted by lower operating results

SUBSTANTIAL FREE CASH FLOW GENERATION EXPECTED TO CONTINUE IN 2020

Note: Trade Working Capital: Trade Accounts Receivable plus Inventory minus Trade Accounts Payable

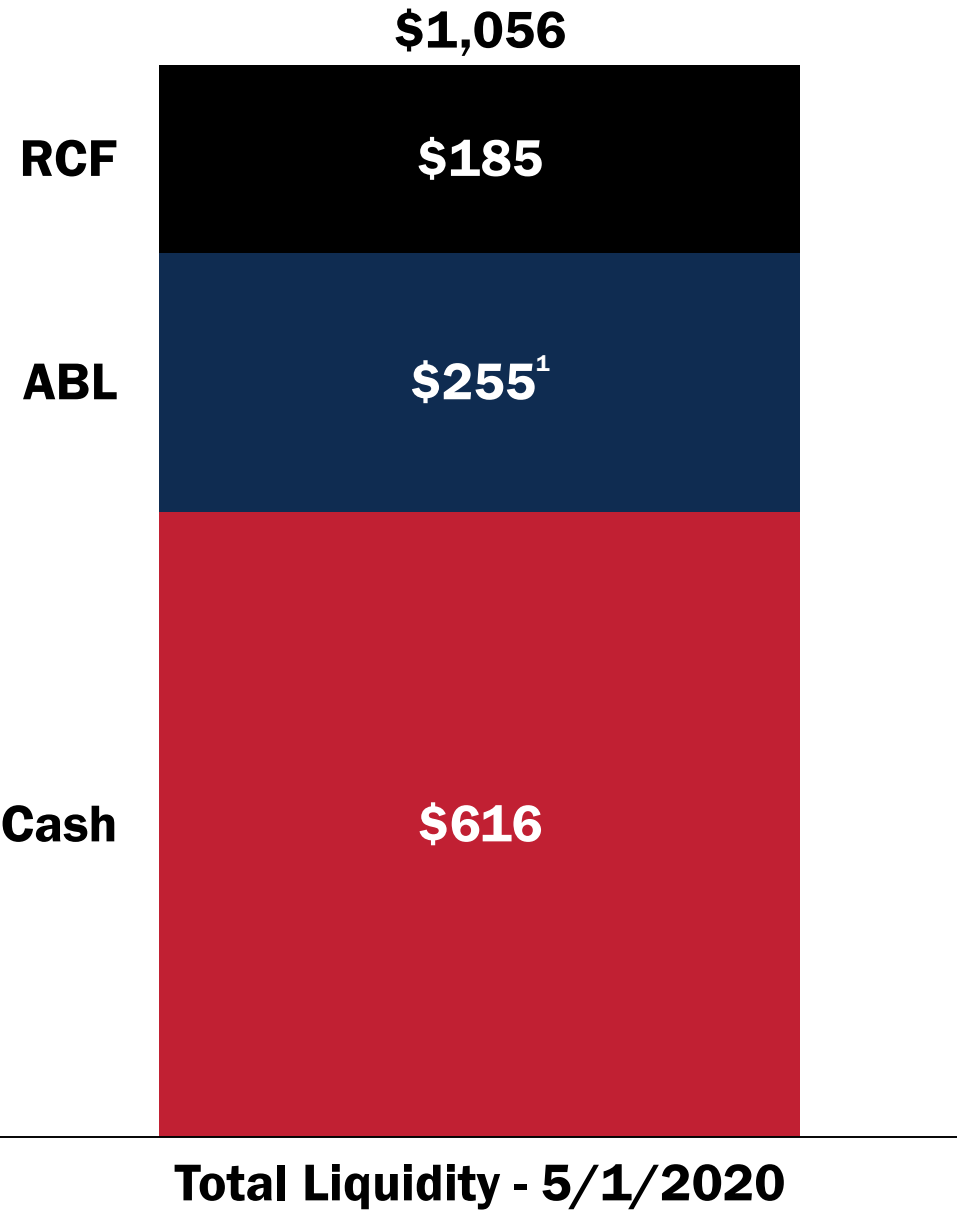
LTM Free Cash Flow: Net Cash Provided by Operations minus capital expenditures; Free Cash Flow Conversion shown as % of Adjusted Net Income

Leverage: Net Debt divided by LTM Adjusted EBITDA

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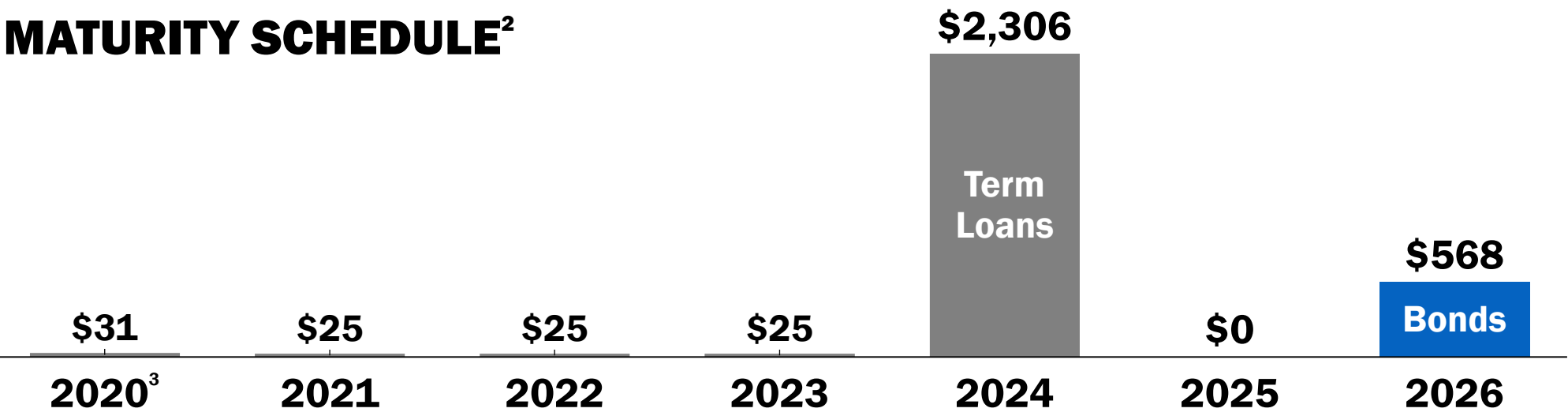
USD in millions



FINANCIAL COVENANTS

- **Revolving credit facility (RCF)**
 - Can be drawn up to 30% with no financial covenants
 - >30% draw requires senior secured net leverage <7.15x credit facility EBITDA (3.1x as of Q1 2020)
- **Asset-backed loan (ABL)**
 - Can be drawn up to 90% with no financial covenants
 - >90% draw requires fixed charge coverage >1.0x (2.7x as of Q1 2020)

MATURITY SCHEDULE²



OVER \$1.0B OF AVAILABLE LIQUIDITY WITH NO MATERIAL NEAR-TERM MATURITIES

(1) ABL net borrowing capacity as of 3/28/20
(2) RCF and ABL mature in 2023, if drawn
(3) Remaining portion of required 2020 principal payments is \$25M



■ Full-year revenue expected to decline

- Q2 likely most challenging, with core revenue anticipated to be down 15%–25% sequentially
- Sequential improvement expected thereafter, assuming continued easing of COVID-19 containment measures
- China a potential model for recovery scenarios in other regions

■ Improved full-year decremental margin

- Expected in range of ~45%, an improvement from 2019
- Improved 2019 cost structure exit rate driving benefits in 2020

■ Cost actions

- Previously initiated \$40M restructuring program progressing
- Compressible/discretionary spend planned reductions: ~\$50M
- Deferral of non-essential expenditures
- Additional restructuring options available if economic outlook deteriorates further

■ Robust cash flow generation

- Focused management of working capital
- Expected capex ~\$70M
- Free Cash Flow Conversion expected to be > 100% of Adjusted Net Income

PROACTIVELY MANAGING OPERATING COSTS AND BALANCE SHEET IN EVOLVING ECONOMIC ENVIRONMENT



■ **COVID-19 has created a highly uncertain environment**

- Committed to safely supporting our employees, customers and the communities in which we operate
- Focused on managing what we can control
- Significant cost actions taken in H2 2019; proactively managing cost structure to current market conditions

■ **China demand recovering**

- Exiting April, all end markets were showing an improvement in demand

■ **Well positioned for difficult demand environment and eventual recovery**

- Mission-critical components that need to be replaced across diversified end markets & geographies
- Revitalized product portfolios provide competitive differentiation
- Resilient business that has historically performed well during periods of economic uncertainty
- Strong, flexible liquidity position expected to be further solidified with 2020 Free Cash Flow generation
- Committed team focused on serving our customers





APPENDIX





RECONCILIATIONS – ADJUSTED EBITDA & NET LEVERAGE

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(USD in millions)

Reconciliation to Adjusted EBITDA

Net income from continuing operations

Adjusted for:

	Q1 2020	Q1 2019	LTM Q1 2020	LTM Q1 2019
Net income from continuing operations	\$ 39.9	\$ 605.1	\$ 129.5	\$ 847.4
Income tax (benefit) expense	(16.1)	(539.7)	27.7	(519.6)
Net interest and other expenses	34.6	34.8	147.8	150.9
Depreciation and amortization	54.9	56.1	221.0	219.6
Transaction-related (income) expenses	(0.2)	0.4	2.0	2.4
Impairment of intangibles and other assets	-	-	0.7	0.3
Restructuring expenses	1.9	3.3	4.6	10.0
Share-based compensation expense	2.9	2.6	15.3	7.0
Sponsor fees (included in other operating expenses)	1.7	1.8	6.4	7.9
Inventory impairments and adjustments (included in cost of sales)	-	-	1.2	1.5
Duplicate expenses incurred on facility relocation	-	-	-	2.9
Severance-related expenses (included in cost of sales)	0.1	-	4.1	1.7
Other primarily severance-related expenses (included in SG&A)	0.5	-	4.1	5.3
Other adjustments	0.6	1.1	1.9	0.1
Adjusted EBITDA	\$ 120.8	\$ 165.5	\$ 566.3	\$ 737.4

Reconciliation to Net Leverage

Total principal amount of debt	\$ 2,972.4	\$ 3,000.3
Cash and cash equivalents	626.3	333.6
Net Debt	\$ 2,346.1	\$ 2,666.7
Net Leverage (net debt divided by LTM Adjusted EBITDA)	4.1 x	3.6 x



RECONCILIATIONS – ADJUSTED NET INCOME

17

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

Reconciliation to Adjusted Net Income

Net Income Attributable to Shareholders

Adjusted for:

	Q1 2020	Q1 2019	LTM Q1 2020	LTM Q1 2019
Net Income Attributable to Shareholders	\$ 35.6	\$ 613.7	\$ 112.0	\$ 834.8
Loss on disposal of discontinued operations	-	0.3	0.3	0.8
Amortization of intangible assets arising from the 2014 acquisition of Gates	29.3	29.7	117.8	119.4
Transaction-related (income) expenses	(0.2)	0.4	2.0	2.4
Impairment of intangibles and other assets	-	-	0.7	0.3
Restructuring expenses	1.9	3.3	4.6	10.0
Share-based compensation expense	2.9	2.6	15.3	7.0
Sponsor fees (included in other operating expenses)	1.7	1.8	6.4	7.9
Inventory impairments and adjustments (included in cost of sales)	-	-	1.2	1.5
Adjustments relating to post-retirement benefits	(0.5)	(1.3)	(2.4)	0.8
Financing-related FX losses (gains)	0.3	(0.9)	0.4	(0.3)
One-time net tax benefit	-	(541.3)	28.3	(541.3)
One-time non-controlling interest adjustment	-	(15.0)	-	(15.0)
Other adjustments	(0.8)	(0.9)	1.7	0.3
Estimated tax effect of the above adjustments	(8.6)	(10.0)	(29.8)	(38.6)

Adjusted Net Income

Diluted weighted average number of shares outstanding

Adjusted Net Income per diluted share

Q1 2020	Q1 2019	LTM Q1 2020	LTM Q1 2019
\$ 35.6	\$ 613.7	\$ 112.0	\$ 834.8
-	0.3	0.3	0.8
29.3	29.7	117.8	119.4
(0.2)	0.4	2.0	2.4
-	-	0.7	0.3
1.9	3.3	4.6	10.0
2.9	2.6	15.3	7.0
1.7	1.8	6.4	7.9
-	-	1.2	1.5
(0.5)	(1.3)	(2.4)	0.8
0.3	(0.9)	0.4	(0.3)
-	(541.3)	28.3	(541.3)
-	(15.0)	-	(15.0)
(0.8)	(0.9)	1.7	0.3
(8.6)	(10.0)	(29.8)	(38.6)
\$ 61.6	\$ 82.4	\$ 258.5	\$ 390.0
292,111,253	294,661,913		
\$ 0.21	\$ 0.28		



RECONCILIATIONS – FREE CASH FLOW AND FREE CASH FLOW CONVERSION

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(USD in millions)

Reconciliation of Free Cash Flow

Net Cash Provided by (used in) Operations
Capital Expenditures ⁽¹⁾
Free Cash Flow

Q1 2020	Q1 2019	LTM Q1 2020	LTM Q1 2019
\$ 31.1	\$ (47.7)	\$ 427.7	\$ 292.3
(14.9)	(22.9)	(75.1)	(145.1)
\$ 16.2	\$ (70.6)	\$ 352.6	\$ 147.2

(USD in millions)

Reconciliation of Free Cash Flow Conversion

Free Cash Flow
Adjusted Net Income
Free Cash Flow Conversion

LTM Q1 2020	LTM Q1 2019
\$ 352.6	\$ 147.2
\$ 258.5	\$ 390.0
136.4%	37.7%