



Gates Industrial Corp (NYSE: GTES)

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Market Data as of 23-FEB-2023

Gates is an industry-leading business with strong opportunities for margin expansion

Business Overview

- Gates Industrial Corporation is a global manufacturer of highly engineered belts and hoses operating under their power transmission and fluid power segments
- Manufactures and sells products that are used in the personal mobility, transportation and energy among others with ~65% of revenues being sourced from replacement channels

Investment Thesis

Why Is This a Good Business?

- Gates's sticky business model with high downtime costs, sector diversified high recurring revenues and sticky clientele make it an industry leading business
- Business operations date back 100+ years, Gates is a widely recognized brand and holds the #1 global market position in their power transmission segment, and a top 3 global market position under their fluid power segment

What is the Market Missing?

- Gates trades at a ~30% discount to our selected peer group; we believe this valuation discrepancy is due to a sponsor overhang from Blackstone as well as temporary poor end-market outlook for 2023; neither of which we believe pose a significant threat over the long-term

*We recommend YUSIF **buy** Gates Industrial Corp. with an implied upside of ~44%*

Business Overview

GTES is a global player in the belts and hose manufacturing industry

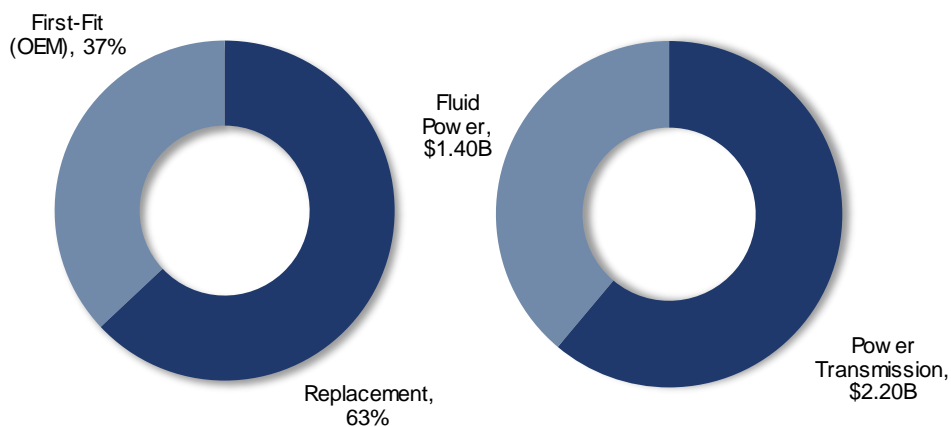
Overview of Operations

- Global manufacturer of highly engineered belts and hoses operating under 2 segments:
 - Power Transmission: Includes drive belts and related components used to transfer motion in a broad range of industrial and automotive applications
 - The Fluid Power segment comprises hoses and tubes designed to convey hydraulic fluid at high pressure
- Gates generates revenues from the sale of replacement and original (first-fit) equipment
- First-fit sales are related to industrial activity and utilization, making this segment more cyclical

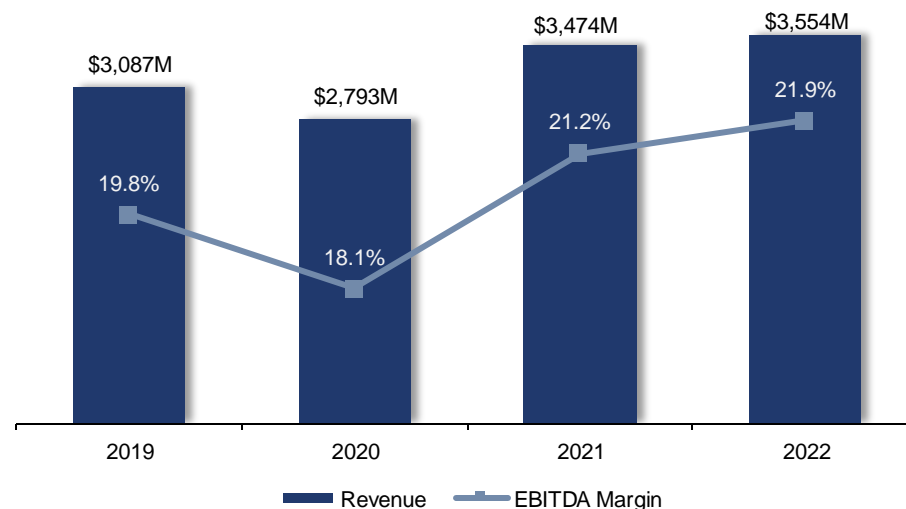
Maintenance Revenue – Aftermarket Sales

- Gates's products are often critical components in their respective applications, subjecting them to wear and tear and resulting in regular replacement cycles driving recurring revenue:
 - The natural replacement cycle for Gates's products in vehicles ranges from 7-12 years, primarily driven by aging car fleet, cost of gas, and miles
 - For industrial applications, the replacement cycle, on average, ranges from 1-5 years
- Replacement revenues have historically constituted 60%+ of Gates's revenues
- Replacement markets are more mature and developed in North America and Europe over Emerging Markets

Revenue Segments and Channels



Revenue and EBITDA Growth

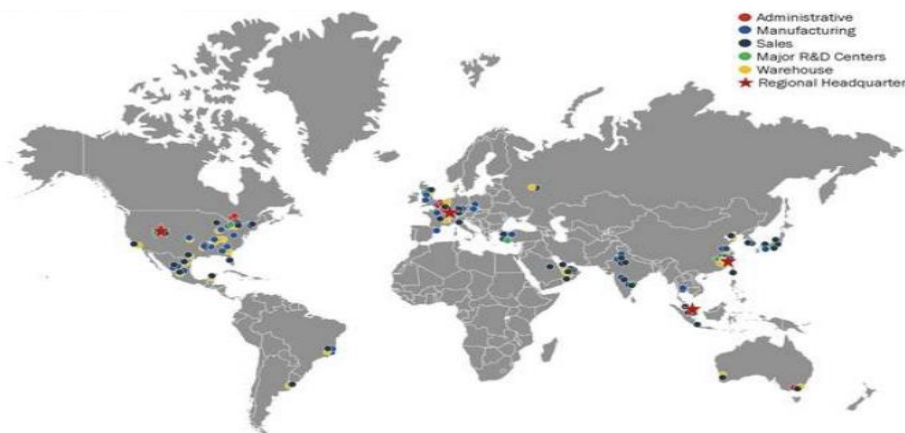


Diverse customer segments and end-markets

Driving Customer Value

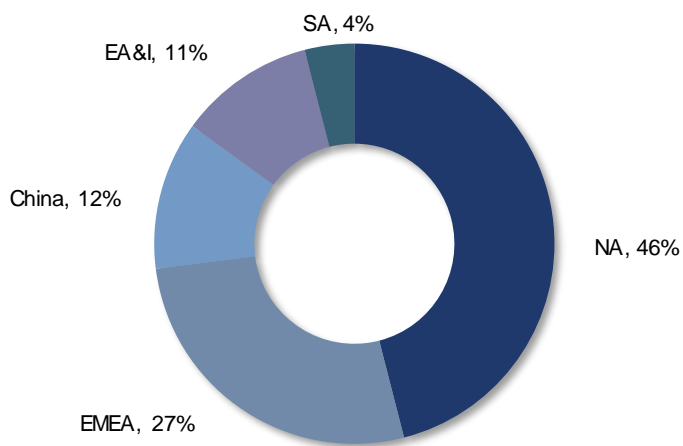
- Long-standing relationships with customers, ranging from local distributors to large, global equipment manufacturers
 - No customer accounted for over 10% of Fiscal 2022 sales
- Most clients are in replacement channels; primarily end users with installed equipment that follow a natural maintenance cycle
 - Customers miss sales opportunities if required products cannot be obtained quickly from a short lead time order or on-hand inventory
 - Gates assists with product installation and identification of wear-and-tear, driving sales while mitigating the risk of equipment failure
- The R&D and customer technical teams work close together to identify opportunities for product innovation and improvements

Established Global Presence

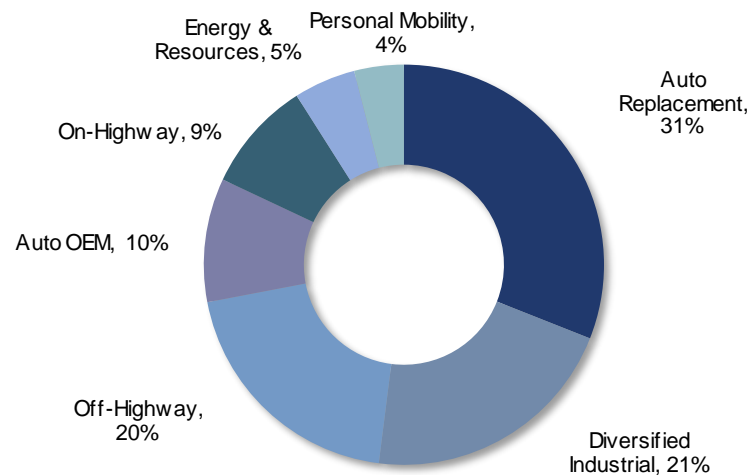


130+ Countries, 100,000+ Distributor Locations, 750+ Engineers

Geography Segmentation



End-Markets Segmentation



Business Overview

Gates sells a wide selection of uniquely manufactured products worldwide

Power
Transmission
#1 Global
Position



Synchronous Belts



TPU Positioning &
Conveyance Belts



V-Belts, CVT & Micro-V
Belts



Metal Drive Components

Used primarily in the diversified industrial, personal mobility, and off-highway end markets; grew by 11.2% YoY in FY22

Fluid Power
Top-3 Global
Market
Position



Hydraulic Hose, Tubing &
Related Components



Industrial Fluid
Conveyance Hose



Thermal and Emissions
Management Hose



Oil & Gas Hose

Used primarily in industrial and automotive applications, channels which grew by 11.5% and 16.7% YoY in FY22, respectively

5-Year Share Price Performance

Poor 1-year performance relative to peers given end-market dynamics

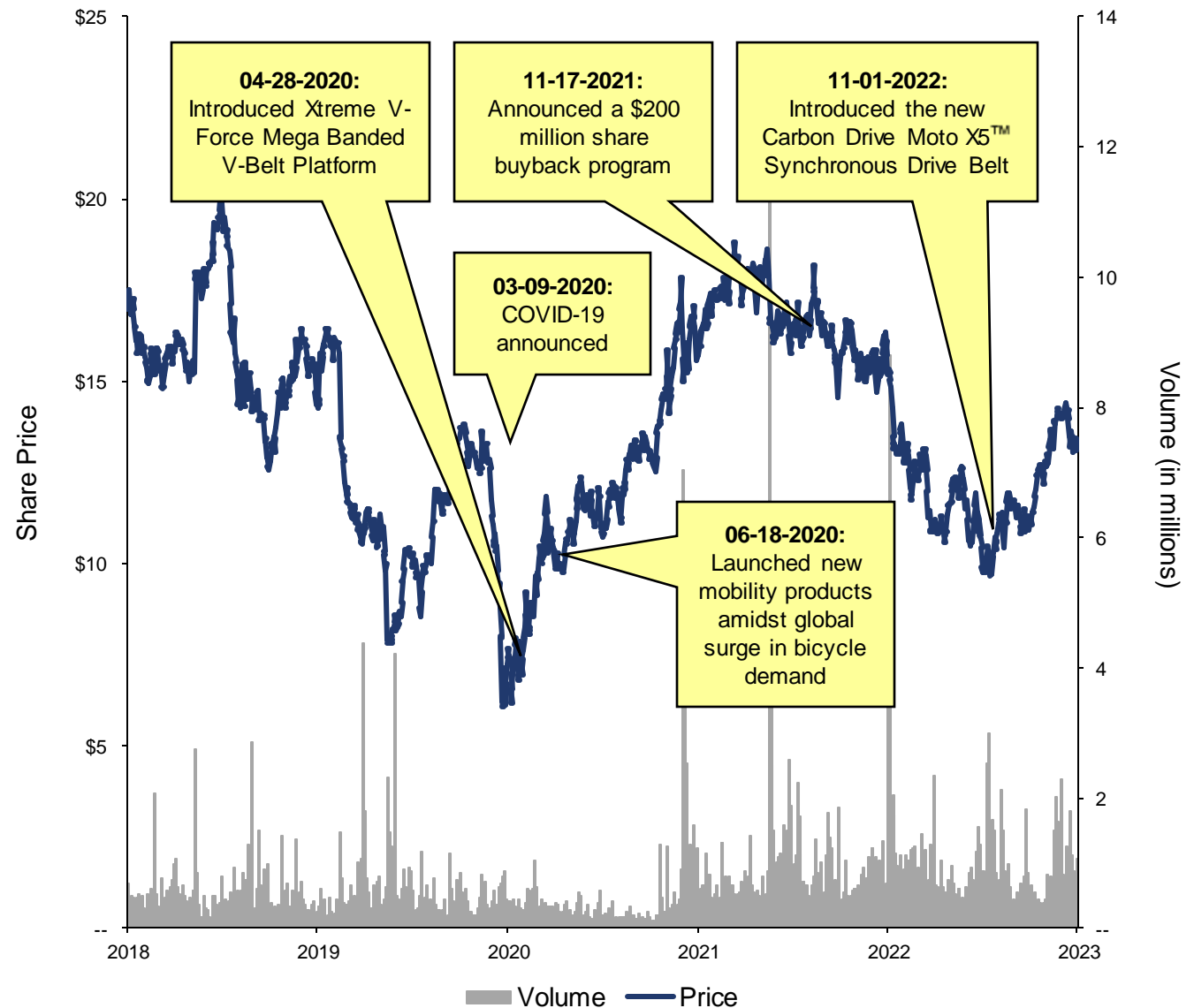
Commentary

- Share price declined during the pandemic due to inflationary pressures on the supply chain, however certain segments saw an uplift due to increased demand and macro trends
- Supply chain constraints and headwinds from certain geographies (Russia and China in particular) impacted operations in 2022
- Stock is up ~16% YTD

Key Financial Information

Market Cap	\$3.9B
Share Price	\$13.15
5-Year Revenue Growth CAGR	3.2%
5-Year EBITDA Growth CAGR	(1.2%)
FCF Margin (2022)	7.8%
Stock CAGR Since Inception (Jan 25, 2018)	(6.6%)

5-Year Share Price Performance



Industrial and automotive hose & belt manufacturing industry

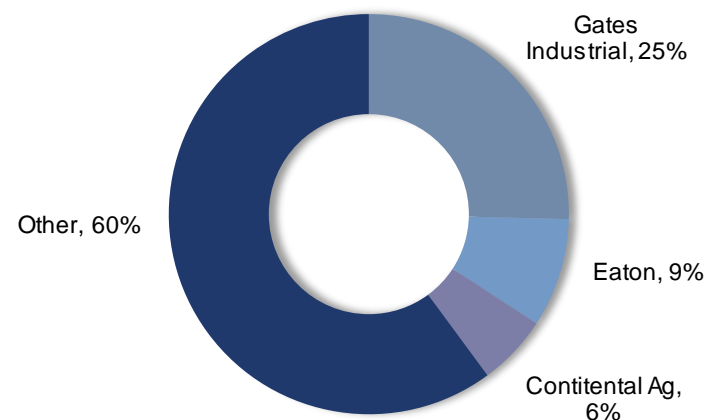
Industry Summary

- The industrial and automotive hose & belt industry is currently valued at US\$5.8B and is predicted to grow at a 2% CAGR until 2027 to US\$6.2B
- Trade is significant in this industry because imports are forecasted to account for 63.4% of domestic demand in 2022, while exports are expected to account for 50.2% of industry revenue in 2022
- **Major Market Segmentation:** Exports: 50.2%, Power Transmission: 31.9%, Fluid Power: 17.9%
- Industry revenues declined significantly due to the pandemic, which caused nonessential business to close, resulting in significant economic disruptions

Industry Trends

- **Automotive Industry:** Downstream demand from the automotive industry has plummeted as falling consumer confidence and spending led to a sharp fall in new car sales
 - Rebounding industrial and automotive sectors will likely help revive industry demand
- **Rubber & Plastic Prices:** Movements in input prices directly influence industry product selling prices, which ultimately affects revenue. The world price of rubber is expected to increase this year
- The Hose and Belt Manufacturing industry is expected to benefit from rising global demand for durable goods over the next five years

Market Shares



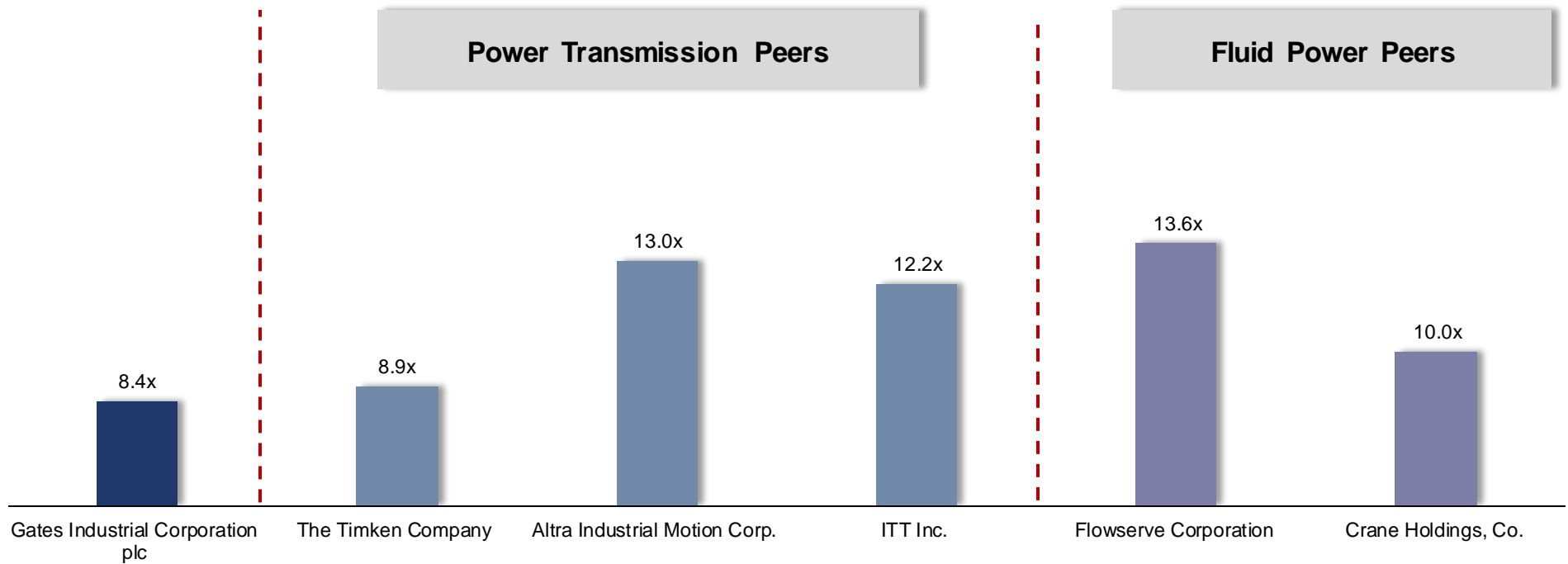
Misconception of Industry Being Commoditized

- Belts and hoses can be perceived as commodities, but this is not the case as products are highly engineered
 - They employ precise manufacturing know-how involving carbon fiber, elastomers, Kevlar and other advanced materials
- The applications that these products are used for are also very important, resulting in companies wanting to deploy the best products for their respective use cases
- Due to this, players within the industry put focus on product quality, rather than pricing solutions
- In addition to the material science in their composition, manufacturing and product testing, Gates has been considered the premium brand in the belt and hose markets for over 100+ years

The Investment Opportunity

Re-rating opportunity given sponsor overhang and temporary end-market slowdowns

FY2023 EV / EBITDA of GTES vs. Peers



Core Story

- Gates trades at a ~30% discount to its peer group based on forward year EBITDA multiples
- We believe this is due to a temporary financial sponsor overhang (Blackstone owning ~63% of shares outstanding) as well as transitory end-market dynamics resulting in poor management performance outlooks in comparison to peers
- Temporary nature of these issues results in Gates trading at near trough level multiples
 - Provides what we believe to be an attractive buying opportunity into a sticky, recurring revenue, economically resilient (relevant to peers), and an industry-leading business and with multiple levers to pull for long-term margin expansion and a re-rating opportunity

Why we Like the Gates's Business

100+ year old industry titan characterized by strong brand recognition, recurring revenue streams, and a sticky clientele

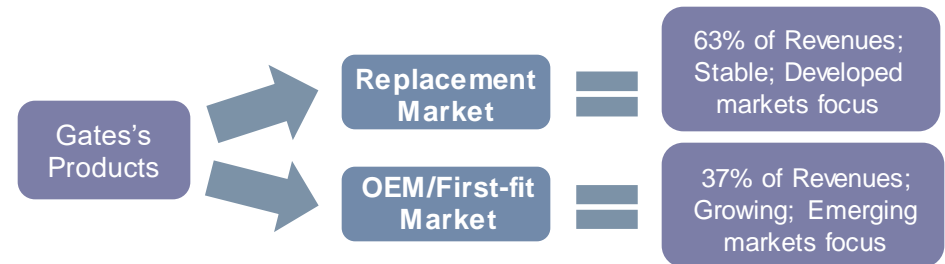
Sticky Business Model Given High Downtime Costs

- Gates's belts and hoses perform critical functions in systems where the cost of failure is high relative to the cost of Gates's components

	Agriculture	Bottling Plant	Mining
Avg. Downtime Cost/Hour	\$5,300	\$12,000	\$76,200
Gates Product Cost	\$300	\$75	\$11
Total Product Content	\$7,500	\$15,000	\$25,000

Sector Diversified Recurring Revenue Streams

- **Circumventing OEM markets:** A differentiated facet of Gates is that the company generates **60%+** of its revenues from aftermarket sales
 - This maintains revenue mix and generates more stable demand from replacement cycles at more robust margins than first-fit/OEM applications
 - Natural replacement cycle for Gates's products in industrial applications averages from 1-5 years



Efficient Capital Allocation and Superior Engineering Processes

M&A

Gates plans to pursue bolt-on and tuck in acquisitions to focus on vertical integration and geographical expansion. M&A pipeline consists of \$500M in revenues

Deleveraging

Gates core focus on deleveraging as sponsor overhand mitigates. Adjusted EBITDA growth and cash generation have driven net leverage to target range of 2.0-3.0x (currently 2.6x)

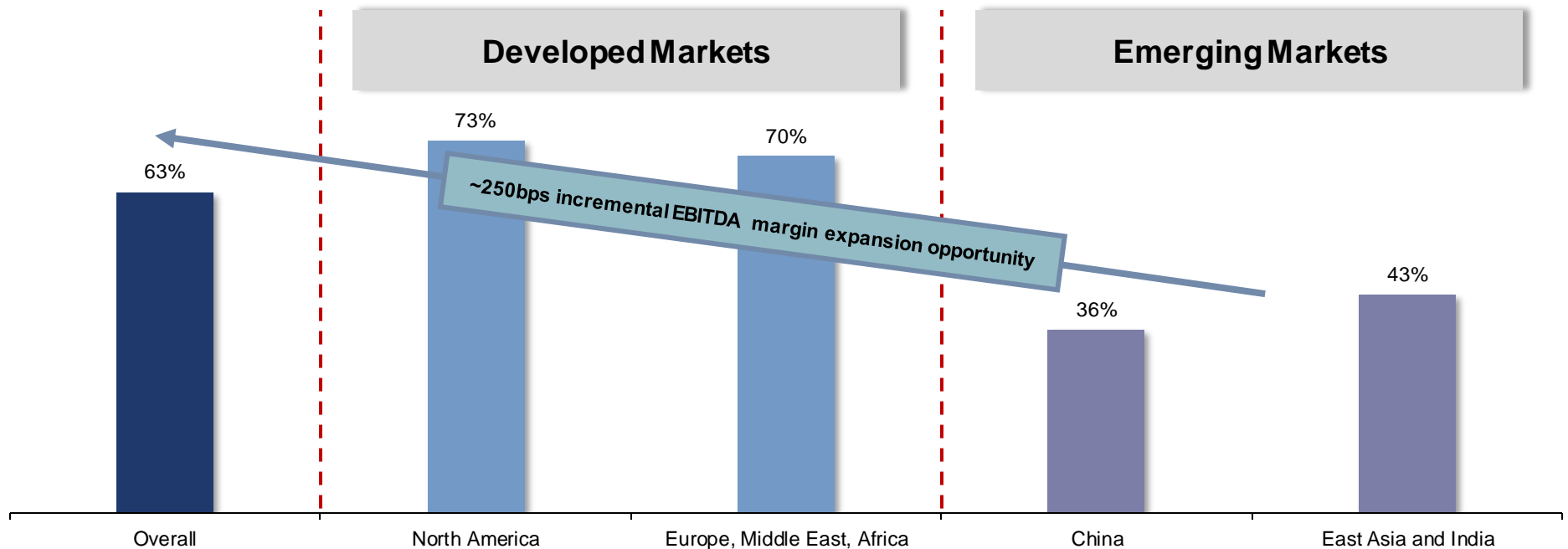


- **Materials science and process engineering form the groundwork for Gates's leading product performance:**
 - Risk of commoditization is avoided due to industry demand for high quality, product differentiation, and risk of downtime costs
- **Free cash flow and EPS CAGR (2019-2021) of 5.4% and 19.4% respectively**

Thesis I: Margin Expansion Opportunity

Significant opportunity for Gates to penetrate emerging markets maintenance revenues

Underpenetrated Replacement Channels in Emerging Markets



- Gates's presence in emerging markets is characterized by a higher first-fit presence with an underdeveloped replacement channel
- Management has repeatedly stated that replacement channels provide higher-margin recurring revenue streams but has never historically disclosed the segmentation of margins by replacement vs first-fit channels
 - Based on a 2018 earnings transcript, in which it was stated that replacement channels generate ~40% gross margins and ~22% adjusted EBITDA margins, we determined that replacement channels add an incremental ~250bps to EBITDA and ~65bps to gross margins
- Efforts by management to expand replacement channels in emerging markets:
 - "Despite the near-term slowdown, **we remain bullish on our business in China, particularly the investments we've made in the replacement channels** over the past several years." – GTES Q4'21 Earnings
 - "Our **business in China has seen as percentage of sales into replacement channels increase meaningfully over the past several years**, a result of the significant investment in our replacement channel presence while deemphasizing our Auto OEM participation in line with our global strategy." – GTES Q3'21 Earnings

We expect these temporary issues to subside; secular industry trends support long-term outlook

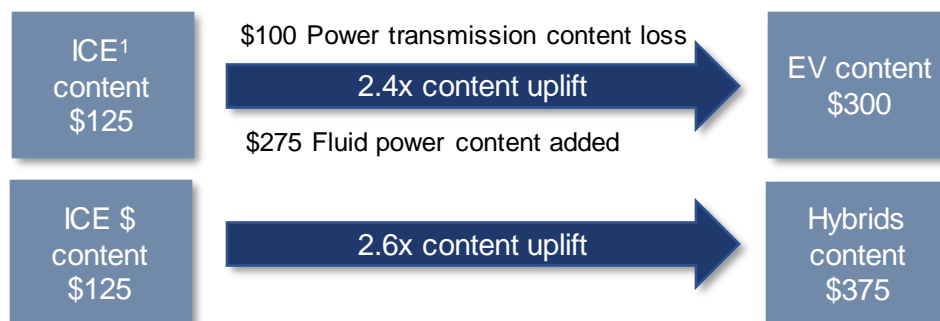
Short-Term Transitory End-Market Headwinds Driving Depressed Valuations

2023 Growth Forecast of Peer Group End Markets (as a % of Total)

Growth	Positive (HSD/LDD)	Positive (MSD)	Neutral	Negative (MSD)
Gates Industrial Corp	14.3%	14.3%	28.6%	42.9%
Timken Co	9.1%	54.5%	36.4%	-
ITT Inc	33.3%	66.7%	-	-
Eaton Corp	18.2%	63.6%	9.1%	9.1%

- **Short-term headwinds:** Significant part of the company's end-market mix is likely to see weaker demand trends in 2023
 - Warehouse automation has slowed noticeably; automation demand has also slowed as companies are pausing capacity expansion and retrofit plans until they have more visibility on their own end-user demand situations
 - We believe these headwinds would not last long as the economy recovers
- **Secular trends in EV space:** Gates can potentially benefit from industry shift to EVs as Gates's dollar content in EVs is high
 - Risk here is that EVs use a lower number of belts than ICE, but use more fluid components which overall increases Gates's dollar content of products used

Long-Term Beneficiary of Secular EV Trends



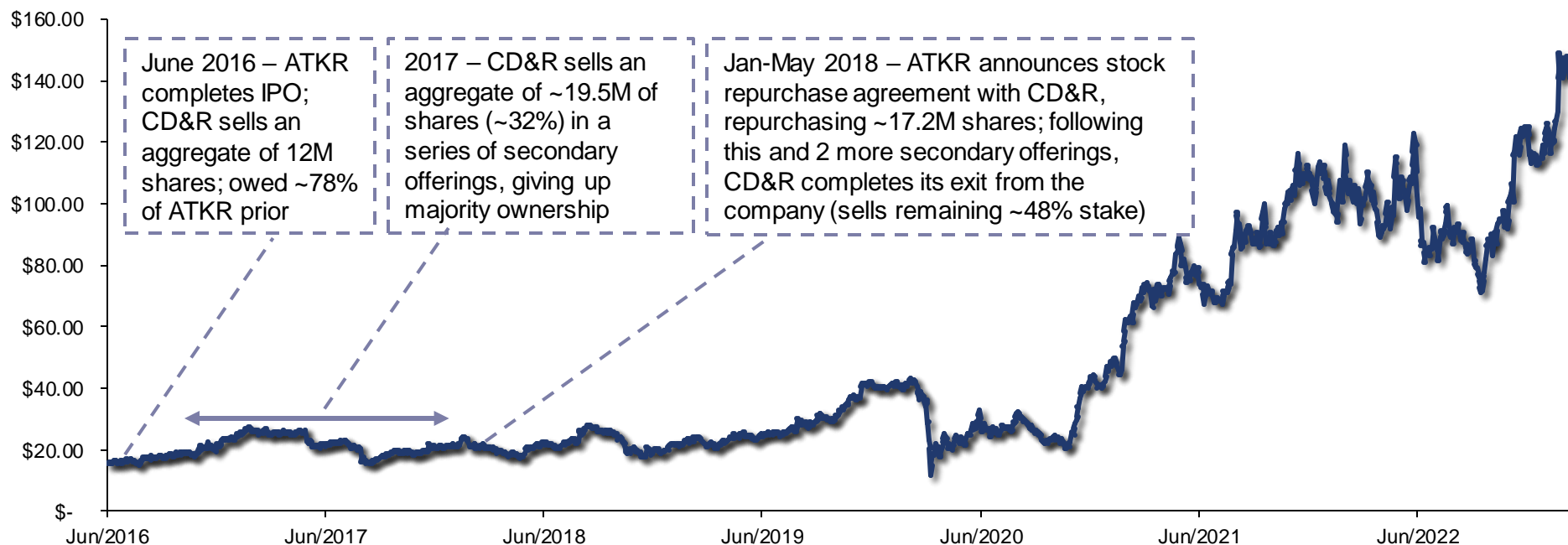
- **Replacement cycles for ICE:** Temperature fluctuations, aging, road vibrations
- **Replacement cycles for EVs:** Duty cycle (more stable), aging, product complexity

Product Pipeline Providing Operating Leverage

- **Gates's new power transmission and fluid power products comprised of 15%+ and 25%+ of total segment revenues in 2022 respectively**
 - The company has historically maintained a double-digit vitality index and targets a vitality index of +25% by 2023
 - This comes even though R&D and CapEx at Gates have averaged at ~2% of revenues
- **Management forecasts ~100bps in incremental EBITDA margins from the deployment of new products**
 - Gates replaces legacy products with newer ones at higher margins due to strong brand recognition of the company
 - Management noted that these new products generated mid-teens of total revenue in 2022
 - Notably, the new product vitality index for Fluid Power segment is already an impressive +25%

Blackstone's ownership does not pose a significant risk to the share price over the long-term

Similar Sponsor Overhang Situation – NYSE: ATKR and CD&R



■ Similar sponsor overhang situation occurred with ATKR and CD&R; whereby CD&R sold 78% of their ownership stake 2 years following IPO with limited effect on the share price given the sale of shares through secondary offerings as well as share repurchases

- Blackstone has used a similar playbook thus far, selling blocks of shares in tranches via secondary offerings and repurchases by Gates
- Gates used the entirety of their buyback authorization to repurchase 8M shares from Blackstone

■ While Blackstone's ownership stake may cause the stock price to remain flat over the short-term, we see it as liquidity enhancement over the long-term

Blackstone Transaction History

Date	# of Shares Sold	Avg. Price	% of Class	Entity
Mar 02, 2021	11,636,258	\$14.40	4.00%	BX Gates ML-1 Holdco LLC
Mar 02, 2021	11,251,860	\$14.40	3.87%	BX Gates ML-2 Holdco LLC
Mar 02, 2021	38,527	\$14.40	0.01%	BX Gates ML-3 Holdco LLC
Mar 02, 2021	2,373,355	\$14.40	0.82%	BX Gates ML-4 Holdco LLC
Aug 16, 2021	13,223,021	\$15.36	4.55%	BX Gates ML-1 Holdco LLC
Aug 16, 2021	12,786,205	\$15.36	4.40%	BX Gates ML-2 Holdco LLC
Aug 16, 2021	43,780	\$15.36	0.02%	BX Gates ML-3 Holdco LLC
Aug 16, 2021	2,696,994	\$15.36	0.93%	BX Gates ML-4 Holdco LLC
Mar 30, 2022	6,324,053	\$15.14	2.16%	BX Gates ML-1 Holdco LLC
Mar 30, 2022	6,115,142	\$15.14	2.09%	BX Gates ML-2 Holdco LLC
Mar 30, 2022	20,938	\$15.14	0.01%	BX Gates ML-3 Holdco LLC
Mar 30, 2022	1,289,867	\$15.14	0.44%	BX Gates ML-4 Holdco LLC

Environmental Initiatives

- **Energy consumption reduction efforts:**
 - Gates introduced targeted initiatives to reduce energy consumption by 20% by 2025, and has lowered it by 15% since 2018
- **Reduction of greenhouse gas emissions:**
 - Committed to reducing total greenhouse gas emissions by 15% by 2025
 - In 2021, Scope 1 emissions intensity has been reduced by 7% and Scope 2 emissions reduced by 22%, for a combined 17% reduction
- **Water consumption reduction:**
 - Since 2021 Gates has reduced water consumption by 6%

Management and Board Makeup

- Majority of senior management team was appointed following Blackstone's acquisition of Gates in 2014
 - The appointed CEO, Ivo Jurek, handpicked the rest of his team and had longstanding relationships with most members dating over 25+ years
- 7 out of 9 directors are independent (CEO of Gates and one representative currently at Blackstone)
- Neil P. Simpkins serves as the Chairman, Ivo Jurek serves as the CEO
- Neil has served as the Chair since 2020 and as a director of Gates entities since 2014
 - He is currently an executive advisor to Blackstone and was previously a managing director of Blackstone's corporate private equity group
 - Team lead for the Gates acquisition

Compensation Structure

Name and Principal Position	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$)	Total (\$)
Ivo Jurek, Chief Executive Officer							
2021	\$ 1,051,392	\$ -	\$ 4,204,468	\$ 1,240,104	\$ 2,058,713	\$ 217,623	\$ 8,772,300
2020	\$ 1,063,962	\$ 1,545,000	\$ 3,827,542	\$ 1,158,749	\$ -	\$ 84,867	\$ 7,680,120
2019	\$ 989,635	\$ -	\$ 3,350,070	\$ 5,982,476	\$ -	\$ 164,509	\$ 10,486,690
L. Brooks Mallard, Chief Financial Officer							
2021	\$ 561,423	\$ -	\$ 788,522	\$ 353,326	\$ 761,063	\$ 75,349	\$ 2,539,683
2020	\$ 465,385	\$ 568,852	\$ 745,450	\$ 344,849	\$ -	\$ 102,331	\$ 2,226,867
Grant Gawronski, Chief Commercial Officer							
2021	\$ 681,440	\$ -	\$ 1,208,953	\$ 541,718	\$ 923,757	\$ 90,821	\$ 3,446,689
2020	\$ 688,997	\$ 634,196	\$ 1,156,005	\$ 528,715	\$ -	\$ 51,461	\$ 3,059,374
2019	\$ 636,519	\$ -	\$ 1,152,394	\$ 509,972	\$ -	\$ 74,818	\$ 2,373,703
Walt Lifsey, Chief Operating Officer							
2021	\$ 683,131	\$ -	\$ 1,211,973	\$ 543,063	\$ 891,750	\$ 96,582	\$ 3,426,499
2020	\$ 690,706	\$ 669,231	\$ 1,158,882	\$ 530,030	\$ -	\$ 56,884	\$ 3,105,733
2019	\$ 639,703	\$ -	\$ 1,155,267	\$ 511,237	\$ -	\$ 83,436	\$ 2,389,643
Tom Pitstick, Chief Marketing Officer							
2021	\$ 444,528	\$ -	\$ 343,578	\$ 153,966	\$ 433,415	\$ 56,417	\$ 1,431,904

- Equity compensation comprises ~50% of total executive compensation on average; comprises 65% of CEO's compensation
- Short-term payouts based on following performance measures:
 - Adjusted EBITDA (50%)
 - FCF (30%)
 - Revenue (20%)
- Long-term payouts including RSUs, PRSUs, and options issued based on the following performance measures:
 - Adjusted ROIC (50%)¹
 - Relative TSR (50%) – 3-year relative TSR ranking against companies in the S&P400 Capital Goods Industry Index

Source(s): Company Filings

1. (Adjusted EBITDA - depreciation and amortization) x (1 - 25% tax rate) divided by (total assets - non-restricted cash - accounts payable - goodwill and other intangible assets that arose from the acquisition of Gates by Blackstone in 2014)



Catalysts

■ Geographic expansion:

- ❑ Increased operations in emerging markets such as China and East Asia and India offer a growing replacement market, especially in the automobile space; recurring revenue streams from the natural replacement cycles

■ Stock liquidity enhancement through more secondary offerings:

- ❑ Blackstone currently holds ~63% of the stock, sell downs via secondary offerings and repurchases by Gates will be viewed favourably by institutional investors
- ❑ Thus far, Blackstone has only sold shares through 3 secondary offerings all completed during a 1-year period from Mar 2021-2022, the largest of which involved the sale of 25M shares

■ Deleveraging:

- ❑ Gates has met its 2.0-3.0x net leverage target it set in 2018 with net leverage currently at 2.6x
- ❑ Gates expresses the intention of continuing to take down their gross debt levels, targeting a midterm leverage target of 1.5x
- ❑ Management emphasizes that stock buybacks and bolt-on M&A deals will be more frequent after this target is met

Downside Case

■ Slower chain-to-belt conversion rates:

- ❑ Gates management sizes a roughly \$6 billion TAM from the conversion of chain applications to belts
- ❑ In the event that this conversion trend does not continue, organic sales growth targets may not be reached

■ Prolonged slowdown of end-markets:

- ❑ Majority of Gates's end-market mix is likely to see weaker demand trends in 2023, with management itself looking for no volume growth in guidance
- ❑ Prolonged slowdown of these end-markets, due to factors like supply chain constraints would result in longer periods of depressed financials
- ❑ We believe a recovery of Gates's end-markets is likely in 2024

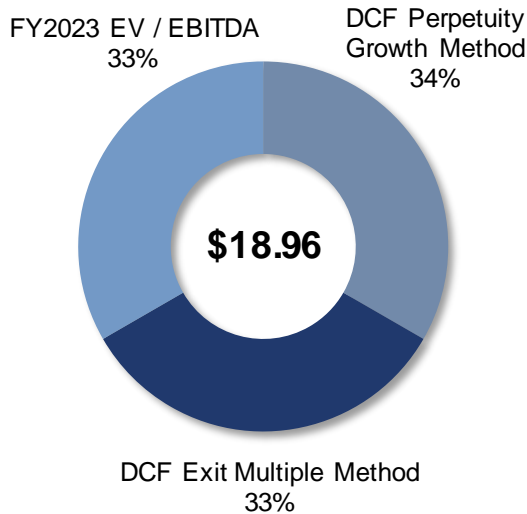
■ Prolonged sponsor overhang/selling of shares not via secondary offerings:

- ❑ Blackstone selling shares of Gates not via secondary offerings can put downwards pressure on the share price
- ❑ Blackstone not selling shares can also cause the stock to remain flat

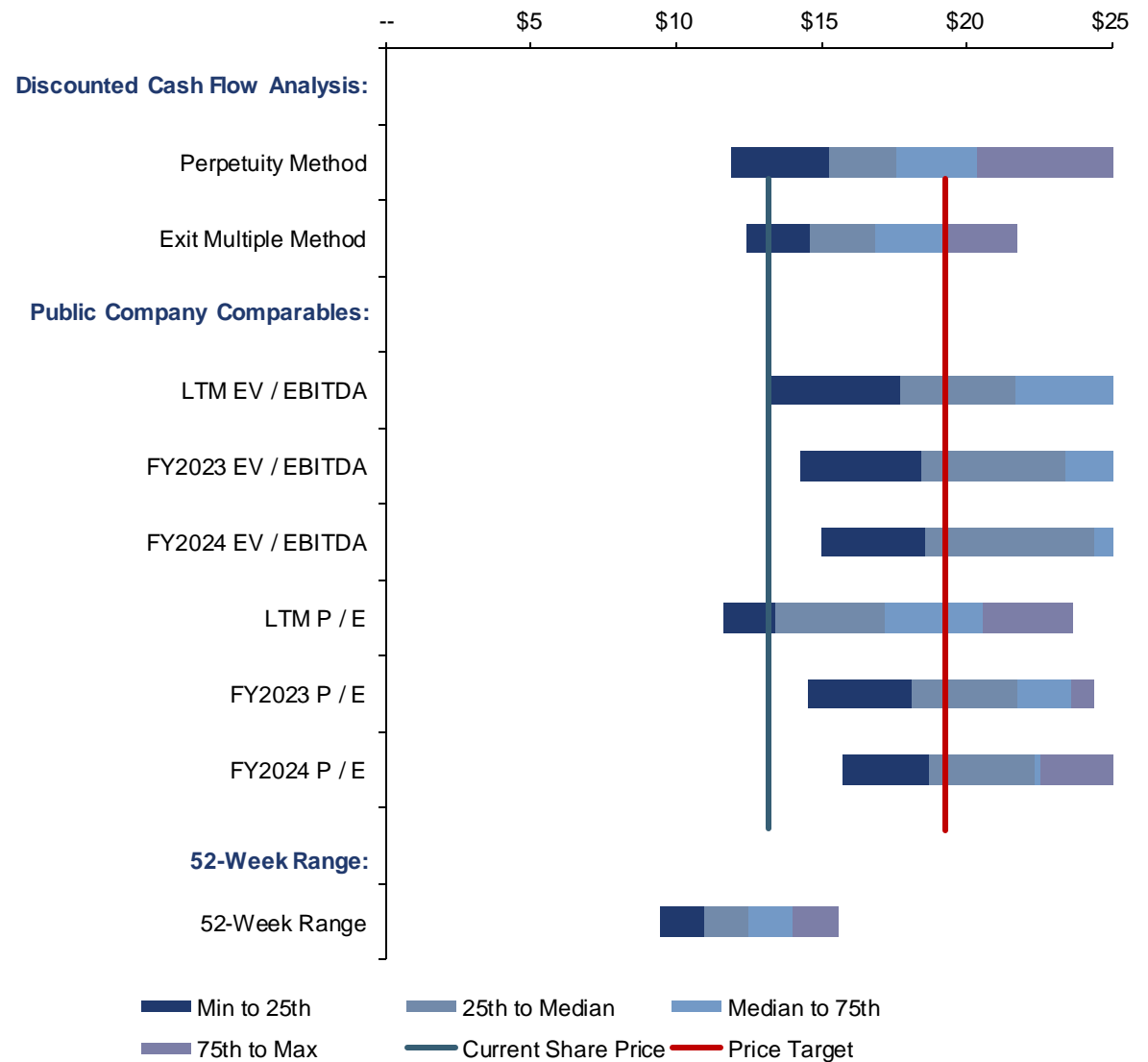
We recommend purchasing
GTES with an implied upside
of **44.2%**

Results and Weighting

- **Current Price:** \$13.15
- **Target Price:** \$18.96
- **Implied Upside:** 44.2%



Football Field Valuation Summary



Discounted Cash Flow Analysis

Discounted Cash Flow Analysis (In \$ Millions)	Actuals					Projections				
	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Revenues:										
Power Transmission	2,099	1,946	1,800	2,216	2174	2286	2400	2508	2596	2674
% of Revenue	62.7%	63.0%	64.5%	63.8%	61.2%	63.0%	63.0%	63.0%	63.0%	63.0%
Fluid Power	1,249	1,141	993	1,258	1381	1341	1408	1471	1523	1569
% of Revenue	37.3%	37.0%	35.5%	36.2%	38.8%	37.0%	37.0%	37.0%	37.0%	37.0%
Total Revenues	3,348	3,087	2,793	3,474	3,554	3,627	3,808	3,979	4,119	4,242
% Growth		-7.8%	-9.5%	24.4%	2.3%	2.0%	5.0%	4.5%	3.5%	3.0%
Cost of Goods Sold	(2017)	(1945)	(1758)	(2135)	(2304)	(2285)	(2399)	(2487)	(2554)	(2609)
% of Revenue	60.3%	63.0%	63.0%	61.5%	64.8%	63.0%	63.0%	62.5%	62.0%	61.5%
Gross Profit	1331	1143	1035	1339	1251	1342	1409	1492	1565	1633
Gross Margin	39.7%	37.0%	37.0%	38.5%	35.2%	37.0%	37.0%	37.5%	38.0%	38.5%
Operating Expenses:										
Selling General & Administrative	(806)	(777)	(777)	(853)	(854)	(925)	(971)	(1015)	(1050)	(1082)
% of Revenue	(24.1%)	(25.2%)	(27.8%)	(24.5%)	(24.0%)	(25.5%)	(25.5%)	(25.5%)	(25.5%)	(25.5%)
Transaction Related Expenses	(7)	(3)	(5)	(4)	(2)	-	-	-	-	-
% of Revenue	(0.2%)	(0.1%)	(0.2%)	(0.1%)	(0.1%)	-	-	-	-	-
Asset Impairment Expenses	(0)	(1)	(5)	(1)	(1)	-	-	-	-	-
% of Revenue	(0.0%)	(0.0%)	(0.2%)	(0.0%)	(0.0%)	-	-	-	-	-
Restructuring Expenses	(6)	(6)	(37)	(7)	(10)	-	-	-	-	-
% of Revenue	(0.2%)	(0.2%)	(1.3%)	(0.2%)	(0.3%)	-	-	-	-	-
Total Operating Expenses:	(819)	(787)	(825)	(864)	(866)	(925)	(971)	(1,015)	(1,050)	(1,082)
% of Revenue	24.5%	25.5%	29.5%	24.9%	24.4%	25.5%	25.5%	25.5%	25.5%	25.5%
Operating Income	511	356	210	475	384	417	438	478	515	551
% Margin	15.3%	11.5%	7.5%	13.7%	10.8%	11.5%	11.5%	12.0%	12.5%	13.0%
Effective Tax Rate	6.2%	(139.3%)	(9.2%)	3.9%	3.9%	21.0%	21.0%	21.0%	21.0%	21.0%
NOPAT	480	852	229	456	369	329	346	377	407	436
Add: Depreciation & Amortization	219	222	219	223	217	213	225	237	241	245
% of Revenue	6.5%	7.2%	7.8%	6.4%	6.1%	5.9%	5.9%	6.0%	5.9%	5.8%
Less: Capex	(166)	(72)	(58)	(78)	(78)	(83)	(95)	(107)	(111)	(115)
% of Revenue	(5.0%)	(2.3%)	(2.1%)	(2.2%)	(2.2%)	(2.3%)	(2.5%)	(2.7%)	(2.7%)	(2.7%)
Add/Less: Changes in NWC	(133)	51	11	(101)	(181)	(69)	(72)	(75)	(78)	(80)
% of Revenue	(4.0%)	1.7%	0.4%	(2.9%)	(5.1%)	(3.0%)	(3.0%)	(3.0%)	(3.0%)	(3.0%)
Unlevered Free Cash Flows	399	1,053	401	500	328	391	404	432	459	485
% Growth		164.34%	(61.98%)	24.89%	(34.37%)	19.07%	3.34%	6.94%	6.21%	5.80%
Discount Period						1.0	2.0	3.0	4.0	5.0
Discount Rate						8%	8%	8%	8%	8%
Discount Factor						0.93	0.86	0.79	0.74	0.68
PV of Unlevered Free Cash Flows						362	346	343	337	330

Model Assumptions

- Conservative projections of operating income lower than consensus
- End-market headwinds in FY2023 offset by pricing; assumed a rebound in 2024
- Gross margin expansion attributed to Gates's newer product pipeline (100bps of incremental margin as per guidance)
- Assumed 21% tax rate over the forecast period, this accounts for the \$192M of deferred income taxes that Gates has sitting on the balance sheet
- CapEx, D&A, and NWC modelled in line with historical trends
 - D&A includes ~\$130M of annual amortization of intangibles, hence the delta over CapEx

Discounted Cash Flow Sensitivity Analysis

Perpetuity Growth Method	
Cumulative PV of FCF	1,719
% of Enterprise Value	23%
Terminal Value	
Final Year UFCF	485
Perpetuity Growth Rate	2.0%
Terminal Value	8,253
PV of Terminal Value	5,617
% of Enterprise Value	77%
Total Enterprise Value	7,336
Cash	578
Cash from dilutives	71
Debt	(2,463)
Non-controlling interests	(334)
Investments in affiliates	--
Total Equity Value	5,189
DSO	296
Implied Share Price	\$17.54
Current Share Price	\$13.15
Margin of Safety	33.4%

Exit Multiple Method	
Cumulative PV of FCF	1,719
% of Enterprise Value	24%
Terminal Value	
Final Year EBITDA	796
Exit EBITDA Multiple	10.0x
Terminal Value	7,960
PV of Terminal Value	5,418
% of Enterprise Value	76%
Total Enterprise Value	7,136
Cash	578
Cash from dilutives	71
Debt	(2,463)
Non-controlling interests	(334)
Investments in affiliates	--
Total Equity Value	4,989
DSO	296
Implied Share Price	\$16.87
Current Share Price	\$13.15
Implied Margin of Safety	28.3%

		Perpetuity Growth Rate				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	7.0%	\$18.42	\$20.31	\$22.59	\$25.37	\$28.85
	7.5%	\$16.40	\$17.97	\$19.84	\$22.07	\$24.80
	8.0%	\$14.67	\$16.00	\$17.54	\$19.37	\$21.57
	8.5%	\$13.17	\$14.30	\$15.60	\$17.12	\$18.92
	9.0%	\$11.87	\$12.83	\$13.94	\$15.22	\$16.71

		Exit EBITDA Multiple				
		8.0x	9.0x	10.0x	11.0x	12.0x
WACC	7.0%	\$14.07	\$15.99	\$17.90	\$19.82	\$21.74
	7.5%	\$13.63	\$15.51	\$17.38	\$19.26	\$21.13
	8.0%	\$13.21	\$15.04	\$16.87	\$18.70	\$20.53
	8.5%	\$12.79	\$14.58	\$16.37	\$18.16	\$19.95
	9.0%	\$12.39	\$14.14	\$15.89	\$17.64	\$19.39

		Perpetuity Growth Rate				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	7.0%	40.0%	54.5%	71.8%	92.9%	119.4%
	7.5%	24.7%	36.7%	50.8%	67.8%	88.6%
	8.0%	11.6%	21.6%	33.4%	47.3%	64.0%
	8.5%	0.2%	8.8%	18.7%	30.2%	43.9%
	9.0%	(9.8%)	(2.4%)	6.0%	15.7%	27.1%

		Exit EBITDA Multiple				
		8.0x	9.0x	10.0x	11.0x	12.0x
WACC	7.0%	7.0%	21.6%	36.2%	50.8%	65.3%
	7.5%	3.7%	17.9%	32.2%	46.4%	60.7%
	8.0%	0.4%	14.4%	28.3%	42.2%	56.1%
	8.5%	(2.7%)	10.9%	24.5%	38.1%	51.7%
	9.0%	(5.8%)	7.5%	20.8%	34.1%	47.4%

Comparable Company Analysis

Company Name	Share Price (\$)	Equity Value (\$M)	Enterprise Value (\$M)	EV / Revenue			EV / EBITDA			P / E		
				LTM	2023E	2024E	LTM	2023E	2024E	LTM	2023E	2024E
Power Transmission Peers												
The Timken Company	\$86.80	\$6,325	\$8,092	1.8x	1.7x	1.6x	9.8x	8.8x	8.6x	15.5x	12.7x	12.1x
Altra Industrial Motion Corp.	\$61.53	\$4,024	\$4,924	2.5x	2.6x	2.5x	13.9x	13.0x	12.5x	31.7x	18.8x	17.1x
ITT Inc.	\$94.19	\$7,790	\$7,774	2.6x	2.4x	2.3x	13.8x	12.2x	29.9x	21.2x	19.4x	17.4x
Fluid Power Peers												
Flowserve Corporation	\$35.89	\$4,691	\$5,840	1.6x	1.5x	1.4x	18.7x	13.6x	11.8x	24.9x	21.4x	17.3x
Crane Holdings, Co.	\$120.39	\$6,759	\$7,345	2.2x	2.2x	2.1x	11.3x	10.0x	9.3x	16.9x	14.9x	13.5x
Gates Industrial Corporation plc	\$14.16	\$3,889	\$6,036	1.7x	1.7x	1.6x	9.8x	8.4x	7.8x	17.6x	11.6x	10.1x
Minimum	\$35.89	\$4,023.91	\$4,923.91	1.6x	1.5x	1.4x	9.8x	8.8x	8.6x	15.5x	12.7x	12.1x
25th Percentile	\$61.53	\$4,690.67	\$5,839.70	1.8x	1.7x	1.6x	11.3x	10.0x	9.3x	16.9x	14.9x	13.5x
Median	\$86.80	\$6,325.40	\$7,344.63	2.2x	2.2x	2.1x	13.8x	12.2x	11.8x	21.2x	18.8x	17.1x
75th Percentile	\$94.19	\$6,759.23	\$7,774.21	2.5x	2.4x	2.3x	13.9x	13.0x	12.5x	24.9x	19.4x	17.3x
Maximum	\$120.39	\$7,789.51	\$8,091.70	2.6x	2.6x	2.5x	18.7x	13.6x	29.9x	31.7x	21.4x	17.4x

Company Name	Growth (2024)		EBIT Margins			Returns			Leverage
	Revenue	EBIT	LTM	2021E	2022E	ROIC	ROA	ROE	Debt/EBITDA
Power Transmission Peers									
The Timken Company	2.6%	3.4%	18.3%	19.0%	19.1%	9.9%	7.5%	17.6%	2.5x
Altra Industrial Motion Corp.	3.6%	4.1%	18.1%	19.7%	19.8%	4.9%	4.1%	6.4%	3.1x
ITT Inc.	5.5%	(59.1%)	18.9%	19.8%	7.7%	10.7%	7.8%	16.5%	1.0x
Fluid Power Peers									
Flowserve Corporation	5.4%	14.7%	8.7%	10.9%	11.9%	4.2%	2.9%	10.7%	4.7x
Crane Holdings, Co.	5.3%	8.0%	19.2%	21.8%	22.4%	11.0%	7.4%	21.5%	2.1x
Gates Industrial Corporation plc	3.7%	7.1%	17.4%	19.8%	20.5%	11.7%	3.4%	7.0%	4.3x
Maximum	5.5%	14.7%	19.2%	21.8%	22.4%	11.0%	7.8%	21.5%	4.7x
75th Percentile	5.4%	8.0%	18.9%	19.8%	19.8%	10.7%	7.5%	17.6%	3.1x
Median	5.3%	4.1%	18.3%	19.7%	19.1%	9.9%	7.4%	16.5%	2.5x
25th Percentile	3.6%	3.4%	18.1%	19.0%	11.9%	4.9%	4.1%	10.7%	2.1x
Minimum	2.6%	(59.1%)	8.7%	10.9%	7.7%	4.2%	2.9%	6.4%	1.0x

FY2023 EBITDA Implied Share Price	
Applicable FY23 EBITDA Multiple	12.2x
GTES 2023 EBITDA	\$719
Total Enterprise Value	8,794
Cash	578
Cash from dilutives	71
Debt	(2,463)
Non-controlling interests	(334)
Investments in affiliates	--
Total Equity Value	6,647
DSO	296
Implied Share Price	\$22.48
Current Share Price	\$13.15
Implied Upside	70.9%